Xpro India Limited

Q4 & FY'24 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Xpro India Limited Q4 and FY 24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bhaskar, Managing Director, and CEO. Thank you and over to you, sir.

C Bhaskar: Thank you. Good afternoon, friends. I extend a very warm welcome to all participants in this Q4 and FY 24 Earnings Call.

I introduce myself once again as C. Bhaskar, Managing Director and CEO of Xpro India Limited. Today on this call, I have with me Mr. Vinay Kumar Agarwal, our Chief Financial Officer, Mr. Kamal Sewoda, our Company Secretary, and Mr. Shobhit from our Finance Department. I am particularly happy to have the attendance of our Chairman, Mr. Sidharth Birla, who while not participating, wishes to hear your views and our interactions first-hand. Orient Capital, our Investment Relations Partner, is as always coordinating this session. We are continuing the practice started a couple of years ago of hosting this annual conference call for our investor community with the intent of keeping investors and analysts familiar with an update about our annual results and major developments.

I have had opportunity to meet some of you at earlier calls or at the AGM or otherwise, so I shall not dwell on introducing our company. We are transparent in our approach, but I must state that all discussions here will be within boundaries reasonably imposed by our strategic and competitive position and of course, legal requirements where applicable. As you are all aware, Xpro India Limited is a diversified multi-locational company focused on polymer processing with very strong governance standards.

The company is family-led and is a professionally managed arm of India's largest and reputed industrial house, the Birla's. We currently have manufacturing facilities at Greater Noida in UP, Ranjangaon in Maharashtra and Barjora in West Bengal. Our operating units have built up special skills and competencies in the specialized field of co-extrusion with application in the manufacture of oriented films, multi-layer plastic sheets and multi-layer cast plastic films. Thermoforming supports downstream processes for sheets.

Our results for FY23-24 together with quarterly results have been uploaded on stock exchange portals and you may have had an opportunity to go through the press release and presentation that we have uploaded to the exchange sites and on our own website.

Coming to a quick review of key business matters, India, the world's fastest growing large country is expanding annually at 6-7%. Private sector confidence is reportedly at its highest since 2010. Resilience in manufacturing, massive infrastructure spend, a respectable agricultural output, increasing direct and indirect tax collections and strong foreign exchange reserves all portend well for sustained growth.

Improvements to infrastructure and logistical costs can be expected. Job creation remains an urgent priority. Of course, the usual overall risks including but not limited to policy and monetary policy changes. Geopolitics, inflation, and climate will always remain. However, recent reports do indicate there are expectations of a good monsoon, signs of a pickup in rural demand and slowing inflation. There could be a durable broad-based improvement in consumption.

Coming to our own performance during Q4 and FY2023-24, I am happy to state that the company continued to deliver a strong performance reflecting our manufacturing and marketing capabilities and our strong track record as a key supplier in both the white goods and dielectric segments. The Barjora dielectric film line maintained its dynamic performance, operating at almost full capacity and consistently adapting to produce thinner films. This helped align our product mix and capabilities with current opportunities with our clients.

Enhancements were made to the thickness measurement and control systems necessitating a brief planned downtime time as we have discussed earlier also. We believe that favourable market conditions will continue to support our operations. The company holds the pole position as the leading and first mover Indian manufacturer of premium dielectric BOPP films and is recognized in advanced markets for product quality, innovation, and service standards.

We have cultivated our own development capabilities and compete on strong terms against products from manufacturers even in places like Japan, Korea, China, and Europe. Due to the need to align capacity with domestic demand, we have had to temporarily moderate exports. The sectors of electric vehicles, EVs and alternative energy are promising for our company's range of competencies.

Consumer durables including refrigerators manufactured by our OEM customers, key client base for co-extruded sheets and thermoformed liners manufactured at our Ranjangaon and Greater Noida units faced difficult market conditions during the first half of the year as would have been seen in the quarterly results. The offtake for consumer durables saw a limited revival in the third quarter and onwards in anticipation of the festival season and recovery. The white goods markets improved to some extent towards year end and one may expect revitalized demand in coming periods; but competitive demands on our clients and products frequently translates to pressure on our pricing. The government's PLI scheme has likely tempted some refrigerator manufacturers to create sheet capacity for a part of their requirements. Nevertheless, our flexibility with multiple line skills and track record built up over years and our focus on reliability and operational efficiency means most leading brands remain our notable clients.

Now considering the Q4 performance. Revenue from operations was INR128.41 crores against INR124.27 crores in Q4 FY23 registering a small growth of about 3% on a year-on-year basis. Production volumes themselves were almost 20% higher at 7,964 tons while sales volumes or actual physical dispatch volumes were 9% higher at 7047 MT against 6454 in the corresponding period last year.

Further material valued at about INR1.4 crores was in transit due to Red Sea related shipping delays and accordingly was not included in sales as per applicable accounting standards. EBITDA of the dielectric film segment as well as that of the co-extruded sheets and cast film segments improved in Q4 on a Y-o-Y basis. However, the overall EBITDA fell from 15% to 13% on a Q4 Y-o-Y basis in view of the higher share of co-extruded sheets and cast films business in that quarter.

PBT in the overall was higher by 8.5% at INR16.52 crores for the quarter including other income. We continue to see sustained domestic demand for Xpro's Biax dielectric films with our market share still at over 30% with the balance being substantially met through imports. The hot summers that we are now experiencing have also contributed to a healthy outlook for the consumer durables business with refrigerator manufacturers looking to revitalize and strong demand.

Now coming to the full year FY'24 performance. Our performance continues to reflect the overall climate in our markets, the impact of strategic steps taken during the last few years and our position as a key supplier to the growing white goods and dielectric segments. Aggregate production during the year grew by 4.8% to 27,891 tons against 26,607 tons last year excluding toll manufacture from the erstwhile unit which we discontinued in the previous year.

Overall sales value however was lower by 8.9% at INR465.41 crores. The fall in sales value reflects the net impact of the lower polymer prices prevailing through much of the year, discontinuation of toll manufacture at the erstwhile packaging film unit following completion of transfer in October 2022 which had a meant a reduction of INR5 crores in the sales value, and Export consignment of approximately INR1.4 crores, as I mentioned earlier, being still on high seas due to extended sailing times on account of the Red Sea situation.

In this background, the sales of dielectric films were INR145.89 crores against INR156 crores previous year; Co-extruded sheets and liners were at INR255.64 crores and cast co-extruded film sales were at INR59.38 crores against INR53 crores in the previous year. Other operating income was at INR4.5 crores against INR4 crores in the previous year. Production costs were controlled with productivity enhancements and together they contributed to an operational PBIDT of INR66.1 crores against INR74.4 crores in the previous year, with the EBITDA margin being maintained at fairly similar levels with the level being at 14.2% in the year against 14.5% in the previous year. Overall PBIDT including other income was at INR78.33 crores very, very marginally higher than that of the previous year when it was INR78.28 crores.

Continuing to reduce term loans for existing operations, during the year we repaid INR15.31 crores of outstanding working capital term loans under the guaranteed emergency credit line government guaranteed schemes which were actually repaid well before schedule. There are now no outstanding term borrowings for existing operations and accordingly no repayment liabilities in the current year. Interest and other finance costs were also accordingly lower at INR5 crores against INR7.5 crores in the previous year.

Profit before exceptional items and tax was INR62.18 crores against INR59.23 crores in the previous year. We had an exceptional item of INR2.02 crores being a right to recompense exercised by our consortium bankers pertaining to a commitment of 2016, notwithstanding our demonstrated creditable performance on prepayment of outstanding borrowings over the last few years.

Accordingly, profit before tax was INR60.16 crores against INR59.23 crores in the previous year.

Global recognition for Xpro products remained strong. Exports of dielectric films however were curtailed due to capacity constraints while the exports of other extruded sheets and films were significantly higher bringing total exports to INR13.4 crores against INR17.4 crores in the previous year.

Net debt-to-equity stood at 0.07 times and delivered a healthy ROE of 17.5% on the capital utilized through much of the year and 11.5% on the expanded capital at the end of the year. It is material that we look at return on the capital actually utilized through much of the year because the enhancement in capital happened only in March. The ROCE on the expanded capital was about 11% whereas it was around 25% in the case of the original capital which was utilized through much of the year.

The board has recommended a dividend of INR2 per equity share on the expanded capital of the company. Some other important developments include, in July 23, Malabar India Fund exercised their full entitlement for the warrants they held and accordingly 24.6 lakh shares including bonus shares were allotted to them as per their entitlement.

Further capital raises were announced in the year under review to help support our strategic vision of building global significance in the dielectric films industry. We were delighted to receive shareholder approvals at the EGM held on January 16th, 2024 for raising up to INR140 crores via warrants issued on a preferential basis and up to INR150 crores via qualified institutions placement. We are pleased that the company's offerings triggered keen interest from reputable, informed, and judicious investors and in a very short time the company could complete both offerings by issuing and allotting during the year. Total capital raised during the year was approximately INR290 crores.

Let me now update you on the capacity additions in progress. I think many of you are waiting to hear this actually. The first phase of expansion to double capacity at the existing location at Barjora is well underway. Significant progress has been made on implementation at the brownfield site and management believes that we are on track to achieve operations in the current year as announced earlier.

While the possibility that European supply chain issues may delay the arrival of some equipment, and this fact cannot be fully ruled out but at the present moment any significant delay in the broad timeline announced is not evident.

As per our earlier announcements the second new line was to be set up at another appropriate location. After a careful study of relevant factors and as a step towards enlarging our successful footprint in the dielectric film industry's global supply chain, our board has approved the setting up of a subsidiary in the United Arab Emirates. A wholly owned subsidiary is being incorporated as a limited liability company in the free trade zone in the Emirate of Ras Al Khaimah within the United Arab Emirates.

Core equipment is already on order and work on the ground will begin shortly so as to align with our articulated intent of starting operations there in the financial year 2025-26.

These new lines each represent the largest investments undertaken by the company. The expansion is expected to enhance our domestic first mover advantage besides helping achieve a globally worthy capacity and market standing and even greater credibility as a supplier of state-of-the-art dielectric film products and intelligent solutions.

Furthering our sustainability initiatives and in accordance with the agreement with Tata Power Group the company acquired 26% of the equity capital and rights thereof in TP Mercury Limited for INR1.35 crores. The installation of generation equipment of solar power generation equipment is approximately 90% complete. Tata Power had communicated some delays in transmission system. However we anticipate that the supply of lower cost solar energy through open access to the company's Ranjangaon unit would commence well before December this year.

With this, I open the floor to any questions and answers. Thank you so much.

Moderator: Thank you. We will now begin the question answer session. We have the first question from the line of Pranay Roop Chatterjee from Burman Capital. Please go ahead.

Pranay Roop Chatterjee: I have two main questions with respect to dielectric films both of which pertain to the overall market and your strategy. Firstly before I get into that could you disclose how much of your production in dielectric films is actually in the 6 to 7 micron range or thereabouts? Is it possible to disclose that?

C Bhaskar: Pranay, thank you for your question. Point number one, the exact gauge distribution is something that you will appreciate is almost a trade secret. So, honestly speaking, I would not like to disclose that exact distribution. However, that said, let me tell you that in India today modal consumption and I'm using the word modal very generically, is in the 6, 7, 8 micron thickness. Does that sort of answer your question?

Pranay Roop Chatterjee: Yes, that answers my question and also helps me move into my next question. So I was trying to understand how in the overall market and primarily the data I've used is import data. I've tried to understand two things. One is at all films getting thinner over the years, number one. Number two how are the different film ranges in terms of thickness, how are they priced and then thirdly and lastly who are these guys who are exporting to India I'm just categorizing them into two categories Chinese and non-Chinese.

So what I observe was the weighted average thickness if there is any sense in that word which is simply weighted by the quantity in tons imported and then the micron thickness is actually very steady at 6.5 microns for the last 10 years. And if I look at the sub 3 micron range, I'm not even talking sub 2 sub 3 microns there the market seems to be very small. So I'm just trying to think, this is the line we have installed in India and which would start soon.

What thickness range exactly are you targeting and what blended realizations do you see for the new line vis-a-vis your existing line?

C Bhaskar: Okay. Let me answer your last question first. You will again appreciate that the blended realization on plans is not a subject for a call, but having said that let me tell you two things. One when we talk about a line capability it talks about a range capability. So these new lines will have a capability let's say 2 micron upwards against the higher range in the existing line. So it gives us the capability to meet a wider range of the market requirements- point one.

Point number two - much of the import data that you see, since we also keep monitoring it, is actually a large assemblage of numbers where it's rather difficult to extract too much data from because when you talk about dielectric film import or a capacitor film import, you will find they do not really always distinguish between a metallized film and a plain film. So when you look at those numbers, you will see sometimes the price variances are dramatic and that is because it could be metallized or it could be not metallized, it could be high heat resistant and different types of films. All I am trying to say is that though that data would need a lot more careful analysis.

Thirdly, more important, the trend globally is towards thinner films. Thinner films applicability and application is going up. It is definitely increasing and it is growing, it will become more and more as we go more towards the EVs and towards things like the solar segment.

That said, Indian consumers have not yet jumped in a big way because of the uncertain availability yet or the lack of availability from a domestic source of thinner films. With the availability of thinner films, they would change when there is more certain availability. Remember once the spec is changed for their product and for their end user product, then the supply has to be consistent and that is one reason why this change will take time.

I am not saying it will take a long time, but it will certainly take months. Now having said that, when we start our new lines, of course, we will start at the modal range and then move downwards. So, the lines will deliver market requirement.

These are not standard products produced and stocked and sold. They are produced against confirmed requirements, designed in consultation with the customers. So, there is that one requirement. Also, let me tell you there is a pretty strong export demand, which also we intend. We are already doing it. We have been constrained dramatically during this year by capacity, but the inquiry and the serious intent is very, very strong to export to the Western world.

I do not think we will export too much to Southeast Asia or the Far East because of China, as you yourself said. So, that is a summary. I think I have answered most of your questions.

Pranay Roop Chatterjee: Got it, sir. That is a brilliant answer indeed. My last question is on competition and this also alludes to that I broke up the market into Chinese and non-Chinese and what I noticed was on an average basis every year over the last 10 years, the Chinese guys were at least 20% cheaper than the non-Chinese guys and in the latest fiscal year, both of them were in the range of 500 to 600 per kilo.

Now, obviously, metallized, other characteristics, you are right. There is a possibility that that is muddling the numbers, but the point is that I am trying to understand who will you replace. Let us say the first time the line starts, day one, week one, month one, whose demand are you taking away?

C Bhaskar: I have got your question. Remember, stage one, India is today importing approximately 70% of its requirement of what we call base films. There are other types of films which are different, which also will be offered for the same application or similar application.

But when I come to the fact that the first thing that we will target is this 70% which is being imported into India. Of course, when I say first thing, it is other than the exports. Now, within this, yes, there is Chinese material. There are Indian players trying to play the game, certainly there and it is not correct to assume that dielectric film is a single product. There are a number of specs, there are a number of applications, each one requiring different formulation, different specs, most importantly, different rigor of application. Now, we would work towards substituting only at the upper end of that band, not at the lower band.

So, I would be happy if a Chinese product continues to cater to the lower end of the market because it actually leaves me free, capacity free to meet the higher value added ends. Now, that some of it you would have seen through the price differences. Yes, I know we are more expensive than Chinese film, but then I guess if you offer an engineered product with a guaranteed, when I say guarantee, I do not mean a physical guarantee, but with a moral guarantee for performance, you have to be higher priced or you deserve to be higher priced. I am sure you will agree.

Moderator: Thank you. We have the next question on the line of Romil Jain from Electrum PMS. Please go ahead.

Romil Jain: First question is, if you can throw some more details on whether we see the capacity coming up in, let us say, Q1 or more from a quarter angle, which quarter do we concentrate focus more on? That is the first one. Second is, we do not see more of a CWIP or any advances that you would have given for this capex? So, when will we start seeing some kind of capex there or numbers in the balance sheet?

And third question is, in terms of capacity building, I am just trying to understand globally what kind of capacities are coming up, because if you know you will order today and it takes three to four years for the order to come, whether it is difficult to manufacture at the manufacturer level or they are also having more orders globally and hence it is taking more time? So, yes, I mean, these are the three questions.

C Bhaskar: Okay. Thank you, Romil. Somehow I have noted down two questions, but if I leave out something, feel free to interject. Now, your first question was, in which quarter do we start? We have all along maintained that we will be operational definitely for the third and fourth quarters of this year, which I mean is the second half. In our current reckoning, we do not see any change on that. We should be operational definitely in the third quarter of the current fiscal. Okay. I trust that answers your first question.

Okay. Your second question was regarding CWIP. One reason you are not seeing very much of CWIP is simply because some of it would be in capital advance for new plant, not necessarily as capital work in progress, because some of it is also in the capital advance so that is two

Point number 3….

Romil Jain: What is the number on that? How much money is sitting there?

C Bhaskar: I will tell you the third one, which is the most significant one is that if I take the key lines, the key lines are 85% funded by, 85% of their costs are actually funded by supplier credit in the nature of an ECB. Right. So, which is things like Hermes backed, which are insurance backed. So, those actually trigger in later. So, you will find at one point there will be a single massive entry, which will add to it when that payment is made out.

These are the reasons why you are not seeing them. But suffice it to say, the payments are galloping now because we are at the tail or almost at the tail end of the project, of the first project at least. So, naturally, you will see payments galloping every month at this point of time. So, probably when you see the June quarter results, where you will see much more would have been already been paid out.

Romil Jain: Okay. Got it. The third question was on the capacity built up by the global players…?

C Bhaskar: Sorry. I mentioned I missed the third question. So, right. So, on that, let me tell you that there are very few, very, very few in fact, good quality or capable people to produce lines even for simple bi-axially oriented materials, whether it is polypropylene or polyester. Now, within this, the bulk of the market is actually for packaging where the volumes are humongous compared to the volumes we talk about for capacitor films. So, those manufacturers, there are really very few.

I mean, I do not want to advertise somebody, but there is someone who is very good, there is someone who is good, and that is about it. And so, you will find that they are bogged down by packaging film line orders substantially, even though packaging film market today looks dicey when you look at the Indian situation, but tremendous capacity expansion continues in that segment, and which is why there is a very long delivery period. But having said long delivery period, just buying a machine does not give you the skill or the capability to produce a good dielectric film.

It is not like just because you buy a blender, you are not going to be a good cook and well, at least I am not going to be a good cook just because I bought a blender. So, you need to know how to use that and turn out a good dish, which is exactly the situation, Romil, here in the case of making a good high-tech product, especially for the value add business. Surely, there will be competition and as a principle, we encourage competition, but that makes life more challenging and fun.

Having said that let me tell you, Romil, again, that once the Barjora expansion and the new line at the RAK goes in, we will.., okay, let me, let me divert for one moment. We are already considered for quality, product, innovation, development, among the top handful of companies, and I mean one handful of companies in the globe; where we take a hit is on capacity. Now, once we have these 2 lines in, we will be among the top handful, even in terms of capacity in a non-China world.

Now, fortunately, or otherwise, there is definitely a China Plus One philosophy, which is all over the world. Plus, our focus is always going to be on the upper end of the applications and the upper end of the films, rather than the commodities. As you might have heard me earlier, a capacitor is there in your fan, bottom end, hardly a rigorous application, but that is also a capacitor film, also imported into the country, because at the end of the day, only 33% is available domestically. I do not want to be in that business of a simple bottom end film. It goes all the way up. I would rather do a locomotive or a capacitor for an EV, which is where the challenge lies. Does that sort of answer your question, Romil?

Romil Jain: Yes sure. Just a clarification. So that means globally, not a lot of capacity is coming up in the dielectric film in which we are expanding, right?

C Bhaskar: Not a lot.

Romil Jain: Okay.

C Bhaskar: There is capacity, of course. I will tell you something. The point I was trying to make, which I did not elaborate on, was that there are only a handful of good companies in this business. Other than China, which has a proliferation of companies, globally, you can probably count on one hand the established companies in this business. And you need to be rigorous.

Again, as I was explaining to Pranay earlier, even a company which buys base film and metallizes it and sells the metallized product is selling a dielectric film. So, you should need to distinguish between a base film manufacturer and a metallizer for example, a large Indian BOPP firm, a company, has announced that they are getting into dielectric films. But they are actually getting into metallizers, which is good for us because we would certainly tie up with them to sell them base films.

Romil Jain: Got it, sir. Thank you so much and wish you good luck.

C Bhaskar: Thank you, Romil.

Moderator: Thank you. We have the next question from the line of Naitik from WhiteOak Capital. Please go ahead.

Naitik: Thank you, sir, for taking my question. So sir, first if you can help us with the EBITDA split between Biax and Coex division for this year.

C Bhaskar: Sorry, I missed that. You wanted the?

Naitik: EBITDA split between the Biax and Coex division.

C Bhaskar: Interesting. Now, the EBITDA, the range for the dielectric films, as I have said earlier, and I am sure, certainly, I think we have met earlier, the EBITDA margins for the dielectric film is, I am not going to go into a very specific number, I am going to give you a range, remains over 40%. The EBITDA margin for the other business, for the Coextruded sheets and films, is in the range of 5% to 6%, which is where it used to be. So it is sort of at the same level as it was through much of last year.

Naitik: Even for current year, we have earned 5% to 6% margins in our Biax division?

C Bhaskar: No, sir, you are talking 5% to 6% is the Coextruded sheets/films business.

Naitik: Right. And even in the current year, we have earned similar margins?

C Bhaskar: That is right. In fact, if I take Q4, in Q4, as I think I read out, actually, in Q4, it was a very interesting phenomenon. Both the businesses did a higher EBITDA. But what happened was, the share, typically, the share of our Coex business is, of the two businesses, one-third, two-third, as you might recall from earlier. In the fourth quarter, the share of the Coex actually went up to a little over 70%. I am not talking EBITDA share, I am talking sale value share. Because of that, the EBITDA appeared to go down, whereas actually, both individually, the EBITDA went up.

Naitik: Got it.

C Bhaskar: You know, it is just an arithmetical, quirk that happened actually.

Naitik: Right. And sir if you can call out the volume for Biax division for this year?

C Bhaskar: The volume for this year, just give me a jiffy, I will give you a sharper number. The Biax dispatches or the Biax sales were like in the earlier year, very similar. It was 3,600 and something tons.

Natik: Got it, sir. And sir if you can also give the capex guidance for FY '25 and '26?

C Bhaskar: We have indicated, one thing is what would happen by FY '25-'26, for sure, the existing line would be commissioned, i.e. the Barjora expansion would be commissioned and done in 24-25, so the capex would have broadly been incurred. Now, in the '25-'26, we should be working and should be close to or should have commissioned the other line in the Middle East. So, that would be another INR250-odd crores that we would have invested there, through the subsidiary.

Naitik: Right, got it, sir.

C Bhaskar: And we are toying with another line to go into a next level of technology and manufacturing process for the same application. But that would be beyond, that would be another year or so beyond.

Naitik: Okay, got it, sir. And sir, just to going back to the EBITDA question, so in this year on an absolute level, if you compare against FY '23, our EBITDA has declined by 11-odd percent, right, from INR74 crores to about INR66 crores. So, if you can just help us understand which division hurt us more in this particular year?

C Bhaskar: Let me put it to you this way. If you really look at the EBITDA margin, it went down from 14.5-ish to 14.2-ish. So, as a percentage, it is really not gone down so steeply.

Natik: Right, but our revenue grew, right? I mean, our revenue decline was lower, right?

C Bhaskar: Revenue declined for various reasons, which I had mentioned to you.

Natik: Right, got it.

C Bhaskar: Now, revenue decline had multiple reasons. Since you asked the question, let me give you a sharper answer on that. One was raw material prices through much of the year were down. Now, my sales went down by 7.8%. Raw material prices were down circa 11%, point one. Point number two, if you see the sales decline, something like INR5 crores came out of the job work we did on the old packaging BOPP line, which we sold off, remember, which we had, I had mentioned that.

So, that was another INR5 crores. Thanks to the Red Sea situation, I have material worth almost INR1.5 crores, which sailed from India between January and March, which was on 31st March still on high sea, taking much longer. Accounting standards required that we did not count that as sale. So, there are some of these factors. Of course, sales went down, but much of it was, you remember, whether we take, in the Coex business, we are selling prices directly linked to the raw material price. And that, is two-thirds of our business. So, when the raw material price went down 11%, straightaway that would have had a direct impact and the price would have gone down.

Dheeresh: Wait, Bhaskarji, this Dheeresh here, Coex, I understand, if you can, split the business.

Moderator: I would request you to kindly come in the queue for follow-up questions. We have the next question from the line of Pradyumna Choudhary from JM Financial. Please go ahead.

Pradyumna Choudhary: Yes. Hi, sir. My first question is, if you can just give the revenue contribution for Coex and Biax for the full year FY '24?

C Bhaskar: You want the revenue split? Give me a jiffy. Excluding respective other incomes, which both of the divisions have, and shall I just give it to you product-wise, because we have a multiple product in this Coex, but give me a jiffy. The dielectric film sales were 146 against 156. The Coex, the sheets and liners, and let me add the film to it, was 311 against -- a little bit against 340. There was another operating income of about INR4.5 crores against INR4 crores.

Pradyumna Choudhary: So, for the Biax division, why was there a revenue decline?

C Bhaskar: At the end of the day, polymer prices determine the selling price. It could be an immediate impact or it could be a formula-determined price adjustment for major customers. Now, as I mentioned to you, polymer prices went down approximately 11%, between 10% and 11%. And I am talking about polymer consumption, not for stocking or something. So, when the consumption cost went down 11%, we adjusted price as we are a fair player - an intrinsically fair player and we work on long term. So, our principle is that the prices are adjusted when there are major swings in the raw material prices. Of course, that works both ways and I think in the petrochemical-related business, we have to respect that there will always be price fluctuations depending on various situations, including geopolitics.

Pradyumna Choudhary: Understood. And secondly, my top-of-the-envelope calculation suggests that we have not really seen a shift in generalizations yet in terms of due to better product mix like I am accounting for this 10%...

C Bhaskar: I mean, I am going to pre-empt your question, merely in the interest of time, but let me make one thing clear to you that this year, I have had a zero-capacity addition. In a zero-capacity addition, my plant is firefighting all the time to balance customer load. So, like it or not, I have to give a range of products to a regular customer from the bottom to the top. I mean, I can't sell a shirt with no button. Right? So, I have to give a package to many customers. So, there is no way you can see that impact of value addition mix till capacity comes in. So, my volumes are pegged at available capacity. My mix is determined, my value-add or high-value-add to low-value-add product within the dielectric film framework is determined by the mix that a customer would need. I hope that clarifies your question.

Pradyumna Choudhary: Yes, yes, it does. And just one last question. Sorry, two questions. One is, since we are talking about starting production from the new line in Q3 onwards, so have we already received the machine or when exactly is the machine coming?

C Bhaskar: The machine, let me tell you, these kinds of equipment are massive numbers of containers, massive number of pieces. I mean, my guess is it would come in 50 to 60, 40-foot containers. Now, equipment comes in small bits and yes bits have started arriving at the plant.

Pradyumna Choudhary: Okay, fine. And why are we going to the Middle East…

Moderator: This is the operator here. Sir, I would request you to kindly come back in the queue for follow-up questions?

Pradyumna Choudhary: Yes, that was just the last question, then I'm done. Why are we going to the Middle East instead of setting the capacity in India itself?

C Bhaskar: Okay, there are many reasons. One, we are very clear that our product, our skills put together deserve a global standing. So, we want to be in a place from where, a location from where we can meet the US and European requirements conveniently. At the same time, if you are in a good port in the Middle East, you are practically in Western India if I compare it with, say, a location like Bengal where we are today. So, we are not losing a locational advantage. Importantly, India and the Middle East, India and the UAE have in place an FTA agreement called the CEPA, which allows free trade across. Notwithstanding that, I'm going to be in a free zone in the UAE. So, we are also hedging risks. And as you are aware, there is a big thrust to this India-Middle East corridor.

We want to be one of the first utilizers or one of the early utilizers of the benefits of that corridor, which I think is a near reality now. Both our end and the Middle East are very, very seriously working at it. When I say our end, I mean our government are working very seriously at it. So, we are hedging risks. We are going nearer a market. We are going to places where in the long term energy should be stable. I will not say polymer availability will be easy because this is a special polymer, may or may not be available. But it's not available in India either. And I'm not even sure if it's available easily in the Middle East itself.

Pradyumna Choudhary: All right, sir.

C Bhaskar: I hope that clarifies.

Pradyumna Choudhary: Yes. Exactly.

Moderator: Thank you. We have the next call from the line of Manan Shah from Moneybee Investment. Please go ahead.

Manan Shah: Yes, hi. Thanks for the opportunity. I wanted to understand why did we go ahead for such a large fundraise? Because since 80%-85% of the capex was going to be via supplier funding, supply credit. And we had already secured funds in the first round from Malabar for this capex. So, what was the need to go for such a large fundraise?

C Bhaskar: Okay. Let me, the answer would be very, clear. 85% of the ECB, supplier credit in the nature of ECB, only takes care of the core line. Now, in this business, the core line is less than half the total project cost. And I emphasize less than half the total project cost. There are areas, which I mentioned before that of the plant, which for example, required extremely high purity inside, extremely, highly pure air, clean air, as pure as you would find in an ICU.

All these things add to cost. There are downstream equipment, which are very expensive. And because we are handling an extremely thin film, even 6 micron is extremely thin, let me emphasize that. Somebody asked me what was the split? 6 micron is as difficult to handle as is very, thin film, gets more and more difficult, of course. So, all those equipment are expensive.

So, the idea was that we are not going to be facing any delay or anything in this project implementation for want of funds. Our cash generation looks strong enough to have supported it without these raises. But nonetheless, remember cash generation comes in as each unit starts operation, whereas my, spend would be earlier.

So, it was a timing that we wanted to factor in. And apart from these two lines, we are toying with one more. So, we thought let us see whether that make sure that we can cover it. All that said, we also wanted to make sure that we were done with the raise well, before political uncertainties of the election kicked in. Everybody assumes foregone conclusions but as risk management in a business, I have to assume that anything can happen. Does that answer you, sir?

Manan Shah: Yes, that answers my question. Thank you. My next question was the lead time from the supplier, which you had earlier indicated that at lead time still maintains at those levels or there has been some contraction?

C Bhaskar: I will tell you what, there are marginal improvements. And I emphasize marginal. And why those marginal improvements are there are simply because uptake on packaging lines has gone down a little bit or is going down other than commitments. Because I am sure you are aware, all of you monitor the polyester film business in India, for example. I think you are all aware of that position, right? In the cyclicity of that market. So that being in the down cycle now, I think there is a little bit of room available but those are only tweaking out months out of a vendor rather than tweaking out years.

Manan Shah: And just lastly, the Chinese manufacturers, do they also source the machinery from the same supplier or they are largely Chinese-made machines?

C Bhaskar: No, the core equipment, I think they do not have a choice. They might take some of the downstream locally. Now, you might choose to have, mean, there is a lot of downstream equipment to it. Now, you could have lower cost,tot necessarily inferior also, let us say lower cost downstream.

But when you are aiming for the super product, for a super application, we would not cut corners on those. Surely there are certain things which may be good out of China. Even some of these big German players, etc. They have operations in China where they make some of their components. That is still Chinese, although manufactured by them in China. So there is, but for the core line, there is no Chinese alternate. Or any other alternate.

Manan Shah: Okay, fair point. Thanks, I will get back in the queue.

Moderator: Thank you. We have the next question on the line of Gaurav Agrawal from Nine One Capital. Please go ahead.

Gaurav Agrawal: Hi, sir. Thank you for the opportunity. So if I may just pass on one feedback. I have been trying to fix my meeting with you since the last four months, being in touch with the investor relations with you also. But somehow I am not able to fix a meeting. So I would be very, grateful if you guys can accommodate half an hour time stop.

C Bhaskar: Gaurav, let me answer that right away. Yes, I'll ask Orient Capital to fix a meeting at the first opportunity. The only thing I would like to mention is that yes, we have not been able to meet everybody who wanted to meet us. Fortunately, there have been, the interest has been very strong. That said, I'm sure you will also appreciate that we spent our time on making sure we were delivering on time rather than, diverting our attention. But...

Gaurav Agrawal: This is the first priority. If it is possible for you guys, then we will definitely come over.

C Bhaskar: I'm coming to a specific. Where are you based?

Gaurav Agrawal: Sir, I'm based very near to you. I'm in Gurgaon.

C Bhaskar: You're in Gurgaon. I'll tell you what. Some -- if you can share your number, definitely in the next 10 days, we will meet.

Moderator: The participant has dropped from the queue, sir. We will move on to the next question. We have the next question on the line of Mr. Tej Patel from Niveshaay. Please go ahead.

Tej Patel: Yes, thank you so much for the opportunity. So, since in the start of the call, you were discussing about -- the value-added films versus, let's say, the films which are used for normal application. And -- just give us a moment. I think there's some -- yes, now it's okay. So, I was saying, sir, what would be -- Let's say, in your previous call, you said the demand for the dielectric films in India is about 15,000 tons, right? So can you -- I mean, give an approximate between what would be, let's say, the, usage of those films, the high-end application versus, let's say, normal films?

C Bhaskar: Let me put it to you this way. That is actually extremely sensitive information from a marketing perspective. But let me add to that another rider. We sell a film for use by the capacitor manufacturer to make a capacitor. When he shares with me the information on his application, you will appreciate it's under very strong confidentiality clauses. So I cannot actually share my customer's information to the public domain. So perhaps I'll have to beg to be excused from answering that question.

Tej Patel: Okay, sir, no problem. And, sir, you said that our...

C Bhaskar: Which firm are you from? I missed the name.

Tej Patel: Sorry, sir. Tej.

C Bhaskar: Which firm are you from?

Tej Patel: Niveshai.

C Bhaskar: Niveshai, okay.

Tej Patel: Yes. Sir, and one more question. You said that our line would become -- First line would be coming in the third quarter, right? So how much utilization do you see for this financial year and for the same line in the next financial year?

C Bhaskar: Okay. I'm not going to hazard a number on that. But I can tell you that start-up times and reaching a high utilization level are not very time consuming. Not that one will be able to produce at 100% on day one. All machines need to be run in. So one will run it slower first. One would run it on easier products first. So those are normal process. But I will not at this time like to make a projection on how many tons we will produce in this year.

Tej Patel: No problem, sir. And, sir, so I get it you said that, we will start with producing a modal, six micron film on our newer line too. But then still on an average, how much delta do you expect between the price, between the films you are making on the current line versus the new line?

C Bhaskar: Well, the new line, has a capability to go down till below two micron. So if you produce more and more of the thinner films, then that the weighted average price would go downwards. The idea is to cater to thinner films. And the idea is to cater to new applications as they develop. To begin with, it will be a very similar average price.

Tej Patel: And, sir, when are we expecting our second line to come in the UAE in the next financial year?

C Bhaskar: UAE line is targeted for implementation and operation in 2025-26. Tail end, Third quarter, fourth quarter. Third quarter types, 2025-26.

Moderator: It seems like the question has left the queue. In the interest of time, this would be our last question. I would like to hand it over to Mr. Bhaskar for the closing remarks.

C Bhaskar: Thank you all for joining us. I have noted with actually not too much of happiness the comment made by one of our participants that we could not schedule a physical meeting, we will correct that and make sure we have a meeting with you also. That said, I would like to once again thank each one of you for joining us today.

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Moderator: Thank you. On behalf of Xpro India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.