"Kuantum Papers Limited

Q1 FY27 Earnings Conference Call"

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MODERATOR: **MR. ANANTH JAYARAM – SKP SECURITIES LIMITED**

Moderator: Good afternoon, ladies and gentlemen. Welcome to the Kuantum Papers Limited Q1 FY27 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the management opening remarks. 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. Ananth Jayaram from SKP Securities Limited. Thank you, and over to you.

Ananth Jayaram: Good afternoon, ladies and gentlemen. It's my pleasure to welcome you all on behalf of Kuantum Papers and SKP Securities to this financial results conference call. We have with us Mr. Pavan Khaitan, Vice Chairman and Managing Director; Mr. Jagdeep Hira, Whole-Time Director and CEO Operations; Mr. Vikram Kumar Khaitan, Chief Financial Officer; and Ms. Prachi Sharma, Chief Strategy Officer. We will have the opening remarks from the management, followed by the Q&A session. Thank you, and over to you, Pavan Ji and Vikram Ji.

Pavan Khaitan: Thank you. Good afternoon, everyone. It's a pleasure to welcome you all to our earnings conference call for the first quarter of financial year 2027. I would like to thank all participants for joining us today. The paper industry saw a healthy demand supported by education, publishing, office consumption and broader economic activity in the first quarter of the financial year 2027.

This enabled the company to sell good volumes in the market and also improve the net sales realization of our products. However, the West Asia conflict intensified cost pressures, particularly across fuel, chemicals and other raw materials, while also affecting freight and logistics cost. This created a challenging margin environment for paper manufacturers even as demand conditions improved.

Going forward, we believe the key factors for the industry will be the trajectory of raw materials and energy costs, paper realizations and the competitive intensity from imports. While some near-term volatility may persist, we expect demand to remain supportive. We also continue to see opportunities in higher-value paper applications, particularly as customers increasingly look for sustainable alternatives to plastic-based products.

This makes cost efficiency, product differentiation and a greater focus on value-added products increasingly important for us. Moving to Kuantum's operational performance, the quarter saw several important initiatives across capacity enhancement, product development and sustainability.

We successfully commissioned the DDS Double Displacement Digester System for wood pulping, which will help optimize pulp quality and yield while reducing utility chemical and overall pulp costs. We also commissioned an advanced native starch system on Paper Machine 2 and Paper Machine 3 aimed at improving paper properties and reducing uncooked starch losses.

During the quarter, we installed a state-of-the-art Folio Ream Wrapping Machine to automate the wrapping and packaging of high folio sheets. The system has integrated labeling and stacking capabilities, which will enhance packaging efficiency, streamline material handling and improve the overall operational process of our finishing house.

Further, Paper Machine 3 has been shut for the time being for a major rebuild, which will lead to enhanced production capabilities and improved quality in the final product. On the product development front, we successfully produced oil and grease resistant paper OGR, for food wrapping and application on our PM2, adding another high-value specialty and sustainable product to our portfolio.

On the sustainability front, the company achieved its highest ever quarterly production of 17.28 lakh clonal saplings in our in-house clonal propagation center during the quarter. We also added almost 1,300 acres of social farm forestry, taking the total area under plantation to about 19,650 acres. With that, I would now like to invite our CFO, Vikram Khaitan, to share the financial highlights for the period under review.

Vikram Khaitan: Thank you, sir, and good afternoon, everyone. Let me now take you through the financial performance for the first quarter of financial year 2027. Despite the macroeconomic challenges, operational income for the quarter stood at INR304 crores, registering a year-on-year growth of 36%, supported by a 35% year-on-year growth in paper sales volume.

The paper sales volume for the quarter stood at 42,922 metric tons. During the quarter, we were able to command higher NSR in both the domestic and export markets, supported by improved demand. However, the improvement in blended NSR by approximately INR3,400 per ton was more than offset by an increase in cost of around INR4,200 per ton on a quarter-to-quarter basis.

Driven by higher raw material, chemical and fuel prices amid the ongoing West Asia conflict. As a result, EBITDA stood at INR40 crores, broadly stable year-on-year basis with EBITDA margin at 13.2%. Profit after tax stood at INR6 crores. With this, we can now begin the question-and-answer session.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Jiten Parmar from Aurum Capital.

Jiten Parmar: My question is on the guidance for current year. Are we maintaining it? Or what is the new guidance? And what about EBITDA margins? What is that we think we can achieve?

Pavan Khaitan: So I think the guidance clearly is positive. We are upbeat that with the commissioning of our last machine on our upgradation program, which is our PM3 that is going to be coming on stream within this month in about a week or so. With that, having completed the entire upgradation program, we are going to be syncing all our operations and verticals in close coordination with each other thereby getting the benefits of overall syncing of our operations. And obviously, overall profitability is likely to increase. On our EBITDA margins, I should say that even if things go along the way they are, we should be reaching closer to about at least between 16% to 18% by the year-end.

Jiten Parmar: Okay. And what about that? What will be -- I mean, I think major capex is over. So what will be the peak debt? And what will be the debt reduction guidance for the next years?

Pavan Khaitan: Peak debt, we are currently looking at about INR760 crores or INR770 crores maximum. And we have repayments of about INR170 crores, INR175 crores for the next 2 to 3 years. And by the next 3 years, we will be at very, very manageable levels of debt under INR300 crores. It's going to gradually reduce -- keep reducing over the next 1, 2, 3 years.

Jiten Parmar: And what about the raw material sources, the split between waste and wood, if you can quantify that?

Pavan Khaitan: So we have a mix of two pulps that we use, which is almost 50-50 in content, 50% is agro pulp, 50% is wood pulp. Sourcing for that is primarily all within the state of Punjab or neighboring states. So raw material sourcing is not an issue for us other than the vagaries of sort of pricing, sometimes it's wayward, but availability is not an issue at all for us.

Jiten Parmar: Perfect. And if you can throw some light on -- my final question, if you may please allow. If you can throw some light on what is the situation with imports right now? Are there -- with yuan appreciating so much, what is the situation of imports? I mean, has the import intensity reduced and price-wise, is there any difference or landed imports are at similar prices or something? If you can throw some more light on this, that will be great?

Pavan Khaitan: So what we are observing is a diminishing trend in imports, which is a good positive for the industry. And largely, it's the challenge that the world is witnessing in terms of shipping costs, container availability and logistic costs. So I think primary reason is shipping, and that is leading to this situation of diminishing imports into India. Pricing is again, very stable. They are not reducing from last periods. So that, again, is a positive. And I don't see too much competition staring at us from imports of material in the future.

Jiten Parmar: Perfect. I wish you all the best. You have gone on a bold program of revamping the whole machinery and also increasing the capacity. So I wish you all the best.

Moderator: We take the next question from the line of Madhav Jhawar from SKP Securities.

Madhav Jhawar: So my first question is on the pulp capacity that was about to come. Now you mentioned that wood capacity has come in. But what about the agro capacity, which is about to come?

Pavan Khaitan: So our pulping capacities, we are at a level of about 200 tons each of agro and wood. And that is consistent with our even paper production capacity. That's all that we will need to run all our 4 machines adequately. They are already in place. Pulping capacity resources are already in place.

Madhav Jhawar: Okay. And what about the EC clearance? Did you get the EC clearance for the PM3 machine upgradation?

Pavan Khaitan: No, that's already been filed, and we are awaiting that very, very shortly.

Madhav Jhawar: Okay. And so the raw material costs, for example, chemical costs and all had gone up quite significantly during the war. So has the chemical cost corrected along with any other major chemical or other raw materials that you use?

Pavan Khaitan: So there was an interesting sort of trend here that we saw. The escalation was primarily due to the West Asia conflict. And as you would reckon that we did see instances of the war getting declared as over. And we actually saw those prices coming down for a while before they start shooting up again once the trending of the de-escalation and war was over. So they quite remained in tune with the situation of the war. As it currently stands, they are higher than they were in Q4. And -- but I guess they've kind of stabilized at these levels, and we don't see any further rise in the prices of these chemicals and inputs going forward.

Madhav Jhawar: And sir, so a lot of capex has been done on upgrading the value-added segment of the paper, right? So will that help in, let's say, realization per ton and EBITDA per ton?

Pavan Khaitan: Yes, for sure. We already have taken the commercial runs also, like initially, I was told that we have produced OGR also, and we are looking on the specialty grade where we can get plus 20% EBITDA on the particular quality.

Madhav Jhawar: And how much realization can we expect incremental realization?

Pavan Khaitan: On the top line?

Madhav Jhawar: Yes, on the topline?

Pavan Khaitan: We target around 5% to 6% initially moving forward for the next years. And that will be a base creation for this year. And then we will be more moving into specialty grades of paper.

Madhav Jhawar: So right now, last year it was around -- so Q1 was around INR70 per kg. So you're saying 5% from INR70 per kg?

Pavan Khaitan: That was on the top line, I said. 5% will come from the specialty grades of paper. Because realizing in this market, what NSR will be sustaining is a big task. But again, the EBITDA level on the particular quality, we are aiming above 20%.

Madhav Jhawar: Okay. Got it, sir. And one last question. On the raw material side, do you see any price pressure in the good and wheat straw?

Pavan Khaitan: Yes. Wheat straw seems to be coming down. And we see next quarter also. As of now, it's a bit stable or lesser, I would say. But going forward, it will come down. And the infrastructure created where we can store the bulk of the agro raw material.

Moderator: We take the next question from the line of Rajesh Bhandari from Nakoda Engineers.

Rajesh Bhandari: Yes. Kuantum as such has a very good name in the market. But my only worry from the point of view of the shareholder is that somehow the profits are getting eaten up in terms of interest. And our debt is very, very high. When can we expect that debt reduces and the profit also goes up and interest comes down? And connected with that, what can we expect our turnover by 2028 and 2030?

Vikram Khaitan: Yes, sure. The debt will come down gradually in next 2 to 3 years. As earlier, Pavan sir told that during '26, '27, we have a debt repayment liability of around INR170 crores. But in next 2 to 3 years, it will gradually come down and the peak debt will be around INR300 crores to INR350 crores in next 3 years.

Pavan Khaitan: So I would add here that this is a step that we took for charting out a growth prospect for ourselves. If you don't take debt, you don't grow. If you want to grow, you have to take debt and you have to bite that bullet for some time. We have to allow all our investments to bear fruition. And once they start giving the returns, as and how the debt repayment happens, the interest cost will keep coming down and thereby allowing us to retain our profits.

Rajesh Bhandari: Yes, I agree with you, sir. From INR1,000 crores, you said it is INR330 crores. In how many years we can expect?

Pavan Khaitan: Every year, you take about INR175 crores reduction in debt.

Rajesh Bhandari: Okay. Every year, INR175 crores?

Pavan Khaitan: Yes. There is a possibility of even prepaying if we are able to generate higher-than-expected profits for which the situation is positive, we can prepay and get our debt level reduced earlier than later.

Rajesh Bhandari: But sir, our yearly turnover is approximately INR1,200 crores?

Pavan Khaitan: Yes.

Rajesh Bhandari: Out of that, and 18% you are saying EBITDA?

Pavan Khaitan: Right.

Rajesh Bhandari: Will we be able to reduce by INR175 crores per year?

Pavan Khaitan: No, INR1,200 crores is the current top line. We are expecting this to grow between INR1,400 crores to INR1,500 crores. So even if it's 18% to 20% EBITDA, we should be getting an EBITDA of close to INR300 crores, generating that kind of EBITDA every year and enough to take care of our debt and interest repayment liability.

Rajesh Bhandari: Okay. INR1,400 crores to INR1,500 crores by next year or in this year itself?

Pavan Khaitan: Next year, for sure, INR1,400 crores to INR1,500 crores. This year will be INR1,300 crores plus.

Moderator: We take the next question from the line of Anu Parakh from Anand Rathi Shares and Stock Brokers Limited.

Anu Parakh: So my first question is, our average paper realization is relatively flat on a Y-o-Y basis in Q1 FY '27 despite an 11% increase in the Chinese BHKP prices and weakening of rupee by another 11% in Q1. So can you please provide some color or reason for the same?

Pavan Khaitan: So I think I would beg to differ that our pricing is flat. Our NSR has increased by about INR3,400 per ton in Q1 as compared to related period. Does that answer your question?

Anu Parakh: Sir prices are flat on a Y-o-Y basis?

Pavan Khaitan: So if you're comparing it with Q4, is it?

Anu Parakh: Last year same period?

Vikram Khaitan: So last year same -- on Y-o-Y basis, it is around INR4,000 more. NSR is more INR4,000 on Y-o-Y basis.

Pavan Khaitan: Over last quarter, 5% plus and Y-o-Y basis, it's around 7% plus.

Anu Parakh: Understood. Sir, what should be the ideal paper realization as per you, assuming the Chinese prices settle at $550 to $600 per ton over the medium term and rupee remains at the INR95 level?

Pavan Khaitan: So I think every product is not comparable to the kind of imports that the country is doing from China. We have our own product profile and everything cannot be correlated to the Chinese import price per se. And the fact is that we've been able to create a big marketing strength for ourselves locationally, position-wise, our sort of depth of market.

So because of that, we are able to realize a better price for ourselves as compared to others in the industry. So currently, we are at about INR68,000, INR69,000 per ton level. Ideally, going forward, sensing of how the market is growing and the kind of positivity that -- positive sentiment that we are getting, our price increase is likely to touch and reach about INR72,000 to INR75,000 level in the next 4, 6 months.

Anu Parakh: Okay. Sir, on the Maplitho side, the segment has been severely impacted due to inverted duty structure post GST rate change last year. Do you see any possibility that the government is likely to do any rectification in the GST rate to provide some form of protection to the domestic mills in the coming months?

Pavan Khaitan: No, I'm afraid. The government is quite strong in their conviction by sort of having implemented that. I think the industry has to move forward. The fact is that this implication is only and only if you are producing and selling paper for notebook segment. So we have -- we at Kuantum, we've taken a conscious call to reduce, if not eliminate over a period of time, our foray and marketing of notebook paper.

So that impact will be negligible for us. And even for the product that we have sold for notebook in the last 6 months, we have added on the loss of GST that we've had on this such production. And we've been very, very clear on charging our customers for the loss that has been incurred by us. So it's not really -- in real terms, it's not really a complexity here. And the fact is that we

-- if we are strong enough to charge our customers the loss that we are incurring, it happens to be a win-win case for both.

Anu Parakh: Sir, you said that the realization has gone down to INR68 per kg. So whether the paper prices have corrected in Q2 FY '27 as the realizations were around INR71 per kg in Q1?

Pavan Khaitan: Well, I don't know where are you getting your figures from. I wouldn't say they've gone down to INR68. They've come up to INR68 from a level of INR66 or even INR64.

Anu Parakh: Yes. Lastly, on the imports, so many countries like U.S.A., Australia, South Korea have imposed tariffs on paper imports from China and Indonesia. So why have we not yet filed the case with DGFT to initiate any investigation on ADD or CVD on copier and Maplitho paper till date?

Pavan Khaitan: We have. We have already done that. We are already in close coordination with the government, where our applications for antidumping duty and anti-subsidy duty has already been filed, and it is being keenly being looked at by the government. We are very hopeful that we will get some positive feedback from them and something favorable should be implemented. So this actually arose?

Moderator: We take the next question from the line of Apurva Anil Sharma from RAAS Capital.

Apurva Anil Sharma: Am I audible?

Pavan Khaitan: Yes, please go ahead.

Apurva Anil Sharma: My first question is in regards to -- can you throw some little light about your volume growth for this quarter?

Pavan Khaitan: For this quarter, which is Q2 or Q1, which one are you asking?

Apurva Anil Sharma: Q1.

Pavan Khaitan: Q1, we've seen a growth because frankly, last year, Q1, we had a shutdown of one of our machines, and that led -- for upgradation purposes, and that led to a kind of notional loss of production. But as against even Q4 of last year, we have increased our production slightly, and that is largely due to efficiency of our machines getting better. And we are -- now with the upgradation of our last fourth machine, which is PM3, which is underway, and that is getting commissioned within this month, we should see a bump up in our production and sales volumes going forward.

Apurva Anil Sharma: Okay. Sir, another question. I just wanted to understand the landscape about the ADD so far that has been implemented by the government, one on decor paper and one recently on the virgin multilayer paperboard. Now both these are basis the GSM in the ADD, right? One is from 40 to 130 and the virgin one is from 140 to 450. Now going forward, if we are working very closely with the government in getting the new set of ADDs, would the new ADDs cover the GSMs that Kuantum is selling right now?

Pavan Khaitan: Yes, for sure. So what we filed is in the writing and printing paper segment, and that clearly covers all GSMs that Kuantum is making. It is covering all GSMs between 40 and 140.

Apurva Anil Sharma: Okay. And when and if this thing comes, it stays for the time period of 5 years. Am I right?

Pavan Khaitan: That's yes. That's what we are expecting.

Apurva Anil Sharma: All right. And sir, in last quarter, you had indicated about the realization going back to INR69,000 to INR71,000 per ton. Are we still on line aligned with that?

Pavan Khaitan: Yes. We are maintaining those realizations.

Moderator: We take the next question from the line of Arjun Vinay Tambe from Aurrevia Crest. Please go ahead.

Arjun Vinay Tambe: Hello. Am I audible?

Pavan Khaitan: Yes please.

Arjun Vinay Tambe: Yes sir. I just have one. In last concall you had given a guidance of INR1,400 crores to INR1,500 crores for FY27 and now you are saying INR1,300 crores plus. So according to INR1,300 crores plus if EBITDA to be kept at 18% to 20% then INR240 crores to INR260 crores it is coming?

Pavan Khaitan: Correct.

Arjun Vinay Tambe: You said INR300 crores and out of that INR175 crores of prepayment would be done?

Pavan Khaitan: Right.

Arjun Vinay Tambe: That is not getting matched and in this concall have you revised the guidance or what has happened in INR1,400 crores and INR1,500 crores and in INR1,300 crores there is a gap so please explain sir?

Pavan Khaitan: So what has happened is that the earlier guidance was basis a certain sales realization that we were expecting; those are not staying at that level. They are running below those expected levels. And even furthermore, EBITDA margins are further getting strained by the increased cost of operation due to the West Asia crisis. Nobody could have imagined like a war starting in a part of the world and impacting sort of pricing here in India. But the fact is it is happening.

So nobody could have imagined such a situation. All this is collaterals and which is impacting EBITDA margins at the present. But nonetheless, we are looking at figures as they are, and they are conservative figures. We are still ensuring that we take care of all our repayment liabilities on both interest and term loan, even in this very, very competitive time line.

Arjun Vinay Tambe: All right. And one more thing. You talked about AI integration in the production manufacturing process and that would be done in around FY28, right?

Pavan Khaitan: Sure.

Arjun Vinay Tambe: So is it still in trajectory?

Pavan Khaitan: Yes, that's a continuous process that is continually being looked at, continually being done, executed and improved upon. That's a long-term kind of contract that we have engaged with our supplier. And that is how, as I said, mentioned earlier that by March '28, we will be concluding this exercise and getting the relevant returns.

Arjun Vinay Tambe: So incrementally, what would be the opex reduction from it?

Pavan Khaitan: We could target between 4% to 5% additions in -- or reductions in costs.

Arjun Vinay Tambe: Okay. And just one last question. Your product segmentation in the last quarter, you had mentioned around 25% to 30% of your entire revenue was contributed by specialty needs. So is it still at the same contribution or it has increased or decreased or what it is?

Pavan Khaitan: We are working towards reaching that target. Right now, our contribution from specialty paper is just under 20%. It's about 18%, 19%, but we will surely be making our efforts to reach that level of 30%.

Arjun Vinay Tambe: All right. And in last week your competitors has posted a result and their EBITDA margins have increased year-on-year and ours has decreased. So what would be the main reason, the West Asia crisis or any other?

Pavan Khaitan: No. So I would assume that the West Asia crisis has impacted everybody uniformly. For us, we are located in a state where our raw material input cost has risen a little abnormally and that is impacting only the operators in Punjab and which is where we are facing a competitive landscape on our procurement of raw material costs. So -- but I think over a period of time, we are already seeing a reduction -- a gradual reduction in these cost of procurement. And over a period of time, they should level out.

Moderator: We take the next question from the line of Moksh Ranka from Aurum Capital.

Moksh Ranka: I wanted to ask what would be our peak turnover when all our plants are running based on current realization? And also, what could be the peak turnover based on realizations we had in like '23 -- FY '23?

Pavan Khaitan: Well, very extremely interesting question, I must say. On current realizations, we should target about between INR1,400 crores to INR1,500 crores turnover. And based on realizations of '23, we will cross INR1,800.

Moksh Ranka: Okay. And that is based on all your 4 plants running at peak capacity?

Pavan Khaitan: Yes.

Moksh Ranka: Okay. So by FY '27, we should be able to run all our plants at full capacity, right?

Pavan Khaitan: Yes. So post the commissioning of our fourth machine, which is now happening in the -- within this month, we will be running our entire plant at peak capacity.

Moderator: We take the next question from the line of Madhav Jhawar from SKP Securities.

Madhav Jhawar: So you mentioned earlier in the call that you are targeting...

Moderator: Your audio is muffled out. Could you please remove headset?

Pavan Khaitan: Sorry, come again.

Madhav Jhawar: So earlier on the call, you mentioned 16% to 18% of EBITDA you're targeting. So right now, when can we expect -- which quarter can we expect that kind of EBITDA?

Pavan Khaitan: I think Q3 onwards because even in Q2, we are sort of undergoing expansion, modernization. Some of our machines are closed. Some of our boilers are getting maintenance. So Q2 would not be the right time. Q3 onwards, we will see the operations at full efficiency, and that's when these kind of margins should be visible.

Moderator: We take the next question from the line of Shayan Khan, an Individual Investor.

Shayan Khan: Yes. So I just have one question. So could you help me break down the significant growth in other income this quarter? Like what's exactly driving that increase?

Vikram Khaitan: It is due to sale of plant and scrap sales.

Pavan Khaitan: So in a way, they are all operational related. All the other income that we generate is as part of the operation. And if we add that to our EBITDA margin, which it should, we actually get an EBITDA margin of 14.4%.

Moderator: We take the next question from the line of Arjun Vinay Tambe from Aurrevia Crest.

Arjun Vinay Tambe: Sir, just a ballpark figure. FY '29 to FY '30, what should be the range of our revenue at peak capacity and at the realization, what you expect?

Pavan Khaitan: I think a good conservative figure would be about INR1,500 crores top line and INR300 crores to INR350 crores EBITDA.

Arjun Vinay Tambe: FY '30?

Pavan Khaitan: Yes. I'm saying very conservatively. I mean if the market is helpful and we see an average of pricing of about INR75 a kilo or INR75,000 a ton, it could be closer to INR1,600 or INR1,650 crores.

Arjun Vinay Tambe: All right. But last con call you mentioned till FY '28 INR1,600, INR1,700. And now you're saying FY '30 it will go INR1,500 conservatively. So...

Pavan Khaitan: I still stand by that. In our last con call, we had thought the downturn had petered out and we would see a surge in our pricing, which unfortunately hasn't happened because of a couple of things. The environment has not been favorable. But I'm sure by that time, by '28 or '29 FY, we -- even now I'm saying that INR1,500 crores is a conservative figure based on current pricing. But if the pricing goes up, which it should being a commodity cycle and it should see the improvement happening, we could reach between INR1,600 crores to INR1,650 crores as well.

Arjun Vinay Tambe: Do you believe that the industry has bottomed out in terms of input costs? Or is it still to bottomed out?

Pavan Khaitan: Well, input costs actually are on a rise, so they haven't really bottomed out. Price line, I would say, has bottomed out.

Arjun Vinay Tambe: Bottomed out in terms of our margins like it will not go below this level and all we can see is an uptick?

Pavan Khaitan: Yes. We are positive about that sentiment. We are looking at uptrends happening on our margin, and that should clearly show an upward trend.

Moderator: We take the next question from the line of Rohan Choksi from RAAS Capital.

Rohan Choksi: Am I audible?

Pavan Khaitan: Yes, please go ahead.

Rohan Choksi: Yes, sir. Sir, you cited a INR4,200 ton cost increase against a INR3,100 ton NSR gain. So how much of that INR4,000 is from the West Asia war specifically like steel Chemical versus wood and all that? And can that gap be passed through?

Pavan Khaitan: So I would say about 50-odd percent of the increased cost is due to the West Asia crisis. Rest of it is more local depending on the state in which we are operating and the cost of raw materials that we are procuring that has seen a price rise in this quarter. And the question of passing it on, there is no direct correlation between increased costs and increased selling price. But yes, the fact is that out of the INR4,200, which has increased as cost, INR3,400 has been passed on by way of increase in our pricing if you see quarter-to-quarter.

Rohan Choksi: Right, sir. Okay. You said in the peak capacity, you said all the 4 plants will be up and running to peak capacity.

Pavan Khaitan: Yes.

Rohan Choksi: And if we even take the generalization, then wouldn't the revenues be much more than INR1,600 crores or even INR1,800 crores? First of all, what is peak capacity like is it 80%?

Pavan Khaitan: No. We are calculating everything at 100%, but the fact is that in a paper machine, it cannot operate all 365 days. The normal working in a paper machine one gets is about 330 days working because you have to take machine downtime for changing of consumables, which is wire part, press part, clothings and so on and so forth.

So normal downtime, which is planned downtime is occurring and that contributes for about 35 days in a year. So that effectively reduces the output of the operation. And then depending on the GSM that we get for our orders, that helps decide what the actual output is. So taking everything into consideration, that is why I'm saying that on a conservative basis, we should touch levels of INR1,500 crores top line revenue. And in case there are reasonable trendings on market pricing, which certainly there are signs for, we should touch between INR1,600 crores to INR1,650 crores.

Rohan Choksi: Got it, sir. And sir, right now, the specialty is 20% to 22%. And I was just reading a CRISIL's report that said that writing and paper demand is only 1% to 3% CAGR up to financial year '30. So do we have any plans of increasing into packaging, specialty, which are actually growing 6% to 8% and a lot of them have ADD and support from the government as well as opposed to writing and paper?

Pavan Khaitan: Yes...

Rohan Choksi: So much on the capex. Will it move towards specialty and packaging? Or should we be doing that?

Pavan Khaitan: Yes. Strategically, we are doing that as our CEO said that we are looking at increasing our specialty content by about 5% or so. So we will move up that ladder. We are targeting reaching 30% of our production as specialty. But I would say that having remained in the writing printing segment, we have actually created a good mark for ourselves.

So we cannot really write off that entire segment clearly. We have maintained a good strong position for ourselves. We are producing very effectively and reducing our cost of operation and have already gained a huge positive mark in the market for all our writing, printing products. So it's a legacy which has been born out of years and years of work and cannot just evaporate overnight.

Moderator: We take the next question from the line of Anant Mundra from Mytemple Capital.

Anant Mundra: Sir, just wanted to get a sense on how the prices of wheat straw are behaving right now? Have they cooled off?

Pavan Khaitan: Yes, we are clearly seeing signs of them coming down. And I think the impact will be more visible in the next month or so because alternate fodder materials. So please understand that wheat straw mainly -- the mainstay of wheat straw is used as fodder for cattle in the state of Punjab and neighboring states. Wheat straw being consumed by the pulp and paper industry is a very small part of it.

So there will be alternate material available as fodder in the shape of rice straw and corn cobs. Once those materials come in by, let's say, month of September and October, the force on wheat straw will evaporate, will come down and that we should see the leveling out of pricing in the commodity of wheat straw.

Anant Mundra: All right. But as on date, the things -- I mean, as on date, how things stand, the wheat straw prices are still higher, and they continue to be at the same level as in Q1?

Pavan Khaitan: No, they have come down. We are engaging with our suppliers and aggregators to see how we can moderate these pricing, and we have been successful. And we are seeing a reduction in wheat straw procurement prices for ourselves in Q2 versus Q1.

Anant Mundra: All right. So you mentioned that the price pressure, half of it was due to increase in local raw material prices. Were you referring to specifically wheat straw only?

Pavan Khaitan: Yes. The local one -- the local content has been attributed to by wheat straw.

Anant Mundra: All right. All right. And sir, one final question was on how -- so our -- while our paper capacity is going up, our pulp capacity is -- at least in the presentation, it continues to stay at 365 TPD. So is there also going to be an increase there or we are going to rely on bought out pulp for the increased paper capacity?

Pavan Khaitan: So pulp capacity should -- will increase to about 410, 415 tons per day, and that's all that we will require to produce the relevant quantities of paper because almost 150 to 180 tons of filler will be used to manufacture our paper and rest about 40 to 50 tons per day will be the imported pulp content, which is actually something which is required for the better stability and a better product quality for our paper and the kind of segment that we are in, it will be very helpful to have that kind of volumes getting used by using imported wood pulp.

Moderator: We take the next question from the line of Utkarsh Nopany from Anand Rathi Shares and Stock Brokers Limited.

Utkarsh Nopany: Sir, my first question is regarding the paper price movement in the September quarter. So like we believe that September quarter is a seasonally weak quarter for the printing and writing paper segment. So just wanted a sense from you whether the industry has seen any correction in the paper prices in this quarter versus June quarter or any discounts have gone up in September quarter period?

Pavan Khaitan: So I would like to sort of slightly make another statement that September is not a good quarter for the paper industry. September, in fact, the Q2 is amongst the leanest part of the year, the leanest quarter for the industry. It's only post September, which is October onwards that the industry starts looking up as it starts preparing for the new education year of the next financial year. But having said that, our pricing has remained stable. We haven't seen any downward impact on pricing of our product, and it's in good stead for us.

Utkarsh Nopany: Okay. So the prices have remained flat on a Q-on-Q basis despite a weak demand in the September quarter. Is that the correct understanding? Yes. And sir, if you can give some sense what would be the imported paper price of Copier and Maplitho near port area at present, if you can give some sense?

Pavan Khaitan: So imported price, we are currently seeing trending between $610 and $620 per ton. Volumes are not large enough to create any kind of negative impact.

Utkarsh Nopany: And sir, what has been the change in the timber price in Q1 on both Q-on-Q and Y-o-Y basis for you? And what would be your outlook for timber price over the next, say, 12- to 18-month period?

Pavan Khaitan: So I think we are -- we have a positive trend on timber price as in they are largely remaining stable, if not reducing by about 5% to 6%. And that is what we see going forward also with the kind of social forestry programs even that we are conducting, we are helping regenerate and grow -- regrow the availability of timber in our area through our clonal saplings initiative that we are doing. And so are we seeing that even other players are doing similar instances and helping grow the timber availability in our area.

Utkarsh Nopany: Okay. So sir, timber prices are not likely to correct, say, over medium term, it is likely to remain stable only?

Pavan Khaitan: I think, yes, this is the kind of price line, give or take a few percentage points here or there. This is the kind of price line that we see going forward because handling costs, labor costs, transportation costs, that is something which is increasing. So even if the basic price of timber reduces, which it will, it will be offset by increased labor and transportation costs.

Utkarsh Nopany: Okay. And sir, lastly, like how would be the paper inventory in the channel that is with dealers? Is it at normal levels, below normal or above normal level at the moment?

Pavan Khaitan: So my personal opinion is that there is a slack there. The volumes as being stored by dealers is minimal now. Pipelines are relatively empty and which suggests that there is likely going to be a surge towards a surge of demand in paper and which is likely to impact our pricing also positively.

Moderator: We take the next question from the line of Arjun Vinay Tambe from Aurrevia Crest. Please go ahead.

Arjun Vinay Tambe: Yes sir. You have mentioned in your last concall that ou are coming up with two seedlings, P29 and E2. So would you please just shed some light on that? And a follow-up on that is, how would that incrementally affect our P&L statement?

Pavan Khaitan: So we are looking at these high-yielding, high-growth varieties of saplings. And we are seeing an encouraging trend in terms of offtake. The fact is that we are being able to sell whatever saplings we create, and it is seeing an encouraging trend. We are -- in fact, our target is from the current level of about 40-odd lakh saplings every year, we are planning to achieve 1 crore saplings every year in the next 3 to 4 years. So it's on an encouraging and growth path, and we see that getting established very, very positively for us.

Arjun Vinay Tambe: Okay. That's great. But incrementally in our P&L, how would that affect?

Pavan Khaitan: Yes, it's going to add to the sort of other income or sort of lateral income for us. And -- but we don't really want to budget that too much because our mainstay is paper. Whatever comes through that is going to be an added bonus.

Prachi Sharma: I will add to that. Just for us, we don't look at it as a revenue stream per se. The idea is to grow seeds of social farm forestry. So what it really will help us in the future is it will help us reduce the cost of procurement of wood. We should not look at it as the top line item, but something that will help us secure our wood requirement in the future. And when supply goes up and we become wood positive, that means that our overall cost of procurement of wood will go down. So it's a future-looking sustainability exercise rather than a pure revenue play right now.

Moderator: That was the last question in the queue. As there are no further questions, I would now like to hand the conference over to Mr. Pavan Khaitan for closing remarks.

Pavan Khaitan: Thank you all for participating in this earnings conference call. I hope we were able to answer your questions satisfactorily and at the same time, offer insights into our business. If you have any further questions or would like to know more about the company, please reach out to our Investor Relations managers at Valorem Advisors. Thank you, and wishing you all a great day ahead.

Moderator: Thank you, sir. On behalf of SKP Securities Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.