



“JK Paper Limited Q4 FY2018 Results Conference Call”

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ANALYST: MR. NITESH DHOOT - EMKAY GLOBAL FINANCIAL SERVICES

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

- Moderator:** Ladies and gentlemen, welcome to the Q4 FY2018 Results call of JK Paper hosted by Emkay Global Financial Services. 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 presentation. 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. Nitesh Dhoot of Emkay Global. Thank you and over to you Sir!
- Nitesh Dhoot:** Thank you. Good afternoon everyone. I would like to welcome the management and thank them for giving us this opportunity. We have with us today Mr. A.S. Mehta, President and Mr. Ashok Gupta, VP - Finance and Accounts. I now hand over the call to the management for the opening remarks. Over to you Sir!
- A.S. Mehta:** Very good afternoon and welcome you all on this conference call and thank you very much for showing the interest in the company and also actively participating in the dialogues and the interaction. With this I would say that since the results and the numbers are with you including the press releases so we can start with the questions from your side.
- Ashok Gupta:** Nitesh we can open directly to the question or you want us to brief because the results is already published, so better we can have a direct question on the investor.
- Moderator:** Thank you. This is the moderator I will open the floor for questions. 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 I just required the volume numbers for the fourth quarter if you can give me the volume numbers for the uncoated paper, coated paper and virgin fiberboards?
- Ashok Gupta:** The total quantity is 131000 and out of that uncoated is 82000 and coated is 23000 and packaging board is 25000.
- Dhruv Agarwal:** Sir if you could help me with the realization per tonne and EBITDA per tonne for all the three divisions it would be great Sir?
- Ashok Gupta:** No we are not giving for segment wise, on an average NSR is close to 56000 that is what we can say.
- Dhruv Agarwal:** 56000 per tonne is the NSR you are telling?
- Ashok Gupta:** For company as a whole.
- Dhruv Agarwal:** For the company as whole that is the blended basis?

- Ashok Gupta:** Yes blended basis.
- Dhruv Agarwal:** And Sir just one last question regarding this additional capacity of 2 lakh tonne, I recall this land is already with you, so this is a brownfield expansion right?
- A.S. Mehta:** Yes we have land at existing site in Gujarat, so on that land it will be setup.
- Dhruv Agarwal:** And Sir what will be the debt amount that would be required for this plant?
- A.S. Mehta:** As we said that it is going to be something around Rs.1000 Crores debt and rest would be the internal accruals.
- Dhruv Agarwal:** Sir this facility when will it come up for production like when do you expect to commence it?
- A.S. Mehta:** As we know that the environment clearance is a major issue whether it is a brownfield or a greenfield, so from the environmental clearance anywhere between 24 months to 30 months.
- Dhruv Agarwal:** 24 to 30 months should take for commencement. Okay Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** Congratulations to the team. My question is largely related to the expansion announced, so we will be spending roughly Rs.1450 Crores brownfield and the sum of money on the acquisition also what the Sirpur Paper, which had come in the newspaper, so we will be generating roughly 450 Crores of cash flow every year and so how are we financing it, what would be the peak debt in terms of absolute numbers and what is the gross debt currently, how will our balance sheet look once the project is over?
- Ashok Gupta:** Dhaval as of today our balance sheet size is close to Rs.3600 Crores, **net-worth** close to 1650 Crores and that EBITDA, which we have reported Rs.639 Crores, as of today the net debt to EBITDA is less than two times, so you see that as of now the situation and coming to this project funding if you see that Rs.1450 Crores is the project announced and that still we have to decide what the debt equity mix it will be, but if you see the two year timeframe we will be repaying close to Rs.520 Crores and we will have the cash surplus in the company that if the given EBITDA rate what as of now we are generating, so overall if we see that looking to the repayment of the debt and the timeframe within which we will be implementing there will not be any significant debt addition to the company. For the Sirpur our investment of JK paper will be close to Rs.150 Crores only, not the entire acquisition cost, whatever the balance amount that to be borrowed on the company balance sheet itself on the asset and their own EBITDA generation, so in terms of the JK paper investment up to close to Rs.150 Crores for Sirpur and for this packaging board considering debt equity mix and looking to our repayment there will not be any significant debt addition to the company.

- Dhaval Shah:** Just to sum up what you said your existing gross debt Rs.1600 Crores correct?
- Ashok Gupta:** No, existing gross debt is close to Rs.1300 Crores, existing debt, which we reported out of the Rs.1248 Crores is the long-term debt and if you take that FCCB conversion of Rs.19 Crores then the total gross debt as of March 31, 2018 stands to Rs.1305 Crores. Net debt of the company after that investment if you knock it out close to Rs.1100 Crores.
- Dhaval Shah:** It was cash, so you are saying once the expansion project is done with your Sirpur acquisition, the gross debt will not be materially high, it is what you are saying right?
- Ashok Gupta:** Because Rs.1100 Crores as of now, even if you consider Rs.1300 Crores gross debt minus Rs.520 Crores, Rs.530 Crores repayment in next two years then put together debt, which we will borrow it will not be significantly high.
- Dhaval Shah:** So what do you mean by significance, it is 1300 Crores can go to Rs.1500 Crores, Rs.1600 Crores?
- A.S. Mehta:** Please understand against Rs.1300 Crores, Rs.500 Crores and odd would be the repayment and so the debt will come down to Rs.800 and by that time the net worth of the company will be not less than Rs.2000 Crores, so and the quality of balance sheet will be totally different.
- Dhaval Shah:** Correct, so your debt equity ratio should be lower than what it is today?
- A.S. Mehta:** Yes.
- Dhaval Shah:** Correct and this Sirpur Paper you said Rs.150 Crores will be the equity from our side and whatever you need to borrow you are borrowing on Sirpur's balance sheet?
- A.S. Mehta:** Absolutely and also once we start the operation after the NCLT order that unit will start generating its own EBITDA.
- Dhaval Shah:** Roughly how much would be, annually it can do about Rs.200 Crores EBITDA?
- A.S. Mehta:** No it is difficult, but it will be self funding EBITDA of that unit.
- Dhaval Shah:** How much debt we will have to take for that business?
- A.S. Mehta:** The debt also it will be taken only after a year or so, it is not immediately because the major investment is likely to happen after a year not immediately.
- Dhaval Shah:** We have improved our working capital over the last three to four years in JK Paper, so in Sirpur also how the cycle will be?

- A.S. Mehta:** As you see that JK Paper has been an efficient working capital company, so the same philosophy will be transferred and migration will happen from JK Paper to Sirpur as well.
- Dhaval Shah:** Fair enough. Now on the industry side, you currently had 450000 MT and we will be adding 2 lakhs plus 1 lakh MT of Sirpur total 3 lakhs MT to your capacity, now by 2020 I think everything should come from the brownfield, so by that time the market would be big enough to absorb the entire production is my assessment right?
- A.S. Mehta:** Yes.
- Dhaval Shah:** So overall your segment, your coated, uncoated and packaging are growing at what rate on an average, at the industry level?
- A.S. Mehta:** The average industry is growing at around 6% whereas the packaging board is growing with the double digit growth rate almost 12% to 14% and the packaging board by the time our capacity maybe a likely scenario of a short fall in the availability in the market.
- Dhaval Shah:** After three years?
- A.S. Mehta:** After two-and-a-half years or three years, so that would be a good time to enter with the product in the market. Right now also there is fairly balanced demand and supply scenario, so whatever growth is going to happen even if it is 4%, it will have good traction in the market.
- Dhaval Shah:** So in the last time when the entire industry added gross block I think somewhere in 2009-2010 what is the scenario right now, so you have announced Rs.1400 Crores - Rs.1500 Crores capex, how is the competition and what sort of announcement we expect over next one year?
- A.S. Mehta:** I do not think any major announcement from the A grade players barring the Emami packaging board has come in. TNPL setup their packing board machine last year and they are not fully stabilized, so I do not think they may announce any major investment at this stage, may be in the writing and printing paper they can think of in the next two years. Ballarpur I do not think that they can put any major investment at this stage because they are not yet out of the wood and West Coast I do not know whether they will invest. It is very difficult to say, yes all the players may further augment their capacities in times to come when there is a good demand.
- Dhaval Shah:** How about the foreign players because of commodity growing at 12%, how would be the foreign competition in terms of imports, they are putting money, they are putting plant here?
- A.S. Mehta:** As far as the foreign players are concerned it is a billion dollar question whether they will put up a plant in India or they will bring just a manufactured product in India to cater the market. To put up a plant and to operate a plant in India is not easy for these people. The green site plant takes almost four to five years to put up a plant, before it cannot happen because of the issue of land acquisition and thereafter the environmental clearance, all public hearing and others, these are the

very complicated issues, so it is not that easy for them. Bring material to the Indian market is far easier for them, but whether the Indian market is lucrative for those people that depends on the international prices and the global paper scenario. Right now for them the other markets are very attractive, so they are not participating in this Indian market. If the overseas markets are not attractive for them then they can only think of.

Moderator: Thank you. The next question is from the line of Imran Khan from Metis Capital Management. Please go ahead.

Imran Khan: First of all I would like to congratulate the team for the great set of numbers, so I would like to start with the first question, which is on the revenue decline part, so we have seen a revenue decline of 5% sequentially, so what is the reason for this?

Ashok Gupta: You are talking about which quarter?

Imran Khan: Last quarter.

Ashok Gupta: Last preceding quarter that our volume was high compared to this quarter because this quarter we have taken a annual shut.

A.S. Mehta: Once in a year we take a 10-day shut, this is the annual maintenance shut, so some impact of that, but there is no major impact as far as it is concerned on a net sales basis it was on 790 to 752, so this is hardly Rs.30/40 Crores

Imran Khan: My second question is on obviously on the expansion part, so can you please give us a timeline where you see the upcoming expansion would be reaching 100% capacity?

A.S. Mehta: As I said that first is the period of commissioning that I have said 24 to 30 months from the date of environmental clearance, this is a time for project schedule and the track record has been that in the first year itself on paper machine we started producing 100% at our Odisha Facility, but the packaging board is slightly a different product altogether it may take some longer time and also the market needs, but otherwise we should be somewhere around 80% plus in the year first itself.

Imran Khan: Great, so I think this is it as of now I mean if I would have some more questions I will come in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Utkarsh Nopany from Edelweiss. Please go ahead.

Utkarsh Nopany: Good afternoon Sir. Actually just wanted to know in case of materialization of acquisition of Sirpur Paper Mill how much incremental capex we need to incur apart from the acquisition cost?

- A.S. Mehta:** As I said that first thing is let it happen first, so this is one and the incremental capex will depend on the inspection and running of this plant, so there will be some contingencies, but the major capex what we have been anticipating would be somewhere around Rs.200 odd Crores that would be major, but that will be only after first year of running the plant.
- Utkarsh Nopany:** What was the rationale for expanding capacity in packaging board segment, I believe that this segment is offering the lowest operating margin at the moment, so like what was the rationale for expanding in packaging board?
- A.S. Mehta:** Please understand that right now the operating margin of the packaging board is at a lower level predominantly because of the pulp prices have been very high, and if you are integrated then there is no issue of a margin, but if you see the long-term scenario of packaging board, this vertical has given a very good return on capital employed in fact prior to this year the return on capital employed of the packaging board has been always double digit, so it make sense. Second when the market or the product demand is growing with the double digit growth rate there is no reason that the market leader like us should not participate in the market. The margin and the pricing is a question of time, time is an issue. Once the market is right, and there is a demand in the market there will be a time where you will improve your margin and you improve your profitability.
- Utkarsh Nopany:** Taking the current scenario like foreign integrated packaging board player, what kind of a margin they can make based on the current scenario?
- A.S. Mehta:** I would think around 18% to 20% not less than 18% to 20%.
- Utkarsh Nopany:** The pulp mill, which we are planning to set up whether that will be sufficient to cater to the enhanced packaging board capacity or both existing and enhanced packaging board capacity?
- A.S. Mehta:** Yes.
- Utkarsh Nopany:** Sir for both or only the enhanced capacity?
- A.S. Mehta:** I said both yes. Your question was both and I said yes.
- Utkarsh Nopany:** In case of materialization of acquisition whether the timeline of packaging board capex plan would remain intact or it would get deferred for some time?
- A.S. Mehta:** It will remain as it is because it does not put huge pressure on the company looking into the quality of assets and the quality of balance sheet now we have.
- Utkarsh Nopany:** At what peak net debt to EBITDA we would be looking for in the future?
- Ashok Gupta:** Net debt to EBITDA as we have said because it should be less than three times.

- Utkarsh Nopany:** It should be less than three times in the future?
- A.S. Mehta:** That also the peak, on a longer term scenario I would not think that it will be more than 1.5 or 2 at any point of time.
- Ashok Gupta:** Once the plant commences operation then it will come down. I just say as we have completed the capex and then capex yet to come it should not achieve more than 2.
- Utkarsh Nopany:** Sir one last question like we were reading some news articles that global players have taken a price hike of 6% to 8% in the past one-and-a-half month period and rupee has also depreciated during the same time period. So in light of this whether the company has taken any price hike in Q1 or the company is planning to take any hike?
- A.S. Mehta:** We have done a price increase in the month of April and May both months certain product categories and the SKUs and we also did some price increase in the month of March. So at this point of time I do not feel any necessity of doing a price correction in the domestic market. Yes the packaging board is one product category where the margin is very low because there is a cost push of the pulp prices, but again we need to see the demand supply scenario and also the prices in the market because there are integrated players as well, so what is going to be I mean pricing strategy in the market and then we will have to see.
- Utkarsh Nopany:** Sir last thing like on a blended basis what kind of a price hike we can assume for FY2019?
- A.S. Mehta:** A bit difficult, but I would say that in the range of 2% to 3% one should consider.
- Ashok Gupta:** And after looking into rupee depreciation I think that should help.
- A.S. Mehta:** Also we need to keep one thing in mind that if the domestic prices goes up too steeply and too high then we are inviting the foreign players to come to India.
- Utkarsh Nopany:** Thanks a lot Sir. That is it from my end.
- Moderator:** Thank you. The next question is from the line of Amit Doshi from Care Portfolio Management Services. Please go ahead.
- Amit Doshi:** Thank you. On the paper industry outlook can you share some thoughts because overall all paper companies are doing extremely good, so how long that good prices of paper are likely to survive and for the next couple of years and whether this kind of margin are sustainable over the next couple of years if you can throw some idea on that?
- A.S. Mehta:** I can only share about the industry demand outlook one part as I said that India is going to be the fastest growing paper market and the growth should remain in the next 5 to 10 years in the band of 5% to 6%, on an average. Certainly the different product categories will have a different

growth rates, so this is on the demand side, and it is the fastest growing market. India is the only market, which is growing at 6% in the paper sector. That is all other markets except China, China has also had on an average it is something around 2%, but all other markets are hardly at less than 1% and overall global growth rate is also assumed at 1%, so the India is very attractive from the demand perspective. As far as the margins are concerned, since the global pulp prices are higher and also the paper prices are higher, so we have some advantage of pricing these days and in time to come if the pulp prices remain at that level, which is unlikely to my mind, so if the pulp prices remain at \$600 a level then the existing paper prices will also remain because there is no reason to come down because the paper and pulp price parity is always \$200 plus.

Amit Doshi: Basically I think currently the way it is happening the industry is being shifted from China, so till the time that shift is going on these kind of margins are likely to survive or even after that you believe it will survive?

A.S. Mehta: Where the industry shifting from China, China is still the biggest producer even today.

Amit Doshi: There are many, many mills are Chinese government has ordered to shut and of course they will shift to some other places, so I think in the meantime is this the reason for sharp increase in the prices?

A.S. Mehta: No, there are different product categories where there may be some shift, but please understand if we are talking writing and printing, which is our predominant segment, there is no major capacity shutting in China on writing and printing paper because what they have been shutting is the smaller craft mills and corrugated box, or the industrial craft unit not the writing and printing. Writing and printing some smaller mills are shut, but at the same time they are building the new larger machine. On a net-to-net basis writing and printing there is no shutting of the major capacity in China.

Amit Doshi: For Sirpur Mills, there are any other bidders or JK is the only bidder and in the article it says that outlay of some Rs.628 Crores has been figured out whereas you just mentioned initially that our investment would be close to Rs.150 Crores or something, so can you just share something on that?

A.S. Mehta: As far as our knowledge is concerned, we are the only bidder at this stage,. As far as the 600 or whatever the outlay has come in the public domain there is one information from the different sources, yes the total amount is going to be Rs.600 Crores, but there are phases and there are phases of investment as well as the consideration to be paid to the institution.

Moderator: Thank you. The next question is from the line of Satish Ramanathan from Tattva Capital. Please go ahead.

Satish Ramanathan: On Sirpur Paper what is the realizable capacity if you were to start the factory how soon can it reach peak capacity, what is the current accessible capacity that you have and what are the issues on Sirpur Paper in terms of cost efficiency compared to your existing plants?

A.S. Mehta: When you talk about Sirpur they have announced the rated capacity something around 130000 odd tonnes in that mill, but the mill has never produced more than a lakh tonnes, so there are some issues of balancing and other areas and those areas we need to address in times to come once we start when it happens. So the first question is when it happens so let it happen first and then we can address all those issues of a balancing and the debottlenecking and other thing. As your question of realizability of the capacity I would certainly say that if there is a capacity it is a realizable capacity, it is only a question of balancing and once we go there, once we take over then only we can figure out that what kind of a balancing and debottlenecking we need to do and we should be able to do this. Our estimate is that four to six months this should take to restart the mill because the mill has been shut for four years, so it should take something around that time to open it.

Satish Ramanathan: What is the vintage of machines and in terms of efficiency where does it compare to your existing plants?

A.S. Mehta: If you compare with our existing plants we have two plants. One is the older plant and other one is a new plant. So if you compare with all the plants then also this plant is, different machines are of a different vintage. They also have better machines and they have the older machines, some machines are of 1940s and some machines may be of 1970s, so that vintage is of a different period. On efficiency parameter wise, these machines are not comparable with our newer machines and our upgraded machines so you just cannot compare. Once we start, once we observe, once we run for sometime then only we can make a final assessment that what kind of upgradation is necessary, what kind of efficiency improvement are required to be done so that this remains viable and a profitable, but yes once we start this we will make it a profitable and a viable unit.

Satish Ramanathan: And in terms of raw material for coal and pulp access could you just describe?

A.S. Mehta: This mill is in the close proximity of the coal availability and also the raw material availability, so that should not be a major issue.

Satish Ramanathan: So there will be a freight advantage?

A.S. Mehta: Yes.

Satish Ramanathan: What kind of payback do you expect in your investments Sir?

A.S. Mehta: That is very difficult at this stage. Let it happen first. Possibly once we restart I will be answering your all questions.

- Satish Ramanathan:** 130000 of WPP or is it something?
- A.S. Mehta:** No, it is the total I am saying.
- Satish Ramanathan:** What is the breakdown?
- A.S. Mehta:** Breakup is predominantly major quantity is the writing, printing some capacity of the specialty paper may be the board and file board or some other paper.
- Ashok Gupta:** Majority is the writing and printing within that you can make that various mix of writing and printing papers like that Maplitho and Copier and different GSM types.
- A.S. Mehta:** Copier they do not have, they have the other papers.
- Satish Ramanathan:** When you restart the plant there will be a lower capacity I mean lower quality paper that comes out and you will have to sell it?
- A.S. Mehta:** There is one fundamental in our DNA that we do not sell lower quality paper in the market because it is a question of our brand image, so once we are able to produce a quality paper acceptable to a customer then only we will go to the market.
- Satish Ramanathan:** Thank you very much.
- Moderator:** Thank you. We move to the next question from the line of Umang Shah from JM Financial Services. Please go ahead.
- Umang Shah:** Good afternoon. Actually I missed out on a volume data if you could just share Q4 and full year volume data again please?
- Ashok Gupta:** Volume data for Q4 is 131000 and for previous corresponding quarter is 124000 and preceding quarter is 140000.
- Umang Shah:** For full year?
- Ashok Gupta:** Full year it is 501000.
- Umang Shah:** And Sir I was also wondering that you said that our NSR is somewhere close to 56000 right?
- Ashok Gupta:** Yes.
- Umang Shah:** And we have achieved an EBITDA of somewhere close to 22% this quarter, so I was wondering that this EBITDA increases clearly from the price increase or is this more of a product mix that we have taken hike in some of the products that is why?

- A.S. Mehta:** The mix is a major on NSR improvement. Price is also there I am saying that the smaller part is the price and other part is product mix.
- Umang Shah:** To continue with our EBITDA margin, you foresee that current selling price would be the stable or the base price going ahead?
- A.S. Mehta:** As I said that since the global prices remains stable and there is a demand & supply scenario fairly balanced, so there is no reason that the prices should come down.
- Umang Shah:** Alright. Thank you.
- Moderator:** Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Fincap. Please go ahead.
- Kashyap Jhaveri:** Thank you very much for the opportunity. I just wanted to check on this Sirpur Paper, there were some talks about state benefits also being awarded to this particular plant for revival, has the state government approved those benefits or they are not there at all now?
- A.S. Mehta:** They have approved.
- Kashyap Jhaveri:** I understand there is electricity charges benefits and there are some GST refunds also, which are approved, so if you can spell out those benefits?
- A.S. Mehta:** Some information is in the public domain and you can see those informations. There are some electricity and there are GST because that is the scheme and it is available.
- Ashok Gupta:** It was clearly mentioned what kind of incentives they have given it is approved by **State Government** you would be able to know that in some terms of wood, coal and others.
- Kashyap Jhaveri:** Second question is in Sirpur Paper during the earlier part of the call probably the paper and pulp capacities are matching or there is a shortage on pulp?
- A.S. Mehta:** It is fairly balanced.
- Kashyap Jhaveri:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Bhakti Thacker from Investec. Please go ahead.
- Bhakti Thacker:** Congratulations on numbers. I wanted to understand what steps have taken, which has led to a lower working capital base?
- A.S. Mehta:** There are two-three things when you talk about the working capital in the paper industry. One is the raw material because you need to stock material for a longer duration something around two months to three months inventory of raw material that means the wood and the pulp as well and

also the outstanding in the market. So JK Paper has been maintaining a discipline of recovery and the realization from the market, so that our outstanding remains under control and the raw material as we get more and more raw material from the closer proximity so we can reduce the raw material inventory as well, so these are the two major areas where the working capital is managed very effectively.

Bhakti Thacker: One more question, as you mentioned that because of improvement in product mix so just to understand how EBITDA margins, I am not asking specifically quarter wise but approximately how much EBITDA margins would company make in coated paper segment and uncoated paper segment and packaging just to understand the dynamics of the segment?

A.S. Mehta: That information at any stage are not desirable to be disclosed in the market because these are business **confidential**.

Bhakti Thacker: To understand coated paper is higher than the uncoated paper segment right?

A.S. Mehta: Sometimes uncoated paper is higher, sometimes coated paper is higher that depends upon global pricing scenario.

Bhakti Thacker: Last question what is the status of the antidumping duty that has been initiated?

A.S. Mehta: Antidumping duty proceedings the public hearing is over. Now the next steps with the antidumping and DG safeguard directorate and they will conclude the proceedings.

Bhakti Thacker: Sir I could not hear the last part.

A.S. Mehta: What I am saying is that the DG safeguard and the director general of antidumping the secretariat they have a process of antidumping and the proceeding was initiated in the month of November, thereafter there was a public hearing, which happened on March 30, 2018 or March 31, 2018 I think it is March 30, 2018 and thereafter the replies by the applicant as well as the respondent those have already been filed. They do their process and there are number of processes it is a market visit, factory visit, thereafter their research and then they take a final call.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir just had one followup question while putting for this packaging plant have we considered using waste paper as a raw material and what will be the difference putting in that?

A.S. Mehta: See the waste paper as a raw material you can use only when you produce a duplex or a grey back.

Dhaval Shah: Okay.

- A.S. Mehta:** When the plant is set up initially for a few months and some companies continued to do thereafter as well so when there is profitability metric at any stage and it is the company's choice whether to continue duplex or a grey back when you use these two varieties the one variety then only you use the waste paper.
- Dhaval Shah:** So we are going with pure virgin pulp?
- A.S. Mehta:** We will have both options. Initially we will have to produce the duplex with the waste papers, thereafter we will have a choice whether to continue duplex or we switch over entirely to virgin and that will depend on the market demand, supply scenario, profitability metrics and everything.
- Dhaval Shah:** Fair enough. Great Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Devang Mehta from Bay Capital. Please go ahead.
- Nikunj Doshi:** This is Nikunj Doshi from Bay Capital. Just wanted to understand growth outlook for next two years since I think we are utilizing our capacity to full extent so what was the growth outlook for the next two years till the new capacity is coming?
- A.S. Mehta:** When the industry is growing with 5%-6% there is no reason that we should not grow at that rate I think we should grow higher than that, so till the time we have the capacity available with us we will explore the option of increasing and accelerating our outsourcing model. We are already doing the outsourcing on the coated paper and uncoated paper both from some sources and we will accelerate so that we meet the customer demands and we have a topline growth as well as the incremental profit out of the sourcing.
- Nikunj Doshi:** Sourcing mainly imports or domestic sourcing?
- A.S. Mehta:** Mainly it is import.
- Nikunj Doshi:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.
- Bajrang Bafna:** Congratulations for very good set of numbers. I have joined a little late so I am sorry if it is a repeated question. On the new capex since it is going to come in Gujarat what is the plan for sourcing the raw material, you said initially it could be duplex also, but suppose if it is going to be virgin then we are currently sourcing almost 100% of our wood requirement from the nearby area of 200 kilometers at a better rate, but what about the expanded capacity?

- A.S. Mehta:** Then also we should be able to source it from the local area because local area the wood availability is much higher and because whatever plantation we did four years back, five years back those wood are matured, wood available for the pulping and whatever plantation we have done in last three years that will also mature by the time the pulp mill comes up.
- Bajrang Bafna:** So we will be able to meet our almost entire requirement from the domestic source okay and one more thing on the Odisha side since we are ramping up our sourcing capacity for the wood and if I remember correctly it has almost reached 53% in the last quarter how we are placed now and what is the plan to get it?
- A.S. Mehta:** We have already exceeded 60% in this quarter and our plan is to move further.
- Bajrang Bafna:** So when we can expect this to move towards may be 100% by what timeframe?
- A.S. Mehta:** May be 100% it may not happen because the kind of capacity we have of the pulp mill we will have to depend on some farther area, but it would not be very farther places. To my mind 75% or 80% if we sources within 200 kilometers that is good enough.
- Bajrang Bafna:** Sir what kind of margin impact it could have suppose if we reach to from 60% to let us say 80% in a time bound may be year's time or so?
- A.S. Mehta:** I would say that if we achieve 60% to 80% that means it is something around company as a whole half a percent margin improvement should happen.
- Bajrang Bafna:** Sir what is the capital outlay that we have planned for this new capex for this 2 lakh tonnes?
- A.S. Mehta:** That we have said that Rs.1450 Crores approximately the capex.
- Bajrang Bafna:** Because it is substantially lower if we go by the recent TNPL they have done 2 lakh capacity of the similar or the virgin board side and they have done upwards of Rs.2000 Crores if you are doing in 1450 I think say decent achievement from company perspective?
- A.S. Mehta:** TNPL has done Rs.2000 Crores, it was Rs.1400 Crores this is what our indication is, but Rs.1400 Crores is that 2 lakh tonne board machine only they did not put up a pulp mill whereas in our case we are putting up a pulp mill as well as the board machine. It says it is a brownfield, so there is no cost of land and some other infrastructure with the TNPL had to do.
- Bajrang Bafna:** Got it Sir. Thank you very much Sir.
- Moderator:** Thank you. The next question is a followup from the line of Imran Khan from Metis Capital Management. Please go ahead.

- Imran Khan:** Can you please throw some light on the raw material sourcing of CPM and JKPM plant specifically the radius, as there are any further improvement in the radius and what was the cost per tonne?
- A.S. Mehta:** CPM what we have done last year we have done this year also the more or less the same because 100% it is from the less than 200 kilometer area so that remains the same. As far as the JKPM is concerned, it was as earlier somebody asked this question and I said that it was almost over 50% last year and now we have crossed 60% this year and the availability is even better I would say. This is the outcome of the greater focus on plantation we did from last five years and now the matured wood is available from our own area, so that is an advantage and our effective cost has come down because the logistic cost is lower.
- Imran Gupta:** Right Sir can you give us some idea on this cost per tonne?
- A.S. Mehta:** I do not think that is published information and we do not want to share that information.
- Imran Gupta:** No problem, so any plan to expand in coated paper segment?
- A.S. Mehta:** Right now our strategy is to expand the other product varieties, the coated paper we are sourcing and we are selling in the market in our own brand, so that is our strategy in this product category.
- Imran Gupta:** Thanks.
- Moderator:** Thank you. The next question is a followup from the line of Amit Doshi from Care Portfolio Management Services. Please go ahead.
- Amit Doshi:** We are discussing basically by when do you expect some clarity on whether that thing will happen or not?
- A.S. Mehta:** It is a question, which I cannot respond because the NCLT has to approve.
- Amit Doshi:** Some estimation that you might have in your mind.
- A.S. Mehta:** Very difficult because everyday you will hear something in the market, NCLT decide one day something and other day something else happen so you cannot speculate that day it is finally approved that is the day.
- Amit Doshi:** Sir initially you mentioned Rs.520 Crores of debt repayment plan so I just could not hear it properly so will it be within this year or next two years?
- Ashok Gupta:** Two years project implementation period, which is two year repayment.
- Amit Doshi:** So roughly Rs.250 Crores, Rs.260 Crores per year?

- Ashok Gupta:** That is right.
- Amit Doshi:** Dividend increase that has been announced this year, is there any plan that has been concluded on the payout policy?
- A.S. Mehta:** See the payout policy is not mandatorily we are not required to disclose the dividend policy, but yes the dividend payout is always decided based on the future cash flow need and expansion projects in hand and at the same time the surplus cash flow for the year, so the board decided that 25% the company can afford in view of the surplus available and looking into the future need of the cash.
- Amit Doshi:** Thank you. That is all from my side. All the best.
- Moderator:** Thank you. The next question is from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.
- Arjun Sengar:** Sir you stated that you have taken some price hike in March, April and May in certain segments, so in uncoated paper which I understand is mostly writing and printing, in that segment what was the price hike in these three months?
- A.S. Mehta:** See it is a different product category, different price hike as I said in the month of April and May. Some price hike were in the Maplitho category, which was around 2% to 3% and copier also some SKUs it was something around 1.5% to 2%, some SKU we did not increase and in the coated paper we increased around 3% to 4%, so it is a different SKU, different product category, different price increases based on the market affordability and the demand supply scenario.
- Arjun Sengar:** Sure, so when you say that I think you said that for FY2019 one could assume 2% to 3%, which is pretty much what you have already done in April, so there is no major hike?
- A.S. Mehta:** Whatever April we have done it has not been reflected in the results so once April, which will have the impact in the next 11 months the result at the same time and there will be some opportunity we will have to do a price correction.
- Arjun Sengar:** This maintenance shut down that you talk about that is annual thing right?
- A.S. Mehta:** This is annual thing every year we take a 10-day shut and that is annual feature.
- Arjun Sengar:** Sure Sir. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Ravendra Nath Nayak from Sunidhi Securities. Please go ahead.

Ravendra Nath Nayak: Sir one question regarding this plant expansion that we are planning actually one of my previous participant has already covered this, the cost is if I go by the TNPL's balance sheet and annual report it says that 165000 tonnes paper machine, board machine they are setting up 2 lakh to Rs.2100 Crores so whether we are looking at any other machines we are looking at, we are not looking at that machine that is why the cost is low because they are also talking about the pulping capacity with chemical recovery and captive power plant?

A.S. Mehta: What they are talking now the next one is the pulp mill as well as the paper machine capacity of writing and printing. So there are two scenario, one is that when you talk about brand new pulp mill and brand new paper machine then the payment is different and this is what, see in fact in 2013 when we set up the brand new pulp mill and the brand new paper machine at our Odisha facility the pulp mill was of 215000 and paper machine of 165000 tonne that time we also invested something close to Rs.1800 Crores or Rs.1900 Crores. When we are now talking about this our Gujarat facility one is that the pulp mill is not 215000 it is something around Rs.1.6 lakh tonne and it is our own pulp mill, which is a refurbished pulp mill.

Ravendra Nath Nayak: Refurbished means what?

A.S. Mehta: It was our own pulp mill at Odisha facility and so that is being shifted to Gujarat facility and that is being refurbished, all the features of the new pulp mill electronic instrumentation system, also some increase in the capacity, those things are going to be done, so the pulp mill cost will be far lower than the new pulp mill.

Ravendra Nath Nayak: Okay.

A.S. Mehta: On the packaging board machine part also if you are buying European machine the cost is totally different, so we do not intend to buy European machine, which will be very costlier.

Ravendra Nath Nayak: Then which machine we are looking at Sir?

A.S. Mehta: Various options available to our technologist so this is a challenge we had given to our technologist to reconfigure the machine. I cannot tell you right now which machine it is going to be, but this is what the project target we are giving to our technical team and I am sure they will meet the target.

Ravendra Nath Nayak: Sir I understand correctly you are setting this Odisha pulp machine to the Gujarat place right?

A.S. Mehta: Yes.

Ravendra Nath Nayak: Then Odisha will be having a new facility for pulping?

A.S. Mehta: That we already had in 2013 so this will get shut after 2013 new pulp mill.

Ravendra Nath Nayak: Understood. Sir regarding this Sirpur acquisitions what are the hurdles, which we are facing in terms of finalization of the deal?

A.S. Mehta: We do not face any hurdle. The hurdle is since the IBC code is a new code it is evolving everyday so in the evolution process there will be n number of hurdles not that you can define those hurdles or you can measure those hurdles, so those hurdles we will need to overcome those hurdles, these are all regulatory issues, so one cannot anticipate and trust those hurdles. We will have to close those hurdles as they come.

Ravendra Nath Nayak: After this if at all everything goes well and you acquire the facility what will be the corporate status will it be remain listed or it will be merged into the entity what is the corporate status we are looking at?

A.S. Mehta: I cannot say today let it happen first and then we will decide.

Ravendra Nath Nayak: Sir regarding if at all we operate the plant what kind of EBITDA margin we should look at considering the benefit the state government is already allowed to you in terms of power cost?

A.S. Mehta: Let it happen first, let us run this plant for six months and then only we can say that what is going to be EBITDA and everything.

Ravendra Nath Nayak: Sir one bookkeeping question, what is the total production for this quarter, if you can give it in writing and printing and packaging board it would be helpful?

A.S. Mehta: I have the total figure that sell figure had given separately that production was 119000 tonnes.

Ravendra Nath Nayak: Okay. Can you break it up uncoated and coated and virgin fiber board?

A.S. Mehta: Anyhow sales volume of 131000 the breakup is uncoated is 82000, coated is 23000, packaging board 25000.

Ravendra Nath Nayak: Thank you Sir.

Moderator: Thank you. The next question is from the line of Bhakti Thacker from Investec. Please go ahead.

Bhakti Thacker: To understand the power self sufficiency right now and including the new capacity expansion how will be sufficient in terms of power?

A.S. Mehta: There will be fully self sufficient, right now also we are fully sufficient, in times to come also we will be fully self sufficient.

Bhakti Thacker: Sir to understand the portion of outsourcing in your total sales how much would that be for FY2018?

- A.S. Mehta:** FY2018 the total cost something around 45000 tonne.
- Bhakti Thacker:** FY2017 what was this number?
- A.S. Mehta:** Something around 40000.
- Bhakti Thacker:** Sir how does crude prices impact us and also chemical prices have also been shooting up, so how does that impact?
- A.S. Mehta:** Good observation that the crude prices impact in some manner, one is the crude based chemical that impact our cost as well as when the crude prices moves up all around cascading impact on the other cost of chemical or other material because the crude becomes fuel for all other manufactures or vendors and also the crude prices moves up then there will be cascading impact on the fuel prices, some fuel will be used as a furnace oil **Pet Coke** so that can also have some impact.
- Bhakti Thacker:** But then the whole industry per se would be able to increase because it is in a positive outlook right now would be able to absorb this?
- A.S. Mehta:** Let us hope and let us see that we are able to recover that from the market.
- Bhakti Thacker:** Sir last question what is the percentage of import for our raw materials, so how much percentage of raw material cost comes from import?
- A.S. Mehta:** We do not import per se the raw material goods, we only import some quantity of pulp for our packaging board production.
- Bhakti Thacker:** That is it. Thank you.
- Moderator:** Thank you. Ladies and gentleman this was the last question for today. I now hand over the conference to the management for their closing comments. Over to you Sir!
- A. S. Mehta:** Thank you very much and the questions have been very interesting and I hope we have responded to all the questions to the satisfaction of all the analysts and the investors and we will continue to answer all the questions in time to come and if you have any further questions you can always contact our team in head office and they will be able to respond to you and thanks again. Thanks for showing the confidence and interest in the company. Thank you so much.
- Moderator:** Thank you very much Sir. 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.