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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 Q2-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 October, 2022 to discuss Q2-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 It is hereby confirmed that no unpublished price sensitive information was shared/discussed in the call.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
Q2 FY23 Conference Call
October 20, 2022

Moderator: Good morning ladies and gentlemen, welcome to Q2 FY23 Conference Call of Kuantum Papers 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 *, then 0 on your touchtone phone. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Mr. Sonpal.

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 Kuantum Papers Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings call for the second quarter and the first half of the financial year 2023.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's concall may be 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 decision.

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 firstly have with us Mr. Pavan Khaitan - Vice Chairman and Managing Director and Mr. Roshan Garg - Chief Financial Officer. Without any further delay, I request Mr. Khaitan to start with his opening remarks. Thank you and over to you, sir.

Pavan Khaitan: Thank you, Anuj. Good afternoon everyone and a very warm welcome to our quarterly earnings conference call to discuss the results and business updates for the second quarter of the financial year 2023. It is a pleasure to connect with you all again. Let me now briefly take you through the quarterly business highlights and industry developments. Mr. Roshan Garg, our CFO will take you through the financials.

I am happy to announce that we closed Q2 FY23 on a strong note with our highest ever quarterly revenue and EBITDA margins and significant growth on both quarter-on-quarter and year-on-year basis as well. There is a healthy growth in the order book on the back of strong demand and pull for our products and high NSR for our company. Although the challenges around the volatile commodity prices, global inflation, supply chain imbalance existed



throughout the quarter, we were able to steer through these challenges with the favorable business environment and our continued focus on customers. In the quarter under review, net sales realization increased by about 17%, which included a sales volume growth of 4% compared to the last quarter. The industry is continuing to grow positively especially post the single use plastic ban and the new education policy roll out which will provide an impetus to the demand. Now, I will request Mr. Roshan Garg, our CFO to give you the brief about our quarterly financials.

Roshan Garg:

Thank you, Pavan ji and good afternoon everyone. I would like to brief you on the financial performance of the second quarter of the financial year 2023. We have the highest ever quarterly revenue. The income from operations grew by 69.6% year-on-year to Rs. 341 crores. The EBITDA per quarter to financial year 23 grew by 149.1% year-on-year to Rs. 99.4 crores with EBITDA margin of 29.15% and the net profit after tax stood at Rs. 52.7 crores which grew by 401.9% year-on-year with PAT margin of 15.5%.

For H1 FY23, income from operations stood at Rs. 615.2 crores with an increase of 76.5% on the year. EBITDA stood at Rs. 160.1 crores in H1 FY23 as against Rs. 55.3 crores in H1 FY22 and PAT of Rs. 77.2 crores before exceptional items in H1 FY23 as against Rs. 5.1 crores in H1 FY22. With improved cash flow position, the company has prepaid its entire FITL debt of Rs. 35.2 crores in Q2 FY2023 which was otherwise payable till financial year 2029-30. Our long-term debt stands reduced from Rs. 598 crores as on 31st March 22 to INR Rs. 559 crores as on 30th September 2022.

Now, I hand over to Pavan Khaitan ji for further discussion.

Pavan Khaitan:

Thank you Roshan for highlighting the financials. So during the first half of FY23, the company has undertaken numerous cost saving measures to improve our profitability like replacing expensive imported soft wood and hard wood pulp with in-house wood pulp which we have commenced making, installation and commissioning of the advanced synchro sheeter of about 100 tons for better and precise cut quality and upgradation of PM4 to improve productivity. We are also undertaking further debottlenecking in our operations which will increase the production capacity by about 15%. This will be funded largely by internal accruals given our strong cash flows.

Our focus is to add new products under specialty segments and we have introduced Food Grade Wrapping Paper as a replacement for single use plastic packaging. We also intent to foray into tissue paper segment which is one of the fastest growing paper segments in India. In conclusion, we are happy to start the third quarter with the strong demand outlook. The festival season should boost our sales further and we expect our initiatives on backward and forward integration which will significantly improve the financial outlook and health of the company. We would now be happy to discuss any questions, comments or suggestions that you may have.



Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Vardhman Sancheti from AVS Equiserve LLP. Please go ahead.

Vardhman Sancheti: My question is, what is the share of the Specialty Paper currently and where do you see this mix going 2 years down the line?

Pavan Khaitan: Thank you for that question. Yes, currently, our mix of Specialty Papers in the total production is about 18% to 20% and which is likely to go up to about 30% in the next 2-3 years.

Vardhman Sancheti: And sir, what is the planned CAPEX in tissue segment?

Pavan Khaitan: Tissue segment, we would be planning to spend about Rs. 60 to Rs. 70 crores and which will help us put up about 80 ton per day machine. Now, that also I would consider as a Specialty Paper for us and which will then certainly add more to the specialty mix going forward.

Vardhman Sancheti: And what is the gestation period for this?

Pavan Khaitan: This is about 18 months.

Vardhman Sancheti: And sir, I had just heard your last interview where you had mentioned that you are working on certain cost saving measure apart from this, so like what margin expansion do we see from this measure going forward?

Pavan Khaitan: Going forward, we are looking to save about Rs. 30 to Rs. 40 crores on the steam and power cost. We are going to do modifications of our existing recovery boilers and our turbines and it will help us save to the tune of about Rs. 30 to Rs. 40 crores which is quite a substantial saving.

Moderator: Thank you. The next question is from the line of Jiten Parmar from Aurum Capital. Please go ahead.

Jiten Parmar: My question is, what is the current status of prices, I have heard that prices have corrected 20% in duplex and 6%-7% in cupstock, is that right and how will this affect our margins?

Pavan Khaitan: Thank you, Mr. Parmar. Even though there may be a correction in duplex, but that doesn't affect us at all because we are not in that segment. We are primarily into high value writing and printing papers and specialty papers and makes up only about 4% to 5% of our total production and sales revenue, but we haven't seen a reduction in cupstock prices, they are quite stable for us and going forward we see quite a stable market and pricing for the industry which is going to keep us on a good wicket for at least the next 2 years.

Jiten Parmar: So what about the trajectory of raw material, how is that, I have heard that I think waste paper prices have also reduced, so does that help us or what is the color on that on raw material prices?

Pavan Khaitan:

For us, we do not use waste paper at all. We are integrated pulp and paper manufacturing operation. We do our own pulping from mix of agro and wood and so we are a virgin fiber company and pricing for us again is very stable. Going forward in fact we are going to look at a slight bit of reduction in agro pricing because of the seasonal variation, so cost of our primary material which is wheat straw is likely to come down for the next 6 months and even further with the next season coming in. So I think we are going to see a stable to reduced input cost for raw materials and stable cost for wood going forward.

Moderator:

Thank you. The next question is from the line of Hemant Nahata from YES Securities. Please go ahead.

Hemant Nahata:

Sir, decent set of numbers, in fact blockbuster number I must say, sir, I just wanted to know on the power and fuel cost side, you have already mentioned that we are planning to think some boilers and that would result into Rs. 30 to Rs. 40 crores of savings. If I go by current run rate, our power and fuel cost seem to be hitting 200-220 crores approximately annually, so you will save around Rs. 30 to Rs. 40 crores or the current quarter power and fuel cost was slightly higher, sir, can you give me some color on this power and fuel cost?

Pavan Khaitan:

Currently, the power and fuel cost is a bit higher because of the costing of fuel that we are getting both coal and rice husk. Rice husk again is going to come down because the new rice season will start in October end and November onwards we will get the new rice husk which will be substantially lower rate. That will help reduce our cost of power and fuel, but the changes which I have talked about is changes in our boiler and turbine that is going to help reduce Rs. 30 to Rs. 40 crores completely and totally and that is not disregarding the pricing of fuel, so that is because of changes in the configuration of our boiler and turbine. It will help reduce our cost of fuel consumption to that effect and help bring about that savings annually.

Hemant Nahata:

So sir, this quarter it was particularly elevated, I can say that Rs. 57 crores number?

Pavan Khaitan:

Elevated because of the fuel cost pricing per se and which is likely to come down for the next 2 quarters and additionally yes, substantial change will come once the boiler and turbine upgradation happens.

Hemant Nahata:

And when is this likely to happen, sir by which quarter?

Pavan Khaitan:

This will probably take into shape by quarter 1 of next year.

Hemant Nahata:

So sir, currently we are doing somewhere around 29% of EBITDA margins, 16.5% or 16.7% is our power and fuel cost of the total sales that we are talking about approximately, so how much reduction in terms of percentage it could come down to, what could be the delta on the EBITDA directly?

Pavan Khaitan:

I think 30% to 40% will mean about 2% to 3% increase in EBITDA.



Hemant Nahata: So sir, on a channel, on an interview you have mentioned somewhere around Rs. 1,400 crores or 1,300, 1,500, Rs. 1,400 crores of topline in next year and is my assumption right if I conclude that we will do 30-32% kind of an EBITDA even for the next year?

Pavan Khaitan: Yes, we are clearly targeting that.

Moderator: Thank you. The next question is from the line of Harmendra Gandhi from Ogma Research. Please go ahead.

Harmendra Gandhi: Congrats to the management for very good set of numbers, I think my questions have been answered, just want to know the volume growth was only 4% this quarter and rest was because of price growth or what was the reason for that and how do you look at volume growth and price growth going forward?

Pavan Khaitan: Volume growth is similar because we are running at optimal capacity utilization currently and yes, as rightly enumerated the price growth is what is putting an effect on the topline. We are going to see the topline stabilize at these levels because I don't see very much change in the prices in the market. Yes, a bit of change will come in because of the product mix that we are carrying out. As I have said, we have come out with single use plastic replacement which is OGR, oil and grease release proof paper and food grade packaging paper. So this is going to help us increase our realization and a few other specialty products that we are doing on R&D on that is going to help release a bit of about 1%-2% extra price increase and topline increase. So I think once and as I said we are also spending on debottlenecking and investing in our machines to append the volume by about 10% to 15% by next year. So next year, you should see a volume growth of that much and that will help us grow our topline even further and help us reach about Rs. 1,400 odd crores for the financial year 24.

Harmendra Gandhi: So FY24 will be mainly a volume led story?

Pavan Khaitan: Yes.

Moderator: Thank you. The next question is from the line of Nishit Gogri from Prudence Capital. Please go ahead.

Nishit Gogri: Sir, what was the volume done in this quarter?

Pavan Khaitan: 38,000 tons in this quarter.

Nishit Gogri: And what was the average realization?

Pavan Khaitan: Average realization is about Rs. 87,000 per ton.



Nishit Gogri:

And if you can just throw some light on the October month, like the start of the October month are the prices more or less near that range only?

Pavan Khaitan:

Yes, it stabilized at these levels. We are currently on a very strong wicket in terms of demand. Our order books are quite healthy and we are continuing within the same order as of the quarter September even through October.

Moderator:

Thank you. The next question is from the line of Aditya Sen from Robo Capital. Please go ahead.

Aditya Sen:

Sir, this is with regard to the wood free segment that we have, I just wanted to know what percentage of revenue comes from the wood free papers and do they have higher margins or lower margins than the normal ones?

Pavan Khaitan:

Thank you Aditya, this is actually a very trick question. Unfortunately, you will be surprised to know that all our paper is wood free. Despite using wood, which is about 50% in a pulp and paper making, we are technically wood free because we are using the chemical process to manufacture pulp and paper and under the technical guideline that is considered wood free. Only if we were doing mechanical pulping, would we be recognized as wood waste paper which we are not. So you can clearly say that all our paper is wood free and our entire realization is considered to be from the wood free category.

Aditya Sen:

And are there any more listed players in this wood free segment?

Pavan Khaitan:

Yes, the top players like JK, Andhra, West Coast Paper, BILT, everybody is wood free.

Moderator:

Thank you. The next question is from the line of Ishrat from Omkara Capital. Please go ahead.

Ishrat:

Sir, I wanted to get a gist on the industry to begin with, sir, few months ago, we saw that waste paper prices had shot up because of which pulp prices increased and then obviously players who were into wood based or agro based paper benefited from the increase in realizations and sir, how is the situation now in terms of the input price and the waste paper prices?

Pavan Khaitan:

Wood pricing continues to be strong, largely because of the Russia-Ukraine crisis. Because of that energy costs have practically gone up and doubled and tripled all over Europe and because of that a lot of wood pulp manufacturing facilities have closed down, or are incurring huge cost increases which are clearly lending towards increased cost of operation for our wood pulping facilities. So it is largely going to remain strong and which is a healthy sign for the paper industry because that will translate into a stabilization of the paper pricing at a relatively higher level. Waste paper again is because of variety of reasons the collection is much lowered. It hasn't caught back from the blow that it got from the COVID and it hasn't returned to pre-COVID levels at all and that is why even waste paper prices are continuing to remain on a higher and stable level.



Ishrat:

And what are the current pulp prices, just to know?

Pavan Khaitan:

Current pulp pricing is between \$950 to \$1,000 per ton.

Ishrat:

Lot of times a lot of managements have said that once things normalized, it can go down to like 500, 600 ton per dollar, what is your opinion on that?

Pavan Khaitan:

No, I would not be party to that statement at all. If at all we will see a slight bit of 5% change in this pricing, but I think going forward as I said because the energy costs worldwide are on a higher level, it will sort of create and lend the higher level for wood pulp pricing also.

Ishrat:

Because I think realizations up until 3-4 years back for paper industry used to be about 55,000, 60,000, 65,000 and max right and now all of them are having, like at least the leading players including Kuantum have like 80,000 plus realization, so I am just trying to understand for how long do we see these higher realizations to sustain?

Pavan Khaitan:

I believe I am confident Ishrat that at least for the next 1-2 years, we will see a stabilized price line around here. Max, it will go down to about Rs. 75,000 level, but by that time, enough cost cutting and enough rationalization on the cost of production will happen to encourage sort of keeping the EBITDA margin similar.

Ishrat:

Sir, just if I could add another question, are we seeing any export as well for Kuantum to Europe or any other country?

Pavan Khaitan:

Yes, we are exporting to similarly placed countries like Gulf and North Africa and who use papers of our quality and we are seeing quite a good traction for our product in those countries. Some of our copier paper and some of our retail products have even found a placement in Europe and US as well. We have entered quite strongly in the notebook and textbook manufacturing operations of America as well.

Ishrat:

Just another thing, I also realized that among the agro players, the Kuantum has the highest margin that you know even JK makes about 28-30%, but they are primarily wood based players and they are almost 100% integrated with their own plantation etc., but I am just trying to understand how are we able to make margins as high as the leader in the industry?

Pavan Khaitan:

One is because of our strong connect with the market or market orientation practices, we are able to command the premium without exception over all other agro based players and primarily because we use the big chunk of wood pulp also in our product and pulp and paper making operations. So that lends a higher quality, higher better specifications and it helps us get a better realization for our product and translation of that better realization and premium helps us achieve that better EBITDA levels.



Moderator:

Thank you. The next question is from the line of Mangesh Kulkarni from Almondz Global Securities. Please go ahead.

Mangesh Kulkarni:

Just on the margins front again, like for the first half we have margins of around 26% and we are expecting that to go up to 28 to 30%, so is there further scope to improve the margins because we are also entering the specialty paper segments and all these things, for long term, what will be the sustainable margins, that is my question?

Pavan Khaitan:

I think long term we are targeting between 28% and 30% which is a very healthy margin by any stretch of imagination and so cost cutting and improvement is the continuous process for us, it will keep helping us grow and look at our EBITDA margins and targets and as the volumes growth also come in that will help us grow as a company and keep the trending going forward.

Mangesh Kulkarni:

Sir, I missed your last part of the presentation, initial remarks, so what is the order book currently and split between government and private?

Pavan Khaitan:

We don't do government orders at all. We are completely market oriented. Our entire production goes to service the market needs and we have got a very healthy order position. We are very confident that we will be serving the market needs going forward clearly for the next 1-2 years without any blips.

Moderator:

Thank you. The next question is from the line of Deepak Lalwani from Unifi Capital. Please go ahead.

Deepak Lalwani:

Sir, what we have heard from the channel is that the imports and the dumping from China has sort of increased in the last 3 to 4 months, so is that assumption true and if you can spell out the landed cost of imports versus India realization, what is the difference today?

Pavan Khaitan:

Thank you for that question, Deepak. I am afraid we haven't observed any kind of dumping from China primarily because even the government has put in a new Paper Import Monitoring System under which all traders have to register themselves with the government and declare all quantities and grades of paper that they are importing. So it is completely a regulated operation now and it will serve its purpose against any kind of dumping by any country, so I will not agree to any kind of claim that dumping is happening and in fact, imports have still not reached the levels of pre-COVID as they were and in fact, India is continuing to grow because of that. As a country, we are supplying our entire needs locally and not depending through imports. Second question is the difference between price of imported and domestic. They are largely very similar because even imports are happening at about \$950 to \$1,000 per ton levels which translates to about and with the increase of dollar value it translates to about Rs. 88,000 to Rs. 90,000 per ton.



Deepak Lalwani: And what will be our realization currently and how much price hike have we taken in this quarter?

Pavan Khaitan: In the current quarter, we haven't taken any price hike. We are maintaining the price hikes that we enlisted in the last quarter and we are at the levels of Rs. 88,000 to Rs. 89,000 per ton. On different varieties, they are ranging between Rs. 88,000 to Rs. 89,000.

Deepak Lalwani: Sir, apart from compliance which has sort of increased in the country, is there any global, are the global issues also impacting the imports, for example, the gas in Europe, may be that situation or the Chinese consumption itself which would have gone up which has sort of reduced the exports from those areas to India, so is that also taking place or is it just the compliance within India which has reduced the imports?

Pavan Khaitan: I think the biggest impact of reduced imports is the shipping and logistics costs. Post COVID, the shipping and logistic costs worldwide have gone up dramatically. They have now stabilized little lower than the high level that they had reached to, but they are still much higher than the pre-COVID levels and lot of containers are still not available for transactions and still sort of blocked in the China and the European countries, so all that is lending to a lower level of import and export and lower level of trade worldwide. Second, of course is the Russian-Ukrainian crisis which had led to higher energy costs and which have impacted not only paper industry, but other industries as well and that is where kind of a balance is being created worldwide where probably the bigger export countries like China, Indonesia finding it easier to export to Europe and America and in fact India is also finding favor of exporting their product to these countries on a better realization and a better margin. So all in all, there is a better trade balance that has happened because of the Russian-Ukrainian crisis, the shipping and logistics costs are continuing to help better this situation of imports into India and that is what is helping stabilize the industry overall.

Deepak Lalwani: Sir, just wanted to understand from this perspective if prices are sort off you have to stay, then in our business what would be the sustainability of the margin profile which you spoke about, the 30%, so can we assume for this margin profile to stay for the next 6 months or is it like a 1 or a 2-year affair?

Pavan Khaitan: I believe that margins are going to remain healthy, but we still have to continue doing our hard work to maintain them. As I said that we are looking at reducing our cost substantially on the power and steam sector by improving our boiler and turbine operations and it will lend to about 2-3% increased reduction cost translating to increase in margin. So even if we are budgeting for a price balancing also, even if prices decrease by about 2%-3% and which is quite possible, we will still be able to maintain our margins at 28%-30%, but yes, we will have to do our bit of effort into continually adapting and improving our operations and continually looking at improving our cost and sort of efficiencies as well.



Moderator:

Thank you. The next question is from the line of Miraj from Dalal & Broacha. Please go ahead.

Miraj:

Just one question I wanted to understand that if we believe these realizations are going to stay stable hereon, are we seeing any additional capacity expansion from other players and my point being, I wanted to understand is what kind of entry barriers other players face if someone wants to start a business or if there is some existing players want to expand their capacities if they also believe that the realizations are here to stay and similarly how are you doing a decent really good number in EBITDA margins also, so if others also find this opportunity lucrative, then how would the realizations later on pan out if people start adding capacities?

Pavan Khaitan:

I don't think that there are any big ticket investments happening in the paper industry, no new capacities are coming in, so what I mean to say is no Greenfield operations are going to come into play. Yes, capacity enhancements will come in because of debottlenecking or setting up of further machines by existing players, so that capacity buildup will be limited to about 15%-20% of existing by some of the players. So no more than, I think overall in the industry capacity for the next 2-3 years at least no more than 5% will be added in capacity, so I think the price line is going to remain unless I don't see any big world event happening which will upset this applecart and this is to stay. So I think and the barriers to setting up capacities are many, raw material availability is not that high as to set up Greenfield projects, there is land not that is freely available, you need vast tracts of land to set up big capacities today and environment clearances is not easy to get by. So I think these are the entry barriers and even water being a big requirement for paper making, water availability is also something which we suspect leading to the reason for capacity buildup on a Greenfield basis not happening in the near future.

Moderator:

Thank you. The next question is from the line of Pramod Dangi from Unifi Capital. Please go ahead.

Pramod Dangi:

Congratulations for the good set of numbers. I was looking the two data point which is there in the presentation, our working capital or the cash conversion cycle suddenly shot up in this first half, so if you can throw some light on that, sorry, I joined late, so I don't know if I missed the earlier part?

Pavan Khaitan:

We run a very tight ship and working capital utilization is very very low and largely because our entire sales is happening strictly on a 5-day payment basis, we collect our entire sales within 5 days of invoice and our creditor payment we enjoy very good facilities as far as payment for materials is concerned, so we are enjoying a very good credit period, our collections are fast, our stocks are relatively very low, we keep no more than 2 to 3 days finished stock because we are producing all to order basis and you will see that our working capital utilizations are at a very very low level. We are very efficient on our working capital usage.

Pramod Dangi:

And the second is, we just did the entire backward integration last year and you just mentioned in the last question that you are looking at 2% to 2.5% benefit from the backward integration especially in the boiler and the power energy cost, so where we are today in terms of capacity utilization over there, are we fully integrated or is it yet to kick in that benefit?

Pavan Khaitan:

We are fully integrated, first of all that question and we are operating at optimal capacities on our pulp and paper. Yes, the utility section, which is the boiler and turbine, we are seeing new possibilities because of the new technologies coming in and we because of the better cash flows that we have got now, we have the wherewithal to invest in those new technologies and better our steam generation and utilization efficiency and that is going to help us reduce our cost by 2% to 3% which we are targeting.

Moderator:

Thank you. The next question is from the line of Saurabh Kanodia from SMIFS Limited. Please go ahead.

Saurabh Kanodia:

Congratulation for the great set of numbers. Sir, I have 2 or 3 questions, first is on the tissue plant, you mentioned that you are setting up this 80 metric tons per day tissue machine, so I just wanted to understand on the current tissue paper sector what would be the peak turnover potential on this tissue paper and where do you plan to sell this tissue, mainly for export or for domestic market?

Pavan Khaitan:

Saurabh, this tissue plant, what we are envisaging is that there is a very healthy growth opportunity within India that has been created and specially post pandemic lot of hygiene awareness has come in and tissue is growing at a fast pace of about almost 15% to 20%, so a lot of possibility for growth within India and of course for export as well because we are going to be making the quality which is ready for export. We are going to invest in state-of-the-art machine with the decent former and we will be able to compete very successfully in the export market as well, but we are looking forward over the period to look at improving our tissue capacities right now is one machine of 80 tons per day and given the healthy trends we may possibly be look at investing in another machine 3 to 4 years down the line.

Saurabh Kanodia:

And sir, what could be the big turnover potential from this 80 metric tons per day machine?

Pavan Khaitan:

We are likely to achieve about Rs. 240-Rs. 250 crores from this operation.

Saurabh Kanodia:

And these are new machines or these are like Chinese machines?

Pavan Khaitan:

No, we are looking at a new machine and we are exploring all avenues including Chinese, but what we are very clear is that we want to target very good quality, so we will invest in a machine which is going to give us the better quality than otherwise.

Saurabh Kanodia:

And sir, what kind of debt repayment do you target for this year and next year?



Pavan Khaitan:

That plan is afoot Saurabh, given the healthy cash flows we are revising our plan for debt repayment. According to our existing debt repayment plan, we are required to retire Rs. 20 crores of term debt, but we have taken a call to retire the entire FITL ahead of time as our CFO, Roshan said earlier, we have repaid Rs. 35 odd crores of FITL which we were required to pay over the next 8 years, so we will be looking at the repayment in a new set of eyes and look to retire a substantial part of it this year and in the next 2-3 years.

Saurabh Kanodia:

And sir, my last question will be to your mind what could be one or two risks do you foresee in the medium to short term for the correction in the paper price, one could be that soft wood pulp prices going down, what are the other one or two cases will you foresee for the paper prices to come down from here on?

Pavan Khaitan:

I think yes, the eminent factor always remains about pricing the fact that the price has come up to such a level, there is always a risk that they will come down, but the huge variation that we have seen in the past is not what the industry experts are looking at, that is not what we are looking at. Even if there is about 5% to 7% decrease or change in price, first of all it will not be only downward, if it goes downward, there is every possibility that it may return also, so the year round price may decrease by about 2% to 3% and which every player will look at by cost cutting measures and to get efficiency in their operation to keep the margins intact. There is every possibility to further optimize on cost and efficiencies and get better to keep the margins intact.

Moderator:

Thank you. The next question is from the line of Tushar Bansal, Individual Investor. Please go ahead.

Tushar Bansal:

Congratulation on a great set of number, I wanted to understand what is the current export mix because I thought that last year it was around 15% of total revenue, has that mix changed in terms of domestic and export?

Pavan Khaitan:

Our export continues in that fashion. We are maintaining that level of 15% to 20% even currently.

Tushar Bansal:

And then wanted to understand how the pricing works like is it on a month on month basis or how does that work?

Pavan Khaitan:

We are looking at monthly pricing, but if the trending suggest that there is a scope for increasing our pricing or changing our pricing, we take positions accordingly, but yes, we do try and maintain a monthly operating price because we are collecting our orders in advance and we try and keep that much order pending with us, so yes, since we have a month's order with us, for one month at least we have rationale of uniform price and during the month, if we see that the market allows us to change pricing we collect orders for the next month according to the new price.



Tushar Bansal: And the last question is that how at Kuantum we are getting ready for the national education policy, anything special are we trying to do to get to be prepared for that?

Pavan Khaitan: So we are engaging with our dealers on a regular basis. They are our eyes and ears on ground and they are the ones who look to what is clearly happening on this front and from where are the new opportunities and new demands coming in, so we are keeping a tab on that and that is how we will be preparing ourselves for the volume growth in future.

Tushar Bansal: And the last question is that the CAPEX you told for the power cost reduction which is around Rs. 35 to Rs. 40 Cr annually, is that different from what you told on the channel like Rs. 50 to Rs. 100 Cr CAPEX that you are looking for or is it included in that CAPEX?

Pavan Khaitan: It is already included because that project cost includes investing in our machines as well which will help improve our volume growth by about 10%-15%, so that is all in all. That project cost includes what we are wanting to invest in our boiler and turbines.

Moderator: Thank you. The next question is from the line of Dhruval Kanodia, Individual Investor. Please go ahead.

Dhruval Kanodia: My question is that after the backward integration, how much percentage of the gain can we see in margins and what would be the cost saving due to the effect of the same?

Pavan Khaitan: To reduce our cost and the effect on EBITDA is about 8% to 10%, so pre-COVID we were at about 16% EBITDA margins and that has gone up to about 29%-30% now, so about 7%-8% has come through a price hike and about 7%-8% through a cost reduction.

Dhruval Kanodia: One more question, so with regards to the domestic and international markets, what are your expansion plans for the coming quarters?

Pavan Khaitan: We are looking at debottlenecking our paper capacities and we are hoping to gain about 15% on our volumes and as I said we are looking at further cost reductions in our steam and power, so that will help us further make our operations further compact and further optimized.

Moderator: Thank you. The next question is from the line of Narendra Porwal, Individual Investor. Please go ahead.

Narendra Porwal: Sir, our margin increases in September quarters last and then goes down, so give clarification on that and sir what will be our dividend policy? We are doing so much EBITDA, but for the last 2 years we are not giving dividends so what will be the dividend policy?

Pavan Khaitan: We are seeing that this year also definitely we want to declare dividends but currently banks have placed restriction on us because of the heavy debts and whatever our engagement with

bank is, so we are also talking with them to clear us from that condition and to help us enable us to declare dividend this year.

Narendra Porwal: Sir, the international price which you told that dollar price is, our pulp price is around Rs. 80,000 then what is our conversion cost that our competition doesn't increases and the way dollar is getting stronger, what could be the benefits that we can get from that? Will the imports be less or like that?

Pavan Khaitan: The gain which we get by dollar getting stronger is that our paper price remains stable and the conversion is, currently we are not using any imported pulp. The whole pulp we are making ourselves with our own pulping facility. We locally purchase raw material ourselves and make pulp and paper from that. So our margins are dependent on our cost and efficiency, how efficiently we convert our raw material and translate it into paper.

Narendra Porwal: Sir, in our area some mills have done expansion so raw material prices have not been increased? Our agro waste, two three of our nearest mills have done expansion so will there be any shortage for our raw materials or not?

Pavan Khaitan: No, it will be not much affected because raw material is available in abundance, in our Punjab itself almost 20 million tons of wheat straw is available in which all the mills altogether doesn't have utilization more than 2 million tons. So availability is very much. Mostly, it is used as a fodder but very much volume is available for the entire paper industry for utilization.

Narendra Porwal: Sir, the price of caustic soda is very much raised, so margins will not be affected from it in the coming quarters?

Pavan Khaitan: Fortunately, yes the price has definitely increased but we have Chemical Recovery System with us in which we have recovery of 95% plus, so our requirement for caustic purchase is very minimal. Our requirement is around 300 tons per month, which is not very much. We reclaim our 95% through our Chemical Recovery System.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Pavan Khaitan from Kuantum Papers Limited for closing comments.

Pavan Khaitan: So thank you all for participating in this earnings call. I hope we have been able to answer all your questions satisfactorily. If you have any other further questions or would like to know more about the company, please reach out to our IR Manager at Valorem Advisors. We are very thankful to all of our investors who have stood by us and had the confidence in the company's growth and future and with this I wish everyone a great day ahead. Thank you.

Moderator: Thank you very much. On behalf of Kuantum Papers Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.