

**Kvantum Papers Ltd
Earnings Conference Call
August 02, 2022**

Moderator: Ladies and gentlemen, good day and welcome to the Kvantum Papers Limited Q1 FY23 Earnings Conference Call hosted by Valorem Advisors. 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded, I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you sir.

Anuj Sonpal: Thank you. Good afternoon everyone and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the Investor relations of Kvantum Papers Limited On behalf of the company; I would like to thank you all for participating in the company’s earnings conference call for the first quarter of financial year 2023. Before we begin, let me mention a short cautionary statement. Some of the statements made in today’s conference call maybe forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management’s belief as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward looking statements in making any investment decisions.

The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review. Now let me introduce you to the management participating with us in today's earnings call and hand it over to them for opening remarks. We have with us Mr. Pavan Khaitan, Vice Chairman and Managing Director and Mr. Roshan Garg, Chief Financial Officer and without any further delay let me request Mr. Pavan Khaitan to start with his opening remarks. Thank you and over to you, Sir.

Pavan Khaitan:

Thank you Anuj. A good afternoon to everyone and a very warm welcome to you all for this first ever earnings conference call to discuss the results and the business updates for the first quarter of the financial year 2023. I hope you and your families are all staying safe and doing well. Fortunately, the past few months have been seen a dramatic reduction in severity of the pandemic, and there has been a strong progress in vaccinations across the country. Even the Economics and Business environment has improved dramatically and substantially. First, let me start by giving you a brief about a company for those of you who may be new to us. Kuantum paper started in 1980 and a manufacturing facility is located in Hoshiarpur in the state of Punjab. Our production capacity currently stands at 1,64,250 metric tons per annum. In our manufacturing facility, we are strategically utilizing agro residues like wheat straw, sarkanda and bagasse along with a variety of wood materials like wood logs, woodchips and bamboo to make high quality, superior grades of writing and printing paper. We produce a variety of papers like maplitho, creamwove, copier and also value added specialty papers. Recently we've also started making carrybag paper and cup stock base paper which is seeing a huge demand in the markets, especially in the pandemic and post pandemic scenario. We've

completed our Backward Integration project in March of 2021 to optimize our production costs, improve our capacities by almost 20% and further enhance the quality of our paper. The project involved enhancing our wood pulping facility, setting up of a caustic soda recovery plant and a captive Co-gen power plant. Post this upgradation our total pulping capacity stands at 380 tons per day, combining both agro and wood based pulp. Our paper machines are capable of producing 450 tons per day. We have added a new chemical recovery plant of 500 tons solid per day and the total capacity stands at 700 solid tons per day of processing. This plant is capable of recovering 95% of the costly chemical caustic soda that we use and reuse in our pulping process. Our Co-gen power plant has been upgraded with a new high pressure CFBC boiler and new generation turbines. Now coming to the quarter under the review. We are happy to report that over the two years of volatile business environment and demand disruption of the paper sector caused by the COVID pandemic, the start of this financial year has been excellent and I can comfortably say that demand wise we are in fact at a better position than the pre COVID era. Unfortunately, there are still some macro hurdles at play like inflation, supply chain challenges, but despite these, the company has reported an exceptional quarter across all financial parameters with the backing of a strong order book giving us the confidence of a good financial year ahead. Now let me hand it over to Mr. Roshan Garg, our CFO to give details of the quarterly financial performance.

Roshan Garg:

Good afternoon everyone. I would like to brief you on the financial performance of the first quarter of the financial year 2023. The income from operations grew by 86% year on year to Rupees 275 crores. The EBITDA for the quarter grew by 292% on year on year basis to 61 crores with EBITDA margin of 22.17%. And net profit after normal tax stood at

around rupees 25 crores, which grew by 547%, year on year with PAT margin of around 9%.

The strong revenue growth was on the result of higher production and sales volume and all time high sales realizations. Our EBITDA margins improved significantly despite rising raw material and production costs, mainly due to cost benefits of the backward integration projects being completely realized and adding to the bottom line.

Let me also explain you about the exceptional item reported in this quarter earnings. The Government of India in September 2019, vide the taxation Laws Ordinance 2019 had provided domestic companies an option to pay income tax at reduced rate of tax effective from April 1, 2019 subject to compliance with certain conditions. The conditions mainly were that MAT credit if any will not be allowed to carry forward and deductions if any being claimed by the companies will also not be allowed to take benefit. So at that time the company has MAT credit of around 37 crores lying with it for set off, and the company was also availing deductions like section 80 IA for its plant projects, the deduction, was available till March 22. So the company was also about to complete its backward integration projects by June 2020 and it was expecting healthy bottom line from these projects and the company was confident that the company will be able to set-off this MAT credit from the profits of these projects, however, the pandemic came and the operations were disrupted. And for two years I mean for 2020-21 the company has a loss and for 2021-22 is the normal profit so that forced us to look at whether we should continue under the old tax regime or we should switch over to the new tax regime. So with the quick turnaround in the industry and the operations. And the company reevaluated the new provision and its impact and decided to opt new tax regime which will be more beneficial to the company since the

company has brought forward depreciation from the projects completed in March 21 and as per the current situation, the company will not be required to pay tax in the next two years, henceforth the company will be able to save around 50 crores plus on account MAT had the company continued under the old tax regime. So the tax expense for the quarter has been considered at the reduced tax rate and the company has written off the MAT credit of about 247 crores and has also re measured its existing net deferred tax liabilities, which is resulting increase of rupees 16 Crores. However, these 16 crores are I think is non cash item and does not have any impact on the cash flow of the company. The impact of this change on the asset and liability aggregating to rupees 63 crores has been recognized in profit and loss account has been exceptional item in this quarter, however this has no impact on the operational profits and the company expects that opting for the new tax regime would result in positive cash flows in the future.

I now hand back the call to our vice Chairman and MD Mr. Pavan Khaitan.

Pavan Khaitan:

So investors you may be aware from 1st July 22 onwards the Central Government decision to put a complete ban on single use plastic products is a shot in the arm for the paper industry as paper is the most viable and sustainable alternative to plastic. Going ahead, you will see a surge in demand for specialty paper, due to this welcome move by the government and it can benefit us immensely. Kuantum has already developed new products to cater to this demand, like straw base paper, cup stock with a bio Coating instead of a PE coating, carrybag paper and food packaging paper including biscuit wrapping, which is going to be a huge demand. We're also looking at OGR, oil and grease resistant proof paper, release paper and oxygen and moisture resistant papers for

food packaging purposes. In addition to this, the implementation of the National Education Policy is expected to further provide a big boost with industry, especially players in the writing and printing paper segment. In conclusion, we are happy to start this year on a strong footing and with a strong demand outlook and healthy order books, backward integration projects completed and with an improved product mix, we are optimistic of a future growth outlook. With this we can now open the floor for question and answer session. Thank you very much.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Dalpat B Mehta from Suncity Advisors. Please go ahead Sir.

Dalpat B Mehta: Good Morning sir, Congratulation for good set of number, I have 3 queries. First I would like to know what capacity utilization company expect for the remaining quarter of this year, second one is that you have written off due to this new tax regime some 63 crores as exceptional items and that will not have any impact on cash flow of the company. But can you tell me how much benefit company is going to have on this account in the coming future, within this year or the next 2-5 years, the third one, and the most important is the company has already set-up a pre commercial plant titled as Cellulosic Ethanol Pilot Plant. What benefits are likely to accrue from this? And when it will have a revenue accretive impact in the company's balance sheet, is there any tie up or negotiation is going on with any PSU in this regard?

Pavan Khaitan: Thank you Mr. Mehta for your question. With regards to capacity utilization, we are very confident and optimistic that it will be 100% capacity utilization, which we are even currently doing and we will be ending the year on our capacity utilizations completely. With respect to the new tax regime we are clearly going to save on MAT Payment,

which is to the tune of almost minimum 50 to 60 crores over the next two years. With the healthy cash inflows and cash profits that we are likely to achieve, we are envisaging that this is the kind of MAT repayment that would have occurred in the old regime and now with the new tax regime, this is the amount that we're likely to save. As far as the Ethanol project is concerned, yes, we've had a final certificate from BIRAC DBT, which is Department of Biotechnology Government of India, which has fructified and established and given the go ahead on the usage of this technology. Now this is a very small pilot plant. And we've invested in this technology as an option for us and we are looking at various options of how to monetize or make use of this technology furthermore, in the near future, but to be very specific, we want to concentrate on becoming and keeping to our basic product which is paper, we want to become a strong paper player and hence we are not going to see very much big or great revenues coming in from the ethanol piece of it. That technology as and when it fructifies will not be a centerpiece for us for sure. Thank you.

Dalpat B Mehta: In near future there is not much revenue is likely to come from this

Pavan Khaitan: We are wanting to concentrate on paper which is going to give us a very good revenue prospect. We are wanting to grow in paper alone. There are lots of opportunities that are coming by for paper and this is where we want to concentrate. Ethanol will at best be a byproduct for us.

Moderator: Thank you next question is from the line of Raj Nahar from Mili Consultants. Please go ahead.

Raj Nahar: My question is on the power and fuel you have been using earlier coal in a big way and still now this quarter, the cost of power and fuel is quite high compared to other players who have just reported the numbers. So are you still using coal or you have swept over

completely to say like rice straw and like your other competitors are using with the new boilers which were installed. And they are using even the rice straw, also in the boiler. So are you being able to use the rice straw also? And in future, what could be the saving arising because the other competitors in that area they are claiming power cost is just around 3 rupees or below 3 Of course steam is not counted in that. So can you highlight on the power side.

Pavan Khaitan: We've invested in a high pressure CFBC boiler and where the usage of yes we are continuing to use coal, but we are also using rice husk and the combination of this is about 40% coal and 60% biomass, which is rice husk. Unfortunately, a boiler that is required or that can burn rice straw is a very different set-up. We don't have that technology and it doesn't make sense for me to invest in another boiler just to use rice straw. We are continuing to use biomass which is rice husk and coal. But because of this high technology, high pressure of CFBC boiler, we are getting a very, very good steam efficiency. We're getting almost close to 4.6 tons of steam versus other boilers where it is in the range of 4-4.2 so that effectively brings down my steam cost and with the right full configuration along with our steam turn turbines, our power generation cost is also likely to be in the range of 3 or 3.5 rupees per unit going down in the future.

Raj Nahar: So can you also use the cotton straw and mustard straw.

Pavan Khaitan: No, I'm sorry those are typically biomass based boilers where the configuration of the hearth and the burning area is very different. So that technology is very different. We will not be able to use that, but we are clearly optimizing on both coal and husk in a big way and even coal we have a tie up with Coal India under an FSA agreement under which we are procuring our coal more in the range of ₹4,500 per ton rather than the 11,000 to 14,000 rupees per ton of coal which is costing

in the open market. So our coal procurement cost is much more efficient than others.

Raj Nahar: OK, so one more question is the paper market off late has been booming in a big way and in August also there are two or three price increase from current month also 1st of August. But there are certain kind of paper prices have gone up, to my knowledge from the market sources, it is close to 95,000 and plus, is that correct?

Pavan Khaitan: That is correct. Even our market pricing is fetching a realization of 95000-96000 rupees per ton. And that's the average realization depending on the kind of paper that we produce and sell, some of our specialty papers and low grammage papers are commanding even a price of ₹1,10,000 per ton. But yes the average will be 95,000 rupees about that much only.

Raj Nahar: Any plan for further growth or taking up the expansion or not now as just you have actually completed last year for 450 crores project so.

Pavan Khaitan: No, right now we are going to optimize on these projects itself. There will be very, very normal Capex in sort of further, upgrading the qualities of a paper, if at all. But yes, what we're banking on is with new products coming in, like the straw based paper, OGR and food packaging paper, that is what is going to help us diversify our product portfolio and help us get a better realization from the market and also with the NEP coming in that is going to give a boost for the even the baseline writing and printing papers that we make.

Raj Nahar: One more question is that wheat straw particularly has gone up very high almost doubled in last, I think six months 4,000 to 10,000 to 12,000 rupees. So how comfortable we will be? Because your cost of pulp basically, particularly informed this cost is much higher than the wood

pulp by manufactured by the integrated player like TN papers, JK, west coast is basically so are we going to put it is based on the biomass. Because this wheat straw price has gone up actually off late.

Pavan Khaitan: So I agree with you that wheat straw prices have gone up, but because of our better managed processes we are able to fetch in better yields in our agro pulping and wood pulping processes so we are being able to offset that high price increase with better yields that we get and the better processing. We also use sarkanda and bagasse. So sarkanda is material on which we've done extensive R&D and that helps us bring down the cost of our overall pulp on a year round basis and sarkanda is largely a waste material which grows in marshy lands and the government auctions it for a removal and disposal purposes. So that helps us bring down our cost of overall pulp and adds to the raw material mix and cost of pulping as well. So we are quite confident that despite these increases, we will be able to offset that cost increase by way of providing better quality. Increasing the quality of a paper and thereby getting a better realization. Because we are now fully integrated pulp and paper operation.

Moderator: Thank you next question is from the line of an Anupam Goswami from B&K Securities. Please go ahead.

Anupam Goswami: My first question on the pulp prices and the paper prices. What are the factors that is, we know how the market factors are playing at the moment? And what kind of buoyant paper market is how long do you think that this paper thing will the buoyant market will sustain? And what factors will it cost to reverse the cycle?

Pavan Khaitan: I'm very confident that for the short term the buoyancy will remain largely on 2 aspects. One is with the NEP which is likely to be rolled out in the next month or two months and one is the single use plastic ban

that the government has put in that is going to boost the prospects of the paper industry quite phenomenally. As paper industry, we will be required to create new products which will come in and replace the single use plastic usage all around in many, many multifold applications. As far as pulp prices are concerned they are currently at quite a historic high, largely a result of the Russia Ukraine War, which is going on, which has secluded Russia out of the pulp market and otherwise even a lot of industry in the US and Europe, have shut down because of environmental reasons, so I think largely the new set point has been created for pulp pricing wherein earlier they were in the range of \$600 per ton. They will largely remain at \$850 to \$900 per ton now. And so this buoyancy is likely to remain for the short term. I don't see any big ticket investment happening in paper industry in India. And when that happens which time will tell and that normally the gestation period is about two years, so that's how long it will take for things to get a little unsettled if at all, and but by that time the demand will also catch up. So I'm quite confident that the buoyancy situation and the buoyancy factor should remain over the short and medium term.

Anupam Goswami: Do you think any risk of import that can come when this war gets over, and then the whole cycle will reverse and the import will also start flowing in. And how much of a risk, do you see that?

Pavan Khaitan: Though the world is at stage for all players to operate, but the government has also put in a PIMS protective information on all imports of paper that is happening. So it is going to regulate all this from starting 1st October. Where every importer will have to register himself to Government of India and will have to give all details of all imports of paper that he's doing under what grade, under what pricing so I think the government's intention is to regulate the import

of paper and ensure that nothing is sort of avoided or nothing is taken in a roundabout fashion for any kind of trader to take advantage of.

Anupam Goswami: But on the other side, do you see a government risk also coming in intervening, controlling the prices in the domestic prices up since the demand is so strong and paper prices are soaring, maybe the government will allow something important to control the prices to stay at a normal level.

Pavan Khaitan: I do not preclude government for taking any kind of such actions because they have known to take action on other industry. But I don't think anything dramatic will happen even if there is a control, it is going to be advantageous for the overall industry prospects because it'll be clearly more regulated they will certainly not allow imports to happen at the cost of domestic industry. They do want with the Atmanirbhar campaign which is a very strong sort of provision for Government of India and the Narendra Modi government. I'm sure it'll be a good open market place for everybody to survive and compete professionally and efficiently.

Moderator: Thank you next question is from the line of Siddharth Jain from Yes Securities.

Siddharth Jain: I just wanted to know whether the chemical recovery plant has been operationalized and is live right now.

Pavan Khaitan: Yes, we put it into operation in March of 21.

Siddharth Jain: So just a follow up to that. So, if I look back in 2019 our chemical cost to sales was approx. 17% if I'm not wrong and so are we there today at the same level. So are we yet to accrue the full benefit of this plant and where do we see this going for like in future?

- Pavan Khaitan:** So chemical where you see that in chemical recovery the caustic soda is only one part of it, so in the entire paper making process there are several chemicals that we use in the papermaking on the paper machine side. Also there are several chemicals that we use like sizing, starch and whitening agents and all. So we have clearly seen a good impact and reduction in our cooking chemical, which is caustic and that is clearly reflected and why we're seeing a higher cost of 17 percent is because all other chemicals were largely at an increase or we were procuring at an increased rate because of the China story. Most of the chemicals the raw material comes from China and China has undergone quite a few of sort of market economics of its own, wherein they increased the cost of chemicals and raw materials quite substantially. One is because of their own situation for the Olympics that they were staging. Because of that they closed down several industries of theirs. There were power shutdowns and what not and that impacted the availability of raw material chemicals. So there were there had been a kind of a destabilization change or stage during March. But now we are getting better there and you will see in the coming quarters that our cost of chemicals and usages will improve over a period.
- Siddharth Jain:** So if you could just give a ballpark number, where could we see this number coming down to?
- Pavan Khaitan:** The chemical costs I think would reduce, but between about 1% to 2%.
- Moderator:** Thank you next question is on the line of Vaibhav Badjatya from Honesty & Integrity Investment. Please go ahead.
- Vaibhav Badjatya:** I missed your remark on our source of coal that how we are sourcing the coal. Great if you can just repeat that.

- Pavan Khaitan:** We have an FSA with Coal India Limited and the respective coalfields they have set-up auctions actually for the last 25 years we had an FSA that is a fuel supply arrangement with Coal India Limited. Now that got nullified in September last year because the government now wants to basically sequester coal for the power industry and normal industry. Whoever had such FSA were allowed to take part in the auctions which coal India takes out from time and again. And whatever coal we are able to secure there starts getting registered under a new fuel supply arrangement. So we've already procured about 1,60,000 tons of Coal our current requirement for the whole year, and for that we've got a fuel supply arrangement with the collieries of Coal India and these are at a quite a fraction of the price of what is available and then open market so our coal supply is quite we're secure on that. Our costs are under control, so even if we are using coal it is at an effective price and using it in an economical manner.
- Vaibhav Badjatya:** That E auction. I think what you said is it we procure it under the E auction and then intend to supply arrangement so E auction prices are higher than the FSA prices like that we must be paying earlier.
- Pavan Khaitan:** We actually did our supply arrangements earlier in Jan to March where in we got a very good pricing and our pricing is in the range of ₹4000 to ₹5000 per ton
- Vaibhav Badjatya:** OK and then it will continue. So this prices have been secured till what till what time frame
- Pavan Khaitan:** For the whole year till March 23.
- Vaibhav Badjatya:** So in our power plant obviously the biomass and rice husk and all are seasonal in nature, so when they are not available do we run it on 100%

coal or how does it work? Or we stock the rice husk for the whole of the year and then continue to mix.

Pavan Khaitan: So we do end up stocking rice husk periodically when the season is there and the pricing is low. So we are able to overall in the entire year we are able to keep to our mix of about 45% to 48% Coal and balance, 52 odd percent rice husk. So yes, you're right when now that the season for rice husk is fading. And the new season will start in October for these two months, the coal availability is obviously higher and the usage of coal will be will go up from 48% to about 55% and rice husk will be low. Those kind of changes we do seasonally, but overall we are able to maintain about 48-52% coal and husk ratio.

Vaibhav Badjatya: Correct and rice husk what is the pricing currently for the rice husk that we are procuring? Because there has been a lot of reports on declining price of rice because of the monsoon and then, I think if that continues the rice husk prices will also shoot up and given the fact that it is also alternate to coal which is also seeing higher prices. What is the current pricing? Are you seeing any increase in the prices for rice husk? Do you anticipate it in coming seasons?

Pavan Khaitan: So currently the rice husk pricing is between ₹8000 to ₹9000 per ton. And even if they do go up, they'll go up very marginally because normally sheller's and traders stock up their rice husk and try and sell it at a better pricing, but now with the season ending they have to sort of dispense with and dispose of all rice husk stock that is available, so normally we see a reducing trend of pricing between now and October and so it's a mix. But as in how the demand is increasing, there is a need for these traders also to dispense with that old stock. So it's a mixed bag and I don't see pricing on the rise. It will stay around these levels only.

- Moderator:** Thank you next question is from the line of Viraj Parekh from Carnelian, please go ahead.
- Viraj Parekh:** Two questions for the quarter what was our NSR?
- Pavan Khaitan:** Quarter average NSR was about ₹81,000 per ton.
- Viraj Parekh:** OK, and I believe correct me if I'm wrong. I believe we have even recently started exporting the finished goods, correct?
- Pavan Khaitan:** Yes.
- Viraj Parekh:** So can you give me a break up further. Export and domestic NSR if you have it on the desk.
- Pavan Khaitan:** So export we are doing about 20% of our production is coming from exports and normally the export realization we get is a little lower than domestic pricing. So on the export our realization will be close to about ₹75,000 per ton. But we gain on efficiency there because there are larger volumes. Larger runs of the same product, so we get better efficiencies on our machine there. So there is a sort of set off that we get in terms of reduced cost of operation on export of paper.
- Viraj Parekh:** Alright, so just last question, is that a mutual soaring energy prices, a few capacities in the Europe have shut down. So how is the export market looking things on a short term period? Do you think that probably there can be an uptrend in export realizations in the short term period because of capacity shut down there?
- Pavan Khaitan:** Yes, there is a clearly a possibility, but then again China and Indonesia are also big players. And, as I said that China had temporarily shut down their capacities because of a variety of reasons we could see the reemergence of those capacities back in operation and there. So the production will also go to serve these key within US based markets, but

then again US and China has their own political situations to deal with, so one has to see or where the markets are and how and which country is able to take advantage of those demand situations getting created.

Moderator: Thank you next question is from the line of Govind Lal, an individual investor. Please go ahead.

Govind Lal: I just want to understand what was our average NSR for last quarter and what are the current prices now.

Pavan Khaitan: So our average realization for the quarter was ₹81,000, and currently our realization is close to about ₹95,000 per ton.

Govind Lal: So let say ₹14 per kg prices have gone up in one month July.

Pavan Khaitan: Yes. July-August.

Govind Lal: So it is ₹81,000 works for whole quarter. So what was the exit prices for June end

Pavan Khaitan: June end would be about 84-85 thousand.

Govind Lal: How much price rise we have taken in July and August?

Pavan Khaitan: In July we have taken almost ₹5000 and a similar increase even in August.

Govind Lal: So almost ₹10 increase we have taken.

Pavan Khaitan: Yes.

Govind Lal: So how your things are in going forward scenario that these prices almost have reached peak, they should fall now or as you already told that in short term buoyancy will be there so I want to understand in longer term your view on price trends. Let us say another six months or

one year how now a new benchmark will be set for the prices. So that I want to understand, Sir.

Pavan Khaitan: So I think we've hit a very historic high in terms of pricing for our product. Paper industry has never seen it so good ever in past, and I think there's a limit to how much we can increase pricing. After all, the customer demand is not so price inelastic. There will come a time if we keep increasing our price is the customer will start shying away. So I think even if we stabilize at these pricing, it will be a very, very good position in a strong position for the entire paper industry. We will need to be careful for further increasing our pricing, if at all.

Govind Lal: Agreed Sir, but that's what I want to understand. A little longer term can these prices sustain. So short term you told that it will be buoyant only, but I am asking from little longer term 3-4 quarters one year or what pricing scenario you are seeing for paper.

Pavan Khaitan: So I think in the long term if there will be a rationalization because I think I don't think that prices of this level can sustain itself for long, though the reduction will not be in sort of higher percentages terms maybe a few percentages terms like 5% to 7%, but we will also see a rationalization and the cost structures. Our raw materials which are sort of tending to be at such a high price. We will clearly see a reduction in costs over there else if so, we will be able to maintain our margins. Going forward.

Govind Lal: So let us say last quarter margins we can see for next 3-4 quarters.

Pavan Khaitan: Yes, surely. And we as a company we are looking at improving our margins going forward in the three succeeding quarters because of the efficiency we will get on our operations and the because of the change

in the product mix that we are visualizing for ourselves, which will help us get a better margin and better realization in the market.

Govind Lal: That is nice to know that Sir, what was the earlier historical high prices for our paper, Sir?

Pavan Khaitan: Near historic high was like 72 rupees.

Govind Lal: Now it is almost a 84 plus another 10. It is 94.

Pavan Khaitan: Correct, but that time our cost structure was also much lower. There has been substantial increase in raw material costs and fuel costs. Fuel costs have risen almost three times. Raw material cost has risen twice, so different, different cost structure. We are doing our best to maintain and give a better performance on margins.

Govind Lal: Similarly, can you give your little opinion about pulp prices for current and going forward. What you see pulp price is saying. Sir?

Pavan Khaitan: So currently they are ruling at about \$1,100 a ton. They should come down and stabilize to around \$800 to \$900 per ton.

Govind Lal: So I want to understand what's the reason for such kind of a price increases can you do your rational for this dynamics of demand supply? Why such price increases are happening Sir?

Pavan Khaitan: So one is that the imports of paper have come down because of the story in China. They had shut down their plants for their own economic and political reasons, and also that the costs have risen so much within India. The paper industry had no choice but to pass on these costs to the consumer. And there is clearly a good demand for our product of paper because of the huge outlay and focus of the government on the education sector and education clearly needs to go ahead and rise. So the demand for all kinds of writing, paper, printing, paper, specialty

paper. That's on the rise and with the economic growth that the country is witnessing. I mean, we've come back and overcome COVID in a big, strong way and we are seeing and witnessing strong credentials in terms of growth. 7% to 8% growth. So I think all that is combining to lead to a good growth prospects for even the paper industry and the demand is on the rise. And so the paper industry is being able to realize these good, healthy Priceline.

Govind Lal: One more thing Sir Century Textiles I attended call and I have seen presentation. You can also go through so you were telling that your export relations are less comparing domestic, but their exports relations are more ₹7000 versus domestic, so why did the anomaly?

Pavan Khaitan: Maybe they've got a good network of exports. Maybe their customers are different, but normally what we are seeing, we are doing a good mix between export and domestic and the kind of tonnage is that we do for our domestic. We are clearly a winner or a leader in terms of pricing for our paper and our paper pricing and realization that we get domestically is has always been far higher than what we get for exports. Maybe it's a cause for century to increase their domestic price.

Govind Lal: So this is a new education policy. How much it will add net-net to demand in the writing printing paper.

Pavan Khaitan: Well, good writing printing should sort of encounter a huge increase in demand because it can increase because entirely new set of textbooks will be required to be printed for the new syllabus and the change in syllabus so one can only sort of have a guess that it will be close to about at least 10% to 12% increase in demand compared to the normal 6% that we've been witnessing in the last 10 years.

Govind Lal: My last small question how you are tracking raw material backward integrating Sir. I mean now we have how much percentage raw material captive and How much we are importing?

Pavan Khaitan: So we are not importing at all now. In fact, with the new wood pulp mill that we've installed and commissioned in 2021, all our raw material, both agro and wood we are sourcing locally that also, largely from the state of Punjab in the vicinity of about 100 kilometers. Some wood we are drawing from the neighboring states of Himachal and Western UP as well, but all our raw material by and large is being sourced locally and pulping is being done at the site in the integrated pulp and paper facility that we have.

Govind Lal: Then why there is so much EBITDA margin variation? we are around 21-22 and JK and recently came Andra paper and has shown 27% margin and JK has shown 34% margin. So when we are captive raw material then why our margins are low?

Pavan Khaitan: Well JK, West Coast and Andhra what you've mentioned are very very high sort of superior mills of very large size. Their strengths are very, very huge. They've sort of invested in manifold technology, which helps them on sort of creating superior papers at lower costs. We are also reaching there we've been able to do and grow organically by investing quite well, we've also reached at about 23% EBITDA margin and we hope to increase that in the coming quarters and sort of increase on our margins there.

Govind Lal: Last question sir, the product profile there is any difference between the west coast, JK because their NSR is less comparing us, so there was 78-79 last quarter, ours is around 80 to 84. You're telling. So what was the difference or any product profile is different from theirs?

Pavan Khaitan: Product profile is similar. There we are all making, writing, printing, maplitho and copier grades. Their sourcing of raw material is far better because they've been at it for years and years, they've created a social forestry program for themselves where their wood procurement costs are much more economical than ours. We are also making all efforts to sort of foray into that, and we will be able to sort of come out successful over the next coming year.

Govind Lal: What I want to understand is how our NSR is more than them. That's what I am asking. How we are able to sell in market better prices than this JK and all.

Pavan Khaitan: So Delhi is amongst the highest market. I mean highest volume market all over India. So our realization is a bit more because we are placed closer to that market all these mills of JK, Andhra and west coast. They are placed further away so their freight factor is a higher factor and a higher cost to them which goes to reduce their margins. Plus, we do a lot of customized papermaking so we produce to orders and we are being able to supply and serve orders of all kinds, no matter what size, no matter what GSM, no matter what quality amongst the qualities that we make. So we are clearly a market oriented operation and we are able to take advantage of that in terms of a better premium.

Moderator: Thank you next question is from the line of Keshav from RakSan Investors. Please go ahead.

Keshav: What was the maintenance Capex for FY 22 and tentatively how much would we incur in this year?

Pavan Khaitan: So maintenance Capex is, to the tune of about 12 to 15 crores and it'll be a similar amount this year as well.

Keshav: So we are seeing the realizations increasing due to various factors. So would there be a commensurate impact on the RM as well?

Pavan Khaitan: So raw material is already at its peak wheat straw pricing, fuel pricing all is at its peak, so we've been able to manage those costs well, so any increase further increase in our realization is probably going to go straight to our bottom line. We're not going to see a further increase in raw material or any substantial change in raw material per say.

Keshav: OK, and sir just one last thing I'm not aware of the ethanol foray, so what are we doing there.

Pavan Khaitan: So ethanol is a technology that we invested in about 4-5 years ago. It's a very, very small pilot plant. It's an alternate technology, considering we were in the biomass hub in the state of Punjab, so it's about taking a green initiative. And so we've invested in that technology. Now, how to monetize it? It's something that we are yet in in the plans of and, but clearly we want to be a dominant paper player, and any offshoots or any realizations from ethanol will be very, very secondary.

Keshav: So we have in licensed their technology, right?

Pavan Khaitan: Correct

Moderator: Thank you next question is from the line of Hiten Boricha from Joindre Capital. Please go ahead.

Hiten Boricha: So the first question is you mentioned that this realization was ₹81,000 in this quarter. What was it in quarter in Q4?

Pavan Khaitan: Q4 would be about ₹66,000- ₹67,000 per quarter.

Hiten Boricha: And so my another question is, on the capacity utilization you mentioned, it is running at 100% capacity utilization and it will be same

for the rest of the year. So are we planning for any capacity expansion of any capex trend in the near terms?

Pavan Khaitan: No, no, nothing at all, except for the normal debottlenecking and whatever normal Capex is to get better efficiencies. But no major Capex at all for the near future.

Hiten Boricha: OK, so can you help me with what kind of capacity expansion will it be done after this debottlenecking I mean by what percentage the capacity will go up?

Pavan Khaitan: It may go up by about 5% to 10% Max.

Hiten Boricha: OK so the majority of the growth for this year will be from improving realization from the new products, right?

Pavan Khaitan: Yes, new product, new product profile, better realization and of course further enhancing the efficiency of our operations and reducing our costs.

Hiten Boricha: So just a follow up on this. You mentioned the realization with improvement. We are looking for some new kind of product. So are these products already commercialized or this are going to be coming in this year? Like can you throw some color on this?

Pavan Khaitan: No, It's in this process of getting a developed and I'm sure that by the next two to three months we will see the implementation and establishment of these products in the market as well.

Hiten Boricha: And these products are going to cut up to our existing clients, right?

Pavan Khaitan: Yes, the network will be the same. But the applications will be different. Most of it will be to replace single use plastic, which has been banned by the government.

Hiten Boricha: OK, so can we expect easily 20% kind of revenue growth this year when you compared to FY23 Sir?

Pavan Khaitan: Yes, that will be correct, at least 20%-25% top line growth compared to last year, that's correct.

Hiten Boricha: OK. With similar kind of margin right 22%.

Pavan Khaitan: We will certainly try for that, but yes, we've already achieved a EBITDA margin of about 23%. We will plan to up it by about few percentage points by the year end.

Moderator: Thank you as there are no further questions. We have reached the end of question and answer session. I would now like to hand the conference over to the management for closing comments.

Pavan Khaitan: So thank you all for participating in this earnings con call. I hope we've been able to answer all your questions satisfactorily. If you 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 all our investors who stood by us and had the confidence in the company's growth plans and with this I wish everyone a great day ahead. Thank you.

Moderator: Thank you on behalf of Valorem advisors that concludes this conference. Thank you for joining us. You may now disconnect your lines.