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Sub: Satia Industries Limited Q1-FY2021 Earnings Conference Call 11th August, 2020

Dear Sir/Madam,

In continuation with the previous notification dated on 08th August, 2020, please find enclosed herewith details of the Q1-FY 2021 Earnings Conference Call held on 11th August, 2020 at 04:00 PM to discuss and update on the Company's business and financial performance for the quarter ended on 30th June, 2020.

Thanking you

Yours faithfully,
For Satia Industries Limited


(Rakesh Kumar Dhuria)
Company Secretary



**“Satia Industries Limited
Q1 FY2021 Earnings Conference Call”**

August 11, 2020



**ANALYST: MR. PRIYADARSHI SRIVASTAVA – MONARCH
NETWORK CAPITAL**

**MANAGEMENT: MR. R.K. BHANDARI - JOINT MANAGING DIRECTOR -
SATIA INDUSTRIES LIMITED
MR. CHIRAG SATIA - EXECUTIVE DIRECTOR - SATIA
INDUSTRIES LIMITED
MR. RACHIT NAGPAL – FINANCE - SATIA INDUSTRIES
LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Satia Industries Limited Q1 FY2021 Earnings Conference Call. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Priyadarshi Srivastava. Thank you and over to you Sir!

Priyadarshi Srivastava: Good evening everyone. On behalf of Monarch Network Capital I welcome you all on Satia Industries Q1 FY2021 earnings call. We have today with us Mr. R.K. Bhandari, Joint Managing Director, Mr. Chirag Satia, Executive Director and Mr. Rachit Nagpal from the finance. Over to you Sir for the opening comment!

R.K. Bhandari: Good evening everybody. I am Rajinder Bhandari, Joint Managing Director, Satia Industries. First of all, I will give you a brief introduction about the company which you might have also already seen in the presentation.

The company was incorporated in 1980 and started its production in 1984 with the capacity of almost 5000 tonnes with one paper machine and then in 1989 another paper machine of similar capacity was installed and total capacity rose to almost 10000 tonnes which was just 25 to 30 per day capacity. Then in 1998, third paper machine was added whose capacity was almost 60 tonne per day. So we have in all three paper machines which we started with almost 15 to 20 tonne each first two machines and 60 tonne third machine.

Now the PM1 which was making 15 tonne per day is now making 100 tonne plus paper per day. PM2 again of 15/20 tonne per day is now making 120 tonne per day and PM3 which was installed in 1998 at 60 tonne as on date is making anywhere around 150 to 180 tonne per day depending upon GSM of the paper if it is heavy, we touch even 200 tonne plus on this machine when we make government paper. Thus the present paper machine capacity is almost 360 to 370 tonne finished paper per day as far as the three paper machines are concerned.

To meet the pulping demand of these machines from our inhouse pulp mill we have three kinds of different pulp mill. Number one, the biggest one is the Agro based pulp mill where we make paper from wheat straw and that capacity is 200 tonne per day. Then second is the wood based pulp mill which is presently having a capacity of almost 120 tonne per day and third we have kept emergency provision for waste paper de-inking and recycling, the capacity of that segment is almost 80 tonne; so to meet the demand of 370 - 380 tonne paper making machine, we have a pulping facility of almost 400 tonne to back it up at any point of time. The third business segment is to meet our power requirement, we had put up the first turbine which was a condensing turbine in 2003 of five megawatt and then when we put up soda recovery plant then second five megawatt power plant was installed. As on date if we have a

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capacity of over 27 megawatt power production capacity and the total requirement of our power is utilized from our inhouse power production.

The cost of power to us is almost Rs.2 to Rs.2.5 per unit against the state electricity board power supply rate of almost Rs.7.5 per unit, so that is the net saving of Rs.5 per unit on a total consumption of power of almost 1200-1300 per tonne of paper. So this is a big profit center in itself and on top of that we also get 80IA income tax exemption benefit and the fuel that we are using is biomass (rice husk) and we are not burning any fossil fuel. The new boiler that we are coming up with will be burning all kind of other biomass which includes the rice straw which is a major problem in burning when farmers burn it, it causes a lot of pollution in the environment, so this is the third domain of the industry, we have capacity to produce 27, but we are producing whatever we require which is anywhere around 22 megawatt per day that is what we are producing as on date.

Another segment of the unit is soda recovery plant or chemical recovery plant which recovers caustic soda used in cooking raw material in pulping process out of the effluent called black liquor by concentrating it and then burning it. Our per day caustic assumption comes to almost 125 tonnes out of which we recover 90-95% of caustic worth Rs 25-30 lacs per day in this plant.

Otherwise black liquor is a very difficult effluent to handle and in this plant we save a lot in terms of soda recovery and high pressure steam to make power and solve our effluent problem too by burning it in the soda recovery boiler.

We also have a full-fledged ETP plant and we are not discharging any water into any water body because CPCB now does not allow anybody to discharge treated effluent into any water body though some industry are still doing it. We have developed a forestry of almost 550 to 600 acres based on Karnal technology where we plant eucalyptus tree and once they grow up, they take up water from the ground and through the stem and up through their leaves, they evaporate that water into the environment. Our wood forestry supplements our raw material requirements or we sell it in the open market and get agriculture tax free income. So this is the broader picture of the business and operations of the company. Besides this, we are earning REC income of Rs.5 Crores to Rs.10 Crores also for using non-fossil fuel- rice husk..

In the last quarter results as you might have already noticed that despite the ongoing COVID issue and 60 to 65 net working days available, our production was 22800 tons ie 350 tonne per day very close to the last year average figure. Despite labour issues, administrative problems EBIDTA margin is better because cost of production went down because with steep decrease in the fuel, chemicals and raw material but net profit decreased because of increase

in the depreciation cost and interest cost per tonne of paper. Now I leave the house open for questions on any specific issues.

Moderator: Thank you Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Abha Khan from PLS Securities. Please go ahead.

Abha Khan: Thank you for taking my question. My first question would be regarding what would be the capacity utilization for this current quarter?

R.K. Bhandari: Current quarter?

Abha Khan: Q1 FY2021?

R.K. Bhandari: You already have the figure for first quarter and calculated on installed capacity of 105000 TPY; we achieved 85% capacity utilization. For the year our projections are to make 1,25,000 ton paper which will be over 115% utilization unless situation does not worsen further.

Abha Khan: Also, how microenvironment is appearing in the Q2 and Q3 of this year? Are we confident about Rs.900 Crores to Rs.950 Crores of topline for FY2021?

R.K. Bhandari: Yes, because we have already passed through almost one month of the second quarter and we have been able to achieve a production of over 10000 tons in the first quarter and we have been able to sell it as well. Our team is working very hard to explore all avenues and as we mentioned in our presentation also, we still have a month's order in hand and we hope to mature some big orders in the next month. If this happens we should be doing fairly good though topline will be affected adversely in fy 2021 due to COVID-19 environment.

Abha Khan: Also, we were planning for paper cutlery segment I suppose it has been delayed because of this COVID-19 so what would be the new timeline or when is the production expected to start?

R.K. Bhandari: As far as the table cutlery segment is concerned until and unless international travel normalizes we have to wait till then. But we have shifted to a new product mix to make paper for paper cups for coke or tea or water and its demand has 12% growth rate per year. This product will grow to almost 10-15% of our production in the coming times.

Abha Khan: That is all from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Anubhav an Individual Investor. Please go ahead.

Anubhav: Thanks for taking my question. Just two, three questions I have. First and foremost on the capex due to this COVID have we slowdown for this year or what is the update and how much would be the capex outflow estimated?

R.K. Bhandari: We have not slowed down though there has been some delay because it was not possible to carry on the work for almost one-and-a-half month, but we are going again full steam and out of this Rs.400 Crores project we have already spent over Rs.220 Crores, the paper machine building and stock preparation building is complete and paper machine from Allimand which is the major component costing Rs.110 Crores -70% to 80% of the machinery part has already landed inside the factory. Similarly in the Agro pulping plan to increase that from 200 to 250 tonnes the part equipment has already landed and has already been erected also, similarly we have received the 14 MW turbine and will start the trial in September, October only. New 90 tph boiler will be giving steam in October only. So we are going at a very, very fast pace, we are not slowing down because now at this stage we cannot afford to do that and against our plans to take production in the last quarter of this financial year, now the new timeline is that by the month of July 2021, we shall be able to start the trial production.

Anubhav: If we are going through with the capex, are we not facing any worker shortage or on side of workers, what is the scenario right now Sir?

R.K. Bhandari: Because we continued new project work though at a slower pace in the early days of Covid lockdown, there was not any such labour problem except that French people who were to come to lay the foundation of the paper machine called sole plate on which the total machine is bolted -could not come. Now they have agreed that our people lay the foundation sole plate first and once we start erection then their engineering team will come. So definitely there are some issues, but as we are a running unit, so we are able to manage. If it would have been a new Greenfield project may be things would have been very, very difficult yes.

Anubhav: Okay, understood and Sir on this paper cutlery segment, which I wanted to know would you have any estimate on how big the size is, basically how big the opportunity for us and how much has been to our topline going forward?

R.K. Bhandari: We had target to start with the capacity of 10 tonne per day with the projected annual production of almost 3000 tonne and with the price tag of anywhere around Rs.200 a kg appx it will add 10% to the topline and because we have inhouse pulp already we have the pulping capacity surplus and we have our own cheap priced power and these are the two major inputs of the cutlery segment, so we expect to have a very high EBITDA in this segment which could be anywhere around 35% to 40%.

- Anubhav:** Okay, understood and just one last question **did** you mention caustic soda I guess, can you give some light who are from where do you procure this?
- R.K. Bhandari:** It is from northern region, our major supplier is Punjab Alkalies who are based in Nangal and there is another DCM plant in Rajpura and these are the two major suppliers to us in Punjab and sometime we buy from Kota, which is again DCM Company.
- Anubhav:** Thank you for answering Sir.
- Moderator:** Thank you. The next question is from the line of Nikhil Mehta an Individual Investor. Please go ahead.
- Nikhil Mehta:** Good afternoon Sir. Can you advise me what was the realization of the paper this quarter?
- R.K. Bhandari:** This quarter?
- Nikhil Mehta:** Realization for production FY2020 of the whole year and the first quarter and how we see the trends going forward?
- R.K. Bhandari:** Actually 2019-2020, the price realization was anywhere between Rs.58 and Rs.59 average per metric tonne and for the first quarter, it has come down to Rs.56 a kg but as we see the trend the paper prices are definite to come down by 10% to 15% and heavy price cutting has already started, but I think once the schools and colleges open in late September or October prices may start increasing again due to pent up demand.
- Nikhil Mehta:** Is it compensated by the lower raw material cost?
- R.K. Bhandari:** Yes, definitely because if I look at my first quarter numbers, there is a decrease of almost 10% to 15% in my chemical costs, 10% to 15% in my raw material cost and similar even heavier reduction in my fuel costs.
- Nikhil Mehta:** Sir one more question from my side for the new plant production we are planning to start a trial run by let us say July 2021 so when do you expect that plant to be fully operational and the capacity I think is around 1 lakh tonne per year so when do you expect to reset capacity and if reset capacity how much revenue will that add to our company's topline and do we have any advantages or new products in the new plant that will bring additional margins or increase in margins for our existing business?
- R.K. Bhandari:** Our CMD, Dr. Ajay Satia is a very aggressive project implementer and he himself looks very closely to all the capital projects and in 2021-2022 we may achieve 30%- 40% capacity utilization and 2022-2023 almost 70%-80% and going by conservative projection revenue

increase will be proportional to increase in volume and will more than double with 100% capacity utilization and as far your second part of question as this machine because this machine is one of the latest technologically and at par or better than big players like JK , West Coast, Andhra Paper and raw material for this will be wood pulp to make surface size paper and copier paper which will be used for multicolored high speed printing machines and the price of this paper will be appx 15% to 20%. So that is the kind of margin additionally we will be adding.

- Nikhil Mehta:** On the loan side we have taken this loan from supplier loans right?
- R.K. Bhandari:** We are taking the loan of Rs.110 Crores for the paper machine from AKA Bank, a German Bank and the interest rate is almost 1.4% and rest of the loan we are taking from IndusInd, UCO & Union Bank.
- Nikhil Mehta:** So that will be Indian rupee loan?
- R.K. Bhandari:** Indian rupee loan.
- Nikhil Mehta:** That is around 8% to 9%.
- R.K. Bhandari:** Almost 9%.
- Nikhil Mehta:** This Rs.110 Crores loan we are taking is that, it is a dollar loan? Euro loan, so the fall in rupee value does it impact us?
- R.K. Bhandari:** Yes Euro loan and we are planning to hedge that against our exports that we are doing presently and plan to increase in the times to come.
- Nikhil Mehta:** Tell me what is the ratio of exports right now Sir?
- R.K. Bhandari:** Presently it is on the very low side -5-10% but in that times to come we plan to take it to 10% to 15% of the total expanded production.
- Nikhil Mehta:** Okay. Thank you so much. If I have any questions I will get back.
- Moderator:** Thank you. The next question is from the line of Padmaja from Parameshwari Advisors. Please go ahead.
- Padmaja:** Thanks for the opportunity. Sir can you throw some light on impact of new educational policy on paper industry in general and Satia in specific?

- R.K. Bhandari:** A very optimistic scenario may emerge in times to come because with the change in the syllabus and total curriculum as the government is proposing the existing books will be replaced within the next two to five years 100%. So, presently the government has a book Bank policy where the old students who have passed out deposit their books so that 30% of textbooks are reused. With this new demand coming with the new policy; players who have hold in this business already and have capacity to supply large volumes will stand to gain immensely as hardly any new projects are coming in writing and printing paper segment.
- Padmaja:** Okay. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Anurag Patil from Roha Asset Managers. Please go ahead.
- Anurag Patil:** Thanks for the opportunity. Just wanted to clarify this for Rs.1500, Rs.1600 Crores revenue by which year you are targeting? Doubling the revenue for the capacity expansion what is the target here?
- R.K. Bhandari:** Actually, as I told earlier in our conservative projection, we are taking almost 50% to 60% new capacity utilization in 2021-2022, and management is very optimistic to get 100% capacity utilization in 2022-2023 itself.
- Anurag Patil:** Sir we are catering mainly to government organizations so are you facing any working capital payment related issues?
- R.K. Bhandari:** No because textbook board they have their own independent funding. Because whatever books they give free to the children through welfare department they get money from Sarv Shiksha Abhiyan from the government and rest of the books they sell to the schools and to the student so all the textbook boards mostly have big deposits with them. So our payments may come anywhere between 40 and 60 days on average..
- Anurag Patil:** Even last question our capex is which is in the presentation quoted around Rs.500 Crores does that include power capex?
- R.K. Bhandari:** Project capex is 400 crore and for Power plant boiler modification cost will be Rs.10 Crores, turbine cost Rs.15 Crores plus the building and total power project will be Rs.30 Crores plus.
- Anurag Patil:** That is all from my side. My best wishes for your future.
- Moderator:** Thank you very much. The next question is from the line of Nikhil Mehta, an individual investor. Please go ahead.

- Nikhil Mehta:** Are we getting a tax exemption for the expansion?
- R.K. Bhandari:** We have certain SGST exemption, land registration charges exemption from the state government. But getting the same is really tough.
- Nikhil Mehta:** Any quantification of the amount that we might benefit over the next five years or something probably Rs.150 Crores approximately?
- R.K. Bhandari:** I think Chirag may share those figure more correctly.
- Chirag Satia:** Sir it all depends on the sale structure at that point of time. We will only be able to avail refund of SGST portion of the tax for the next 15 years from the time we commence the project subject to the maximum limit of the cost of project so that will again that will be only around Rs.400 Crores that is again spread over a span of three to four years.
- Nikhil Mehta:** Okay so now the working capital limits we will have to increase that for the new project?
- R.K. Bhandari:** Yes we have already appraised those new working capital limits and we will be submitting the proposal very soon with the consortium for a working capital additional limit of 50 crore plus non fund based facilities.
- Nikhil Mehta:** So let us say Rs.700 Crores of the new sales that we are in proposing over the next four years, Rs.50 Crores to Rs.100 Crores limits will suffice?
- R.K. Bhandari:** Yes, we already have existing working capital sanction of Rs.85 Crores fund base and Rs.45 Crores of non-fund so now keeping in mind the new project we are proposing another Rs.50 Crores to Rs.60 Crores of additional working capital limit so that it is able to meet the enhanced working capital operations that is operating cycle demands that will be opening up with the new production. With our 85 Crores working capital we are utilizing almost Rs.65 Crores to Rs.70 Crores and chasing a turnover of almost over 800 Crores so net working capital by almost 10 times.
- Nikhil Mehta:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Anubhav, individual investor. Please go ahead.
- Anubhav:** Thanks for taking my question again. Sir couple of questions one is on this Agro based revenue so since we source our caustic soda from DCM do we also source sugarcane base Agro residue from such mills?

- R.K. Bhandari:** Actually in Punjab there are not many sugar mills so our main dependence is on wheat straw only and we are sitting in the heart of the wheat belt, so wheat straw price is competitive in comparison to bagasse which has 50% moisture and pith which does not carry any pulp so has to be removed but in wheat straw there is no such problem, the moisture is just 10% to 12%.
- Anubhav:** Okay and besides the moisture that I understand, I mean realization wheat straw would be cheaper than bagasse, are you saying that?
- R.K. Bhandari:** Yes almost. As on date like wheat straw costs Rs.3500 a tonne and bagasse if it is Rs.2500 a tonne carrying moisture of 50%, so oven dried price will be Rs.5000 a tonne and in case of wheat straw it will be almost Rs.4000 a tonne. But bagasse is a cleaner and low silica material.
- Anubhav:** Okay so given a choice you would prefer bagasse over wheat straw right? That is the understanding?
- R.K. Bhandari:** I would say I am okay with wheat also.
- Anubhav:** Sure, understood and one last question I mean what is the deal with this promotor pledge any plan of bringing it down?
- R.K. Bhandari:** Pledge of the shares.
- Anubhav:** Yes?
- R.K. Bhandari:** The shares were pledged long time back when Project was funded by IFCI, IDBI and ICICI and when IFCI was closed; their loan was taken over by the PNB IN 2005 (25 crore) and that loan had been paid in 2011 but PNB did not release the pledged shares. For this very reason we are reducing our exposure with the bank so that the shares could be released at the earliest..
- Anubhav:** Because Sir it does not go well down with this street? When I saw here promoter pledge it is almost a negative and Sir one last thing who are our bankers?
- R.K. Bhandari:** The main bankers are PNB, IndusInd Bank, Central Bank, UCO, and Union.
- Anubhav:** Any plan of having HDFC, Kotak or SBI other bankers going forward?
- Chirag Satia:** We already have a sanction from HDFC Bank but we shall avail this in new working capital. We are also using ICICI Bank for our LC discounting limits and as on date we have a consortium member of total five banks. As on date, PNB we are planning to reduce down the

exposure from Rs.100 Crores to roughly Rs.50 Crores in the coming time because of the same pledge issue followed closely by IndusInd Bank, which is the main leader in the project appraiser. IndusInd gave us the bigger sanction of Rs.187 Crores in total for the entire project, which was participated further by Union Bank and UCO Bank. So these are our main banking members and HDFC and ICICI Bank will be enrolled in the new working capital limits that we plan to apprise by the end of Q2.

Anubhav:

Perfect. Thank you. Thanks a lot.

Moderator:

Thank you. The next question is from the line of Sudhir Padiyar from Optimum Capital Partners. Please go ahead.

Sudhir Padiyar:

Good evening and thanks for taking my question. I have a couple of questions. Sir about 50% to 60% of your sales come from open market sales through a channel of distributors? In this COVID situation how is the distributor being panning out right now I mean how many of them are opening up and what is the feedback that you are getting from them?

R.K. Bhandari:

Even in this COVID time almost all our distributor channels are open though with reduced activity and we have added new channels also with addition of new segment of paper for paper cups. Second we did the major shift in photocopier paper and increased its production to over 1000 ton per month from earlier 250 ton/month and that is how we were able to place in the market whatever we produced in the first quarter.

Sudhir Padiyar:

So your channel is by and large operational ?

R.K. Bhandari:

Yes more or less operational.

Sudhir Padiyar:

Sir secondly as far as paper cups are concerned would you be needing a different distribution channel as compared to your peers?

R.K. Bhandari:

They are new channels in Rajasthan, Delhi and UP. These are the three major areas where we are concentrating now.

Sudhir Padiyar:

Sir my other question was basically on the water consumption bit because paper industry theoretically is supposed to be consuming a lot of water so what exactly are we doing? How much are we utilizing today and what is the effort that we are doing?

R.K. Bhandari:

Actually for the existing project we have permission to use 55 meter cube of water per ton of paper and for the new project we are using only 35 meter cube water per ton of paper only which is a reduction of over 35% from the present consumption.

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Sudhir Padiyar: Thank you. That is it from my end.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Priyadarshi Srivastava for closing comments.

Priyadarshi Srivastava: On behalf of Monarch Network Capital, I thank you all for participating in the conference. A special thanks for Mr. Bhandari and Mr. Chirag Satia for joining this call. Thank you very much and have a good day Sir.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Monarch Network Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.