



Rajshree Polypack Limited H1 FY20 Earnings Conference Call

November 18, 2019



**MANAGEMENT:- Mr. Ramswaroop Thard:-Chairman and Managing Director
Mr. Praveen Bhatia – Director
Mr. Sunil Sharma – Chief Financial Officer**

MODERATOR:- Ms. Vaishali Parekh

Rajshree Polypack Limited. H1 FY20 Earnings Conference Call**November 18, 2019**

The conference is now being recorded.

Operator:

- Ladies and gentlemen, good day and welcome to the Rajshree Polypack Limited. Q2 FY20 earnings conference call hosted by Prabhudas Lilladher Pvt. Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Vaishali Parekh from Prabhudas Lilladher. Thank you and over to you.

Ms. Vaishali Parekh - Prabhudas Lilladher Pvt. Limited:

- Thank you Steven. A very good afternoon everyone. On behalf of Prabhudas Lilladher, I welcome you all to the H1 FY20 Rajshree Polypack earnings call. We have with us Mr. Ramswaroop Thard – Chairman and Managing Director of the company. We also have Mr. Sunil Sharma who is the CFO, and Mr. Praveen Bhatia who is the Director. Sir, I'd like to now hand over the floor over to you for you to make your opening remarks, post which we can take questions and answers from participants. Thank you and over to you sir.

Management – Rajshree Polypack Limited:

- Good afternoon everyone. I welcome you all to the earning call of Rajshree Polypack Limited. for H1 FY20. For H1 FY20, the company has achieved a turnover of Rs. 67.72 crores as against turnover of Rs. 67.12 crores for the corresponding period of the earlier year, thereby maintaining the same levels of sales on a year on year basis. Further, the company has achieved EBITDA of Rs. 11.92 crores for H1 FY20 as compared to Rs. 11.03 crores for the corresponding period earlier year which is 8.09% higher. EBITDA margin for the company stood at 17.60% as against 16.43% for corresponding period of earlier year. The PAT of the company has improved to Rs. 5.60 crores for H1 FY20 as against Rs. 5.09 crores for H1 FY19. The PAT margin for the period stood at 8.26% of sales against 7.58% of sales of the corresponding period in the earlier year.
- Talking about the growth plans, development of Unit 4 is in process, and construction of the factory building is in an advanced stage. We have provided certain images of the unit under construction in our investor presentation itself, which you can refer through our company or NSE website. We expect the same to be ready by January 2020. Further, one 4th station thermoforming which is part of the project for IPO has already been arrived and installed. Commercial production for such machine is already started in the month of July 2019, and we have sufficient orders for optimum utilization of the new machine. On the extrusion front, we have made some major technical changes in the proposed machine, which will help us in making inroads in some more industry verticals from packaging perspective. This will help us expand and diversify our customer base, thereby derisking our business considerably by scaling up at rapid pace. With these changes, now we expect the same to be delivered at the 10.45 June 2020 end. Considering other aspects such an installation and trial run, we expect to go for commercial production latest by end September 2020. On the other fronts we have already received and installed on multi-color printing machine in July 2019 and commercial production for the same has been commenced. The machine

has replaced some of the old printing machines by helping us delivering improved quality to customers while reducing overall costs.

- On the product fronts, we have developed some packaging of cheesy dip with a multinational company and manufacturing of this product has started. The product is being manufactured for one of the largest QSR chain of India. Apart from that, we have also developed some other packs of ice cream which are supposed to get launched for the next season, with a big multinational company.
- I would also like to highlight that we have recruited one senior professional with 35 years of experience as the Vice President Sales, and we have also recruited and Advisor - Strategic Planning and Growth to the Managing Director, who has 38 years of experience in the field of packaging, both in the domestic as well as international markets.
- With this, I would like to invite your questions. Thank you.

Operator:

- Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question, you may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Reminder to the participants, anyone who wishes to ask a question, may press * and 1 at this time. The first question is from the line of Shivkumar from Unifi Capital. Please go ahead.

Mr. Shivkumar – Unifi Capital:

- Thanks for the opportunity. Sir, can you give us the volume numbers for Q1 and Q2?

Management – Rajshree Polypack Limited:

- Yeah. The volume numbers in terms of plastic rigid sheets, we have sold 1,178 metric tons, and packaging products we have sold 2,077 metric tons. So in packaging products there is a volume growth of 9% and in sheets there is a volume de-growth of 3%.

Mr. Shivkumar – Unifi Capital:

- Is this for the 1st half?

Management – Rajshree Polypack Limited:

- Full complete half, H1 2019. In terms of numbers, if we need specifically, I would say for packaging products it was, all put together... just a minute. In terms of Rupees it is Rs. 45.46 crores as compared to Rs 42.59 crores in H1 2019. And in terms of quantities, it is 2,117 metric tons against 1,942 metric tons in H1 2018. And in terms of rigid sheets, it is 1,178 metric tons in 2019-20 as compared to 1,308 metric tons in H1 2018. In terms of Rupee, it Rs. 20.97 crores in H1 2019, and it is Rs. 22.66 crores in H1 2018.

Mr. Shivkumar – Unifi Capital:

- Sir, can you repeat the value numbers for both the segments?

Management – Rajshree Polypack Limited:

- Yeah. For packaging it is Rs. 45.46 crores, and for rigid sheets it is Rs. 20.97 crores.

Mr. Shivkumar – Unifi Capital:

- Last year numbers sir?

Management – Rajshree Polypack Limited:

- Last year was Rs. 42.59 crores and Rs. 22.66 crores.

Mr. Shivkumar – Unifi Capital:

- And what's the update on the new machinery which is coming up? First of all we'll address this thermoforming machine. What's the status of that?

Management – Rajshree Polypack Limited:

- That has been installed in the month of July and the production for the same has already started.

Mr. Shivkumar – Unifi Capital:

- What is the capacity of this thermoforming machine sir?

Management – Rajshree Polypack Limited:

- This is 900 metric tons per annum.

Mr. Shivkumar – Unifi Capital:

- And have you achieved full capacity?

Management – Rajshree Polypack Limited:

- Yeah, from this month we'll be able to achieve the full capacity. First 2 months it was a ramp up in August and September. But still we were able to use 65% capacity in these two months also. That is why we see an increase in the packaging products sales.

Mr. Shivkumar – Unifi Capital:

- Okay. So how much is the increase that you're expecting in the packaging products?

Management – Rajshree Polypack Limited:

- This should give up an additional, I would say, sales in terms of tonnage to the tune of... for another 6 months we are looking at 400 tons of sales which should add up in the sales for packaging products.

Mr. Shivkumar – Unifi Capital:

- And is this in the barrier technology packaging products or the normal products which you are supplying now?

Management – Rajshree Polypack Limited:

- At the moment it is normal. But for barrier packaging products, to seed the market yes, we have already placed the order to import the sheets and we are going to seed the market by thermoforming the sheets and supplying barrier products into the market.

Mr. Shivkumar – Unifi Capital:

- So, what are you guiding in terms of the topline for FY20 sir?

Management – Rajshree Polypack Limited:

- FY20 we are looking at 140 crores total for the full year.

Mr. Shivkumar – Unifi Capital:

- Right. What would be your EBITDA guidance?

Management – Rajshree Polypack Limited:

- 17 plus/minus 1%.

Mr. Shivkumar – Unifi Capital:

- And in terms of taxation, you have transitioned to the lower tax regime?

Management – Rajshree Polypack Limited:

- Not yet, because we are evaluating whether certain other exemptions can give us a better benefit or not. So once that evaluation is done we will take a call because we can take that call in the month of March also. As of now 17.38 the tax we have considered is at the old tax rate.

Mr. Shivkumar – Unifi Capital:

- Will Unit 4 be eligible for this 15% tax rate for new units which the Finance Minister had announced?

Management – Rajshree Polypack Limited:

- No, because the new company has to form after 1st October, 2019. We are an old company.

Mr. Shivkumar – Unifi Capital:

- Maybe you can put up a subsidiary and set up a unit under that subsidiary? You can't do that?

Management – Rajshree Polypack Limited:

- At the moment no, because I think a lot of... it has gone into advanced stage and all, and advanced payments and everything has already gone for the machines and all. So it won't be possible, I think so.

Mr. Shivkumar – Unifi Capital:

- Can you give some sense on these changes which you made, which led to this delay in the new machine being commercialized?

Management – Rajshree Polypack Limited:

- Basically, the intent to enter into tube segment also, with these changes we see and due to this lot of talks about plastics in the last 6 months. We thought it is an opportunity to make some changes in the machine so that we can cater into a segment which is the tube industry. Because currently are made... the laminates are aluminum plus plastic combination which is not recyclable. And, lot of changes will happen where people will shift from this to all the plastic based structure. So we had made certain changes in the machine so that we could cater to this segment also.

Mr. Shivkumar – Unifi Capital:

- Right. Sir, so you're saying, by June end you will be getting the machine delivered, right?

Management – Rajshree Polypack Limited:

- Yeah.

Mr. Shivkumar – Unifi Capital:

- So basically we'll see the effect of that machinery... when you say you'll start commercial production by September end, in the 2nd half we'll see the....

Management – Rajshree Polypack Limited:

- Yeah, we'll see the impact of this extrusion machine into operation.

Mr. Shivkumar – Unifi Capital:

- And any updates on the new orders you have received sir? Can you throw some light on that? What are the kind of orders, what is the technology and how will the margin profile be different?

Management – Rajshree Polypack Limited.

- From the new extrusion machine or the new product category?

Mr. Shiv Kumar – Unifi Capital:

- Both basically.

Management – Rajshree Polypack Limited.

- Basically, this is going to be a high value product for the cosmetic sector so it is definitely going to give higher margins. Again, in food also we foresee a good margin into barrier products because the products are currently being imported out of India, there is no manufacturing into rigid packaging products in India at this stage. So, the EBITDA number what we have given for the packaging product as Rs. 33,000 per metric ton, for barrier products we see it at, at least Rs. 45,000 to 50,000 per metric ton.

Mr. Shiv Kumar – Unifi Capital:

- Recently you have got new orders from QSR company, how big is that order and for how long is it?

Management – Rajshree Polypack Limited.

- Like it's a long-term order basically and it should add up to the revenue of at least 3 to 4 crores in the topline and the new product category what we talking about for the ice creams can add up another 1.5 crores in the topline from the estimates what we have received from them.

Mr. Shiv Kumar – Unifi Capital:

- So, both these orders are already in?

Management – Rajshree Polypack Limited.

- Yes. Like for one of the products the commercial supplies have already started and for the others we are ready to do the commercial supplies in next 10 days' time.

Mr. Shiv Kumar – Unifi Capital:

- You are also under trials by a business group which is setting up a QSR kind of a facility, is that done?

Management – Rajshree Polypack Limited.

- Yes. We have got the approval from them to go ahead with their final molds and their molds will be going into production in next month and by the time our machine arrives we will be ready to do all the trials and testing at their end and get the product qualified.

Mr. Shiv Kumar – Unifi Capital:

- And what is the revenue potential there?

Management – Rajshree Polypack Limited.

- The revenue potential there we look at in the tune of 15 to 20 crores per annum.

Mr. Shiv Kumar – Unifi Capital:

- I will join the queue, sir.

Operator:

- The next question is from the line of Shiv Kumar from Unifi Capital. Please go ahead.

Mr. Shiv Kumar – Unifi Capital:

- Just to continue the conversation, we will be able to hold these margins for the rest of the year or would they actually improve?

Management – Rajshree Polypack Limited.

- Looking at the current raw material price we expect it to improve as the raw material are on the lower side at the moment in this quarter and if it remains so it should improve.

Mr. Shiv Kumar – Unifi Capital

- What is the EBITDA margin for the first half?

Management – Rajshree Polypack Limited.

- The EBITDA margin for the first half is 17.60%.

Mr. Shiv Kumar – Unifi Capital

- You are saying this 17.6 can actually improve if the raw material prices hold at these levels, right?

Management – Rajshree Polypack Limited.

- Yeah, if the raw material prices holds like this it can improve a little bit from here.

Mr. Shiv Kumar – Unifi Capital

- And the other income what is driving that number? Is that the interest income on the IPO proceeds which are holding?

Management – Rajshree Polypack Limited.

- Yes.

Mr. Shiv Kumar – Unifi Capital

- There was one particular account where you had a receivable related to Tata Gluco Water or something?

Management – Rajshree Polypack Limited.

- That has been already provided for last year only.

Mr. Shiv Kumar – Unifi Capital

- Was there any receivable from that, how is it proceeding?

Management – Rajshree Polypack Limited.

- It has gone into NCMP. So, we are following up but now unless the NCMP proceedings get concluded I think so it is pending over there at the moment.

Mr. Shiv Kumar – Unifi Capital

- And with the new machine getting commercialized by end of September, what is the topline estimate that you expect to achieve for FY21?

Management – Rajshree Polypack Limited.

- We expect that it should add up revenue of around 25 crores for that particular year to start up because it will have a ramp up also. So, we expect 25 crores of revenue coming in that particular year.

Mr. Shiv Kumar – Unifi Capital

- For the six months.

Management – Rajshree Polypack Limited.

- For the six months.

Mr. Shiv Kumar – Unifi Capital

- And you will have additional revenue from this new thermoforming machine also, right?

Management – Rajshree Polypack Limited.

- Yeah. Definitely. Part of it we'll be getting in this year and some part, 3 to 5 crores in next year, so overall we see 30 crores of revenue addition from what we are today.

Mr. Shiv Kumar – Unifi Capital

- So, this year's 140 crores can grow to 170 crores.

Management – Rajshree Polypack Limited.

- Yes.

Mr. Shiv Kumar – Unifi Capital

- And the margins, we will be able to improve beyond 20%?

Management – Rajshree Polypack Limited.

- For this particular year it looks difficult because we will be in the startup phase so some new expenses will also come up but for the next year definitely we see the margin to improve once we see the full-scale production.

Mr. Shiv Kumar – Unifi Capital

- That's it from my side, thank you.

Operator:

- The next question is from the line of Amrit Chamaria from Laxmi Printart. Please go ahead.

Mr. Amrit Chamaria – Laxmi Printart

- How many thermoforming and printing machines RPPL is planning to add in next 12 to 18 months because you will be requiring those machines as well to support your extruder as you will be extruding more and more material, right?

Management – Rajshree Polypack Limited.

- Yeah. One thermoforming machine as we have added that will give us 900 tons of capacity and from the existing machines we have certain capacities available which can be utilized and we can remove few products which are not giving that much value added into the sales mix and replace them with the barrier products. But if required the new building has enough space to add up two more forming machines without doing any further investment into the infrastructure.

Mr. Amrit Chamaria – Laxmi Printart

- And what about the printing machines as well?

Management – Rajshree Polypack Limited.

- Printing machine we can add two more printing machines in the existing infrastructure without doing any changes.

Mr. Amrit Chamaria – Laxmi Printart

- But do you have any plans to add two more printing machines within next 12 to 18 months?

Management – Rajshree Polypack Limited.

- At the moment we have added one printing machine in July 2019 but the idea is to replace the old machines and bring in the new machines to reduce the cost of operation and to improve the quality, so, we definitely have plans to add one printing machine in next 12 months of time.

Mr. Amrit Chamaria – Laxmi Printart

- Okay, so basically next 12 months we are thinking of adding, if I'm not wrong, 1 or 2 thermoforming machines and one printing machine.

Management – Rajshree Polypack Limited.

- Yeah. Thermoforming machine at least one, if the growth is good and we are able to utilize the capacities what are there today currently, then definitely we will need one more thermoforming machine and one printing machine.

Mr. Amrit Chamaria – Laxmi Printart

- Because the reason for these questions are because, if I'm not wrong, these can be given as value addition to your existing EBITDA because the more thermoforming you do and the more printing you do that's just going to increase your EBITDA, right?

Management – Rajshree Polypack Limited.

- Yes, because this is going to give more margins, in sales mix it helps in improving the margins.

Mr. Amrit Chamaria – Laxmi Printart

- Thank you so much and all the best.

Operator:

- The next question is from the line of Vaishali Parekh from Prabhudas Lilladher, please go ahead.

Ms. Vaishali Parekh – Prabhudas Lilladher

- I had one question that from what I recollect from our existing rigid sheets, we consume 90% captively to make it into products and then 10% is sold into the open market, I mean in the general market. As far as the new capacity is concerned what kind of a mix can we look at over there in terms of sheets being consumed captively and what's sold outside?

Management – Rajshree Polypack Limited.

- From the new capacity initially, we will be looking at 75% in doing captive consumption but going forward as we are trying to enter into verticals, as I mentioned into cosmetics and other applications, probably 50-60% can go as a sheet sale directly and 40-50% as a captive consumption.

Ms. Vaishali Parekh – Prabhudas Lilladher

- That was my only question. Thanks so much.

Operator:

- As there are no further questions I now hand the conference over to the management for closing comments.

Management – Rajshree Polypack Limited.

- I would like to thank you everyone for joining the concall. Thank you once again.

Operator:

- Thank you. Ladies and gentlemen, on behalf of Prabhudas Lilladher that concludes this conference. Thank you for joining us and you may now disconnect your lines.

- ***END OF TRANSCRIPT***