Huhtamaki

April 30, 2024

Department of Corporate Services

BSE Limited
Phiroze Jeejeebhoy Towers
Mumbai – 400 001
Security Code No – 509820

The Listing Department

National Stock Exchange of India Ltd
Exchange Plaza,
Bandra Kurla Complex
Bandra (East),
Mumbai 400 051
Security Code - HUHTAMAKI

Sub: Transcript of the Earnings Call for the quarter ended March 31, 2024.

Dear Sir/Madam,

This is further to our letter dated April 26, 2024, whereby the Company had submitted the link to the audio/video recording of the Earnings Call held post announcement of the unaudited financial results for the quarter ended March 31, 2024.

Pursuant to the Regulation 30(6) read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, please find enclosed the Transcript of the said Earnings Call, for your information and records.

The transcript of the earnings call shall also be available on the Company's website at www.flexibles.huhtamaki.in

Kindly take the same on your records.

Thanking you,

Yours faithfully,

For Huhtamaki India limited

ABHIJAAT A SINHA

Digitally signed by: ABHIJAAT A SINHA
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Abhijaat Sinha
Legal Counsel & Company Secretary

Encl.: As above

"Huhtamaki India Limited

Q1 CY '24 Earnings Call"

April 26, 2024

MANAGEMENT: MR. DHANANJAY SALUNKHE – MANAGING DIRECTOR – HUHTAMAKI INDIA LIMITED
MR. JAGDISH AGARWAL – EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER – HUHTAMAKI INDIA LIMITED

MODERATOR: MR. ASHVIK JAIN – ICICI SECURITIES

Moderator: Ladies and gentlemen, good day, and welcome to Q1 CY '24 Huhtamaki India Limited conference call hosted by ICICI Securities. 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 star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashvik Jain from ICICI Securities. Thank you, and over to you, sir.

Ashvik Jain: Good afternoon, everyone. Thank you for joining on Huhtamaki India Limited Q1 CY '24 Results Conference Call. We have Huhtamaki India management on Call, represented by Mr. Dhananjay Salunkhe, Managing Director; Mr. Jagdish Agarwal, Executive Director and Chief Financial Officer. I would like to invite Mr. Dhananjay Salunkhe sir to initiate with opening remarks, post which we will have a Q&A session. Over to you, sir.

Dhananjay Salunkhe: Thank you. Good afternoon, everyone. First of all, thank you for joining this call. This is our fourth or fifth call in succession and we intend to continue the interactions with the community. Let me start with our Safe Harbor Statement that what we discuss in this call, we deem contain some forward-looking statements, but these are -- basically do not represent any future performance of Huhtamaki India.

So with this, let me give some update in terms of performance of our quarter for '24. As you would have seen, we have improved our volumes successfully from quarter-to-quarter. At the same time, as compared to the previous year, the volumes were down, and that is basically impacted because of the softer market conditions and certain supply chain constrains emanating from geopolitical situation. While we are addressing how do we go forward and improve our volume pipeline, there is a clear strategy in place to address the competitiveness and focus on creating long-term profitable growth initiatives.

A couple of highlights from quarter 1. One, we commissioned our blueloop investment equipment and they're operational from the end of the quarter 1 and secondly, we have started enterprise-wide programs to support the efficiency improvement or operational efficiency improvements to support the profitability measures. And then we continue to invest in our operations and technology to drive the sustainable packaging solutions forward.

And that's clearly indicated from some of the awards, which Huhtamaki India won in the packaging space from SIES and WorldStar and both of the awards, represent clearly that what we are striving to achieve is clearly acknowledged by the industry.

With this, I would like to hand over to our CFO and Executive Director Jagdish to take us through the detailed financials.

Jagdish Agarwal: Thank you Dhananjay. Good afternoon, everyone. I'm pleased to welcome you all to the quarterly investor call and to take you through the financial performance of the company for the quarter ended March 2024. As I highlighted with Dhananjay, the major highlight of the quarter has been the successful commissioning of the blueloop facility at Silvassa. I believe this is a stepping stone in our progress towards the sustainability goals and the strategy that we have defined for Huhtamaki in the long term.

Regarding the key financial indicators, our volumes have slightly improved quarter-on-quarter basis, so slightly lagged behind on a year-on-year basis. The same trend is reflected in the top line with revenue for the quarter standing at INR594 crores, versus INR555 crores we had in December 2023 quarter and INR646 crores we had in March 2023 quarter. This represents a 1.4% increase over Q4 2023, though a decline of 8% over March 2023 quarter.

The volume or revenue decline in the current quarter versus corresponding quarter of the last year is primarily attributable for a couple of major events, like higher food incretion in the first quarter, a challenging business environment and supply chain disturbances like Red Sea and all.

EBITDA, if you talk about EBITDA for the quarter, it's $494 million compared to $576 million in Q1 2023. Comparing with the December, it was $618 million and again, the decline in EBITDA is majorly on account of additional credit impairment we had in March 2024 quarter. EBIT for the quarter again stands at $399 million, down around 5% year-over-year. So in March 2023, we had around total 540 million EBIT and in December, we had a INR506 crores of EBIT in the December quarter.

Profit before tax for the quarter, before exceptional items is 351 million, is flat when we are comparing with the corresponding quarter of March 23. Net profit before excessive -- after exceptional items and after tax for the quarter stands at 260 million and EPS for the quarter at INR3.45 paisa per share.

Now moving on to the data on the liquidity positions of the company. The liquidity position is stable after retirement of entire date during the last quarter, except external commerce borrowing that again having a statutory covenant and mature to close. Debt equity ratio is a healthy at 0.2% in line with like what we have in December quarter. When you look at the debt-to-EBITDA ratio end of March quarter is 4.2%, slightly higher if you compare to December 2023. In December 2023 it was at 3.2%. And it is because we have a lower EBITDA in this year due to operating payment. But overall liquidity remains very strong, and we do have a sizable credit lines, which are not utilized at this point of time.

Working capital also improved significantly when we look at it year-over-year, even though slightly behind when you compare with the trailing quarter. While I said the overview of financial performance of the quarter, I also would like to emphasize that the company continues to target all the levers at it's disposal for supporting the profitability and build efficiencies in the existing process.

We have seen lots of actions on this trend in the last year with our focus consistently on operational excellence and customer delight. The company has a strategic place to address competitiveness and focus on long-term profitable growth initiatives. The company has always been committed to its stakeholders, focused on technology-enabled innovation and operational performance and realization of value for its products by engaging constantly with our customers.

As Dhanajay said, we are investing for future and sustainable solutions to become the first trial in sustainable packaging solutions. We believe that this will help our company remain competitive in long run to responsible and profitable growth while upholding highest standard of corporate governance. We appreciate your continued support. Thank you. So I hand it over to Dhananjay.

Dhananjay Salunkhe: Thank you, Jagdish. You have covered most of the points. And as you indicated that the quarter one highlight remained like we commissioned our blueloop assets and then organization-wide productivity and efficiency improvement programs, which will focus on all cost levers, reducing input cost, improving our wastages, overheads reduction or optimization by restructuring and overall improving the productivity will be the key for creating competitive and sustainable business model. While we continue to improve that, I'd say we are in the business of sustainable packaging solutions, and how do we make it sustainable?

So we also made a progress on sustainability, wherein we are taking actions in terms of climate impact reduction, the solvent consumption reduction, water consumption reduction, improving the biodiversity wherever our - the plants are. So with all these efforts, we are also making sure that we have not only having a net promoter scores with our customers, net positive surveys with our employees, but also net positive impact on the Mother Earth. So that's all from my side. Thank you.

Jagdish Agarwal: Thank you Dhananjay. So now we are open for Q&A.

Moderator: The first question is from the line of Aditya Khetan from SMIFS Institutional Equities. Please go ahead.

Aditya Khetan: Thank you, sir for the opportunity. Sir, my first question is on to the other expenses. Sir we are witnessing a steep rise in other expenses. You had mentioned that there is some credit impairment. Is this the reason, and what is the quantum of this? Like which has led to this higher other expense?

Dhananjay Salunkhe: I can take this question. You are right. Other expenses include a bigger impact of credit impairment and majority of the divisions, what we see compared to December quarter is on account of credit impairment.

Aditya Khetan: So, what is the quantum of that impairment?

Dhananjay Salunkhe: It's a substantial number, like if you talk about a delta and the two major items, which is making impact between December to this. One of them is a higher freight because we had supply chain disturbances and the second is that we had a credit impairment.

Aditya Khetan: Sir, if you can share that number of credit impairment like INR10 crores or INR8 crores like?

Dhananjay Salunkhe: In that range only.

Aditya Khetan: Okay. So this is a one-off only, right? So this might not?

Dhananjay Salunkhe: No.

Aditya Khetan: Okay. Sir, on to the volume growth, like you have mentioned that this quarter, there is only slightly improvement in the volume. So considering a two year perspective, like in CY '24 and in CY '25, what is the volume growth you are targeting?

Jagdish Agarwal: Again, I mean we are saying that we're not giving any forward-looking kind of statement. But definitely, you're working towards that. I mean when we talking about sustainable packaging solutions, we are working with our customers. And we have definitely a plan to grow our top line, and we had a focus on the bottom line. So the actions are in place. There are a lot of work is happening to address that question as well.

Dhananjay Salunkhe: I'll add to it. So maybe a little more sharper on that. Look, if you go through Huhtamaki India's financials from 2019 to 2023. So you would see up and down in terms of volume or in terms of net sales, which is definitely a product of volume and the commodity prices. So our objective is basically to look at best of the both. And how do we go back to the volume scenarios of 2019 or 2020 while keeping the overall margins in mind. So that's the goal for next two to three years horizon.

Aditya Khetan: Okay. So sir because of crude prices going down and the majority of the raw materials like Bopet, so they were also going down. So still, sir, we are not witnessing a good margin performance. So like what makes you confident like for the next two years with the rise in raw material prices, if suppose demand also goes for a toss. So we can maintain our margins?

Dhananjay Salunkhe: So one of the important -- and you would have heard us saying multiple times, the blueloop, which is the mono-material recyclable solutions, which offers that opportunity to drive the innovative solutions in our ecosystem and which shall help us to maintain that position in terms of margin profile in terms of growth profile.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisor. Please go ahead.

Bharat Sheth: Thanks for the opportunity and congratulation on commissioning blueloop's plant. Coming to on this blueloop plant since we are so -- how do we see the ramp-up of this plant? Because what we understand or how much our customer approval is already done? And how long -- otherwise, it's not done long, it will take to really ramp-up this plant sending material. And if you can give some color, again, whether this plant will be able to cater to whole Southeast Asia and for even export market? So if you can give a little more color from two, three years perspective, will appreciate.

Dhananjay Salunkhe: So you asked a couple of questions. So let me start with the ramp-up of the investment. So as you clearly see that this is one of a kind, first to the market, mono-material, recyclable solution. So customers also are taking this very cautiously, while we are in a very advanced stages of product qualification with our live customers. And in fact, some of the product lines already have started commercial production. At the same time, this is definitely a period where we have to really pre-emptively work with our customers to make sure that they understand the value proposition.

One is, of course, recyclability. And second, we need to ensure that customers also are in line with what quality expectations they have. This is first time -- like this is called MDO, which is machine direction-oriented PE, which is a new to market, getting established. So that's one important aspect which we are managing. And we are in a very advanced stages of commercialization. I think we can see a gradual ramp-up in coming quarters and years. That's one.

Second, about the supplies to Southeast Asia or to the exports, yes, the plan is clearly not only depending on our India region, but wherever we are right now supplying to our export customers as well. At the same time, we have invested this kind of technology in another four locations globally, worldwide, within Huhtamaki. So we will be also looking at overall manufacturing and supply chain basis that we might be taking the cost in terms of where that supplies comes from and goes to. So at the same time, yes, there is a plan to continue exports as well from these lines.

Bharat Sheth: Can we expect this, I mean, full -- I mean, it may take two years to reach kind of breaking even or it is less than two years? And second question on this is particularly for food packaging or this mono-material exact application, if you can also give a little more detail?

Dhananjay Salunkhe: Sure, sure. So if I have to look at how much time breakeven or turn around, look, I mean I can only say we are so excited about this. If some of the customer products click it, it can actually completely fill in within a few quarters. So that's the aggressive -- the product proposition is. The second question you asked is about this is a food application also.

And I think maybe next time, we will add in our investor presentation, the -- what was the past structural barrier properties of the current structures versus what we are offering, I think we will definitely would like to give it to the market where -- what are we trying to do? Essentially, we are -- we are able to replace even aluminum foil with these kinds of solutions.

So it is not only about the food application, but the aggressive applications of any nature, like hair products or the food products, which are also aggressive like citrus acid based products and so on. So applications are a wide range, and we -- I cannot claim -- but we will add this to the next time that we are offering the barrier properties of as good as a replacement of aluminum foil.

Bharat Sheth: Okay. And last question, sir, with your permission. Recently, our company has discontinued operation in Malaysia. So how do we see that India is supplying to that market? And do we have any possibility of we can get a large chunk of Malaysian market also?

Dhananjay Salunkhe: Yes. So if you would have read that news article basically that factory or that product was basically the food service, and not the flexible packaging. So in fact, Huhtamaki has globally, has taken, as I said, enterprise-wide program, which is basically we are relooking at our manufacturing footprint, our distribution footprint, warehouses footprint. And that's a part of that.

So even in that region, we have also other -- essentially, we -- as Huhtamaki, we are into three segments. One is flexible packaging. Second is fiber food and services. And third is in North America, which is on the Gofood. So this plant, which was closed is part of a global segment, which is called fiber and food service. So that is basically a different segment. So not having any per se product connection with flexible packaging. But however, as a Huhtamäki whole it reflects our initiatives to kind of consolidate operations and improve the overall long-term growth as well as profitability.

Bharat Sheth: Thank you and all the best sir and I will rejoin the queue for further question.

Dhananjay Salunkhe: Thank you.

Moderator: Thank you sir. The next question is from the line of Vipulkumar Shah from Sumangal Investments. Please go ahead, sir.

Vipulkumar Shah Thanks for the opportunity. So would you again elaborate on this credit impairment because I am still not able to understand means it is it – it is a write-off or and what is the quantum? So what exactly this credit impairment is?

Jagdish Agarwal: Mr. Vipul, I think the similar questions asked earlier also and we said that this is definitely when we are saying credit impairment is in the nature of kind of write off only which is going to happen. So right now it is the problem in this case.

Vipulkumar Shah And you didn't quantify the figure. So would you please do it, sir?

Jagdish Agarwal: I think numbers we said that the major depreciation what we are talking about between the December and March quarter is because of credit impairment only.

Vipulkumar Shah: No, but what is the exact number that I'm asking, sir?

Jagdish Agarwal: I mean we definitely even can talk about a very specific number and all, but when you talk of credit impairment for specific it talked about ECL provisions and all. So it got many more things. But one especially item to isolate is difficult, but majority of that gap which we are talking about is because of credit impairment.

Vipulkumar Shah: Okay. And sir, what is the absolute debt, absolute net debt on books on first April and what is the ECB component in that?

Jagdish Agarwal: So whatever debt we have, that is on account of ECB only. And you can see definitely from our December balance sheet the ECB numbers were INR200 crores that remain as is even 1st April 2024.

Vipulkumar Shah: So that we cannot repay due to contractual obligation, right?

Jagdish Agarwal: No. I mean, there are rules. There are FEMA guidelines, but there are RBI rules that there has to be a added maturity period for our loans so that we have to follow.

Vipulkumar Shah And sir, my last question what percentage of our turnover do you expect to come from this new blue line Blueloop products over the next two years, three years. So can you share any ballpark figure?

Jagdish Agarwal: No. I mean at this point of time, it is very difficult like Dhananjay said that we are working with our customers. We are looking at wider scope of the applications and I think there are immense opportunity for that, but I think we have to wait a little bit to have that come with the visibility on that.

Dhananjay Salunkhe: Yes. So to add to Jagdish point. Look, we are a in a derived demand industry. So our products are sold to our customers which are basically large consumer packaging goods companies. And if you see two aspects coming in. One is a regulatory push on the recyclable packaging products and the customers, various customers which are our large conglomerates, they are also doing certain promises.

So by -- if we combine these two together that's where you can look at. Today, currently we have somewhere our recyclable products stands at around 20% -- 30%, 25% to 30% range and if we look at our customers' aspirations and regulatory requirement possibly we could see that it's definitely moving at a faster rate in next 2 to 3 years and we should go more than maybe 60%, 70% and that's where we also want to be part of.

Vipulkumar Shah: Will it be margin accretive, sir?

Dhananjay Salunkhe: Sorry.

Vipulkumar Shah: These products will come at higher margins?

Dhananjay Salunkhe: So again it depends upon the products, the mix as well as the categories which we work with. So let's say, there is a pharma, there is food, then there is a personal care and home care and health care and so on.

So it depends. So really putting whether they will be margin accretive or not that can't be predicted, but only one thing which we can predict is basically they will be accretive to the Mother Earth.

Vipulkumar Shah: Okay. Thank you sir. Thank you very much and all the best for the future.

Dhananjay Salunkhe: Thank you.

Moderator: Thank you sir. The next question is from the line of Saurabh Patwa from Quest Investment Advisor Private Limited. Please go ahead.

Saurabh Patwa: Thanks for giving the opportunity to ask the question. Sir, just wanted to understand you have -- I think in the last few quarters we took several actions both in terms to improve profitability. I think there are two fold actions which you are called out and implemented. We came off of certain businesses which were fundamentally margin dilutive and against that we also cut down cost in terms of employees, in terms of reducing your manufacturing footprint.

So I just wanted to understand, sir, where are we in the journey? So we believe I think the pace of fall in sales seems to have been controlled, in control now. Have the costs also been controlled now? So incrementally the most revenue and costs should increase that's the first question, sir?

Jagdish Agarwal: Okay. So let me answer that Saurabh over that. So what if you look at our margins, look at last four4 quarters kind of a margin we have. And if you go back and look at our margin of 2022 for individual quarters we find that there is a significant improvement on our operating margins.

And this improvement is happening because a lot of actions are happening on the ground which as we talk about bringing the official efficiencies and they will talk about the footprint optimization then we talk about process improvements, whether you talk about resizing of team and all.

So those are helping us and we are very close to if you look at our EBITDA margins and all we are very close to 8%, 9% kind of the range we have in the last three or four quarters. Having said that, if you're able to maintain that and that is what we are looking. Apart from that, we are seeing that we are moving into a program which we have already started with, again how we're going to have operational efficiencies.

And when we talk about operating efficiency, it's about definitely reducing the input cost. We are talking about wastage reductions. We are talking about optimization, we are talking about improving productivity, but when you talk about bigger actions which already happened in 2023. Now we are going to have an incremental impact of those and we are going to continue to drive.

And it's lighter process excellence or continuous journey. So we'll continue to drive to be as efficient as possible to operational efficiency and operational improvement and that definitely is going to help to maintain our EBITDA or EBIT or operating margins in the range what we are looking at this current space.

Saurabh Patwa: So is it fair to understand, sir, that you -- in terms of products where you believe your historically believe the margin profile was weaker and you wanted to exit those businesses, that is behind. So incrementally while the on macro may impact the delay the journey, but in terms of your product category where you want to do the business that journey is already done?

Jagdish Agarwal: I mean in a way, yes.

Saurabh Patwa: Okay. And on the new roof, I believe some of the presentation what I can understand is that towards the end of the quarter this is where the new facility was launched. So the cost associated with which the new facility in terms of new employees and any other additional costs which you could have done. So have you already been taking care of that and if not how much will be the impact from -- in the coming years while revenue will take time is one I can understand from the conversation so far?

Jagdish Agarwal: Yes. So ramp-up have its own pace. And the ramp-up is still going on forward. We have already started building on these blocks in the last couple of months and I'm not expecting any significant cost is going to go up in the subsequent months and quarter.

Saurabh Patwa: Okay. And sir, in terms of depreciation that we have already, I think our depreciation as with the change in the policy on the acquisition numbers have come down sharply, they continue to come down this quarter as well. Is this a fair number from going forward or is there still some scope there that you would be continue to reevaluate your depreciation policy?

Jagdish Agarwal: I think these numbers are going to stay and there will be impact to the extent of new capex addition. Otherwise, they are more or less going to say.

Saurabh Patwa: Okay. And sir, with this current rise in oil prices, have you seen increase any raw material and have been able to pass on some of it?

Jagdish Agarwal: I think it just started when we talk about crude prices, brent prices and all these are moving in the range of 85-86 and all. So we have to really wait and watch and see the real impact how it is translating into other competitive prices. Maybe probably in a few weeks' time, we'll have better clarity on that.

Moderator: Sir may we request that you return to the question queue for follow-up questions as there are several participants waiting for their turn. Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Thank you for this opportunity. Sir, as you mentioned about the -- this impairment part as the differentiation in the other expenses between December and the March quarter. So this -- if we remove this one-off item then our comparison with last year March quarter are the margins in the similar ballpark only? This one-off item if we knocked off -- is it a fair comparison then?

Jagdish Agarwal: Yes -- we are very close to that. Yes. If you remove aside that impact we are very close to that.

Saket Kapoor: Because this was not a line item which was relevant for the March quarter '23.

Jagdish Agarwal: Yes, absolutely.

Saket Kapoor: Right Sir, you have spoken in length about the Blueloop and that getting accreted and acknowledged by your customers. So I think one of our large customers this came up with their numbers yesterday I'm talking about Unilever and there the numbers looked depressed and the margins also contracted.

So on account of their demand and the pricing part, how -- what is the filler from them? And also sir you have earlier spoken about this segment nature of the industry. So how do you think the pricing power -- we would be having the pricing power to get Blueloop into the foray, I think so that will be -- that will have a difference in terms of pricing and will not be a commoditized product. So if you could just explain the business environment currently in terms of your buyers potential to accept the product and pay you higher price?

Jagdish Agarwal: You're right, Mr. Kapoor. I mean, if you look at last couple of months were very challenging and you have seen comparison of many companies There is definitely the pressure on the bottom line, but our focus is whatever we can do within our influence are going to improve all operational excellence and efficiencies. And that's one of the reasons we are able to maintain our operating margins. Top line definitely is under pressure and we are also really careful about to ensure that how we are going to maintain what we are trying to -- what we had in the last couple of quarters. So we do want to dilute that. But definitely, our focus is to have both top line and bottom line maintenance and improvement on that.

Dhananjay Salunkhe: So maybe I'll add to Jagdish point. So if you see last couple of quarters we had added one slide or one comments on our Blueoop offerings. And if you go back to that I would say we are offering power of three. What is that power of three. One, we are offering recyclable solutions. That's one, recyclability is first power. Second, those will be -- those products or solutions will be running on the customers machines without much change. So customers are not expected to change their lines or add some capex or there will be no impact on their productivity.

And third is affordable because see it's very easy to say this is not commodity exactly, it's not commodity. But at the same time, in order to have a push our innovations through the customers' lines we need to also make sure that it does not come at a very differentiation. Otherwise, adaptation might get delayed.

So we need to have a very fine balance in terms of -- in terms of how do we maintain our pole position which is a differentiation. At the same time, it is also acceptable to our customers because it also -- as you said very rightly and not only the customers you mentioned, but also in general FMCG results except for some of the companies, they are really muted.

And in fact, one of the CEOs said openly, there is no price in the market. And that reflects overall. And we are their ecosystem, right? So that's where we are really playing a very golden mean, so that our products are acceptable to them. At the same time, we keep the differentiating.

Saket Kapoor: So just to conclude, the acceptance part, can you comment how is -- since you are now commercializing the blueloop facility, so definitely you must have got the acceptance part, the feedback from your key customers. If you could share what the key takeaways are in terms of the acceptance? And then on the employee cost part also sir, I think so lot of rationalization has gone through enclosure of some of the unit and now commercializing a new facility at Silvassa. So what kind of further rationalization can we expect, especially in terms of the employee benefit expenses as a percentage of sale? And if time permit, I will chip in with one small point.

Dhananjay Salunkhe: So acceptance-wise, that's what I said. We are replacing certain parameters and the structures which we are offering to the customers are really attractive and they are getting really run well on their machines. So from that acceptability point of view, we are really making very good progress. And that's where now we are in very early stages, or I would say not early, very forward stages of starting the commercial supplies. On the second part, maybe if you can add on employee cost, Jagdish, you can.

Jagdish Agarwal: Yes. So Mr. Saket I think employee cost, we're not expecting it's going to change significantly because we started doing that ramp-up from the last few months. So we are not expecting any number is going to go significantly higher side in Q2 or Q3. So we are within our means on that.

Moderator: Mr. Saket, may we request that you return to the question queue for follow-up questions. The next question is from Rohit Suresh from Samatva Investments. Please go ahead.

Rohit Suresh: Sir, my first question is to Mr. Dhananjay. So it's been a year and a half since you have joined the company. So what are the major changes that you have seen, both in terms of the positives and if there are any areas where you want to see some more improvement. So very broadly, I want to understand your picture, what has happened over the last one, one and a half year?

Dhananjay Salunkhe: First of all, thank you to remind me that I'm already 18 months old in this company. Such a nice feeling. So, look, I think one very clear positive aspect after joining in here, and I can be very proud to say this, and my colleagues here are listening to me that I am incredibly proud of working with this team of Huhtamaki India. Such a talent is available and very driven and passionate. So that's what I really surprised when you said you are 18 months old in this company, I never felt that way.

And in that 18 months, if I look back, what we really drove, I think one of the critical pieces, we drive our strategy execution very clearly. So one large takeaway that this strategy was there in the making for last few years. And what we did was be active and accelerated that strategic execution so be it, it was the footprint optimization or so on so forth. The second one is again in our conversation you would have heard, we took a pole position in terms of our product portfolio. So we took a very hard look at what products which we are making and selling. And in last year's first four, five months, we took that call. And I think you can see this clearly reflecting in our margin profiles. That's the second one.

The third one, apart from the network optimization or so on, another good thing what we did is we also consolidated our offices. Now we are now in Thane, in Hiranandani Estate, Bellona where we have a consolidated office space and it is becoming a hot hub for all the employees coming in together, having a very good collaboration and discussions together and creating something of a nature of a blueloop. So that's the three, four things I would really articulate happening very well.

What can go well or could have gone well in spite of taking a call on the volumes and portfolio optimization, I would have still loved to have a bit of a better volume growth. That's definitely one. And second, we are in a transformation. So we are -- last year, we kind of optimized our network and so on. So how much we communicate internally, externally is still a lot to do on that. So some customers might not be very happy with our, some plant closure or some employees.

So essentially, the stakeholder management, the more communication even though we did really, really well, still I would say these two aspects would have been still can be better, volume development and various better and better and better communication could have been still better. So that's the two aspects I would say could have been better.

Rohit Suresh: Great, and thank you so much for the elaborate answer. So my second and last question would be on the demand recovery side. So are you seeing any particular segments where demand is recovering much faster or are there any segments in particular where you see it might take much longer than what you had expected?

Jagdish Agarwal: So as you would have seen commentary from mostly FMCG companies last 10 days or so, I think everyone is expecting food and beverage demand to come back, or food I would say rather, on account of better than monsoons. Second, I think heat wave or summers, even though they are delayed by maybe a month or so, that is coming in. And I think food and beverage demand probably shall be going up. Then good monsoon will also means the pulses and all these steps, the fertilizers and so on will be better.

And other than that, we are also closely working with pharma companies and so on. So that is where we see that it might be improving. The reason for that is a lot of regulatory interventions are now happening in that space and that would be really looking at certain changes in our customer profiles. And I think that's where we are expecting that it may come back to the players like Huhtamaki where we are known for our quality compliance and ethical standards.

Moderator: The next question is from the line of Madanlal Jain, who is an investor. Please go ahead, sir.

Madanlal Jain: Hello, good afternoon. Sir, I have a lot of questions. And one thing I am not able to understand, sir. So much money is invested in our total and still the small profit that we are making, sir, how long will this go on, sir?

Sir, can I ask you two to three continuity questions, whenever you compare and reply, you talk about 2021 and 2022, there was a lag effect there because of COVID, the BOPP films that you purchase they were very high priced there. So it was due to your lag of effect. Even now, if you talk to them as a base, I feel that the company will remain in this profit. Sir, please sir?

Jagdish Agarwal: Again, I'll first talk about the performance what we did in the last two or four quarters. In the last two or four quarters, if you had seen the results, I'm sure you'd appreciate that our operating margins are coming into a sustainable level and at least consistent level. We are talking about 8% and 9% of operating margins. Again we'll go back because when you had a base and you want to improve on that base, so the base if you are talking about 2021 or even we talk about 2022 is better than 2021 and we talk about 2023 is better than 2022.

And definitely we are working towards how we are going to improve it further on. So there is a consistent approach is there. There is a sustainability. Whatever we are doing, we would like to sustain it. So sequentially, if you look at, there is a good progress on that. Now having said that, there are a lot of things which is also happening where we spoke about that at an enterprise level, at a company level, we are driving a lot of initiatives which are going to help us to improve overall, I'll say, competitiveness in terms of how we are focusing on our operational efficiencies, how we are focusing on our input cost, what we are doing on optimization of our overhead cost and all. All-in-all, if you look at, there is a good progress. There is a good rhythm is there to ensure that whatever is there, how we are going to maximize the value and how we can improve the total shareholder value in the entire game.

Madanlal Jain: Sir, I have one last question. If you watch from 2015 to 2024, the same price is still running in the stock market share price because somewhere or the other, there is a work that we are not succeeding in profitability. In 2015 shares were of INR1,100 crores and now we have reached INR2600 but share price is still the same. This indicates we are lacking lot of things, this is my opinion because share market has gone from down to highs, but no one likes our company or we can't see any growth.

So in past nine years in the EBITDA, you had upper hand in depreciation and interest cost, not it is towards its low and now we are debt free for past 8 years. And if operating profit is not reaching the goal of INR250 crores then it is alarming. In past with INR1500/INR2000 liabilities we keeping assets we show the profit of INR100/INR150 then it is causing us to think that this company after the jump in the shares it is not successful in operating profit that means that this company is just running for employees and no one is thinking for shareholders? If I am using anything wrong, I am extremely sorry, sir.

Jagdish Agarwal: No, Madanji, it's not about -- I mean, you're asking questions what you feel are right. But if you look at the progress, we have to look at the progress also. We cannot discount the progress what we had in the last 3 years. And if you look at the progress also, there is a positive progress. There's a consistency in the results also. This is sustainability in what we are promising. So we have to take everything into account and definitely together with all your support and all, we are going to drive and we are going to ensure that how we are going to maximize the value of our services as well.

Moderator: The you The next question is from the line of Vipul Shah from RippleWave Equity. Please go ahead.

Vipul Shah: Thank you for the opportunity, sir. Just wanted to understand a couple of things. We've rationalized the manufacturing factories over the last year or so. And also going ahead, we going with that, we've also rationalized a lot of headcount. So just wanted to understand the employee cost numbers which we have reported in this quarter, which is around INR61 crores. Does that also include the annual hikes which the company would have given post the closure of the financial year for calendar '24? And is this a sustainable number to go ahead for this calendar?

Jagdish Agarwal: Yes. So I mean normally, increment cycle most of the company starts in the April, same with us. So if we compare March 23 versus March 24, definitely, there is an element of increment and increment in the cost. Is that your question, Mr. Shah?

Vipul Shah: Yes. I mean, March 23, our employee benefits was around INR60 crores. Right now, it is around INR62 crores. So what my question was, sir, essentially whether the increment cycle has been factored in and is the number which is appearing in this quarter, is the annual number, which a number which we should annualize or the increment cycle will come in the next quarter, which is the coming quarter?

Jagdish Agarwal: It is going to come in the next quarter.

Vipul Shah: Okay. So that was the first question, sir. Second question, sir, there is a little confusion. And I really don't understand the hesitancy in at least sharing the actual number for the credit impairment, which is, as we all understand, it is a one-off. I believe the Indian investor community has evolved so and they understand that these items are not to be considered in a normal course when you evaluate a company basis, which you make an investment or you continue to hold an investment.

So the conclusion was, so that the delta between other expenses between March '23 and March '24, which is INR12 crores or whether you should look at a quarter-on-quarter delta, which is INR15 crores. Is that the number for credit impairment? Or is it something in between both of them?

Jagdish Agarwal: I think it's mostly -- it's very close to what we are talking about in March '23 to March '24

Vipul Shah: Got it, that is really helpful. Sir, last question, which -- if you allow, sir. And again, it's on a very -- I mean, something to take back to the global management is a lot of companies MNCs in India, sir, they believe in a single consolidated entity with all businesses in one listed entity. We -- clearly, flexible packaging is a huge business for Huhtamaki in India. But has there been any thought process of bringing also the foodservice business in India under the listed entity fold so that you have one Huhtamaki?

Jagdish Agarwal: So that food service business is very small. And as I said earlier, we have 3 segments, and each segment has its own expertise. So fiber food service needs certain expertise on the paper side of it. The flexibles where we are is basically expertise remains on the PE or one plastics. So -- and considering the huge difference in the size of operation, the target market and the focus area. Huhtamaki do not see that as a, I would say, a large synergy. Otherwise, they would have operated it as a globally consolidated way, right. So that's one very critical aspect. And in India, particularly, that FFS what we call, is very, very small business. And so essentially, Huhtamaki would like to continue to look at it as a separate entity.

Moderator: Sir, May we request that you return to the question queue for follow-up questions. Thank you. The next question is from the line of Ketan Athavale from RoboCapital. Please go ahead.

Ketan Athavale: Hello, sir. Thank you for the opportunity**.** I wanted to know what was be the full -- I mean, what the revenue potential of this blueloop plant on full capacity? And what is the total addressable market sales, which we aim to serve with this plant?

Jagdish Agarwal Again, these are very dynamic kind of situations and it's kind of evolving. It's very difficult to comment even if you look at Mr. Ketan today, when we talk about recyclable product sales, we are in the revenue 25% to 30%. So this will be a different kind of -- it's like a [53:26.9. mono made sale] which is also going to add our overall recyclability or sustainable product portfolio. So it's very difficult to comment exactly how it is going to add to the portfolio and what's the addressable market. When you look at our market, market is a big market. To use markets, flexible use market. And from our perspective, I think a lot can be addressed to this. But again, we are very, very dynamic, and we also -- we are moving to have clarity we will continue to serve more and more clarity on this.

Ketan Athavale: Okay got it. Thank you.

Moderator: Thank you sir. The next question is from the line of Aditya Khetan from SMIFS Institutional Equity. Please go ahead.

Aditya Khetan: Thank you, sir for the follow up. Sir on to the Blueloop brand, sir, is it possible to quantify what is the capex we had done for the last 2 years. And as was said by another participant, if you can share at peak utilization, what sort of a top line can this -- so blueloop can generate?

Jagdish Agarwal I think capex is -- again, we don't generally talk any specifics about specific item. But if you look at -- we had a substantial capex in the last 2 years, we can go through our annual report for '22 total, we'll say that there is a central capex we had on entire portfolio, not really blueloop I mean, you are adding something or you're doing something on that.

Now coming back to -- again, I said that, again it is very dynamic, and we do have sustainable product solutions as a small part of a 25% to 30% sales we are doing in that. Blueloop is going to add and complement on top of that. It's going to mono next year. And I mean they definitely are going to have more and lower pattern visibility and we'll be able to share more concrete things in times to come.

Aditya Khetan: And what was the capex figure, the one you mentioned?

Jagdish Agarwal: So capex, if you look at our annual report of last 2 years, you'll see that we had a substantial capex, but to isolate a capex for a specific project is difficult.

Aditya Khetan: Okay. And sir, So on the capex or If possible you can share how much capacity addition is done by this blue loop on the base capacity?

Jagdish Agarwal: So again, capacity will be determined with a lot many multiple factors are there. There are laminating capacity the printing capacity there's a sleeping capacity there's a filmmaking capacity. So there are different targets we talk about the capacity. So again, I mean adding some equipment, machines, and something, it's very difficult to say that we have incremental of this capacity and all.

Aditya Khetan: So sir, like, If you're not saying anything on to that front, operational side, sir, what incremental top line we can get if you can like share a base number that would have helpfully served for analyzing this?

Jagdish Agarwal: Again, not specific going to incremental number. I mean this product has a capability to replace even aluminum foil kind of applications. So it's not that it's going to be incremental. It can be replacement with sustainably. Our focus is how we are going to add a more sustainable product and how we are going to have more impact on the planet. At the same time, definitely growing our top line and bottom line

Aditya Khetan: Got it. Sir, just one last question, sir, what is the -- so when we sell a plastic film and we sell blueloop plastic. So what is the difference in terms of margins? I suppose if a normal plastic bag, so that sells for like 8% to 9%. How much does this blueloop sort of a product, what type of margin does this product sells at?

Jagdish Agarwal: They're not specific to margin, but I say the 3 key properties, which we are talking about Blueloop, one, it's sustainable. Second, it's adoptable, it's very easy to adopt. And that it's affordable if we talk about overall product portfolio point of view. And definitely, it's on a capability or reduction of the plastic also. So there are many solutions where there are three-ply or there are four-ply that can be converted into two-ply or three-ply. So overall, the reductions of plastic are going to help in terms of affordability

Aditya Khetan: And sir, in terms of margins, so like it is a 20%/30% premium product as compared to your base portfolio, would that be okay?

Jagdish Agarwal: Again, I mean, you might find it a little bit not so specific, but it depends on application to application, product to product, customer to customer. I mean, we can't put a specific margin on that, but what we are saying is that overall solutions are -- affordable, adoptable and sustainable.

Aditya Khetan: Got it. Thank you, sir.

Moderator: Thank you, sir. The next question is from the line of Nirav Seksaria from Living Root Analytics. Please go ahead.

Nirav Seksaria: Yes. I just had one question. So sir, what is the crude price level at which we are sustainably able to operate?

Jagdish Agarwal: I believe that the ongoing prices, which are in the range of $85-$86 per barrel, is that what is ongoing prices and again, when the commodity prices go up or there is a high inflation and all we definitely have to see that how we are going to engage with the market factors and how we are going to maintain but definitely if they are to inflation, it has an impact on the bottom line for sure

Nirav Seksaria: So sir, let me rephrase my question. At what level of crude prices, will we be able to maintain our current margins well?

Jagdish Agarwal: So, crude prices will have an impact. That impact comes through a region's prices, and then how the region's prices are going to come. if I say that 85 is a number, 82 is a number, 80 is a number, it won't be right on my part. It depends on what kind of a contract we have our customers when you're going to have that lag impact passing on to the customers. So there are multiple factors.

Nirav Seksaria: Our range would also work out.

Jagdish Agarwal: Sorry?

Nirav Seksaria: A range.

Jagdish Agarwal: I mean, when we started making this year, 2024, thinking that how we are going to have this quarter and all, I think that range was, it was like $81, $82 was going on. And we had that in mind. But again, I'm saying that when you have inflation in place, definitely you are going to work in market factors, your customers and all, to see how the impact is positive to the customers

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Dhananjay Salunkhe for closing comments.

Dhananjay Salunkhe: Thank you. So first of all, thank you, my internal team, Jagdish, Anil and Sumit, for preparing for this and keeping the tradition of having this call every quarter, and we continue to do that. A big thank you to all the questions. They are very, I would say, very thoughtful. And it also gives us also opportunity to reflect on what is that investor community is also looking at and make us also prepare around that. And also a big thank you to ICICI for organizing this call. So I appreciate all your support and continue to be connected. Thank you.

Jagdish Agarwal: Thank you.

Moderator: On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Jagdish Agarwal: Thank you.