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25.01.2023

BSE Limited Phiroze Jeejeebhoy Towers Dalal Street Mumbai 400 001 Scrip Code: 532937 Scrip ID: KUANTUM	National Stock Exchange of India Limited Exchange Plaza Plot No. C/1, G Block, Bandra-Kurla Complex Bandra (East) Mumbai 400 051 Trading Symbol: KUANTUM
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Sub: Transcript of Q3-FY23 Earnings Conference Call of Kuantum Papers Limited

Ref: Regulation 30 of Securities and Exchange Board of India (Listing Obligations & Disclosure Requirements) Regulations, 2015

Dear Sir/Madam,

Pursuant to Regulation 30 & 46 of Securities and Exchange Board of India (Listing Obligations & Disclosure Requirements) Regulations, 2015, please find attached transcript of the Earnings Conference Call conducted on 20th January, 2023 to discuss Q3-FY23 earnings. It is hereby confirmed that no unpublished price sensitive information was shared/discussed in the call.

The above information is also available on the website of the Company:
www.kuantumpapers.com

This for your information and record.

For Kuantum Papers Ltd

(Vivek Trehan)
Company Secretary
Encl: a/a



“Kuantum Papers Limited
Q3 FY '23 Earnings Conference Call”

January 20, 2023



**MANAGEMENT: MR. PAVAN KHAITAN – VICE CHAIRMAN AND
MANAGING DIRECTOR – KUANTUM PAPERS LIMITED
MR. ROSHAN GARG – CHIEF FINANCIAL OFFICER –
KUANTUM PAPERS LIMITED**

**MODERATOR: MR. RAJESH MAJUMDAR – BATLIVALA & KARANI
SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Kuantum Papers Q3 FY '23 Earnings Conference Call hosted by Batlivala & Karani Securities India Private 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rajesh Majumdar from Batlivala & Karani Securities India Private Limited. Thank you, and over to you, sir.

Rajesh Majumdar: Yes. Thanks, Tanvi, and good day to all of you. We have with us today the management team of Kuantum Papers represented by Mr. Pavan Khaitan, Vice Chairman and Managing Director and Mr. Roshan Garg, the Chief Financial Officer. Congratulations, sir, on a great set of numbers.

I think the company has been doing well consistently for the last few quarters. And we have seen that the paper prices have been strong for most of the last six months or eight months. So I would -- without saying anything more, I would like to hand over the floor to you for your opening remarks. Over to you, sir.

Pavan Khaitan: Thank you, Rajesh, for this introduction and also to B&K Securities for hosting this earning call today. Good afternoon, everyone, and a very warm welcome for this quarterly earnings conference call to discuss the results and business update for the third quarter and nine months ended financial year 2023.

It's a pleasure to connect with all of you again. Let me briefly take you through the quarterly business highlights and industry developments, following which Mr. Roshan Garg, our CFO, will take you through the financials. I'm happy to announce that we closed the third quarter of FY '23 on a very strong note, with the company reaching its highest ever revenue and EBITDA mark on the back of healthy pricing scenario and cost optimizations.

The Indian paper industry is on a relatively strong footing on the back of the implementation of the NEP, the National Education Policy, and the ban on single-use plastic imposed by the government of India. This has opened a huge opportunity for the industry as paper is the rightful replacement to plastic products used for packaging, including food wrapping.

Overall, Indian paper industry is expected to continue its growth trajectory in the coming years, driven by an increasing trend in demand and supportive government policies. During the quarter, our company has seen strong demand for our products, which has resulted in a robust increase in our revenues and profitability.

This quarter, we reported our highest ever revenue and EBITDA with significant growth on a year-on-year basis. There is a healthy growth in order books and on the back of strong demand pull for our products and higher NSRs. -- focus on improving our operational efficiencies and cost optimizations have helped us achieve an EBITDA level of 30% this quarter.

The company has now finalized plans to spend INR 285 crores towards capacity expansion and cost optimizations, particularly on the energy front. We will increase the production capacity on all our four existing paper machines by up to 25% in the next financial year. Towards this, the modification work on our PM1 and PM2 has already started in December of 2022.

From a sustainability perspective, we continue to educate local farmers on the benefits of social forestry and have also increased the production of in-house clonal varieties of wood species. Innovative technologies are being adapted to save water consumption by up to 20% - 25% in our plant operations, which will have a salutary effect on our environment.

Now I will request Mr. Roshan Garg, our CFO, to give you a brief about the quarterly financials.

Roshan Garg:

Thank you, Pavanji, and good afternoon, everyone. I would like to brief you on the financial performance of the third quarter and nine months period ended financial year 2023. We reported our highest-ever quarterly revenue of INR 351 crores, which increased by 53% on a year-on-year basis. The EBITDA for quarter three FY 23 stood at INR 105 crores, which grew by 244% on a year-on-year basis, with EBITDA margin reported at 30%.

Net profit stood at INR 57 crores and PAT margins reported at 16.3%. For nine months in FY 23 income from operations stood at INR 966 crores, representing a growth of 67% year-on-year. EBITDA stood at INR 265 crores, growing by over 200%. Net profit stood at INR 71 crores. This is after an adjustment of exceptional item being noncash of INR 63.42 crores, which has been mentioned earlier in June '22 quarterly results.

Robust cash flows have allowed the company to further prepay loans of INR 105 crores of the restructured term debt loans in December 2022. This is in addition to the quarterly installments being paid from September '22 onwards. During the year, the external credit rating has been further revised upward to A- for long-term loans and A2+ for short-term loans from BBB+ and A2, respectively, by CARE Rating Limited. We would now be happy to discuss any questions, comments or suggestions you may have.

Moderator:

The first question is from the line of Sandesh Barmecha from Haitong Securities.

Sandesh Barmecha:

Sir, can you give me sales volume for this quarter, last quarter and Q3 FY '22, if possible?

Pavan Khaitan:

We are operating at 100% capacity. We are doing 38,000 tons in this quarter as well as the previous quarter. And that is why we felt the need to increase our capacities and that by the investment in our machines to increase capacity by about 25%.

Sandesh Barmecha:

What was the volume last year, sir, same quarter?

Pavan Khaitan:

Last year, the same quarter was similar, about 39,000 tons. Actually, it varies according to GSM. We are now being able to attract orders of lower GSM, but with a higher realization. So, a little bit of difference in volumes, you will notice there, but not much on an overall term.

Sandesh Barmecha:

Sir, what would be our outlook for paper prices for next quarter – this quarter?

Pavan Khaitan: So fortunately, we are serving the market needs where the prices, I believe, are quite stable now. Though we have seen a slight dip of about INR 1,000 per ton currently. But as a result of our stronghold in the market, we – our realizations were at INR 90,000 per metric ton plus, which has gone up from 86,000 in the previous quarter. So, we are yet at a very high pricing level. So even if there is a reduction of INR 1 or INR 2, not more than that, we will still have a very, very good top line and bottom line.

Sandesh Barmecha: So we expect to see it continuing for next 2 quarters as well, right, sir? Basically?

Pavan Khaitan: That is true. We will see a continued trend in the pricing at a similar level.

Sandesh Barmecha: So Chinese pulp prices have corrected from peak of around \$865 per ton. So, they're currently trading around \$800. So, what would be your outlook for global pulp prices for the next 2 quarters? Would we witness a sharp slowdown in the paper and packaging demand along with the supply side pressure also since large new supplies are there to commence in Q4 as well. So do we see any correction happening on that and pulp price?

Pavan Khaitan: It's a good question, Sandesh. Earlier, we would witness a corresponding change in paper prices according to the ruling pulp prices inevitably between about a one, two-month lag. But we have not witnessed such price reduction despite pricing coming down earlier. Wood pulp pricing had reached a high level of \$1,200 per ton.

And even despite coming down by about \$400 a ton, the pricing of paper has actually gone up in the interim from a level of about INR 65,000 per ton at the start of the year, we are now ruling at INR 90,000 per ton. So that correlation, a direct correlation between wood pulp pricing and paper pricing within India is not there anymore, prevalent there anymore.

However, we do not rule out the correlation completely, and I think that is why we are seeing a slight reduction in pricing because – largely because demand is now stabilizing at these levels. And I think with the implementation, rightful implementation of NEP, the demands would pick up and help stabilize the pricing further.

Sandesh Barmecha: So, if I may, sir, what would be our mix between low GSM and high GSM production of paper?

Pavan Khaitan: We are doing about 50%-50%. 50% is in the GSM ranges up to 56, 58 GSM and balances 60 GSM and above. So that's the 60 GSM is the cutoff mark between what we call as a high GSM paper and below that is the low GSM paper.

Sandesh Barmecha: Sir, if I may, last question, sir. Sir, what will the price difference between domestic and imported paper prices near the port area at the moment? And how different is it from the pre-COVID levels?

Pavan Khaitan: So today, the export realization for us is about INR 8,000 lower than the domestic market. And yes, in the COVID times, the export market was actually helping us fetch a better price. That

was largely because the Indian market was almost not there, schools, colleges, high consumption areas being totally lock down and completely closed.

So that's the scenario. And I think this is what we've witnessed the export market because of a larger competition base normally gets a ruling of price ruling of about INR 8,000 to INR 10,000 lower than the domestic market.

Moderator: The next question is from the line of Ganpat Mehta from Suncity Advisors.

Ganpat Mehta: We can see the growth is muted for the quarter two and quarter three in value terms as well as right now in the volume terms also. Can you give some guidance for the Q4? Will the same trend continue? Or there may be some change. Second question of mine is in regards to your expansion plan for INR 285 crores, wherein you have mentioned that it's only modernization of paper mill and pulp mill. Will there be any capacity expansion? Or is there no capacity expand sir?

And my third question is regarding this part of other expenses. This consists of power and fuel cost of chemicals and above, which constitute around 43% of the total expenses. So there, what type of saving reduction we are – we have achieved or we are planning in the future to reduce this cost part.

Pavan Khaitan: Ganpatji, the trending for volumes is going to be very similar. As I mentioned, we are currently operating at 100% capacity. That trend is going to continue. And with a similar pricing level that I'm budgeting for in the next quarter, we are targeting a revenue of close to INR 350 crores in the Q4 as well. With regards to capacity expansion, it's a combination of investment in our paper machines, pulp mill and the energy side.

So yes, the investment in the paper mill will release about 25% additional capacity from the current 1,50,000 tons, we are going to -- we are planning to go up to 2,00,000 tons per annum capacity. And investments in pulp mill will reduce our cost of operations as well as on the energy side, it is going to help reduce our energy cost by about close to 20%. So that will cover your question on your expenses of power and fuel.

The power and fuel expenses actually went up phenomenally because cost of coal rose up dramatically in the past year from a level of about INR 5,500 per ton, coal was being sold in the market for close to INR 14,000 to INR 15,000 per ton. So that was the reason why high fuel cost was observed for us as well as most other industries. And what there is where the need has been felt to reduce this dependence on energy costs and reduce it by optimizing our operations accordingly.

Moderator: The next question is from the line of Rajesh Majumdar.

Rajesh Majumdar: I had one question on this syllabus change. If I remember correctly that the syllabus change for ICSE and CBSE was supposed to be a big driver for the paper industry in the near term. Has that taken place? Or will it take place? Can you give us some color on that?

- Pavan Khaitan:** So Rajesh, it has yet not been implemented. This part of the syllabus change is yet in the offing. It is expected in the one is expecting that for the next education year, which starts in August of '23 for the colleges, at least it should start. For the schools, it may come in, in the month of March and April of '24. But even if the syllables for colleges changes, that could show a dramatic shift in demand and a pool of demand for paper for the industry.
- Rajesh Majumdar:** That's roughly about 40% of our market, right?
- Pavan Khaitan:** Yes.
- Moderator:** The next question is from the line of Adil Garg, Individual Investor.
- Adil Garg:** I have a few questions that I would like to understand from the management. I have been tracking the company's performance from last two years and witnessed a sharp increase in the margins from Q1 of this financial year. The last quarter of the previous financial year, margins were in the range of 13% to 15%. And then in this year, the margins are almost doubled. So, what are the major reasons for that? Is it all due to the better NSR or have the company undertaken any cost reduction measures?
- Pavan Khaitan:** Thank you for that question. We actually set out a large backward integration project of consisting of our own wood pulp mill, a chemical recovery and our captive power in the year 2018, which got commissioned in March of '21. So now the fruits of that entire capex plan is coming to bear, and we have seen a huge reduction in cost of our operations as well, which has lent very, very healthily and dramatically to this EBITDA margin increase.
- So, if you see the price increase has helped us grow by about 30-odd percent, but the cost reduction also been dramatic. So, both have helped in tandem to increase our EBITDA levels from the as rightfully said, from about 15% to the current 30% mark.
- Adil Garg:** So is this margin sustainable? Or is there any further scope of increase in the margins from here?
- Pavan Khaitan:** Yes, we are targeting a slight bit increase with this further investment that we are planning, which is growing our volumes by 25% and reducing our energy costs and chemical costs somewhat. energy cost is surely going to reduce by 20-odd percent and chemical cost by way of better efficiencies, we are targeting an EBITDA level of 33% now going forward, which we should be able to achieve in financial year 24-25. The whole of next year will take to implement this entire capex plan of INR 285 crores. And the results of that will be very, very visible in financial year 24-25.
- Adil Garg:** And what is the present raw material mix? And if you could highlight about the current prices of agri and wood?
- Pavan Khaitan:** So we are doing a 50%, 50% of agro pulp and wood pulp and which we are sort of manufacturing all internally. we are buying wheat straw to make our agro pulp and certain species of wood chips and veneer chips is a variety of wood species that we buy. And even we include bamboo

in that. And all that is pulped and sort of blended to make the wood pulp of the desirable quality that we require -- if you see today, wheat straw pricing is at about INR 10,000 per ton and wood pricing is at about INR 7,000 to INR 7,500 per ton average.

- Adil Garg:** And one last question. Any update on capex on tissue paper plant?
- Pavan Khaitan:** Yes, that is part of this INR 285 crores spend. So yes, we will be investing in the tissue line as well and upgrading that and commissioning that.
- Moderator:** The next question is from the line of Saket Kapoor from Kapoor & Co.
- Saket Kapoor:** Sir you did mention that because of the efficiencies that will be put into place, we will be reducing our requirement for chemicals also. So could you please elaborate more on the same whether what were you trying to explain, sir?
- Pavan Khaitan:** So in the pulp mill, we are going to put up a twin roll press where the efficiencies of pulping increased dramatically and the requirement of chemicals reduces for the pulp making process, and we are going to put this twin roll press in both our agro pulping Street as well as our wood pulping Street. So that will help in reducing the cost of operations and cost of chemicals in our pulp making process.
- Saket Kapoor:** And by what percentage, sir? And is it this technology only we are newly introducing or other mills have already done the same? Is the new norm there?
- Pavan Khaitan:** It's already an established technology. All the big mills have already implemented this. And we will be also taking off this technology and helping upgrade our pulping facility.
- Saket Kapoor:** And what kind of reduction are? So mainly the chemical includes the caustic part or others also, if you could give elaborate slightly more on the same?
- Pavan Khaitan:** Even the caustic, yes, the caustic addition in our pulping process will decrease as well as the bleaching chemicals. So because of the establishment of this twin roll press, the losses that we incur on our pulping will reduce. And that is why the subsequent processes will require lesser chemicals to bleach and prepare the pulp.
- Saket Kapoor:** Last small point, sir, what has been our utilizing levels you mentioned it for this quarter and for the nine-months?
- Pavan Khaitan:** Utilization of what?
- Saket Kapoor:** Plant utilization?
- Pavan Khaitan:** 100%. Our machines are working to 100% capacity. And for the last two quarters, even the first quarter as well. And that is why the need has been felt to upgrade our plant operational capacities, and that is why this plan of capex plan has been made to increase our operational capacity by about 25%.

Saket Kapoor: And sir, there were some news also for the import -- some amount of import going ahead. I think the BIS standards, there were some manufacturers who were looking for the certification from government. And now with that into the way, there will be some quantity or there will be a quantity of papers are now being imported in the country. So any update you would like to give and what has been the imported quantity for the nine-months and the comparative number?

Pavan Khaitan: So the question with respect to imports of paper, I think that was the BIS standards are likely to change for the copier grade of paper, and that is going to clearly affect the imports as well. And currently, in the last -- in the current financial year, there have hardly been any volume of imports of copier grades. And largely, this is also because the PIMS was implemented by government of India. That's the Price Import Monitoring System, whereby every quantity and volume of paper has to be declared by the trader and government is regulating the imports of paper in a big way. So good control on imports is there, and I don't see a huge effect of imports in the long run, affecting our paper industry in the future.

Saket Kapoor: Sir, the volume number, can you give any share on a comparative basis with these steps taken by the government. And it is only to provide the level playing field to the Indian producers because I think so Indonesia and all have been there for selling or dumping if I may use in the country. It is to avoid that issue? Or what could be the reason for these monitoring that have taken place?

Pavan Khaitan: So pre-COVID, we were importing about 4 million tons of paper on an overall aspect and the industry size within India was about 15 million to 16 million tons. So almost 25% capacity was coming in by way of imports that has drastically come down. And this year, we are seeing levels of -- at the year-end, we should see no more than 1.75 million tons overall coming into India.

Saket Kapoor: And can you give some more understanding what should be the likelihood going ahead? These norms already had the impact or going ahead, this 1.75 will can further go down? Or is it the incremental demand, inherent demand in the country that will continue with some imports. There has to be some import in that case.

Pavan Khaitan: So India is witnessing quite a strong demand. And I think it is quite an attractive situation for any trader or exporter from abroad to deal in. And I think India is an attractive destination for trading and business opportunity. So I think with growing demand, there is likely to be a certain effect on increasing imports, but I'm sure it will stay at a similar level, maybe it can go up to 2 million, 2.5 million, but then the market will also grow from the current 18 million to 20 million tons, it is likely to grow up to 25 million to 30 million tons in the next four-five years. So it's going to have a corresponding effect on market growth versus increase in imports, if any.

Saket Kapoor: And on the chemical part, sir, you were explaining that I missed the point. The requirement will go down. How have the pricing being sir, for the chemical requirements, especially for the caustic and bleaching agent?

Pavan Khaitan: Fortunately for us, with us having a complete chemical recovery plant, our requirement for caustic is very-very minimal. We hardly, our demand is only for makeup chemical, which is

about 3% of our entire demand. And that's about no more than 250 tons a month. So even though, yes, caustic prices are currently ruling at about INR 62,000 per ton level, but the impact for us is very-very minimal because of our own chemical recovery system that we have in place.

Saket Kapoor: And what is our market share, sir, currently in the copier segment?

Pavan Khaitan: Copier segment, so our -- we deal very-very differently. We are serving the entire marketing needs of the publishing sector, the printing sector, the notebook manufacturing and all sorts. So our -- so total copier production for us is about 20% of our entire production, and we are able to market that quite efficiently and economically. So as such, if you see the percentage in the copier market will be low, but our realizations for our copier brand is higher than the others. So it's a good mix for us, and we are quite happy dealing with these volumes because we are also getting a good NSR on our writing and printing paper segments to match.

Moderator: The next question is from the line of Vardhaman Sancheti from AVS Equiserve.

Vardhaman Sancheti: Congratulations sir, on good set of number. My question is that what is the current tissue plant expansion in INR 285 crores around?

Pavan Khaitan: That's the spend envisaged there is about INR 35 crores to INR 40 crores and will help us establish a capacity of about 35 ton a day.

Vardhaman Sancheti: Are we making any tissue paper as of now.

Pavan Khaitan: No. As of now, there is no tissue paper. No, sorry.

Vardhaman Sancheti: And what are the other grades of paper are we looking in, for new development?

Pavan Khaitan: So we are looking at this food grade wrapping paper, which is an opportunity which has come about by virtue of this single-use plastic ban and paper will be a rightful replacement for all kinds of food wrapping requirements. So we are doing extensive research and R&D into creating a food wrapping paper, and we should be entering that market in the next three to four months.

Even items like straws and cup stock and things like that, sort of food-related paper items is what we are looking at and getting a good opportunity and growth prospects from.

Vardhaman Sancheti: Sir, after reaching like INR 285 crores on capex plan, so we will be reaching around 2 lakhs capacity. So what after that?

Pavan Khaitan: Well, I think with healthy cash flows and being able to create quite a big war chest of funds for ourselves. We could look at another, either a speciality paper machine of one lakh tons or even look at a 300 ton to 400 ton board machine, but that only time will tell. But yes, suffice to say that we will have enough funds available at hand to look at that kind of project in about 2 to 2.5 years time.

Vardhaman Sancheti: So like this would come around '26, '27?

- Pavan Khaitan:** Yes.
- Moderator:** The next question is from the line of Sreemant Dudhoria from Sree Capital.
- Sreemant Dudhoria:** Just one question. For your agro-waste pulping capacity, could you please comment on the pricing trends for the agro-waste? What has been the rate in the past quarter? And the previous quarter?
- Pavan Khaitan:** In the past quarter, our average pricing was about INR 11,000 per ton as such for wheat straw. In the previous quarter, it was about INR 8,000 per ton, so quite a dramatic increase in pricing of this agro residue. But in the current quarter, Q4 of the year, we are seeing a decreasing trend because the new wheat straw crop which is going to arrive in April and the farmers necessarily have to sell their entire available stock of wheat straw that they have and they only have these three months to do that. So we are witnessing quite a reduction in these pricing and which is quite a healthy trend of reduced pricing for us.
- Sreemant Dudhoria:** So what was this number, same quarter last year Q3 of '22?
- Pavan Khaitan:** Q3 of '22 was at about INR 6,000 per ton.
- Moderator:** The next question is from the line of Ganpat Mehta from Suncity Advisors.
- Ganpat Mehta:** Sir, as regards the paper business of the company is concerned, you are doing good utilizing 100% of the capacity improving the EBIDTA and year-on-year working is also good. That is all good and fine. But I am more interested to hear from your side on the cellulose ethanol pilot project for the rice straw management for which you successfully established the technology and a pre-commercial plant. So what is the next step? Is there any commercial plant coming up in near future or is there any tie-up going on with some PSU or some franchisee you can give or how the commercial part of that pilot plant can be of beneficial to the company in coming future? So would like to hear more from you on this subject.
- Pavan Khaitan:** Well, Ganpati ji, I'll keep the answer very short. We are wanting to be a strictly paper focused company. It was a foray into wanting to create an innovative technology and it ends there. As a company, we don't intend monetizing that technology at all. We will be sequestering that technology into a separate company and that separate company will see the light of day on its own accord. But no expansion or operation of ethanol of any sort will come into Kuantum. Kuantum will continue to remain a paper-specific company.
- Ganpat Mehta:** Will there be any relationship of current shareholders with that company or it will be totally detached?
- Pavan Khaitan:** Totally different. That company will on its own come to the market as and when required and I think as shareholders of this company you will get an opportunity to invest there as and how the time allows in future.

- Ganpat Mehta:** There is no issue whether it's a new company or it's the same company. But as this company Kuantum has invested and successfully implemented this pre-commercial pilot plant. So just I was interested to hear more on that line. And what is the potential of that technology or the plant or the project, which either with this company or in a separate company, what can be the revenue guidance estimated on down the line? If you can give some details.
- Pavan Khaitan:** I'm sorry, I will not be able to comment because I'm clearly focusing on the paper side of it and restricting myself from the ethanol. As and how that ethanol story comes into public domain, you will surely hear about it. And at that point in time, we will make an effort to reach out to you. But I certainly, on my part, will not be playing any role in the ethanol, operation at all.
- Ganpat Mehta:** Sir, is it not profitable or something else?
- Pavan Khaitan:** No, it's certainly profitable. Ethanol is a very-very profitable and Greenfield project opportunities are huge. But I personally want to focus only on paper and growing this aspect. So that's why I'm precluding myself from the ethanol, because I don't want to divert my attention into it. That also requires a huge amount of attention and time, and I will not be able to devote it successfully to both paper and ethanol.
- Moderator:** The next question is from the line of Govindlal Gilada, Individual Investor.
- Govindlal Gilada:** I've got a few questions. First thing there, it is a request or advice. This time you are given in presentation sales volume. Last two quarters I am observing where we are giving production sales volume. This time it is sales and last time it is production. So it is better sir if you do both or comparing it will be better. Last time it is a production-based revenue sales. So either you do sales volume every quarter or production value every quarter or both it will be most welcome if you do both.
- Pavan Khaitan:** We are actually producing everything to order and our production and sales volume are normally very-very similar. You will hardly see any difference in these figures because whatever we produce, we sell in the same quarter. And if you see our year-end stock position or quarter-end stock position, you will find it within a manageable two days production level. Any which way you take it, whether it's the production volume or the sales volume, we'll find them very-very similar. But point taken, we'll keep to a similar pattern of presenting the data.
- Govindlal Gilada:** Then next question is, in earlier participant or you are commenting that your EBITDA margin 30% will be for 24-25. So I want to just categorically make clear it is 23-24 or 24-25?
- Pavan Khaitan:** No, we are already currently achieving 30% and we will continue to achieve 30% in the ensuing financial year 23-24 as well. The 33% target is post when we established this capex plan of paper capacity enhancement and energy cost reduction initiatives. That is when we will target achieving 33% EBITDA in 24-25.
- Govindlal Gilada:** So it is clear sir, for next year you are targeting 30% then year after that 24-25, 33%?

- Pavan Khaitan:** Correct.
- Govindlal Gilada:** In second quarter last previous call, somebody when asked, you mentioned that paper prices trend for next one or two years will be of similar what current prices are willing. So I am asking, is still you hold same view, sir?
- Pavan Khaitan:** Yes, they will be very similar because they are at a – reigning at a higher level. So in the last year the average paper pricing was about INR 60,000 per ton and now they are ruling at INR 80,000-plus. We are commanding a price of INR 89,000 per ton currently. So it will be in the similar strain of about between INR 80,000- 85,000 ton levels for the next one, two years, at least.
- Govindlal Gilada:** That is great. So then what is your outlook for pulp prices for next one or two years any your view on that?
- Pavan Khaitan:** So pulp pricing is a little difficult to detect and difficult to monitor because internationally, one has to take into account what are the new capacities coming in, what are the capacities closing down. It is very difficult to project what the pulp pricing is, but they should also remain within similar ranges of between \$700 to \$800 per ton or there arounds.
- Govindlal Gilada:** So on the paper prices and pulp prices now already, they are in new range earlier prices were \$ 400 to \$ 600, \$ 700 range now it is -- so we can conclude that this all will be for the next one or two years, we will not be seeing earlier two year, three years back paper prices, INR 60,000 per pulp. So you need to tell that, sir, there will be no new rates in next one or two years?
- Pavan Khaitan:** Correct, correct. I think with the role of sort of pricing going up with the cost push coming in and the sort of all kinds of prices going up and the inflation factors also coming in, we should be seeing these kind of price levels getting maintained. And you're rightly commenting that pulp pricing should be about \$700 to \$800 and the pricing of paper between INR 80,000 and INR 85,000 -- that's correct.
- Govindlal Gilada:** What is current pulp prices? Current pulp prices, for this current pulp prices?
- Pavan Khaitan:** So pricing is about \$780 for hardwood pulp and \$840 for softwood pulp.
- Moderator:** The next question is from the line of Rajesh Majumdar from Batlivala & Karani Securities.
- Rajesh Majumdar:** Yes, sir. So I had a couple of macro questions. I mean other than you and TNPL, no one else is expanding capacity in writing and printing paper. And as we all know, as the economy matures, post this onetime demand from syllabus related, etc, we will see the kind of demand growth rates in W&P slowing down. So why are we expanding capacity at all in W&P. That was the first question.

Pavan Khaitan: So even though the investment in paper machine capacity is coming in Rajesh, but not necessarily that we will stick to writing and printing paper. As I said, we are doing extensive research in making food grade paper. So the base paper remains the same. We can put in additional laminates of OGR and all and convert our same paper for food-grade wrapping purposes.

So we are not going to restrict ourselves to in the Writing & Printing segment. In fact, we've got a large portfolio of specialty papers as well and a good bit of 15-odd percent of our capacity goes into manufacturer of specialty papers. There could be an advancement in capacities there as well. So we are quite flexible in our and nimble in our operations, and we have the option to convert sort of going forward. And as on how the opportunity will come in, we will sort of be sure to attract that kind of market with our diverse product portfolio.

Rajesh Majumdar: So these are fungible production lines, which can be modified to make packaging paper is it?

Pavan Khaitan: Maybe somewhat a bit of components will may need to be added to sort of strictly make good quality food grade paper that can be easily looked at, at the appropriate time once the R&D activity gets concluded.

Rajesh Majumdar: Okay. And sir, secondly, why are you getting into tissue paper because you've seen two, three companies in this business struggling in the sense that export realizations are low and the domestic market hasn't grown as expected. So the realizations and the margins are -- will be dilutive for you? That was the other question.

Pavan Khaitan: This is the plan right now, Rajesh, because as per our information, there are only largely two companies in India manufacturing tissue paper, which is Century and Orient. There is no other player to talk home about. And I think tissue paper requirements are growing in India post the pandemic situation and the awareness of hygiene growing up. And I see a huge potential in fact, tissue paper is growing at the healthiest rate of 20% CAGR going forward. So I think it will be worthwhile investing and it's not too bigger investment. It's about 35 tons per day and which will sort of make our entire portfolio also more flexible. As you rightly suggested, why stick into one category, we are looking at this differential category to bring flexibility in our volumes.

Moderator: The next question is from the line of Saket Kapoor from Kapoor & Company.

Saket Kapoor: Yes. Sir, when we earlier look just before the pandemic got just two, three years again, China used to be a dominant player for the pulp and paper industry. How have things now currently changed? And has the new regime said that China would be now only for the domestic market? And what kind of role will China play? And then how then the price trends would likely be, as you have guided for this INR 88,000- INR 90,000 bands. So what have you factored in from China side, sir?

Pavan Khaitan: So I think China is facing its own sets of challenges and problems. One is that it is tending to a population which is elderly and the working hands in China are reducing quite substantially.

You would have read may have read an article that came about three days ago. That is the first time in so many years that China's population has actually declined.

So they are seeing a decreasing trend and which will clearly affect the working population as well and as well as the fact that China spent a lot in creating the infrastructure for machinery and industry, which may go abegging in future. And China will have to play its story very, very differently and contain its entire challenges that it is facing by way of the working population that they have. So I think the effect of China going forward will be limited -- it won't be as strong as what we witnessed in the pre-COVID years, and we will see a reduced intervention and impact of China in the world economy and trade going forward.

Saket Kapoor:

Just to drill once again, it is the ageing population or the reduction in the population growth, correct. But what would go along with the capacity, is that they have excess capacity and the market is enumerative, they can very easily create may improve the utilizing levels and again set the paper free in the market again. But what stops them for improving the utilization level, even though their inherent demand may go down as you are trying to explain? Or please correct me there...

Pavan Khaitan:

So I think it will be a combination and a variety of things. One is that clearly, there is a kind of anti-China sentiment that is getting generated in the world, people are not so amicable looking towards China as they were earlier. They are also sensing the kind of sort of Russian Ukrainian crisis that has emerged. The world is sort of on trepidation whether China would have the similar story with Vietnam as well.

So I think every government is looking at it very, very individually, and we will be Indian government is clearly above board and all this and very, very sharp on all this and will not allow intervention from China, the way they used to do it earlier. And even if they have the spare capacities available with them, the fact is that they need working hands to run them. And this is something which has been witnessed not only in paper, but I think in lot many other industries, China is failing in its dominance in the world industry and trade per se. So I think with that, I would say that I'm just mentioning that the impact that China used to have prior to COVID will not will be much, much lesser now going forward.

Moderator:

I'm sorry to interrupt Saket Kapoor I would request you to please come back in the queue. The next question is from the line of Arun Chulani from First Water.

Arun Chulani:

Thank you so much for this call. And I just want to understand, you said for the next two years, we're going to be at record highs in terms of paper prices. So whether it's 85 or 90 as you are at now. And you said, primarily it's due to inflation, and of course, your EBITDA is around 30 and growing. Beyond the school syllabus, what are the other macro aspects that are keeping demand buoyant? As you might realize, there's, I mean, I know you said that also there's packaging, you're moving to other sectors, but what else is there?

Pavan Khaitan:

So we are a company which specializing in serving the marketing needs. We are a company which does customization for our customers as and how they require it, whether it is the GSM

or the size or the quantity, whatever it be, we take those orders. We don't work on standard orders. So our customization quality and variedness is much, much higher than any other company. And we are making a foray also into increasing our market penetration into areas which we were not present in and picking up orders from there as well.

So our market outreach program is increasing and we will be creating a new GTM, a go-to-market strategy going forward which will help us maintain our increased production levels and volumes that we generate and our way to sell them will clearly be there, a strategy will be developed. To ensure that we sell that as well.

And in addition to this RTE which has come in, one is obviously is these single use plastic ban which has come in. And as I've mentioned, we are foraying into the innovation in R&D towards making food grade wrapping paper, which is going to be a huge market and a huge volume. We may see, we may end up dedicating one of our machines, particularly only for manufacturing food grade wrapping paper. That's a huge opportunity that I'm seeing going forward.

Arun Galani:

But just, I mean, what are the other drivers? Because I understand and I appreciate that, but are there any other aspects or that's it? Because I wouldn't imagine that your competitors are standing still, letting you penetrate their market. So there will be pushback and so on, or they aren't even going to food wrapping. What are the overall pulls to keep you at 100% utilization, to keep you at 85% to 90% realization, I mean INR 85 to INR 90 per kilo realization?

Pavan Khaitan:

I am not sanguine about keeping those realization. So even if they do come down, we are going to see a correlated effect in reduced costs as well. So if you see our agro pricing has gone up from INR 6,000 to INR 11,000 per ton, I am very sure and confident and even our fuel pricing is at an all-time high. I am very sure if that impact comes on to paper pricing, we are going to see somewhat effect on reduced cost of inputs as well, which will help enable me to maintain my margins thereabouts. So I am quite confident that it is not going to be a dramatic impact on my profitability angle as well.

And one more factor would be that India is again a growing population and India is projected to grow to about 1.8 billion population by 2050 and which will clearly mean an increased demand for schools, education, Education is going to grow, schools, education institutions are going to grow, which will mean an increase in demand for paper as well. So I think all-in-all, for the next decade, clearly is going to be on an optimistic footing.

Moderator:

The next question is from the line of Rabindra Nath Nayak from Sunidhi Securities.

Rabindra Nayak:

One question, what is the average pulp cost for you in this quarter? And what is the -- if you said that your agro base cost is around, the wheat straw cost is around INR 10,000 to INR 11,000 per ton and INR 7,000 for wood. If wood remains constant and this price will come down to around say INR 6,000 to INR 7,000 for wheat straw prices, what would be the pulp cost? What is the current cost and what will be the pulp cost?

- Pavan Khaitan:** The average pulp cost is about INR 43,000 per ton with agro currently being about INR 41,500 and wood being INR 46,500. So with agro pulp cost coming down, I will observe and budget for a reduced agro pulp cost. And agro pulp cost should come down to about INR 38,000 per ton level.
- Rabindra Nayak:** So can you please give me about the different grades of paper prices in this quarter?
- Pavan Khaitan:** Average rate we commanded about INR 90,000-plus per ton.
- Rabindra Nayak:** No, I'm just talking about different grades of paper. For example, writing & printing, copier, and different grades of paper.
- Pavan Khaitan:** My specialty paper, some of them command as I, INR 98,000 per ton. This is the colored copier and colored paper that I make. Writing and printing paper, Maplitho is at about INR 92,000 per ton. Creamwove is at about INR 90,000 per ton. Copier is at about INR 92,000, but then you take the cost of packaging is higher. So again, the profitability that you get from copier is again about INR 89,000-INR 90,000 per ton.
- Rabindra Nayak:** So this includes GST, right?
- Pavan Khaitan:** No, this is net realization. GST is, if you include GST then we are commanding INR 1 lakh per ton-plus.
- Moderator:** Thank you. That was the last question for today. I now hand the conference over to Mr. Rajesh Majumdar for closing remarks.
- Rajesh Majumdar:** I would now like to hand over the conference to the management for closing remarks, if any.
- Pavan Khaitan:** Thank you all for participating in this earnings con call. I hope we have been able to answer all your questions satisfactorily. If you do still have any further questions or would like to know more about the company, please reach out to our IR managers at Valorem Advisors. We are very thankful to you all and to our investors, who have stood by us and had the confidence in the company's growth plans. And with this, I wish everyone a great evening. Thank you.
- Moderator:** Thank you. On behalf of Batlivala & Karani Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.