“Xpro India Limited

Q4 FY’23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Xpro India Limited Q4 and FY '23 Earnings Conference Call. As a reminder, all participants' lines will be in a listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during a conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note this conference call is being recorded.

This call may contain some of the forward-looking statements, which are completely based upon our beliefs, opinions, and expectations as of today. These statements are not a guarantee of our future performance and involve unforeseen risks and uncertainties.

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 to this Q4 and FY '23 Financial Results discussion. I introduce myself as C. Bhaskar, Managing Director and Chief Executive Officer of Xpro India Limited. Today on this call, I have with me Mr. Vinay Kumar Agarwal, our Chief Financial Officer, and Mr. Kamal Sewoda, our Company Secretary. I am particularly happy to have the attendance of our Chairman, Sri Sidharth Birla, who wishes to hear your views and our interactions firsthand. Also present is Mr. Himangshu Bakshi, our Senior President and Chief Operating Officer. Orient Capital, our investor relations partner, is coordinating this session.

We are continuing the practice which we started last year of hosting an annual conference call for our investor community with the intent of keeping investors and analysts familiar with and updated about our annual results and relevant major developments. We have had opportunity to meet some of you at our earlier calls or at the AGM or otherwise, and so I shall not dwell on basic introductions to 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. As you are kindly aware, Xpro India Limited is a diversified, multidivisional, multilocational company focused on polymer processing with strong governance standards. The company is family-led and professionally managed, an arm of India's largest and most reputed industrial house, the Birla family.

We currently have our manufacturing facilities in Greater Noida, UP, Ranjangaon, Maharashtra, and of course, Barjora, West Bengal. Our operating units have built up special skills and competencies in the specialized field of co-exclusion with application in the manufacture of oriented films, multilayer plastic sheets, and multilayer cast plastic films. Thermoforming supports our downstream operations for sheets.

Our results for FY22-23 together with the quarterly results have been uploaded on the stock exchange portals and you may have had an opportunity to go through the press release, which we have also uploaded on the exchanges and on our website. Coming to a quick review of key business matters, 2022-23 continued to see the global economy in a state of flux. The outlook remains at best cautious, persistent inflation risks have resurfaced, and financial markets may need to price in tightening while keeping an eye on systemic risks. The Indian economy stands out as one of the fastest growing economies following pandemic-induced shocks.

Of course, a broad range of risks including inflation and climate, for example, monsoon-led remain. To push growth, government is encouraging private capital investments to also drive employment, demand, and productivity. India expects to grow at a moderate 6% to 6.5% in 2023-'24 while the global economy could achieve probably only a 3% growth.

Coming to our performance during Q4 and of course the year 2022-'23, I am happy to state that the company continued to deliver overall strong performance reflecting our manufacturing and marketing capabilities and our strong track record as a key supplier to both the goods and dielectric segments.

The dielectric film line at Biax division delivered a healthy performance with near full capacity utilization and a continuing shift towards thinner films, balancing the product mix with market opportunities. We remain the most significant Indian manufacturer of high-quality dielectric BOPP films.

With own development capabilities, we stand established and compete with imports from multiple suppliers in China, Japan, South Korea, and Europe. Our exports to USA and Germany sustained well. Excitement and growth in the EV segment and non-conventional energy segments also augur well for the range of the company's competencies and products.

Consumer durables including refrigerators, the main client base for Coex division at Ranjangaon and Greater Noida plants faced difficult market conditions in the last quarter and generally after a strong first quarter. One may expect renewed demand for white goods in coming periods. We continue to be the leading supplier of sheets and liners for refrigerators of most leading brands. The white goods industry in general holds good and long-term potential and interest of global players.

Now, considering the Q4 performance, revenue from operations was INR124.27 crores against INR142.8 crores in Q4 FY '22, registering a value degrowth of 13% on a year-on-year basis. Raw material cost increases could be passed on and improved product and customer mix, improved value addition and accordingly EBITDA at INR19.3 crores was 11.8% higher. PBT for the quarter at INR15.23 crores was higher by 16.2%. Biax division reported a revenue growth of almost 25% to over INR45 crores in Q4 FY '23 as compared to the around INR36 crores in Q4 FY '22.

We continue to see sustained domestic demand for Xpro's Biax dielectric films with our market share at over 30% with the balance being substantially met by imports. Coex division markets, however, were dull in Q4 due to muted growth particularly for refrigerators due to a weak summer and stocking from earlier quarters. Key players worked on cost and price reduction. Coex division revenue was INR79.2 crores against INR104.3 crores down by 25% year-on-year reflecting this scenario and also in the light of the very high delivery in Q4 2021-'22.

Now coming to the full year performance of FY '23, there were many new landmarks for the company in the year gone by. Consolidated revenue from operations during the year grew by 8.3% year-on-year to INR510.97 crores up from INR471.72 crores in 2021-22. I am happy to also record that this is the first time the company has crossed a revenue of INR500 crores, which is another new benchmark.

Revenues from the Biax division during the year grew 23.6% to INR159.75 crores as compared to INR129.21 in the previous year. Revenues from Coex division were higher too by 3.7% at INR346.13 crores as compared to INR333.68 crores in FY '22. Revenues from exports, however, were lower at INR17.46 compared to INR22.62 crores in FY '22. Interestingly, exports of the Biax division were higher by about 6% while Coex division exports were lower mainly due to disturbed economic conditions in Sri Lanka, one of our major export markets for Coex products.

EBITDA was higher by 16.6% at INR74.4 crores against INR63.8 crores last year. Our EBITDA margin for FY '23 was 14.6% as compared to INR13.5% last year, reflecting our continued drive towards value-added. Interest was lower at INR7.53 crores against INR13 crores last year and after depreciation, PBT was higher by 45.9% at INR59.23 crores against INR40.59 crores last year.

Accounting for deferred tax assets and liability, which, importantly, has no impact on either operating profits or the cash flow, resulted in a marginally higher profit after tax of INR45.36 crores during the year against INR44.93 crores last year. In the context of deferred tax assets and liabilities, we had to make a provision of INR14.11 crores this year against the reversal of INR4.55 crores last year, reflecting essentially a swing of INR18.6 crores.

Overall debt reduction during the year was INR63.97 crores against INR45.87 crores last year, including through prepayment of domestic loans and external commercial borrowings. It is promising that all long-term loans, other than for working capital application, remain stand-repaid at the year-end and in fact well before the committed schedules.

For FY '23, the net debt-to-equity stood at 0.04 and delivered a healthy return on equity on the expanded capital of 22.4% and a return on capital employed of 27%. The Board has recommended a dividend of INR2 per equity share on the expanded capital following the issue of bonus shares.

Some other important developments. Pursuant to shareholders' approval at the last AGM, the company allotted a little over INR59 lakh bonus equity shares on 6 July 2022 in the ratio of one equity share for every two held on the stipulated record date. As required, a further INR9.84 lakh bonus shares were reserved for warrant holders for allotment upon their acquisition or conversion of the warrants into equity shares.

The promoter group holders of convertible warrants have exercised their option in full ahead of the due date, reflecting their confidence in the company, and have been allotted equity shares and reserved bonus shares thereon. A total of INR4,92,000 equity shares including bonus were thus allotted. The equity capital of the company now stands at INR18.21 crores with material addition to reserves on account of the securities premium.

Last year, we announced the intent to significantly expand capacity for dielectric and other superior grades of our BOPP films. The first phase aims to double capacity at the existing location at Barjora, to be followed by a second phase at another appropriate location. These were expected, as stated last year, to take about two years to four years, taking into account long key equipment delivery periods, the critical part for this investment. At this time, we are happy to affirm that, management has taken many effective strides for implementation of its blueprint, starting with securing supply of two state-of-the-art manufacturing lines for reputable suppliers.

The first line is to be installed at Barjora and is likely to start contributing in FY 2024-2025 and the second line is expected to do so, sometime in FY 2025-2026. Shareholders and other investors will be pleased to note that, this is in line with the two year to four year estimate, which we had originally stated in our annual report for 2022. 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.

The board also approved investment of up to INR2 crores towards 26% equity in a SP with Tata Power Renewable Energy Limited for sourcing solar energy for the Coex division at Ranjangaon, under captive open access mode from a 3.125 megawatt, approximately 4.5 megawatt facility being set up. Utilization of this lower cost energy is expected to commence in early 2025 and would naturally translate into direct savings. The sale and transfer of the erstwhile Unit I at Barjora, manufacturing packaging-grade BOPP films as approved by our shareholders in FY '19 -'20, was completed on October 20, 2022.

We had continued transitionary arrangements, including toll manufacturing at this unit, on account of the acquirer, till the date of transfer. With this, I open the floor for questions and answers. Thank you so much.

Moderator: Thank you. We will take our first question from the line of Pradyumna Choudhary from JM Financial. Please go ahead.

Pradyumna Choudhary: Hello, sir. So, I have a few questions. The first one being, I just wanted to understand, like, I believe, there are certain other types of capacitors as well, apart from dielectric film capacitors like glass and ceramic capacitors. So, could you give some sense on, where these are used and which particular industry prefers, like, certain application-wise, which one is the most widely used and whether there's any threat to us because of these other type of capacitors? This would be the first question.

Also, just wanted to understand, if there's any import duty or any other sort of duties on capacitor films, imported capacitor films. And thirdly, are you witnessing any firms outside of India, like from China or other countries, planning to set up their plants in India for the dielectric film? And lastly, a bookkeeping question, would be the effective capture going forward, like, any sense on that, because there's been some reversal, as you mentioned in your commentary? So, yes, that's it.

C. Bhaskar: Sorry, I didn't get your last point.

Pradyumna Choudhary: So, what would be the effective tax rate going forward?

C. Bhaskar: Okay, interesting. First point, let me take it very easily, and I must clarify to you that, we are a manufacturer of polymer products, and we make dielectric films for the dielectric capacitor film industry. Therefore, it would be absolutely out of place and out of context for me to comment on application of glass capacitors or ceramic capacitors or any other type of capacitors. Be it, let it suffice to say that, each capacitor has its own application. There are film-type capacitors and other types of capacitors. Now, our focus is film-type capacitors. Each type of capacitor has its own dedicated application. There could be very loose borders of interchangeability, but they are not designed to be interchangeable.

Also, let me add that, within the film-type capacitors, the polypropylene film type has the largest share within any kind of plastic film-based, and in fact, the share of the polypropylene in film-type capacitors, has been growing up, year-on-year. So, that is one.

Your second question was, sorry, I seem to have mixed up. Before China, you had another question.

Pradyumna Choudhary: Yes. So, second was, is there any sort of duties on imported capacitor films currently?

C. Bhaskar: The Government of India has a very clear policy of encouraging the electronics and electrical infrastructure industry. Towards this end, a few years ago, it says, they had reduced import duty on most import products for the electronic components industry, and therefore, one of the items was dielectric films. So, today, there is no, last few years, there has been no import duty on the dielectric films.

Interestingly, you must also note that, we are able to stand on our own feet and compete in this circumstance very well too, as we have been doing for the last few years. Your next question was China or anybody else. We have not thus far heard of any major capacitor player looking at coming into India. A few years ago, we had ourselves, set up a joint venture with one of the European players in India. Unfortunately, their own circumstances in Europe at that time had turned not so happy for them, and we bought them out, actually. So, today, there is nobody else who is seriously thinking of doing a JV in India that we are aware of.

Someone might be working at it and we are not aware of it, but we haven’t heard of anybody. And effective tax rate, we have a little bit of tax shield still left, which is about another INR23 crores. After that, we would be subject to income tax at the, under the new regime, which we have also opted for. However, well, once we start our new project, they go on stream, obviously, we will be getting new shields. Next question, please.

Pradyumna Choudhary: No, that's it. Thank you so much, especially your point on no duty being there. So, as being able to stand on our own is really encouraging. All the best.

C. Bhaskar: Yes, sir. I think that is the point. I would request all of you all to appreciate, even if I am asking for self-praise or praise for my company. But the fact is, we have faced the onslaught of imports quite well. And not only on price, you were raising only price. it is equally important that, I must say notwithstanding the fact that others can offer material free of duty for many products, we are costlier than the imported product and the customer is quite happy with it too, which must speak of quality and performance characteristics. Thank you.

Moderator: Thank you. We take the next question from the line of Srinath Krishnan an Individual investor. Please go ahead.

Srinath Krishnan: Thank you. Congratulations to Mr. Bhaskar and the entire team. And nice to see the journey that you have had in the last few years. Sir, globally, there are very few dielectric film manufacturers. What are the challenges in manufacturing these films? And you spoke about mixed improvement in the dielectric film division as well. Can you please highlight on the same? Thank you. Thanks a lot.

C. Bhaskar: Thank you, sir. And thank you very much for your compliments. We value the support of all investors like yourselves and the others on this call today. Coming down to your specific query, over the last few years, we have developed the complete range of products that are required for various applications, within the dielectric film segment in India. Now, when I talk about product mixed improvement, it comes from two dimensions. Dimension one is tailor-made, specifically customized products, to meet specific customer requirements.

Now, you will appreciate that, Mr. Krishnan, that, I cannot go into the details of those. Those are technically stringent and under strong non-disclosure clauses, with my customers. But suffice it to say that, we have developed products to meet specific high performance requirements by customers, and that is point one. So, that is a value-added increased direction. But another direction, which I can talk more about because it is not so confidential, is the change in mix. Now, when you come to capacitor dielectric films and capacitor films, one of the major physical characteristics is the thickness of the film.

And the film is going thinner and thinner, especially as the markets switch to capacitors for more rigorous and new applications. By new applications, things like the EV segment, the non-conventional energy segment, and of course, the eternal drive towards miniaturization. Now, the price differences are dramatic. You could have price swings between, say for example, INR400 a kilo for a thicker film and going down to, say, INR1,500 or INR1,800 for a really thin film. So, the thinner you are able to make, you are able to cater to new markets and you are able to improve the value addition. And this has been our drive regularly, consistently for the last few years, and we continue to do a lot of work in this direction. Does that sort of answer your question, sir?

Srinath Krishnan: Definitely, sir. Thanks a lot. This is very helpful. Good luck for future as well.

C. Bhaskar: Thank you so much.

Moderator: Thank you. We take the next question from the line of Keval Ashar from DSP Investment Managers. Please go ahead.

Keval Ashar: Yes, thanks a lot for taking my question. First of all, congratulations, sir, for a good set of numbers in FY '23. My first question is, sir, since we see such a huge demand in coming years for dielectric capacitors, what are the entry barriers because of which, there are very few players in India, only Xpro, and globally also very few players?

C. Bhaskar: You are right, sir. There are, fortunately, if I may add on the lighter side, there are many entry barriers in this segment. The first and the most obvious one, is the high capital cost and the relatively lower turnover to capex ratio. Now, that is, of course, a given. But more important and what is practically important is the technology, the process parameters, the handling capabilities, in fact, the mindset is important, and taking, there is a long time for development and commercialization of a product. It takes a very long time. And most important, very long lead times, in equipment delivery.

Equally important, there is nothing called a standard off-the-shelf line. So, your machine has to be designed for the way, you want it and with the special characteristics that you want to build into it. Now, as it happens, you could theoretically go and just buy a line and you will make a film. But whether it is, the film that you want, is highly questionable. And these are all the barriers to entry.

Certainly, we also face the barriers, but we entered in a small way and we learned the hard way, modifying a line, taking time to develop. And now, we have the advantage of the early entrant into the Indian market and also the fact that, when the Indian market was hesitant to use an Indian product in early, say, four years, five years ago, we used that time to develop our global market, focusing on few internationally established players, customers, that is, and who were very, very choosy about what they wanted. So, we learned a lot from them also. So, there are many barriers to entry. It is not as easy as it looks. It is not like making milk film. You put it then and you get a film that you used to pack milk products, for example.

Keval Ashar: Understood, sir. So, the next question is, what is the total demand in India for capacitor films in terms of volume?

C. Bhaskar: In terms of volume the demand for capacitor films, I am talking about base films. I am not talking about metallized films because we are not metallizers today. But if I take base films for a couple of major applications, for the main applications, including what is called heavy film, I would say it is about 15,000 tons, give or take, in that region. Per annum, that is. You know, that is, incidentally, friend, that's another, answering an earlier question, that is also one of the barriers to entry. People who are very good at making, say, packaging films, each of their lines turns out 70,000, 80,000 tons a year.

And then when you have a line that turns out 4,000 tons - 5,000 tons a year, it feels very different and it needs to be handled very differently. So, that is the real difference.

Keval Ashar: Understood, sir. And, sir, currently, what would be the realization for our Biax division, if you can throw some light on that?

C. Bhaskar: Well, you have asked a very tricky question, which is possibly wrong for me to answer on a call like this, especially when it is strongly competitive. However, let me tell you that the average realization, if I took, if there were any such meaningful numbers, would be in the range of INR450 rupees a kilo, without any taxes included.

Keval Ashar: Understood, sir. And this...

C. Bhaskar: I must also say that it means... I'm sorry, and let me add, putting together two questions, the question, one, a friend asked earlier also, our value mix change has actually led to this price going up year-on-year in the last few years.

Keval Ashar: Okay, sir. Got it. And, sir, in the past, do we see much volatility in the realizations, or is it more of a structural thing for Biax films?

C. Bhaskar: See, volatility, there will always be price variations. I mean, let me put it to you that way. One of the major causes for price fluctuations are input costs. There are polypropylene, like all polymers, is a petrochemical product. So, there are bound to be petrochemical-related price changes. Those kinds of price changes are pass on's. They do not very, very significantly influence price, but it does. So, if your question is geared more towards like-for-like, are there strong value-added swings, we actually see like-for-like, value-added, a fair bit of consistency and stability going forward.

Keval Ashar: Understood, sir. So, sir, if I got it right, is it a cost-plus-basis kind of pricing we have with our customers?

C. Bhaskar: Let me put it to you this way. If I take my Coex business, which is a commodity, almost commoditized, there it's a straight cost-plus. Here, I will not say it is straight, but it is well-indexed, and it is indexed in a very balanced way. So, a single INR1 would not make a difference, but any material swing would translate to a price change, amounting to near pass-through pricing. I know I am probably sounding confusing, but I think I wanted you to understand that it's not a straight pass-through, but pretty close to a pass-through.

Keval Ashar: I understood, sir. And, sir, just last question, if I can chip in. You had mentioned that there is also an entry barrier where the delivery time for the machines is a longer duration. So, now, if we see higher demand and if we decide to do a capex now for further expansion, how much time would it take us to get the machines delivered?

C. Bhaskar: Typically, if you wanted a good machine and today you decided today, or let us say you went to a machinery supplier today knowing what you wanted, I mean, it is also important to know what you want. So, if you knew what you wanted today and you went to a machinery supplier, you would probably say something like nearer three to four years, actually, inching towards four years rather than three. You will recall, I am not sure whether you have attended any of our calls earlier, but you will recall that I had mentioned that way back when we had decided and we did not want to share our specs with anybody, we had and there was a queue, we actually booked space.

So, that's, so, unless somebody has booked space already, he is not going to be able to get it earlier than what I am saying.

Keval Ashar: Got it. Got it, sir. That's it…

C. Bhaskar: That's a reasonable comfort because if it's a new player, he will have to get it, then there is a stabilization time, he has to understand what on earth dielectric films are all about. So, there are, that's why I say there are reasonable barriers to this entry.

Keval Ashar: Okay, sir. Got it.

C. Bhaskar: And you know, over and above that, once he gets the line, someone who does not know what he is doing, there will be testing, stabilization, burn-ins of the line, all that adds to time really speaking.

Moderator: Thank you, sir. We take our next question from the line up, Pranay Roop Chatterjee from BCMPL. Please go ahead.

Pranay Chatterjee: My first question is regarding your Biax Division. You had a top line of INR164 crores in FY'23. Is it possible in simple terms to define this revenue in terms of the end users? It will help us better understand which parts your business is getting into right now?

C. Bhaskar: I fully appreciate your question and your interest in that breakup. However, let me say that, I mean, although we do get involved with the capacitor manufacturers business, whatever they share with us is on a strict confidentiality basis and a non-disclosure basis. So, I know that I am supplying say capacitor film to capacitor manufacturer X. We may know what he is using it for, but we are not supposed to know what he is using it for. So, to that extent, you will appreciate I cannot share that information.

Pranay Chatterjee: Okay. So, I will tell you what I am trying to achieve here. So, the fact that I have right now is you have INR164 crores of top line, you have 20%-30% market share and from the numbers you gave me, volume and real estate…

C. Bhaskar: I am sorry, 30% just to clarify it.

Pranay Chatterjee: Correct. So, margin is around INR700 crores in India, right? I am just trying to understand if the market is INR700 crores, you have already touched INR165 crores. Where will growth in this market come from? Like one possibility would be the easy application, but I am not sure how large that pie is in the overall capacitor space, right? Because you say you…

C. Bhaskar: Let me tell you what are we chasing? I mean, we are all obviously chasing market expansion and we are chasing the capacity. Now, there are two things. If I take India today, even considering the actual domestic requirement with a little bit of export, India today needs four lines of the kind we have. And we are far from having four lines in India today yet. So, the first target for us is to reduce import dependence. Okay. Target one. Target two, the current volumes have something like a natural growth rate.

Remember, this is including infrastructure and electronic components, both thrust areas, including the PLIs which are expected for them. In that case, it is expected to have a growth of anywhere between 8% to 10% per annum conservatively and this is for conventional applications. Okay. Over and above that, you have got two segments which are sunrise. Now, those are the EV and the non-conventional energy. Elsewhere in the world, the EV requirement and the non-conventional energy requirement are actually driven by the carbon dioxide question and that is creating huge demand for these films.

Just to give you an example, in Japan, there is a very major player. That player's effective capacity has gone down simply because he started supplying more and more to the EV business which is thinner film and therefore more valuable film. By valuable, I mean it is higher priced film. Other than this, now in India actually, both these applications, the EV and the non-conventional are driven by economics. I am not sure whether I would go and buy an EV car because of the carbon dioxide concept. All really are yet, but I would probably go out and buy it because it is cheaper to operate.

So, economics is driving both non-conventional energy like solar and the EV business in India. And wherever it has been mandated, the market growth has been fairly strong as you might have seen, sir. Just to give you an example, UP sort of mandated that the auto rickshaws should be electric. Almost all new auto rickshaws are electric in most of UP today. Huge growth in that segment. So, and probably there will be more mandating in this segment. And of course, all of us are chasing solar power, for example, including our own company.

We are also looking at solar surely from a cost-saving economics also. It is definitely doing good for environmental considerations as well. I hope that answers your question.

Pranay Chatterjee: That is perfect. What I am capturing from you is 8% to 10% organic growth and then some amount of shift import substitution that could add maybe 2% to 3% and then new sunrise sectors or new applications coming in that could also drive some growth. So, if possible it would be a fair statement to make that 15% could be a broad baseline number for the overall market going forward. Would you agree?

C. Bhaskar: Sir, with due apologies, I will think that you are understating growth potential if I were to take a five-year perspective. I mean, if I were to take a one-year perspective, probably your 15% and all are reasonable assumptions. But if I were to take a five-year perspective, both and more capacities available in India, the import substitution will not be another 2% to 3%. It should be another 30% straight per line. And also, the alternate applications as more and more product development happens in India of the EVs, of the manufacture, I think that growth could actually be far more exciting than what we are thinking of.

Pranay Chatterjee: Got it. Perfect. Thanks. I will get back in queue.

Moderator: Thank you. Ladies and gentlemen, kindly restrict questions two per participant. We take next question from the line of Rohit Balakrishnan from Ithought PMS. Please go ahead.

Rohit Balakrishnan: Yes. Good afternoon, sir. Sir, just on this capacity expansion that we are doing for the Biax, so the first phase you said is two lines. The first line will come in FY'25 and the second will come in FY'26. Is there any, what is the total outlay for this first phase? And are we also taking any debt for this?

C. Bhaskar: Okay. Let me put it to you this way. The first phase should be about INR500 crores or a little bit over that. I'm not going deeper into that number at this call, but these are indications, A. B, I think as far as debt goes, our debt would be restricted to ECB to the extent of supplier credit available for the lines principally. That's what we are working on at this point of time. There could be bridging requirements fundamentally because, if I just take these two lines, the GST payout on each of them would be something like 30 crores-40 crores. Now, that means on two lines, it's 75 crores-80 crores, right?

So now, although that's coming back, it's not on my project cost, so to say, but that's funding that we would require. So, we are fine tuning the requirement, although we are fairly far ahead on the project implementation. Intention is to keep debt very, very low to the maximum extent possible fundamentally bearing in mind that we've just turned debt-free, just turned long-term debt-free. Rohit, does that sort of explain what you want to know?

Rohit Balakrishnan: Yes, so just one clarification on this, sir. So, we raised around INR150 crores, you're saying, and we generated around INR80 crores this year, and I think we can generate around something similar, assuming. So essentially, you're saying a significant portion of this INR500 crores over the next two years would be done through internal accruals and would be a minor portion through debt. Is that the right understanding?

C. Bhaskar: That is the idea. As I said, accepting for ECB on supplier credit that's available on the machines itself when they come from Europe. Just to highlight what I'm trying to say, typically supplier credit is available from European suppliers, there's a Hermes bag, that kind, which is typically at a very fine rate over Euribor. I must tell you that we've already negotiated, I'm not going to specify the you will appreciate it's relatively business confidential, but we have rates which are well below 1% over Euribor.

Now, Euribor today is a little over 3%, I mean, depending on the duration that we're looking at. But if I take, say, for example, the last 10 years, Euribor has almost consistently been negative. So you can see the fine interest rate that you're able to get the money at. Even if you take into account the cost of forex covers, it works out crazy not to utilize the ECB possibilities, and which are coming through supplier credit. It would make some financial sense to utilize it.

Rohit Balakrishnan: Sure. I mean, sorry to push you on this, but would you have a rough sense on your peak debt in that sense? I mean, plus minus…

C. Bhaskar: Sorry, I missed that.

Rohit Balakrishnan: I mean, any sense on the, then the peak debt that you including the supplier credit and everything, I mean, just a broad reference to get a sense how much you would sort of take as…

C. Bhaskar: Let me give you the maximum extent that I can get. I'm not telling you what I'm going to draw. I'm going to tell you what's the maximum expense, right? So on European machine supply from reputed manufacturers, the typical supplier credit is up to 85% of the base cost of the equipment.

So say, for example, each of these lines cost EUR15 million. I could get on each of those lines up to 85% or 15%.

Rohit Balakrishnan: Got it. Understood.

C. Bhaskar: Not that I may utilize the 85% of EUR15 million, but that's certainly a range check I will keep available with us.

Rohit Balakrishnan: Right. Understood. And my second question was, so for now, I mean, till the line comes in FY '25, how do you see growth in BIAX? I mean, you mentioned that we are almost at peak utilization. So how does the growth for the next year or so seem to be in this segment?

C. Bhaskar: Okay. Let me tell you, very honestly, if you had attended some of my calls, maybe a year ago, I would have even that time said we were capacity choked. We've been capacity fully utilized for the last three-plus years. And our effort has been towards maximizing whatever we can towards tweaking lines. And then as we are now maximizing the value-added, even if we have to produce a little bit less volumetrically.

So therefore, there's very little that we can do today by sheer volume. We did look at the possibility of sourcing some material, but we found that when you are a superior material supplier, getting in material from somewhere and putting it along with my material would only have resulted in hurting our brand image rather than getting any advantage through higher volume in the interim. I'm talking about trying something like a feed marketing. So we're not. And therefore, the focus is to expedite to the maximum extent the line possible so that we are in the market as soon as possible.

Rohit Balakrishnan: Got it. So you expect...

Moderator: Sorry to interrupt Mr. Balakrishnan, kindly come back to the question queue. Thank you. We'll take the next question from the line of Hiral Desai from Anived PMS. Please go ahead.

Hiral Desai: Hi, Bhaskarji, how are you?

C. Bhaskar: Very well. How are you? I recall you. I think last call. Yes, sir.

Hiral Desai: Yes. So I had a couple of questions. So if I look at the FY '23 performance for us, I think broadly for the full year, it looks fairly reasonable. But if I just call out the H2 performance, both the revenues and EBITDA are down Y-o-Y. And obviously, predominantly because of the pressure on the COEX business. So I just wanted to get some sense on how do you see COEX over next maybe about 12 months to 18 months? Because clearly that space from a volume perspective seems to be under a lot of pressure.

C. Bhaskar: You're right to the extent that COEX during the last year was under pressure because of the white goods business. And white goods refrigerators is a single largest customer segment. So I will not disagree with you at all. I'm sure you're all also monitoring the white goods manufacturers, for example, Whirlpool, who I think had their results sometime last week only.

And you would have seen the statements that they made about the difficulties and the pressures they were under. And I'm only quoting what I read in the press release that they had given.

But that said, I think the market is looking up. Volumes are certainly going up. And there have been some swings in market shares within refrigerator producers. As you know, we supply to most of them, but not all of them. I probably on a public call is not where I should say whom we supply to and whom we don't. But we don't supply to one major manufacturer as anyone who's attended smaller calls would have heard me speak more about that. But that said, that player is doing the best in the country today, volume wise. But this swings quarter-to-quarter. If some refrigerator guy does very well in quarter A, they work all out. And before quarter C, there's a change in that ranking.

Now, any change in this ranking is to our benefit, reasonably. So I would see that there would be change. Now, also two things. I think the difficulty that segment faced last year, one of the -- sir, you will see that our Q4 last year was really high. And when you are comparing my Q4 this year with Q4 last year, it's unfair to the COEX division, only because Q4 last year was all out pressure, people maximize production, thinking they were all coming out of COVID era and were really going to see super times. They produced so much Q4 last year and Q1 this year, that Q2 and Q3 became tough for the white goods markets. Not because there was a sale, it was as much because they had overproduced earlier. And I think that much of that is now liquidated. And so you can see that production seems to be going up.

Hiral Desai: Got it. Fair enough.

C. Bhaskar: And I would expect it to continue. So when you're talking about the 15-month, 18-month time frame, I think much of the agony of the last year in the refrigerators market should ease. Again, let me also add, when I say agony, there were a couple of players who did very well. And there were a couple of players who had more pain. And that itself makes a difference. So it's not that people have stopped buying refrigerators. So it's strategy of each of the players that is material here.

Hiral Desai: Got it. And the other question is what a lot of participants are trying to understand, given that our capacity on the BIAX will come through in March of '25 and then March of '26. So broadly over the last couple of years, despite being at a fairly peak capacity utilization, you've still been able to grow the BIAX division. And some bit of it, as you mentioned, has come from the value-addition. So out of the BIAX revenues, what percentage would be the thin films or the value-added films that you talk about? And once the entire capacity is on stream, what kind of optimum revenue throughput we can see maybe in about FY '26?

C. Bhaskar: Two things, let me tell you. The actual product mix is very, very sensitive information, which you will excuse me if I don't share on a public -- on a fairly wide court. I mean, it's absolutely competitor sensitive. But that said, you're right. In the last couple of years, whatever material progress the division has made is through value-added, which is coming from the value-added product mix change, that is, addition on of value-added products.

How this mix changes, we are gearing up capacity on our new line, for example, we will definitely go down to sub-two. Now, how well the markets are -- how much of market growth is there, is a little debatable. But let me assure you that we see average price moving up fairly strongly over the next two, three years. And that is very, very material.

So, the trend of the value of the average price going up would definitely continue through the next few years. I mean, for example, if I look at -- in 2021, our own average price was, I mean, I'm just throwing a number, but it would be close to that, would have been INR260 crores-INR270 crores in that range. And it has gone up consistently to, I answered a question earlier where I said it's INR450 crores thereabouts.

So, you can see that's in two years. Now, obviously, that's material has haven't gone up that much in two years. Much of that is product mix change. So, without answering your question specifically, I'm giving you the feel of it that yes, product mix changes are critical to this segment going forward. And as you can see, even the existing average mix is a fairly rich mix.

Moderator: Thank you. We'll take the next question from the line of Chinmayi from Moneybee Investment Advisors. Please go ahead.

Chinmayi U: Hello, sir. Thank you for the opportunity. So, first, I might have missed that earlier in the call. Can you give us the production volume in the BIAX and COEX division for this year?

C. Bhaskar: Sure. So, our total production for this year, COEX was about 28,000 tons, 27,857 tons. And BIAX was 3,635 tons.

Chinmayi U: All right. Okay. And, sir, one more question with regards to the value-added segment in the dielectric film. So, the new capacity that is coming up, the production for the thickness of the dielectric film is specific to the line or can you explain a little more about that?

C. Bhaskar: In all manufacturing processes, there is a range. So, our current line, we do, our averaging is around 5 micron, 6 micron is averaging. And now, obviously, we go lower, but we can go down to something like 2.75 micron on the average line. And obviously, we can go up to, I don't know, 13 micron, 14 micron. And if you take the new line, the lower end, which is the one that's critical, we can go down to a guaranteed 2 micron and possibly below 2 micron. Our goal is to be able to make 1.5 micron.

Chinmayi U: Okay. And, sir, one more, the last question I have is with regards to EV. So, I just want to understand what is the current total addressable market that you have in the sunrise segments, as you mentioned, in the EV and non-conventional energy?

C. Bhaskar: Yes, sorry, what about it?

Chinmayi U: Sir, what is your total addressable market in those segments?

C. Bhaskar: Actually, these are new market segments. And I must emphasize that when we are looking at this new segment, we are not looking at this segment only in the country. We are looking at this segment on a global basis. Globally, we expect, not we, people who have studied these externally, carbon dioxide people who have studied, expect that the volume requirement by 2030 would be something like the equivalent of almost 70 lines, 80 lines like the kind we are thinking of. And obviously, that many lines can't come up. So, what we are really looking at is to address the global market. The market size globally is several times, in fact, several tens of times, the capacity that we are looking at.

Chinmayi U: All right. And sir, is there any competitor in India which is planning to enter into manufacturing of dielectric films, according to you?

C. Bhaskar: Well, let me tell you, a couple of players have tried, somebody is trying very hard, but market acceptance takes time. I would not like to decry any producer. We are a producer ourselves. And yes, people are trying, I am sure they will try and why not. But I do not see significant competition in the long run. And if, although, I would emphasize that we would love competition, because that actually brings out what we are better about and what we are all about. I hope that answers your questions, Chinmayi. Categorically, in other words, I am not going to say anything plus or minus about anybody else who is trying to get into this segment.

Chinmayi U: Absolutely. I understood. Thank you so much.

C. Bhaskar: Thank you, Chinmayi.

Moderator: Thank you. We'll take the next question from the line of Vishal Prasad from VP Capital. Please go ahead.

Vishal Prasad: Hi, sir. So, last year, when I asked about opportunities in the export market, you had mentioned that we do export, but there is huge opportunity in domestic market. But now, it seems we would be looking at export market. So, is it possible for you to talk about what kind of opportunities do we see there? And if we are already working with some of the customers?

C. Bhaskar: Okay. Good question, sir. Yes, the export opportunities are enormous. Now, again, the export opportunities come from existing markets. And export opportunities also stem from the sunrise segments, which are growing faster outside of India than in India, as you can well imagine. Having said that, even with our restricted capacity, we are working on export. And in fact, you will find that the exports, as I stated earlier in those brief points that I gave earlier, our export from the buy exhibition actually went up 6%.

Small, but it went up because it was constrained by available capacity. So, our existing customers are actually asking us for more supplies. Many new customers are talking to us about supplies. And even many of the global big players in this segment have, we have got our films approved by them for potential supply for their own markets when we have capacity available to supply. So, we are working at it. We are ready once our capacities are in place. Obviously, I cannot make a commitment to supply today when my lines are a few months away.

Vishal Prasad: Right. And you mentioned our capex would be 500. So, 500 is for one line or both the lines?

C. Bhaskar: I am not going into the details of the capex. But let me tell you, each line's base cost would be a little over 250 crores on base cost of the lines. Of each line would be 250. So, 500 would be base cost of the two lines put together.

Vishal Prasad: Okay. So, last question. I mean, I know now we are going sub, we are trying to go below 3 and below 2. So, it is difficult to ask.

C. Bhaskar: Sorry, sir, I missed that last line.

Vishal Prasad: No, I am saying since we would be going sub 3 and sub 2, so the thickness will go down. So, it is difficult to answer in terms of asset turn. But is it possible for you to just give a hint on what kind of revenues we can look at, given the prices which are there today?

C. Bhaskar: Suffice it to answer very simply that the asset turns would improve significantly over where they are. I think you would have seen that in the last two years itself on share, on the same capex, you would have seen the higher turnover coming in from something like 60, 70 crores. I think we have gone up to 160 crores in a couple of years. So, that you can see what is happening to asset turn.

Moderator: Thank you. We take the next question from the line of Pavan Tourani from Citrus Advisors. Please go ahead.

Pavan Tourani: Thanks for taking the question. Sir, you said that in the new lines, you could see the size going up to 2 micron.

C. Bhaskar: Down to.

Pavan Tourani: Yes, down to 2. So, I am just trying to get a sense of what could be the realizations that we could be expecting going forward? Because the growth that we have seen, even over the last one year is a mix of both volume growth and primarily it has come, the growth has come from the product mix changes. So, going forward, what, if you have a ballpark figure of what could be the growth and realizations in the next two to three years?

C. Bhaskar: I think, initially, sir, your question is the same as what the last gentleman asked. So, essentially, it is the same thing. When he was talking asset turns and you are asking, what would the price go up to? So, my answer would be exactly what I just said to the last gentleman.

Pavan Tourani: Okay. Sir, and, sorry, if most of my questions are answered, but if you could give a sense of, you know, what is the sales or the EBITDA growth potential that we could see over the next three, four years with all your capacities coming on stream? That would be really helpful, sir.

C. Bhaskar: You will appreciate that what you are asking for is really very, very forward looking. And I think it would be in the best interest not to dwell on that.

Moderator: Thank you. We take the next question from the line of Vikas Mistry from Moonshot Ventures. Please go ahead.

Vikas Mistry: In the opportunity, I will ask a simple question that what are the capabilities which we are looking now and we wish to have three, four years down the line? And how much in R&D are you investing to go below 2 micron and below that such that our value product will increase?

C. Bhaskar: Okay. Yes, naturally, as you will well appreciate, constant research, constant development is essential in any high-tech industry. And naturally, we are doing it. But a little difference is the way we do it is much of our development is actually tied in with our plant and our operations itself. So, it is not that we have built, you know, that we would think of building an R&D center outside of it to do fundamental research. What we are doing is developing products for aim towards value addition, aim towards meeting customer-specific requirements, and aim towards making sure we are future ready. So, I am not going to attempt to give you an answer on how much do we spend on R&D because a fair bit of spend is on R&D, but that would actually be lost in my plant expenses itself.

Vikas Mistry: Okay, okay, okay. Second, conscientious on such capabilities?

C. Bhaskar: But rest assured that you cannot survive in this business, which is a high-tech business, without constant development. And perhaps I must add that in the last, even if I take just last one year, I think from various bodies on quality, on development, on product performance, I think our division must have won up. And innovation, we must have won something like 15-16 awards. Sorry, Mr. Bakshi is sitting with me, is correcting me and saying we won 20 awards in the last year of various things. Aim towards these points which I am mentioning.

Vikas Mistry: Yes, sir. That is heartening to see. So, my next question is that lets put we have a 4,000 tons of line and let suppose you start producing lower thickness from let us say 1 micron to half micron, then...

C. Bhaskar: We are not thinking of 1 micron. It will be 1.5 upwards is what we are thinking. I mean, we are not yet thinking of 1 micron. Who knows, maybe the market will need it soon, but not yet.

Vikas Mistry: Okay. Just for sake, we can say that we are producing 3 micron, then the amount of kgs will be lesser than when you produce 1.5 microns. Then the kg output throughput of the machine or line will remain same and hence the total asset turn that can produce on the same line can typically double or what is the correlation between all of them?

C. Bhaskar: No, no. Any machine has two parameters which are important. One is what you called very correctly throughput. But another very important parameter is line takeoff speed. Yes. If you produce very thin film, then what happens is beyond a point, you cannot increase the takeoff speed anymore and you will have to reduce the throughput. Of course, the value addition more than makes up for the fall in output. But if you have a line that, say, for argument can produce 5000 tons of, say, 6 micron, it can obviously not produce 5000 tons of 2 micron. It would go down, but the value addition would more than compensate for it. Does that explain the answer?

Vikas Mistry: That is absolutely it will compensate. Does it increase by some factor 1.2 times or 1.3 times, something like that?

C. Bhaskar: Okay. Yes, it will go up. It is not straight. If I got exactly the same number, then why would anybody take the pain of thinning? Thinning is a very tough process. It is a complicated process, difficult to operate. I mean, every problem you can imagine including handling is there. So yes, there are problems all around, not only for us, even the user will have problems using when it is very thin, even to handle the web wherever he is putting it to use. But it is technically worth it, which is why people do that.

Vikas Mistry: My last question is on order what we have placed for two lines. But we have very high lead times let us suppose beyond 26. So we are not even thinking to place the order for the next machine by the end of this fiscal year, because it will take another four years for us. And we have all blue skies from our side. And the financing is also cheap, as you said earlier in the call. So what are we even thinking for that for further expansion beyond 500 roads?

C. Bhaskar: I am not making a policy statement or an announcement yet. But yet, yes, we are constantly thinking and working on those lines.

Vikas Mistry: Okay, that's good to hear. Thanks a lot, sir. I keep doing hard work and putting good amount of money into R&D.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I would now like to hand the conference back over to Mr. Bhaskar for closing comments. Over to you, sir.

C. Bhaskar: Hi. Thank you. Thank you, friends. It was a pleasure to join you all again, and to understand your queries, your concerns. So once again, thank you very much for joining us. I would like to reiterate that we at Xpro are committed to consistently offer superior quality products backed by exceptional services to exceed customer expectations, aimed towards making us the industry leader in our chosen segments. Most important, we are trying to make sure that our investors and the investment community is satisfied with what we do and what we deliver. I hope I've been able to share information which is of some use to you. If you require any further details, please contact us or Orient Capital, or we look forward to you joining us at one of our next investor meets or otherwise. Thank you very much again.

Moderator: Thank you very much, sir. Ladies and gentlemen, in case of any further query, you may write to irfan.raeen@linkintime.co.in. That's irfan.raeen@linkintime.co.in. On behalf of Xpro India Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.