

## **Satia Industries Ltd. Q2 FY20 Earnings Conference Call**

- **Operator:**

- Good day and welcome to Satia Industries Pvt Ltd Q2 earnings conference call hosted by Prabhudas Lilladher Pvt Ltd. 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 \* and 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Jinesh Joshi from Prabhudas Lilladher. Thank you and over to you sir.

- **Mr. Jinesh Joshi - Prabhudas Lilladher Pvt. Ltd:**

- Thank you. On behalf of Prabhudas Lilladher, I welcome you all to the Q2 FY earnings call of Satia Industries Ltd. We have with us the management represented by Mr. R.K. Bhandari- JMD, and Mr. Chirag Satia. I would now like to hand over the call to the management for opening remarks, after which we can open the floor for Q&A. Thank you and over to you sir.

- **Mr. R.K. Bhandari - Joint Managing Director, Satia Industries Ltd:**

- Good morning everybody. I am Rajinder Bhandari from this side. We welcome you all to the earning conference call of Satia Industries for the 2<sup>nd</sup> Quarter of Financial Year 2020. For those who are participating for the first time, let me give a brief background of the company Satia Industries Ltd., which is one of the largest integrated wood and agro based manufacturer in India, based in Muktsar district in Punjab. Our plant has a total installed capacity of 1, 05,000 metric tons and we have been running at a capacity utilization of over 125%. Ours is an integrated pulp and paper unit, with a flexibility to make three kinds of pulp i.e. agro pulp, wood pulp and waste paper pulp also, which gives us flexibility of use of raw material and also cost efficiency. Our green commitment reflects in generating wealth from waste in chemical recovery process, where most polluting effluent called black liquor is burnt totally to recover caustic soda which is a raw material of pulping process and is again reused in the pulp mill. No fossil fuel is burnt to produce steam for the process and power, and we earn REC for the same giving us an annual income of almost 10 crores every year. No effluent is discharged into any water body, and we use it for irrigating over 500 acres of eucalyptus plantations, thus securing tax free agriculture income and a source of our wood raw material as well. We are self-sufficient in meeting all our power requirements in house and power is produced at a very very competitive cost. The company product line includes almost all grades of writing and printing paper like photocopier paper, colored paper, ledger paper, cover and paper for books. And recently we have added a new product cup stock paper also.

- Now I would like to take you through the financial highlights of the company for the 2<sup>nd</sup> Quarter. Operational revenues stood at Rest. 204 crores as compared to Rest. 187 crores in Q2 FY19, which is a year on year increase of almost 9.3%. EBITDA for the quarter was reported at Rest. 43.5 crores at EBITDA margins stood at 21.33% Net profit for the quarter stood at Rest. 25 crores and PAT margins stood at 12.26% in the current quarter. Talking about the performance for half year FY20, operational revenue for the 1<sup>st</sup> half stood at Rest. 428.3 crores as compared to Rest. 366.7 crores in half year FY19, with an increase of almost 16.8% on year on year basis. EBITDA stood at Rest. 91.4 crores and EBITDA margins have stayed in line at 21.34%. Net profit increased to Rest. 51.5 crores as compared to Rest. 42.8 crores in the previous corresponding period, implying an increase of 20.3% growth on a year on year basis. PAT margins for the half year ended were quoted at 12.02% as compared to 11.67% in the previous corresponding period.
- Now let me also give you a few operational highlights for the quarter. The current order book stays very strong at almost 2 months orders in hand. We have gained an income of almost Rest. 7 crores in the first half from renewable energy certificates. We have also ventured into paper cup stock market, and further plan to enter cutlery and delivery packaging sustainable products made from pulp.
- Now I would like to open the floor for questions, but let me tell you, Mr. Chirag Satia, due to certain medical emergencies could not join the call. I have with me Mr. Rachit and Mr. Indar from our finance team. Thank you.
- **Operator:**
- Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question, you may press \* and 1 on your touchtone telephone. If you wish to remove yourself from the question queue, you may press \* and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Reminder to the participants, anyone who wishes to ask a question, may press \* and 1 at this time. The first question is from the line of Agastya Dave from CAO Capital. Please go ahead.
- **Mr. Agastya Dave – CAO Capital:**
- Thank you for the opportunity sir. Sir, I have more than 2 questions. So I may take a bit of time. Sir, in your presentation Slide 4 you are saying that you are doubling your capacity approximately, and that will require a Capex of Rest. 500 crores. And in the updates there you have written that you have to buy additional land, machinery and everything. So I'm just wondering, if the actual Greenfield expansion cost would be Rest. 1,000 crores, as you have mentioned, what are you doing, where are you saving so that the actual Capex is only Rest. 500 crores?

- **Management - Satia Industries Ltd:**

- Actually, as we are expanding, we are expanding in the existing premises only. The additional land requirement for this project, we have bought only 8 acres of land. So cost of the land for any new project would be anywhere near 100 acres plus because they have to put up everything, pull mill, ETP and then...

- **Mr. Agastya Dave – CAO Capital:**

- Got it.

- **Management - Satia Industries Ltd:**

- So that is the first thing. Second is, we are simply upgrading our pulp mills. Like, we are taking agro pulping from 200 to 250 tons, that is by adding certain new washers. And similarly, we are doubling our wood pulping capacity from 120 to almost 300 tons. So for us, adding capacity in the existing setup is much cheaper than adding a complete new capacity. Similarly, in soda recovery plant which is a must for any integrated unit, we need to just upgrade our existing boiler and evaporator system. Whereas the new investment would have been anywhere near minimum 300 to 400 crores, which we'll be doing almost in less than 100 crores. So that is the major reason for savings.

- **Mr. Agastya Dave – CAO Capital:**

- Got it. Sir, once this project is commissioned in 4<sup>th</sup> quarter by 2021, how long do you think you will require to ramp it up? In terms of, do you have enough demand visibility for double the capacity?

- **Management - Satia Industries Ltd:**

- I think even now, we are... as everybody knows, there's little slowdown in the paper market. But, if we look at Satia's position, we are holding orders for almost 2 months. So, as far as demand is concerned, it has never been an issue in the last, over 30 years that I have been with the company. And I don't think with the increasing growth in the market, the normal growth of 4-5% in the writing-printing grid, and the cup stock where we are entering which is having a growth rate of over 12% every year, it should pose any problem to us as far as pushing the demand for paper into the market is concerned. Moreover, this machine will be producing paper mainly from wood pulp, and the machine is one of the best in the country and brand new. And it will be making paper almost equivalent to the A-grade mills, like, JK or Ballarpur only. And I think once we enter that segment our realization will improve, we'll be just venturing into the new markets. So that is how we see it.

- **Mr. Agastya Dave – CAO Capital:**

- Great! One last question sir. What would be the peak debt and the peak interest outlay for the company, and in which period? Peak debt sir. You are funding this Rest. 500 crores with 65% debt. So, that plus whatever little Capex you must be doing anyway, and working capital requirements. So, the total peak debt when we will see that, what will be the total peak interest outlay that we will see over the next three years? And another book-keeping question, if I look at the half yearly numbers your other expenses have gone up barely by any amount so what is the biggest saving that you have seen in which line item in the other expenses? That's it from my side, sir, thank you.
- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- I would request Mr. Rachit, he will give you, he is from the Finance side, and he will explain it to you better.
- **Mr. Rachit Nagpal, Assistant General Manager, Satia Industries Ltd.**
- In the project of 500 crores our debt portion is 350 crores and 150 crores other internal accruals. We are doing 500 crores in two phases, like first phase is for 400 crores, in that 275 crores is the debt requirement rest in the internal accruals and in the second phase we are looking for another 75 our debt and rest are internal accruals.
- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- So, at the peak level as you asked within the two years when we will be starting the new facility by that we would have paid our existing debt of almost over 100 crores. So, our debt will increase I think not more than 200 crores at any point of time, by the time we start the new production facility.
- **Agastya Dave, CAO Capital**
- And the other expenses for first half? There are only 127 crores as I can see versus a very similar number last year, 121 crores, so why have these not seen any jump? You must have done some cost saving, so which item have you saved the maximum cost?
- **Mr. Rachit Nagpal, Assistant General Manager, Satia Industries Ltd.**
- We are doing an extension and up gradation in the chemical recovery plant so we are expecting a good saving in that, our chemical side. Plus, we have power turbines captive power consumption, like we are having a turbine of 12.5 megawatt plus 10.45 megawatt, total capacity is 27 megawatt. So, like in power and chemical side we have a good saving.
- **Agastya Dave, CAO Capital**

- Thank you very much for answering my questions. Good luck for the next quarter. Thank you.
- **Operator**
- Thank you very much. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.
- **Mr. Kaushal Shah, Dhanki Securities**
- Thank you sir for the opportunity. To this previous question you mentioned that we will be repaying some debt also while we are taking new debt for the expansion. So, if I look at the numbers for the half year our net number is somewhere close to 50 crores and our gross borrowings if I am not mistaken is currently in the region of 200 crores.
- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- Yeah, 180 crores.
- **Mr. Kaushal Shah, Dhanki Securities**
- Yes. So, I was just wondering how we will raise that additional money and what is the kind of growth that we are expecting before this new plant comes into stream because out of the 500 crores CAPEX we will also have to deploy 150 crores of cash internal accruals. So, I was just wondering what the kind of guidance that we have is and what is the kind of numbers that we are looking which will fund both the CAPEX as well as borrowing repayments.
- **Mr. Rachit Nagpal, Assistant General Manager, Satia Industries Ltd.**
- Looking at the current cash flows of our company, like our cash equals are around in the range of 170 to 200 crores. We have an EBITDA of, like we are expecting 10% over the last year so it will come around 120-130 plus depreciation if I take it, it comes around 170-180 crores. So, while repayment is around 40-50 crores, our debt repayment is around 50 crores and rest are available for the CAPEX. So, as we are expecting CAPEX in the coming two years, the cash is sufficient available for that so I don't see any problem in this.
- **Mr. Kaushal Shah, Dhanki Securities**
- Just to reconfirm, so you said our yearly cash flow will be in the region of 150 crores so that is kind of agreed. Now, what is the repayment number that you mentioned every year? So, this year and the next year?
- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**

- 50 crores.
- **Mr. Kaushal Shah, Dhanki Securities**
- So, this year 50 crores and next year 50 crores so about 100 crores will be repaid?
- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- Right.
- **Mr. Kaushal Shah, Dhanki Securities**
- And then what will remain is only the working capital part of the...so, basically what you are saying is that the term loan portion will be repaid?
- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- Right. Almost 100 crores out of the present 180 crores. So, that 80 crores will be left. 80 crores plus the new one, whatever we take for the new project.
- **Mr. Kaushal Shah, Dhanki Securities**
- Correct. And sir, we have mentioned in our presentation that the EC clearance is awaited. We have met a few companies in the recent past where the environment clearance has got delayed by almost 6 months. So, how confident are we because I think that will also dictate when we are able to commission the plant.
- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- Actually, we already had two meetings with EAC and only thing pending from our side was they wanted us to further reduce the water consumption because we are presently using almost 50 m<sup>3</sup> of water per ton of paper production. In the new project we have given a water consumption target of 40 m<sup>3</sup> of water per ton of paper. They wanted us to reduce it further to 30-35 m<sup>3</sup> per ton of paper which we were telling them even 40 m<sup>3</sup> is one of the best in the industry but again they have asked us in the last meeting, you go to anything between 32-35 m<sup>3</sup> per ton of paper. So, that is the only hitch. And second was certain expenditure from the entrepreneur side on the capital investment part social welfare, that detail we have to give. So, the hearing is on 27<sup>th</sup> November and I am almost 100% sure that it will be cleared in this meeting only.
- **Mr. Kaushal Shah, Dhanki Securities**

- Okay. And sir, the debt part of the funding for the CAPEX if you can give details of where we have tied up, what is the coupon rate or the interest rate there?
- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- We have taken almost 100 crores of Euro loan from a German Bank for the paper machine finance, which is at a total cost of, I would say, 3-3.5% and we have taken another loan of 100 crores from IndusInd Bank. Partly it is say foreign exchange bank...foreign exchange 50 crores is foreign exchange funding the cost for which will be 4.5% and rest is at below 10%. And we have taken rest of the loan from UCO Bank and Union Bank so which will be all in the range of 9.5% to 10%.
- **Mr. Kaushal Shah, Dhanki Securities**
- Thank you so much, sir.
- **Operator**
- Thank you very much. The next question is from the line of Ravindranath Naik from Sunidhi Securities & Finance. Please go ahead.
- **Mr. Ravindranath Naik, Sunidhi Securities & Finance**
- Good morning sir, thank you for the opportunity. Can you please tell me which machine that you are putting up, it is made from which company, is it European made?
- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- Yeah it is European from France, the company is Alimond.
- **Mr. Ravindranath Naik, Sunidhi Securities & Finance**
- What is the NSR? How has the NSR have moved in the first half of this year, if you can give us the month-wise figure then it would be great? And also, different grades of paper how it has moved, that would be helpful.
- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- Actually, if we compare our Quarter 2 sales realization it has come down in comparison to Quarter 1 by almost 4-5%. The effect of the prices in the market on Satia is less because in the first two quarters out of our total sale of almost 67,000 tons, we sold 52% to the public sector textbook boards. So, the order for which were finalized much earlier and at a good price and we stand to gain in terms of that benefit throughout the year because it is an annual contract.

- **Mr. Ravindranath Naik, Sunidhi Securities & Finance**
- At what price?
- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- The net sale realization to us is almost INR 60 a kg. It is a special paper with watermark and certain higher specification than BIS specification.
- **Mr. Ravindranath Naik, Sunidhi Securities & Finance**
- Okay. And beyond that whatever you sale, what is the NSR currently?
- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- For the market the sales realization is anywhere between Rest. 50 to 55 a kg for different varieties of paper depending upon the quality of the paper.
- **Mr. Ravindranath Naik, Sunidhi Securities & Finance**
- So, that means that you supply to the government public sector that is a superior quality as compared to what you sell in the market, right?
- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- No, the prices have come down significantly in the last 2-3 months. I said, our contacts with the textbook boards they were finalized earlier. They are finalized with a view of the whole year because prices have already started moving up slightly in end November. We have increased our price by Rest. 1000 a ton very recently and in December again we intend to increase our price again. But that benefit we are getting.
- **Mr. Ravindranath Naik, Sunidhi Securities & Finance**
- So, out of the 1, 20,000 tons you sell this year...
- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- 50% to the textbook boards.
- **Mr. Ravindranath Naik, Sunidhi Securities & Finance**
- Rest 50% you sell to the market. And the average realization is around Rest. 50 to 55.



- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- Presently.
- **Mr. Ravindranath Naik, Sunidhi Securities & Finance**
- You intend to increase the price by December?
- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- We have already increased one price hike; we have already announced and by mid-December because once you announce this price hike it becomes effective almost 15 to 20 days thereafter. And next price hike could anywhere come in the first week of December.
- **Mr. Ravindranath Naik, Sunidhi Securities & Finance**
- What would be the quantum in percentage terms or per kg terms?
- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- Almost 2%. Rest. 1000 a ton.
- **Mr. Ravindranath Naik, Sunidhi Securities & Finance**
- The import paper currently, how do you see the competition from imports currently?
- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- Imports as far as photocopier imports is concerned, once that anti-dumping provision has come that has stopped harming the photocopier segment and photocopier Indian industry they are able to sell quite comfortably, number one. Second, newsprint prices which have been slashed too much by the international supplier by almost 35-40% that is the major harm to the Indian newsprint manufacturers who have shifted their newsprint manufacturing capacity from newsprint to writing printing grades which has brought the downfall in the prices in the writing printing segment also. Government has already imposed 10% duty on the newsprint imports, unless government protects that sector so their shifting to the writing printing segment is creating certain difficulties for the overall sector that is the main thing.
- **Mr. Ravindranath Naik, Sunidhi Securities & Finance**
- No, I am talking about the import that is coming to country, whether the import is actually...

- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- Imports is definitely increasing a lot. As everybody knows it is increasing at almost 20% if you see on a cumulative basis specially from Asian countries and others, duty free imports, definitely that is harming but effect to our side is lesser because we are sitting far away from the port, number one. Number two, they are not able to give watermark paper so that doesn't affect our sale to the textbook boards.
- **Mr. Ravindranath Naik, Sunidhi Securities & Finance**
- What is the average realization for the imported paper currently according to you?
- **Mr. R. K. Bhandari, Joint Management Director, Satia Industries Ltd.**
- I can't say because imported paper they have different qualities, now even wastepaper-based paper is coming to the country but anywhere between \$ 700 to 800 a ton the price is in that range only.
- **Mr. Ravindranath Naik, Sunidhi Securities & Finance**
- Regarding this pulping, you are manufacturing pulp for three modes, wastepaper, wood chips and agro residues. Can you please tell me what is the average pulp cost that you incur in these two or three grades of pulping? Average I am just asking ballpark figure say for example 30,000 or 25,000 per ton something like that.
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- I can say only this that if we look at our total cost, price, the raw material cost is almost 40% of the total. So the ratio for us presently is almost 60% of agro pulp, 30% of wood pulp and 5 to 10% of recycled or imported pulp paper. So the exact cost will be very difficult to say at the moment because the prices keep on changing every day like in these times is becoming costlier. Wood is coming down, imported pulp is down, and waste paper is very, very down. But definitely the price differences, I can give you the price difference, wood pulp is costlier by almost 10 rupees a kg from the agro pulp and waste paper pulp is almost equal to the wood pulp price.
- **Mr. Ravindranath Naik – Sunidhi Securities & Finance**
- Okay, so the average would be there round 30,000 rupees per ton wood pulp?
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**

- Yeah.
- **Mr. Ravindranath Naik – Sunidhi Securities & Finance**
- Okay, and sir, what is the transfer price of power that you make to your power unit, average cost per unit, power per unit.
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- The cost to us is almost 2 to 2.5 rupees a unit.
- **Mr. Ravindranath Naik – Sunidhi Securities & Finance**
- Okay, that is the transfer price you book in the power revenue?
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- No, no, the transfer price is the price that PSPCL charges to its customer which is over 7 rupees a unit.
- **Mr. Ravindranath Naik – Sunidhi Securities & Finance**
- Okay, which you book in the power revenue?
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- Yeah, in the power revenue and we get ATI benefit on that, income tax that is extra income of the power division.
- **Mr. Ravindranath Naik – Sunidhi Securities & Finance**
- Okay. And, sir, lastly regarding this cup stock that you are going to renew, initially that have started particularly the packaging side, so one of the players if I am not wrong Ash Papers has entered into this business. But if we see the reported numbers of Yash Paper, they are not making money in that business. What is the outlook on this for you and also when you release the, when you start production your pulp will be required. How, when you trim down your paper production and manufacture this, how the things will move up in this direction.
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- Yeah, I think it is one of the very relevant questions. The first is the cup stock that we are making from our virgin pulp presently that is replacement of the glass segment that we are getting to drink tea or cold drink and all that. It is going almost at the same price that

our writing and printing papers goes, number one. Paper cutlery segment that you are mentioning for Yash Papers, we are using both unbleached and bleached pulp for the cutlery segment, number one. What we plan is, we want to use only bleached white pulp for this segment. Number two, we plan to associate with one of the MNCs the name we cannot reveal unless we finalize the agreement with them and we intend to make special kind of designs for which that MNC has patents and for which they have tie up with different food chains to market, different pizza companies, different Swiggy and Zomato and all those and those designs are you cannot make on all the machines. So the price in the paper cutlery segment presently is anywhere between INR 150/kg to INR 175/kg for normal kind of cutlery. But if you make special kind of cutlery which suits to their product and product delivery without affecting the quality or freshness of the product, then you are able to get the price on the higher side.

- **Mr. Ravindranath Kayak – Sunidhi Securities & Finance**

- Okay, what would be the realization if at all possible?

- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**

- I think it should be 20 to 25% more than the conventional price that people are getting in the segment. And the kind of arrangement we are having this MNC is proposing that they will take the total production and the price they are committing to us and they are planning to give guarantees on income also, number one. And the second question you asked that we will be trimming down our existing pulping capacity, paper production capacity or no for pulp for that segment. After we get the clearance of this expansion we are going again to the ministry for increasing our production by 10 to 15% which we can if we are not polluting, we are not adding to any pollution, because we will be pulping the imported pulp and there will not be any effluent and there will not be any increase in the effluent load and that way we can get permission for an additional production of 10 to 15% in our existing capacity without any public hearing, without any environment impact assessment. So that procedure is almost of one or two months only. So by that time I think we should be clear with all our formal negotiation with the MNC and ordering the machine and by the time we are okay there, I think this permission will come much earlier.

- **Mr. Ravindranath Kayak – Sunidhi Securities & Finance**

- No, I could not get you properly that you know this imported pulp you will use, MNC deal that you....

- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**

- Let's say initially we planned to start with the capacity of 8 ton per day. 8 ton per day if I buy imported wood pulp, hard wood pulp or bagasse pulp or soft wood pulp whatever I need for this I just dissolve it in my pulper and give it to that cutlery making machine. So there is no additional effluent generated, there is no additional pollution load. Under

these circumstances Ministry of Environment they allow you to increase your production by 10 to 15% without any public hearing, without any environment impact assessment study. It is a much shorter process and we can get those clearances within one month only, 1 to 2 months only.

- **Mr. Ravindranath Kayak – Sunidhi Securities & Finance**

- So that is you know 10 to 15%...

- **Moderator**

- Mr. Kayak, I request you to get back in the queue.

- **Mr. Ravindranath Kayak – Sunidhi Securities & Finance**

- Just the last question, 10 to 15% on pulp capacity only, right?

- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**

- In production capacity.

- **Mr. Ravindranath Kayak – Sunidhi Securities & Finance**

- Okay, thank you, sir.

- **Moderator**

- Anyone who wishes to ask a question please press \* then 1. The next question is from the line of Samir Kapadia from Rockstud Capital, please go ahead.

- **Mr. Samir Kapadia – Rockstud Capital**

- Thank you for taking my question. Can you please let me know what is the current market size in the paper cup segment and the cutlery segment and what growth rate is it growing?

- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**

- In virgin paper cups contract we have already entered into which I was mentioning '17-18 financial year it was almost 10 lakh tons. But it is growing at a rate of over 12% every year, number one. In the paper cutlery segment for food deliveries and other packaging items that segment is I think there is going to be blast in that demand in the coming 2 to 3 years because if they stop single use plastic, then with all the companies becoming environmentally conscious and shifting to these products. So the demand is going to be very, very heavy, so I don't have the figures at the moment.

- **Mr. Samir Kapadia – Rockstud Capital**
- Can you give me some kind of estimate in terms of what kind we can expect, will it be higher 20% kind of a range for the initial 2-3 years at least.
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- Increase?
- **Mr. Samir Kapadia – Rockstud Capital**
- More than 20% kind of a growth.
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- Yeah, definitely.
- **Mr. Samir Kapadia – Rockstud Capital**
- And who are the current players in that segment. One I heard of was Yash Papers if I have understood it right.
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- Yes, Yash Papers is one and then there are many small units in different parts of the country who are making like cups and katoris and glass and all these, they are at a very, very small level. They have machines with a capacity of 600 kgs per day and so and so. But our machine that we are planning with them they are such machines where you can make complex design. If you delivery....
- **Mr. Samir Kapadia – Rockstud Capital**
- Yeah, got it. The other thing which I wanted to understand is like are there other players who have already planned an expansion in this area. One company which I know about is JK Papers which they have spoken and they have already announced it, big plant with regards with the cutlery segment. So are you aware of any competition how your peers are planning to expand in this segment.
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- Yeah, JK has announced expansion in packaging but they are going in for packaging board.
- **Mr. Samir Kapadia – Rockstud Capital**

- No, they have also announced in cutlery if I have understood, papers straws and all that paper plates similar to yours.
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- Maybe but I have seen their latest reports, but I haven't seen them entering, maybe they have plans, I do not know of any plans.
- **Mr. Samir Kapadia – Rockstud Capital**
- Okay, secondly in regards with the duty structure, so I just missed out, the current duty in the writing and printing paper is how much?
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- 12%. Hello?
- **Mr. Samir Kapadia – Rockstud Capital**
- Is there any duty on the writing and printing paper now?
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- You are talking about GST?
- **Mr. Samir Kapadia – Rockstud Capital**
- Import duty.
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- Import duty?
- **Mr. Samir Kapadia – Rockstud Capital**
- Yeah, on the newspaper print you said that there is a 10% kind of import duty.
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- 10% on the newsprint government has recently done. Asian countries, South Korea and all these countries they are under free trade agreement that is 0%.
- **Mr. Samir Kapadia – Rockstud Capital**

- In the writing and the printing segment?
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- That's what I am saying Asian countries it is 0%.
- **Mr. Samir Kapadia – Rockstud Capital**
- Okay, and will we be impacted significantly like you know this goes through?
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- Yeah, definitely once we are open to the world market and unless we are able to produce at lower cost and with better quality, everybody is likely to be factored, that has to be seen, and one has to compete ultimately with the international market.
- **Mr. Samir Kapadia – Rockstud Capital**
- Just to get a sense in terms of the cost differential, how different is the cost of production in India vis-à-vis the Asian countries.
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- The main cost is the raw material cost, raw material case here is very costly, and raw material there they get it very cheap. Second is the cost of the finance, we all know that is very cheap there, third is the rate of the power, power we compete by virtue of having our own in-house generation. These are I think 2-3 main things, and then the cost of the chemicals we are importing almost all our chemicals from China and all the base, the hub is now China. And cost of chemicals is also higher in India. These are the main 3-4 factors here.
- **Mr. Samir Kapadia – Rockstud Capital**
- So overall what would be the price, cost differential like in terms of, just to get an understanding?
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- That depends upon like we have our own power so it doesn't affect us. If we go in for international loan like we have gone, the cost that doesn't affect me today, maybe they get at 1%, I am getting at 3.5%, so you have to find....
- **Mr. Samir Kapadia – Rockstud Capital**



- You are talking in terms of raw material?
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- Yeah in terms of raw material definitely it will be almost 50%.
- **Mr. Samir Kapadia – Rockstud Capital**
- 50%?
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- Yeah.
- **Mr. Samir Kapadia – Rockstud Capital**
- Okay...
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- If people are importing wood chips from abroad it is already in line that business is likely to flourish in future, people are looking into that possibility with all the logistics and all still if it is viable you can understand.
- **Mr. Samir Kapadia – Rockstud Capital**
- Okay. And lastly what could be the expected margins in this newer segment of your cup stock and cutlery.
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- In comparison to this writing and printing paper it will be if we have let's say 21% EBITDA margin there so it should be minimum 30 to 35% realization that we have been promised by our prospective associates.
- **Mr. Samir Kapadia – Rockstud Capital**
- Okay. So it would be at least 10 to 15% higher in that?
- **Mr. R.K. Bhandari – Joint Managing Director, Satia Industries Ltd.**
- Yeah.
- **Mr. Samir Kapadia – Rockstud Capital**

- Okay, got it, that's it from my side, thank you.
- **Moderator**
- Thank you very much. Anyone who wishes to ask a question you may press star and 1 on your touch tone telephone. The next question is from the line Herin Dedhia from PM Securities. Please go ahead.
- **Mr. Herin Dedhia – PM Securities**
- Thank you, sir, for taking my question. Sir, book keeping question, I just want to know on quarter on quarter basis that increase in cost of goods, is there any increase in price of some raw material which you chose, is there something else, can you throw some light on it.
- **Mr. R.K. Bhandari, Joint Managing Director, Satia Industries Ltd.**
- Increase in the cost of raw material.
- **Mr. Herin Dedhia, PM Securities**
- Okay, can you like specify?
- **Mr. R.K. Bhandari, Joint Managing Director, Satia Industries Ltd.**
- Yeah Mr. Indar is there.
- **Management, Satia Industries Ltd.**
- Yeah, if we go for the Q-on-Q basis that our actual cost of material consumed is down by around 4 percentile Q-on-Q basis and if you combine by quarter two, we have around 40.70% of cost of material consumed. So it actually comes down due to some wood... the prices of wood chips and other waste paper has come down around 10% to 15%.
- **Mr. Herin Dedhia, PM Securities**
- Okay, yeah. Thank you. That's it from my side. Thank you.
- **Moderator**
- Thank you very much. Anyone who wishes to ask the question, you may press star and one. The next question is from the line of Jaykant Kasturi from Way2Wealth Capital. Please go ahead.

- **Mr. Jaykant Kasturi, Way2Wealth Capital**
- Hello. Yeah, yes sir. Sir I can see a jump in your receivables compared to your past number. Sir any particular reasons for it?
- **Mr. R.K. Bhandari, Joint Managing Director, Satia Industries Ltd.**
- Increase in receivables?
- **Mr. Jaykant Kasturi, Way2Wealth Capital**
- Yeah.
- **Mr. R.K. Bhandari, Joint Managing Director, Satia Industries Ltd.**
- Yeah actually we have been supplying paper to one of the tech sports in northeastern area and the payments there were delayed. So, that one customer is going vast at the end of the quarter our outstanding was in the range of 40 to 50 crores. So, that is the reason for that increase, but now, we have already received almost 20 crores over 20 crores from them and rest of the payment is likely to come maybe today or tomorrow.
- **Mr. Jaykant Kasturi, Way2Wealth Capital**
- Sir and one more, you said you have order book for two months. Can I know the value of it how much?
- **Mr. R.K. Bhandari, Joint Managing Director, Satia Industries Ltd.**
- Two months will be almost over 100 crore.
- **Mr. Jaykant Kasturi, Way2Wealth Capital**
- So it would be somewhere around 100-120 crores.
- **Mr. R.K. Bhandari, Joint Managing Director, Satia Industries Ltd.**
- Yeah, over the 150.
- **Mr. Jaykant Kasturi, Way2Wealth Capital**
- What was the Capex in this first half and what do you expect for the full year and next year?

- **Mr. R.K. Bhandari, Joint Managing Director, Satia Industries Ltd.**
- Yeah Capex for the first half is around 45 to 50... 45 crores and we are expecting another 45 crores in the next half. So the total Capex would be around 100 crores in this year and in the next year we are expecting 150 crores in the another year. So, that is so the entire Capex.
- **Mr. Jaykant Kasturi, Way2Wealth Capital**
- Sir that next your ear that would be inclusive of that enhancement of the capacity right or it would be excluding that?
- **Mr. R.K. Bhandari, Joint Managing Director, Satia Industries Ltd.**
- Including the entire Capex, the Capex would be around 400 crores in the last Q4 of '20-'21.
- **Mr. Jaykant Kasturi, Way2Wealth Capital**
- Okay. Thank you sir. Thank you.
- **Moderator**
- Thank you very much. Anyone who wishes to ask the question you may press star and one. Ladies and gentlemen, you may press star and one to ask a question. As there are no further questions, I will now hand the conference over to the management for closing comments.
- **Mr. R.K. Bhandari, Joint Managing Director, Satia Industries Ltd.**
- Yeah, thank you, everybody. Thank you for your time and listening to us, patiently. Thank you. Thank you very much. Have a good day.
- **Moderator**
- Thank you very much on behalf of Prabhudas Lilladhar
- **End of Transcript**