



“JK Paper Limited Q2 FY2019 Results Conference Call”

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Moderator: Ladies and gentlemen, welcome to the Q2 FY2019 Results call of JK Paper hosted by Emkay Global Financial Services. We have with us today Mr. A.S. Mehta, President & Director, and Mr. Ashok Gupta, VP, Finance & Accounts. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's concall. 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 now hand the conference over to Mr. Devanshu Damani of Emkay Global. Thank you and over to you Sir!

Devanshu Damani: Good evening everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now hand over the call to the management for the opening remarks. Over to you gentlemen!

A.S. Mehta: Good afternoon. This is A.S. Mehta and welcome to the entire investor representative. I am happy to answer your entire question and also to talk on the result. In fact this quarter has been good and bad both ways. I must say that the bad in the sense, we had a little bit disturbance at the Odisha facility. So we suffered some loss of production there and good in the sense prices in general in the market were much better. The demand was robust and also the operating efficiencies and the operations wise, the team delivered much better in this quarter. Whatever we suffered the production loss to a great extent, we could make it up in the rest of the days and that is why the volume loss is not substantial despite the labour issue. So that way the quarter is I would say bad only to the extent that we had some IR issue for few days, but that was resolved amicably without any financial burden. That was one part.

The raw material was better and the prices were also to some extent better than the previous year the same period. In fact there is a reduction in the raw material cost because the availability was much better from our own catchment area. So in all this quarter has been a good quarter from financial number point of view. With this now I handover to you all for the questions or the clarification you need on this result. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Dhruv Agarwal from Crescita Investments. Please go ahead.

Dhruv Agarwal: Good afternoon Sir and congratulations on a good set of numbers. Sir if you could give me the volume numbers for the uncoated paper, coated paper and the virgin fiber coats for the first two quarters please?

A.S. Mehta: The total sales volume this quarter is 127000MT compared to the previous quarter of 135000MT, and also the uncoated volume is 76000MT for this quarter, coated is 12000MT and packaging board is 26000MT and we have outsourcing activity also that volume is 12800 metric tonnes.

- A.S. Mehta:** So, again you can add that 12000MT predominantly in the coated category, so the coated will be somewhere around 23000 to 24000 MT.
- Dhruv Agarwal:** Sir if you could give this breakup for the first quarter as well, please?
- Ashok Gupta:** First quarter as I said 135000 tons. Uncoated is 82000 tons and coated including outsourcing is 28500 tons and packaging board is 24000 tons.
- Dhruv Agarwal:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Akshay Satheja who is an individual investor. Please go ahead.
- Akshay Satheja:** Thank you for the opportunity. We believe recently there has been antidumping duty that has been initiated. So can you please provide more details on the antidumping duty that is in the discussion or being proposed on uncoated or copier paper? What sort of rates, effective dates, and countries, kind of things?
- A.S. Mehta:** The antidumping petition was filed and we were one of the applicants. The antidumping duty petition is only for uncoated copier papers, and this is for import arising out of Indonesia, Thailand and Singapore, and the matter has been investigated. The hearing took place and thereafter the recommendation has been sent for notification. This is the status today.
- Akshay Satheja:** Is there any effective date?
- A.S. Mehta:** Normally the date is not given in the recommendation. The effective date becomes when the gazette notification is issued and it is for three years from the date of notification.
- Akshay Satheja:** Any sort of rate that has been decided?
- A.S. Mehta:** There has not been any rate in this. What has been recommended is that the import price at \$855 per MT. So the difference will be treated as an antidumping duty.
- Ashok Gupta:** If it is less than \$855 per MT the customs will collect the difference as the duty.
- Akshay Satheja:** My next question from FX perspective how is the uncoated paper price of domestic market basically after what percentage drop in current? From FX rate perspective how is our uncoated or copier paper priced of domestic market. Say after what percentage drop in the FX rate considering all other factors same would we have to revise our prices in the domestic market?
- A.S. Mehta:** Still your question is not clear. Right now the prices are I would say that when you compare the landed cost of imported copier paper our prices would be something around 1% to 2% lower than the landed cost.

Akshay Satheja: 1% to 2% lower than the landed cost. Sir, one last question; so we imported roughly around 45000 tons of coated paper in FY2018 and roughly 14000 tons in first quarter of FY2019, you also mentioned that this quarter was somewhere around 12800 tons. So what sorts of target are we looking for the full year 2019 and full year 2020 in terms of outsourcing?

A.S. Mehta: The outsourcing is for coated paper as well as some quantity of uncoated paper, which is fully absorbed. We do not import the copier paper. And the target is much more than what we have been doing and I may not be able to disclose you the target, because this is the internal information.

Akshay Satheja: So will we at least maintain what we have been selling in Q1 and Q2?

A.S. Mehta: I would like to do more.

Akshay Satheja: Could you just quantify in terms of?

A.S. Mehta: This is what I said that I do not want to disclose it, how much more or more because this is contingent upon so many things, the market prices globally, also the margin, also the availability, also the source from where it is available, so there are a number of issues so any figure, it would not be appropriate at this stage to disclose that what is going to be the import quantity, but yes the intention would be to do more than what we have been doing.

Akshay Satheja: Thank you Sir. That is all.

Moderator: Thank you. The next question is from the line of Zain Iqbal from Alfa Invesco. Please go ahead.

Zain Iqbal: Thank you for the opportunity. Sir, capacity utilisation was 109% and 105% in Q3 FY2018 and Q4 FY2018 respectively. Sir what is the targeted capacity utilisation for the second half?

A.S. Mehta: See as I have said in the past also that always the internal, target or the internal commitment of our operations team is to utilise the capacity to the highest level, so to my mind, 110% utilisation is a very, very ambitious and optimistic. Our team has done a wonderful job at our plant. See our own target and our own expectation is somewhere around 106%, 105%. So if we do better than this, it is always good and a good parameter for our operating team.

Zain Iqbal: Sir, what is your outlook on NSR for Q3 and Q4? Can we at least see the exact NSR for Q2 FY2019?

A.S. Mehta: See the NSR right now whatever we have in fact for Q3 it is likely to be better than what we have achieved in Q2. Q3 this is the outlook, but Q4 it is a bit difficult at this stage because what will be the global paper prices one cannot predict, so it will be linked to the global paper prices and that will also be linked with the global pulp prices. In fact the global pulp prices have slightly dropped around \$20 to \$30 a ton in this quarter. That will also have an impact on the global paper

prices, around the same \$20 to \$30 a ton, but that \$20 to \$30 a ton reduction in the global paper prices also will not have any impact on the local prices because the local prices are still lower than or at par with the global paper prices. So if there is any further drop in the global paper prices then there will be a scenario where we will have to consider if there is necessity of dropping the price.

- Zain Iqbal:** Sir last question, what capacity utilisation can be expected from Sirpur in the second half?
- A.S. Mehta:** Sirpur during this year do not think that any capacity utilisation because Kumar will respond to you on the Sirpur capacity. For Q3 we are not going to produce anything. Q4 there maybe some production. Kumar will respond to you.
- V. Kumaraswamy:** We are planning to start the machine by somewhere around February or something but that will be only two of the machines, but it is better not to take any targets for this year since there are so many question marks and there are test runs, trial runs and all those kinds of things, and even if the paper comes out, it may not be in a shape where we would like to put our brands. All those issues are there. It is better to consider it only for Q1 of next year onwards. As far as the capacity is concerned, we are targeting somewhere around 138000 tonnes when it is fully up in running. All these four machines, which we are trying to revive, the balance four machines are too small to be refurbished/revive.
- Zain Iqbal:** What is your FY2020 target for Sirpur?
- A.S. Mehta:** Target for production?
- Zain Iqbal:** Yes.
- A.S. Mehta:** It is worth near about of 120,000 MT that we are doing.
- Zain Iqbal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ganpat Rai from ABC Consultants. Please go ahead.
- Ganpat Rai:** Many congrats on good sets of numbers. Sir we are basically a small investors in equity markets, but I have seen your group over a long period of time, till date from the last 20 to 25 years JK group has not despite having increasing numbers in entire paper industry, and every next business that you are doing, the market reputation is not so great. You see the Rs.170 stock has come down to Rs.110. So it means that people are not aware of the fact and the brand recognition and legacy of a company and the growth. So why do not you do something on that work. I see as per the last year's annual report the marketing expenses are just up by 6% to 7% and it is growing at such a large pace you must keep something for that. Secondly in the industry every next big guy that is for Paper TNPL, International Paper are doing the expansion, so what kind of

capacity expansions you guys are predicting as an industry leader by the next three to four quarters. If you can throw some light on that it would be really grateful.

A.S. Mehta: Let me answer your first question on the marketing expense. See any company's for marketing expense or advertising expense are based out of the need. What kind of the need, what kind of an impact the expense will do so that will be the criteria for marketing expense, so when your target audience and when your product is as such that it does not need the marketing expense unnecessarily just for showing the visibility of JK Paper we may not spend money for marketing expenses. As far as the group is concerned, JK Tyres is spending sizable money on the advertising and brand promotion. You would see on the electronic media, print media, everywhere the same is for JK Lakshmi Cement. They are also spending a sizable amount on brand promotion and publicity expense. So that is a different strategy altogether. If there is a need for branding and promotional advertising for the paper industry we will certainly do that. In fact in the paper industry if you see I think we are the only company who are spending some money on the brand promotion and the advertising. This is one part. The second part on the share price, I did not understand from how Rs.170 to Rs.110, which share you are talking. In fact, JK Paper share moved up from Rs.90 to Rs.180. So this is one part. As far as the capacity expansions are concerned, the Sirpur acquisition itself is expanding the capacity. Expanding capacity does not mean that creating physical asset; acquisition is also expanding our own capacity. So from 4.5 lakh tons capacity Sirpur acquisition will make up our capacity to 6-lakhs and as we have already announced our expansion plan at CPM unit Gujarat, we will be adding capacity of 1.5-lakh MT in packaging board, so with that capacity coming up in two years' time, our capacity will move up from 4.55-lakh to 7.5-lakhs tons and by doing that we will become the number two paper company in the country.

Ganpat Rai: Sir, I was asking about the industry, overall industry. Everybody is going for expansion mode in the next four quarters how much would be the total capacity of the industry? What would be the market share of the paper by the end of half-yearly numbers?

A.S. Mehta: No capacity will come in the next half-year this time.

Ganpat Rai: Next four quarter Sir?

A.S. Mehta: Next four quarters also I do not think any capacity will fructify. It will only be Sirpur. And that will improve the market share of JK Paper. The capacity announcement from TNPL, from Emami, all these capacity additions will happen only in two years' time.

Ganpat Rai: So, you are not seeing any near term correction in the prices because of the capacity expansion?

A.S. Mehta: It can only happen by debottlenecking of the existing manufacturing facilities by the players, so that will continue to happen. We will also do some tit bit here or there, otherwise there is no major capacities will come in the next four quarters.

- Ganpat Rai:** Sir, about the advertisement part, from a stock market perspective how do you see your market cap to sales ratio or your price earnings ratio is one of the lowest in the market. That is how we connect the same to the brand name. If the brand is strong, lot of distributors in Mumbai, in north side, lot of guys their first choice till date, I am sorry to say, on a public platform, their first choice is still the BILT paper, maybe because of the quality or availability or the distribution network sometimes, JK is coming up in a big way but that kind of I do not know how that bending or that investor relations or that marketing needs to be done with a distributors or with the end-to-end customer, but if your expenses, that is my feedback. Third about you have said about the stock price, see your stock price was around in January itself, when you have shown the fantastic numbers, it was around Rs.165 and then it fell to around less than Rs.100 on July 19.
- A.S. Mehta:** There is one factor I do not think so. It may be your perception but not your fact.
- V. Kumaraswamy:** Let me come in here. See the industry's PE is heavily influenced by one or two smaller players it is getting influenced, but otherwise we take your point and internally we deliberate and see what we have to do. Thank you so much for your inputs.
- Ganpat Rai:** So nice of you Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Nikhil Oswal from Stallion Asset. Please go ahead.
- Nikhil Oswal:** Good afternoon Sir. Congratulations on your good set of numbers. Sir, I have a couple of questions regarding the paper, which have been even better than the last quarter at around 26%, so do you think this is the peak margin that we are operating at or we can do a little more better, because I had heard that post Diwali there is more demand for printing and writing paper, so since we are leader into it, do we see more volume growth coming in the next half. Can you throw some light on it?
- Ashok Gupta:** As I said that the NSR is likely to remain or may be some improvement in NSR. Raw material cost is going to remain stable and operating efficiencies may show further improvement, so all these factors, if you take an inference from this what does it say?
- Nikhil Oswal:** Sorry Sir. I did not get you?
- A.S. Mehta:** The NSR will be better, the cost may go down to some extent that will tantamount to what? I mean, you are all intelligent people.
- Nikhil Oswal:** All right Sir. You are likely to maintain the margins or will it be like?
- A.S. Mehta:** As I said that you are intelligent people. When the prices are better even the cost is lower what the outcome is.

- Nikhil Oswal:** That is right. In case since we are generating heavy cash flows do not want to reduce the debt. Can you explain about your debt reduction path?
- Ashok Gupta:** Debt reduction is happening on year-on-year basis, but only our repayment is around close to Rs. 250 to Rs. 260 Crores. So that reduction will happen year-on-year basis. As on September 30, our total debt including long-term and short-term debt is close to Rs. 1210 Crores. In another six months approx. Rs. 120 or 130 Crores repayment will be done, it should come down close to less than Rs. 1100 Crores.
- Nikhil Oswal:** What is the net debt?
- Ashok Gupta:** Net debt will be lower. It maybe closes to Rs. 850 Crores or so.
- Nikhil Oswal:** Right now and by end of the year?
- Ashok Gupta:** That is around Rs. 800 Crores.
- Nikhil Oswal:** Net debt. Sir one more question I have heard you know that from the other concalls of the other companies like they were saying post Diwali there is huge demand coming in printing and writing paper, is that right? Do we see more growth coming in the second half?
- A.S. Mehta:** See in the writing and printing papers good time is from October to March.
- Nikhil Oswal:** Because a lot of new book printing and all that happens?
- A.S. Mehta:** Book printing and also the school and all the requirements are after normally nowadays December because everything has to be finished by February because the school opens from April. So these things are done before February. And all other educational institutions and the offices and the demand remains strong up to April for copier paper because after April again the court vacations, school vacations and all these so the May to June are the slower months for the copier papers and also the writing and printing other papers. Now up to March 31 is a good period.
- Nikhil Oswal:** That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Sumanth Kumar from Motilal Oswal. Please go ahead.
- Sumanth Kumar:** My question is regarding the price increase across the segment on coated, uncoated and packaging board in the recent months.
- A.S. Mehta:** So what is the question?

Sumanth Kumar: The price increase in uncoated, coated and packaging board papers in the recent months?

A.S. Mehta: The last price increase we have done in case of a copier paper is in October.

Sumanth Kumar: How much it was?

A.S. Mehta: It was around 3%.

Sumanth Kumar: What is the current NSR for copier?

Ashok Gupta: Segment wise NSR we are not giving Sumanth. You have to take on average only.

Sumanth Kumar: Then copier 3% uncoated, how much is the price increase?

A.S. Mehta: The price increase in the month of October it was sometime in September and August.

Sumanth Kumar: Apart from copier how much price increase we have taken in Maplitho?

A.S. Mehta: Maplitho I do not remember and as I said the category wise, we do not want to say right now.

Sumanth Kumar: So overall in coated there is a price increase?

Ashok Gupta: Yes, coated there was a price increase again it was in the month of September and in October there was no price increase.

Sumanth Kumar: So how much price increase was there in September?

A.S. Mehta: I think it was 2% to 3%.

Sumanth Kumar: Packaging board?

A.S. Mehta: Packaging board there was a price increase from November which will be effective in December.

Sumanth Kumar: How much was this?

A.S. Mehta: I think it was again 3%.

Sumanth Kumar: So net-net in uncoated segment, what is the price increase?

A.S. Mehta: Sumanth you have to go by that average as a coated, uncoated, packaging, boards, we are not disclosing the exact price increase .

Sumanth Kumar: The capex plan we have for packaging boards so what is the capacity and how much is the capex for that?

- A.S. Mehta:** Capex is around Rs.1400 to Rs.1500 Crores which will include pulp mill and 150000 to 175000 tons of packaging boards and to come in about anywhere from 24 to 30 months.
- Sumanth Kumar:** So, you said, that the 175000?
- A.S. Mehta:** Yes. We are planning, still the sizing has to be decided, anywhere from 150000 to 175000 tons.
- Sumanth Kumar:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Bhakti Thakkar from Investec. Please go ahead.
- Bhakti Thakkar:** My question was regarding the working capital. Sir, for this quarter what could be the reason for it and what do you expect for the year end?
- A.S. Mehta:** It is utilisation or is it total inventory or receivables you are talking about?
- Bhakti Thakkar:** Inventory and payables?
- A.S. Mehta:** Inventory has fallen steeply and we have reduced quite a bit of stock. Stocks have fallen to less than double-digit now from say maybe 17 or 18 days before so that is the reason why working capital has fallen. As we see it given the capacity constraints and the current buoyant demand in the market it will only reduce by the year end.
- Bhakti Thakkar:** How have the price trends overall looking at the imported papers also?
- A.S. Mehta:** Sorry what is the question? Can you repeat?
- Bhakti Thakkar:** How have the price trends been also in terms of imported papers?
- A.S. Mehta:** See the imported paper prices were very strong. They were increasing month-after-month. It is only this month there has been some reduction in the prices of coated papers as well as uncoated paper globally. It was as I said in the previous question that \$20 to \$30 a ton reduction has happened in the different paper category so that is a drop, but even after this drop the domestic paper prices are still lower than the landed cost of imported by 1% or 2%.
- Bhakti Thakkar:** Sir, what is your schedule for planned maintenance shutdowns? Which quarter do you have it usually and how many days does it go for?
- A.S. Mehta:** Correctly to be in the last quarter and it would be nine to 10 days.
- Bhakti Thakkar:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

- Pritesh Chheda:** Sir, just confirming on capacity and capex side, you said you have a capacity of around 450000 tons which is utilised 100% plus, and you mentioned that the Sirpur capacity that you are adding 125000 tons, right?
- A.S. Mehta:** Capacity would be added 140000 tons. What Kumar had said that the first year full year production is likely to be 120000 tons?
- Pritesh Chheda:** This 140000 tons is all copier paper?
- A.S. Mehta:** No. The different category of papers predominantly Maplitho and special varieties. Copier capacity is not there at Sirpur. So, in future we may decide on a different product mix, but right now it is Maplitho, means the writing printing and the special variety paper.
- V. Kumaraswamy:** Or if necessary we will get it cut from outside and sell it.
- Pritesh Chheda:** What is the capex you are spending for this?
- A.S. Mehta:** Capex as per the settlement for the lenders on a gross basis, Rs. 371 Cr and net basis, which means NPV around Rs. 230 Cr., is what we have paid. On top of it we will spend about Rs. 400 to 425 Crores for all the refurbishing and getting new power systems and required modifications and various boilers plus pay to consultants.
- Pritesh Chheda:** And it is an integrated pulp mill?
- A.S. Mehta:** Yes it is an integrated pulp and paper mill, yes.
- Pritesh Chheda:** Now this Rs. 371 Cr. + Rs. 420 Cr about Rs. 800 Crores, these 800 Crores will come additional on your balance sheet when you close the deal? As of now when you report your net debt at Rs. 930 Crores any of this amount gets reflected in the net debt?
- A.S. Mehta:** Now let us get this cleared, out of this Rs. 230 Cr. has already been invested in Sirpur, so that is there already in September. This is what we have given. That has gone from JK Paper to Sirpur Paper. Maybe around Rs. 200 Crores, not the entire amount, the balance will come in into the balance sheet over a period of time, but out of which only about 60% in the next about 12 months the second phase new boiler we are putting up to Rs. 125 or Rs. 130 Crores that will come in 24 months time, but this Sirpur is held by our subsidiary's subsidiary. And the effective holding is 76% in Sirpur and so it will not be directly in our standalone balance sheet. It will be only in consolidated balance sheet.
- Pritesh Chheda:** I got a hang on your next round of capacity expansion packaging board; you are not doing any capacity expansion in writing and printing?

- A.S. Mehta:** Writing and printing Sirpur we have taken over, so that gives us an additional capacity of over 140,000 MT and if necessary as I said the copier will get it converted from outside, about 80000 tons is the writing and printing paper that we will get that gives us at least one or two years growth requirements and let us see how it goes from there.
- Pritesh Chheda:** If we had to create Greenfield writing printing what would have been the cost for 100000 tons?
- A.S. Mehta:** Greenfield 1.1 to 1.2 lakhs per ton of capacity it costs only the machinery side plus of course land you have to add.
- Pritesh Chheda:** So, let us say you gave a capex of 150000 to 175000 tons of packaging board at Rs. 1400 Crores had you spent this on writing printing, what would it have been?
- A.S. Mehta:** See, it would have been in the same range of Rs. 1500 to Rs. 1700 Crores to create a green site for 140000 tons. Again at packaging board also Rs. 1400 Cr. what we are talking is that does not involve the cost of land and some infrastructure because it is already on an existing site.
- Pritesh Chheda:** You do not see any capacity, new fresh capacity in the industry coming up over the next four quarters that is what you have commented?
- A.S. Mehta:** That is right.
- A.S. Mehta:** It takes about 24 months to build a plant, plus EIA(environment clearance), plus other approvals it takes about 30 months, so unless there is something already in the pipeline it is difficult to anticipate anything or predict anything for 12 months or 18 months.
- Pritesh Chheda:** But there would always be Brownfield, right? Your industry goes through a lot of automation processes where every year via automation the company and the industry tend to add 8% to 10% capacity, so that would continue to happen, right?
- A.S. Mehta:** Not 10% year-on-year, it is over a period of time, so 2%.
- A.S. Mehta:** It may be 1%, 2%, 3%, it can happen, not 10%.
- Pritesh Chheda:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Utkarsh Nupani from Edelweiss Research. Please go ahead.
- Utkarsh Nupani:** Good evening. Congratulations for a great set of results. Sir, the first question is on dividend and capital allocation policy of the company. Considering that JK Paper is generating currently cash of more than Rs. 100 Crores on a quarterly basis after repaying the debt obligation. So whether we are now planning to avail lower debt for the proposed packaging board plant than what we

have planned earlier and what will be our dividend payout policy of the company going forward? This is the question.

A.S. Mehta: See the dividend policy has already been disclosed and it is based on the future capex requirement and also the market situation, so last year we have paid about 25% and a good sizable capital 25% dividend is a decent dividend. This is one part based on the last year's profitability.

Utkarsh Nupani: Sir, that is the dividend payout or dividend per share?

A.S. Mehta: No, dividend percentage. , payout was something around 18% to 20%. To my mind, dividend payout of something around 20% to 25% is a decent dividend payout based on the capex requirement for a capital intensive industry like paper. So we need to plough back and we need to conserve cash for our expansion, so that we do not have to go for a massive loan. This is one part on the policy.

Utkarsh Nupani: Sir, on the capex part, like earlier we planned to avail a Rs. 1000 Crores debt now we are sitting on a cash of around 400 Crores on a standalone book roughly, and we are generating 100 Crores of cash on a quarterly basis. So, considering the kind of a cash generation, have we changed our debt plan of what we are going to take for the proposed capex?

V. Kumaraswamy: Actually it is a matter of what can be done best with cash, going by the current scenario what we will do is 400 Crores that we have plus by the time the project comes up maybe a similar amount will be generated, so the balance 600 or 700 Crores is what we have to manage and as you know the suppliers themselves arrange for a very attractive suppliers credit that itself can be easily another Rs. 400 to 500 Crores or maybe even more plus we have also undrawn lines worth about Rs. 400 Crores. So, typically if you see almost about Rs. 1200 Crores is tied up in that sense and balance Rs. 200 to 300 Crores we will take it through this ECAs that is machinery linked credit and close this project. So, that is it.

Moderator: We will move to the next question. It is from the line of Deval Shah from Kotak Securities. Please go ahead.

Deval Shah: Good evening Sir. Sir, regarding outsourcing of our coated paper, have we experienced any increase in the purchase cost due to the rise in the global pulp prices?

A.S. Mehta: Yes, there was an increase but as I said that there is a drop in the current month, and there is a reduction in the purchase price also.

Deval Shah: So, were we able to pass on the increase in the purchase cost to our customer?

A.S. Mehta: Yes, we were able to pass it on, but when there is a drop this month, when the material will arrive sometime in January that time there will be a drop in the prices in the domestic market as well.

Deval Shah: Going forward the increase in demand of papers we are comfortable meeting the demand with the outsourcing of our volume as our capacities are currently fully utilised?

A.S. Mehta: See the outsourcing is for the coated paper and the coated paper we have been utilizing our capacity full from many years and in any case the coated paper the domestic demand almost 50% is met out of the imports, so we participate in the market. We have been trying to increase our volume, so last year more or less we did something around 10000 to 11000 tons a quarter and this quarter again we would do 12000 tons. Of course, we wanted to do more, but there are issues on availability from the sources and also the antidumping in US, so in fact the Korean and other people they sold more in US, availability was also tight for the Asian market, so all these factors will impact. Let us hope that next quarter we do more than what we have done in this quarter.

Deval Shah: And Sir, regarding our exports in our previous concall, you had mentioned that the NSR on our exports is less compared to our domestic market. So, do we see any reduction in exports, so we had to comply with a certain quantity of exports to meet our capital purchase?

A.S. Mehta: The export NSR right now with the rupee dollar parity it is more or less at par with the domestic prices or rather in some of the export market the prices are better than the domestic prices, so export is as lucrative today, which was not there in the past, this is one factor, and in fact during last three months, we had to reduce some export volume because we wanted to meet the domestic demand more because we do not want to suffer our customer in domestic market. So there were some reduction in the export volume in this quarter.

Deval Shah: So, going forward do we consider increasing our export volume as well?

A.S. Mehta: See the current volume we will have to keep our efforts to maintain also to meet our export obligation for the next four quarters. Thereafter we can decide based on the profitability numbers and the margins.

Deval Shah: Okay. Regarding raw material sourcing, so currently in our Surat plant, I guess almost 100% of our raw material is sourced from local area, and in our Odisha plant, I guess, as on March 18; up to 60% of our raw material was sourced from a local market. So, going forward in Odisha plant, how much do we expect to source from a local area?

A.S. Mehta: In fact we have already achieved something around 70% now. And going forward to my mind, around 75% to 80% will be sourced from the local nearby area. Rest 20% to 25% can be from slightly the far off places, but it would not be very far off.

Deval Shah: So how much reduction in our raw material can we expect?

A.S. Mehta: See the reduction in raw material cost has already happened and there may be minor change in the raw material cost, but again logistics.

- Deval Shah:** And in our previous concall, regarding power and fuel, you had mentioned that we had some supply shortages from Coal India. So were we able to resolve those issues or are those issues still persisting?
- A.S. Mehta** It is not a question of our resolving these issues. We have the allocation available, but the priority of Coal India is to supply coal to the power plants, because these are the directive from the Ministry. So since we do not get the coal from Coal India we have no option other than to import and buy from the open market, so in fact in this quarter also there was some additional cost of coal because of the imported coal and the local open market coal. The situation is likely to continue for the current quarter as well till the Coal India improves their production and supply to the non-power sectors companies.
- Deval Shah:** Thank you Sir. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Imran Khan from Ratnatraya Capital. Please go ahead.
- Imran Khan:** Thanks for the opportunity. Ashok Ji first of all congratulations for a great set of numbers. Sir, can you please tell me how much of Sirpur pre-operating expenses were expended in Q2?
- Ashok Gupta:** The preoperative expenses till the date of commissioning will be capitalizing. So, there is no such expenditure, which needs to be expensed as on date.
- Imran Khan:** It has all been capitalised?
- Ashok Gupta:** Yes, it will be capitalised.
- Imran Khan:** So there would be no expenses like salaries, arrears, nothing like that?
- A.S. Mehta:** No. What is your question exactly?
- Imran Khan:** Sir we should have done some preoperative expenses?
- A.S. Mehta:** We took it over from August 1 and we started the process of refurbishing all these machines and all these expenses are towards that. Other than that there is no great overheads there.
- Imran Khan:** Sir, the second question is on the margin side, year-on-year basis, we have nearly about 600 basis point margin expansions, and so was it account of mixed shift?
- A.S.Mehta:** Which shift?
- Imran Khan:** Is there any kind of mix shift in our portfolio? we have sold something?.

- Ashok Gupta:** By and large it is the same only as we had given the quantities a little while ago, there is no major shift in our thing, all the products have continued to participate in these price increases, of course various percentages but there is no major shift in the mix.
- A.S. Mehta:** This is primarily all because of increase in realization.
- Ashok Gupta:** That is right.
- Imran Khan:** And Sir, if you can tell us, I mean, I just wanted to understand the relationship between scale and efficiency, economics there, so let us say hypothetically if you were producing 20% less than today what copier has done would you all first turn consumption of coal, water, chemical, change from where you are currently?
- A.S. Mehta:** Very difficult to answer this kind of question. You can analyse the results published. You will be able to easily get it how much percentage of coal, chemicals and this kind of questions cannot be straightway answered.
- Imran Khan:** Thank you Sir.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints that was the last question for today. I now hand over the conference to the management for their closing comments.
- A. S. Mehta:** There is not a much of closing comments except that the market continues to be buoyant and we do intend to continue our production, etc., at the same rate at which we have been producing. We are very optimistic and in these final stages of closure of our order for the pulp and board mill at our Surat plant, which will take 24 months from there on. It will be one of the state-of-the-art mill to producing the best of packaging board variety and in the meanwhile whatever cash we generate will either go towards debt reduction or financing the new projects, and after some blips it is back to normal and we hope we are doing well in the next few quarters. Thank you so much to all for attending the conference call. It has been a pleasure of answering your questions. Thank you so much.
- Moderator:** Thank you very much members of the management. Thank you Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us. You may now disconnect your lines.