Kuantum Papers

Operator: Good afternoon, ladies and gentlemen. Welcome to Kuantum Papers Q2 FY27 earnings conference call. As a reminder, all participant lines will be in listen-only mode. There will be an opportunity for you to ask questions after management's opening remarks. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Naveen Agarwal, Head of Institutional Equities from SKP Securities Limited. Thank you, and over to you, sir.

Naveen Agarwal – SKP Securities: Good afternoon, ladies and gentlemen. It is my pleasure to welcome you on behalf of Kuantum Papers and SKP Securities to this financial results conference call. We have with us Mr. Pavan Khaitan, Vice Chairman and Managing Director; Mr. Jagdeep Hira, Whole-time Director and CEO Operations; Mr. Vikram Kumar Khaitan, Chief Financial Officer; and Ms. Prachi Sharma, Chief Strategy Officer. We will have the opening remarks from management followed by the question-and-answer session. Thank you, and over to you, Mr. Pavan.

Pavan Khaitan – Vice Chairman and Managing Director: Thank you, Naveen. Good afternoon, everyone. It is a pleasure to welcome you all to our earnings conference call for the second quarter and first half of financial year 2027. I would like to thank all participants for joining us today.

This quarter is traditionally the lean season for the paper industry, which was further impacted by a surge in input costs. While domestic wood prices have softened due to improved availability, higher costs of agricultural materials and fuel, along with the impact of the West Asia war on chemical costs, continued to exert pressure on margins, reinforcing the importance of operational efficiency and cost optimization for the industry.

Moving to Kuantum's operational highlights, we achieved a key milestone in our ongoing modernization program with the successful commissioning of PM3 on 28 August 2026, completing the rebuild in a record 59 days against the planned shutdown period of 65 days. The upgraded machine incorporates advanced technologies, including a film press, eye table, table vision, web break monitoring, a state-of-the-art calendering system, and an automatic starch cooking module. These enhancements are aimed at improving production efficiency, strengthening process control, and delivering superior paper quality, further reinforcing our manufacturing capabilities and product competitiveness.

We are proud to share that with this commissioning, all four paper machines have now been successfully upgraded and modernized in line with our mill upgradation plan.

The plant also made meaningful progress in the fine-tuning and optimization of the double displacement digester system for wood pulping. The system has improved wood pulp yield by 1%, while we have seen a reduction in steam consumption from 1.8 metric tonnes to 0.8 metric tonnes per tonne of pulp. These improvements have enhanced raw material utilization and reduced energy consumption, strengthening our cost efficiency and overall manufacturing performance.

At the plant level, we achieved our highest-ever monthly copier paper production of 4,482 metric tonnes in August 2026, reflecting our ability to cater to market demand for high-quality A4 paper.

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During the quarter, we also undertook a major overhaul of our 20 MW turbine generator and 130-tonne-per-hour boiler with the objective of enhancing equipment efficiency, reducing energy consumption, and ensuring reliable, sustainable plant operations.

Additionally, under our Total Cost Management initiative, we implemented a single-vendor chemical solution across both the agro pulp mill and hardwood pulp mill, delivering cost savings and further strengthening our focus on operational efficiency and cost optimization.

On the product development front, our Research and Development team completed the development protocol for PFAS-free 40 GSM oil- and grease-resistant paper for food-wrapping purposes, and this paper has been commercially launched in the market in Q3. This strengthens our specialty paper product portfolio and supports our focus on developing value-added products for evolving customer requirements.

Sustainability continues to be an integral part of our long-term strategy. During the quarter, we achieved our highest-ever clonal sapling production of 17.93 lakh saplings. We also added about 2,300 acres under our social farm forestry program during this quarter, taking our total plantation coverage to over 22,000 acres. These initiatives reinforce our commitment to developing sustainable sources of raw materials and responsible resource management.

Going forward, our focus remains on maximizing the benefits of our upgraded manufacturing infrastructure, driving cost efficiency, and expanding our value-added specialty paper portfolio to support sustainable, profitable growth.

With that, I would now like our CFO, Vikram Khaitan, to take you through the financial performance for the period under review. Over to you.

Vikram Kumar Khaitan – Chief Financial Officer: Thank you, sir, and good afternoon, everyone. Let me now take you through the financial performance for the second quarter of financial year 2027.

For the second quarter of financial year 2027, operational income stood at INR 279 crores, declining 8% quarter-on-quarter. This was primarily due to the plant shutdown of one of our paper machine lines for upgradation and modernization, which impacted both production and sales volume. EBITDA stood at INR 35 crores, with EBITDA margins moderating by 84 basis points to 12.4%. This was primarily due to lower net selling realization during the seasonally lean demand period, coupled with higher raw material and fuel costs amid the ongoing West Asia conflict. Profit after tax for the quarter stood at INR 2 crores, with PAT margins at 0.8%.

Now coming to the performance for the first half of financial year 2027, operational income grew by 16% year-on-year to INR 583 crores. EBITDA stood at INR 75 crores, broadly in line with the previous year. However, higher depreciation and finance costs impacted profitability, with profit after tax for the period standing at INR 9 crores, with PAT margins at 1.5%.

Going forward, our focus remains on improving operational efficiencies, optimizing costs, and strengthening profitability through operational improvements.

With this, we can now begin the question-and-answer session. Thank you.

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Operator: Thank you very much. We will now begin the question-and-answer session. Each participant is requested to limit himself or herself to a maximum of two questions. Time permitting, we shall revert for any further questions that you may have that remain unanswered. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Sanya Jain from Care PMS. Please go ahead.

Sanya Jain – Care PMS: Hi, thank you for the opportunity. Just one question on costs. Could you quantify the amount by which costs have increased specifically because of the West Asia war?

Pavan Khaitan – Vice Chairman and Managing Director: They have impacted the cost of chemicals, particularly sulphuric acid, for which the resources come from West Asia. I think the impact is close to about 2% of sales if you take the entire chemical composition for the operation.

Sanya Jain – Care PMS: And is that on a quarterly or monthly basis?

Pavan Khaitan – Vice Chairman and Managing Director: Quarterly.

Sanya Jain – Care PMS: And because of that, fuel costs would also have increased, so that would have increased our manufacturing costs as well as the cost of bringing in the raw materials. Does this 2% incorporate that as well?

Management: The fuel cost has primarily been on an increasing trend, and the impact is going to be around 3-3.5%.

Sanya Jain – Care PMS: And what relief would we have received from the reduction in wood costs?

Management: Overall, if we look at the contribution level and the financial terms, for both agro and wood, we have been able to reduce overall cost and consumption by around 15-17%.

Sanya Jain – Care PMS: 15-17%?

Management: Yes, of the raw material consumed vis-à-vis Q1.

Sanya Jain – Care PMS: Could you quantify that number?

Management: The absolute number?

Sanya Jain – Care PMS: Yes, the absolute number.

Pavan Khaitan – Vice Chairman and Managing Director: I am sorry, but we will not be able to provide the absolute numbers right now. This is more of a trendline that we are suggesting for the moment.

Sanya Jain – Care PMS: Okay, understood. How is the demand scenario looking? As you mentioned, Q2 was a lean quarter. Given that Q3 would be a better quarter, do we think we would be able to

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pass on any further price increases?

Pavan Khaitan – Vice Chairman and Managing Director: Yes, Q2-Q3 is certainly looking upbeat. There are tailwinds suggesting that there would be a price improvement. However, looking at the Q2 performance, even

Management: And despite passing through a lean period, we were still able to sell whatever we produced. We were still operating at 100% capacity utilization because of the way we have been able to establish our market presence, and we are able to collect orders in advance for our production lines.

Nitin S Dharmavat – Aurum Edge: Did we take any price hike in Q2?

Management: In Q2, no, only towards the end, which did not really have any impact on the Q2 financials. Q2-Q3 will certainly be better in terms of price realizations for us.

Nitin S Dharmavat – Aurum Edge: Do we have any number or percentage for how much we plan to increase or pass on the price hike?

Management: We are expecting prices to increase in the range of 7-11%.

Nitin S Dharmavat – Aurum Edge: That is all from my side. Thank you.

Management: Thank you.

Operator: Thank you. Next question is from the line of Purva Jhaveri from Ionic Wealth. Please go ahead.

Purva Jhaveri – Ionic Wealth: Hello. Good morning, sir. I wanted to get a better sense of the industry. How is the industry looking, how are imports shaping up for paper as well as imported pulp, and what is the price of the pulp that we are also importing? Can you also give a broad sense of how you see the next 1-2 years, or at least the next 2 years, developing? How do you see wood prices trending going forward? That is all from my end.

Management: Over 2 years, we are looking at an incremental increase globally. I am talking globally about pricing going up, which is presently in the range of 3-5%. We could see that the trend is moving up as the global scenario is calming down. Similarly, as Mr. Pawan said, we are looking at increased realizations in the domestic market as well. If we talk about imports, as IPMA, we are looking for some support from the government bodies, including the imposition of anti-dumping duties across all grades, which will benefit the industry.

Management: Also, I think imports are pretty much stable at the moment. We have not seen an increase in imports, which normally occurred over the last 2 years. They have subsided to quite an extent, again because of the Gulf War situation, the cost of freight, and freight costs remaining at a high level. That has clearly impacted and dented the volume of imports coming in. I feel that imports are stable and are not impacting the industry unfavorably.

Purva Jhaveri – Ionic Wealth: Regarding wood prices and wood chip prices, I think they are around Rs.10,000 per tonne. How do you see that going forward over the next 2 years?

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Management: We clearly see an increase in the availability of wood material, which should help positively assess and impact the pricing of that product for us. Wood as a raw material should be more available in the future, with product pricing at least remaining stable or declining, but certainly not increasing. Supporting that would be our own clonal sapling additions, which we have been able to achieve, and we are going to target achieving about 1 crore saplings annually in the next 2-3 years.

Purva Jhaveri – Ionic Wealth: That is great, sir. All the best for the future. That is all. Thank you.

Management: Thank you.

Operator: Thank you. Next question is from the line of Utkarsh Somani from Anand Rathi. Please go ahead.

Utkarsh Somani – Anand Rathi: Hi, sir. Good afternoon. We are seeing that paper imports in India have gone down to a multi-month low because of the increase in ocean freight rates. You have mentioned that we have taken a price hike of 3-5% and expect further price hikes in the near future. Are those price hikes temporary in nature? Do you think we could see a rollback of such price hikes once ocean freight rates normalize, or do you think these price hikes are going to be sustained for at least the next 2-3 quarters?

Management: I feel that these price hikes are going to be sustained for at least the next 2 quarters, primarily because the second half of the financial year is normally considered better for the industry, when fresh demand from all kinds of paper-consuming sectors comes in. The price hike is going to be more sustained over the next 2 quarters. As you said, imports have come down, but exports have also seen a downturn from India to various parts of the world. Again, the impact is because ocean freight rates have gone up. Whatever was being exported earlier is finding its way into the domestic market from Indian players. Therefore, there is a degree of stability in the demand-and-supply situation as far as the paper industry is concerned.

Utkarsh Somani – Anand Rathi: Do you believe that the recent price increase we have taken is sufficient to cover the cost inflation pressure we are seeing in starch or coal costs in H2 FY27 compared with H1 FY27?

Management: This is a constant competitive feature of the industry. We cannot really foresee whether the increase is sufficient or how much further cost impact can arise, because the two move very differently. It is certainly not a cost-push industry where pricing can be increased if your costs increase. Those are happening at their own level, while pricing increases are happening at another level driven by market and operational forces. The positive aspect is that prices have increased and, as I am saying, they are likely to remain on an upward trend for at least the next 2 quarters.

Utkarsh Somani – Anand Rathi: If you can guide us, what would be the share of starch costs as a proportion of revenue, and what would be our margin guidance for H2 FY27?

Management: Starch costs would be no more than about 2-2.5% of the entire paper cost. There are many other factors. Starch is only one component whose cost is rising. There are several other chemicals, such as sulphuric acid, which I mentioned in my opening statement. Raw material costs

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such as wheat straw are increasing. Fuel costs are increasing because coal supply is in a shortage-like situation. Most of the coal in India is being supplied to power plants, leaving the industry to obtain its supplies only from the open market, which has increased fuel costs for us. Therefore, there are many different factors at play. Costs have risen in different ways. We are making everything work by getting the best output, undertaking cost optimization, preparing our products accordingly, and obtaining the best possible realization from the market for our products.

Utkarsh Somani – Anand Rathi: What is your margin guidance for H2 FY27?

Management: I think it should be in the range of about 14%.

Utkarsh Somani – Anand Rathi: 14%. Thank you very much, sir.

Management: Thank you.

Operator: Thank you. Next question is from the line of Madhav Daga from SKP Securities. Please go ahead.

Madhav Daga – SKP Securities: Hi, sir. Congratulations on the numbers. My first question is on the capex side. After the capex, what will be the operational capacity in Q3 and Q4, what will be the production run rate going forward next year, and is that how I should understand it?

Management: We should be able to produce marketable finished quantities of close to 600 tonnes per day. Going forward, although we have the capacity to produce 675 tonnes as well, that was the purpose of the project implementation, that is based on an anchor GSM of 64. Market trends suggest that GSM is moving lower and lower, and a lot of our orders are coming in at 52, 54, and 58 GSM. Therefore, even though we are able to charge a higher price for these lower GSM products, the product mix that we have defined for ourselves restricts our production, which is optimized at a level of about 600 tonnes per day.

Madhav Daga – SKP Securities: There was this CWIP relating to the Rs.675 crore or approximately Rs.700 crore capex that we had earlier announced, which is now complete. I am now seeing another CWIP of around 139 crores. What is that about?

Management: These are only efficiency initiatives that were defined along the way. In such a large project implementation, we found that certain other auxiliary items needed to be installed to achieve the intended efficiencies. That accounted for the amount you are referring to. Currently, there are also two environmental requirement projects being implemented, namely the lime kiln and the CNCG operation for handling all the gases that emanate from our operations. Those are under implementation.

Madhav Daga – SKP Securities: What will be the full-year capex in FY27? What kind of depreciation should we expect at the end of FY27 and FY28?

Management: Capex has been completely covered. We do not foresee any further capex amounts in the near future. We have completely exercised our options. I am proud to say that we have successfully completed the implementation. As far as depreciation is concerned, Vikram, do you have [inaudible]?

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Vikram: It will be somewhere around Rs.80 crores for a year.

Madhav Daga – SKP Securities: Rs.80 crores. Can you please shed some light on wheat straw prices? Earlier, there were some reports that Punjab's wheat production was at its highest. What is your view?

Management: Wheat straw pricing remains uncertain as of now, primarily because of unexpected rains in the area, which occurred during the harvesting time of paddy. Therefore, there is some uncertainty until the festive season is over, and we expect it to normalize after the festive period.

Madhav Daga – SKP Securities: You were saying something, sir?

Management: I think there is currently some aberration, but post-Diwali, we expect wheat straw pricing to come down. Right now, the entire labor force is involved in harvesting the rice crop. Therefore, the availability of labor for loading and unloading vehicles is not there. This has temporarily created a scarcity situation, which is driving up pricing. This higher pricing cannot really be considered a normal situation, which is why, because it is temporary, we expect wheat straw pricing to normalize post-Diwali.

Madhav Daga – SKP Securities: One last question. As you mentioned earlier, coal availability is a challenge. Are we getting sufficient coal in the open market, or is there a crisis there as well? What percentage of our power requirement is coming from coal?

Management: Normally, we are at 85%-15%, coal and agro. Availability is not a concern, but there is a concern regarding the allocated coal received under the sanction, because that has primarily been diverted to the power sector. Availability in the open market exists. Only price competitiveness is somewhat higher.

Madhav Daga – SKP Securities: That is all from my end. Thank you.

Management: Thank you.

Operator: Thank you. Next question is from the line of Nitin S Dharmavat from Aurum Edge. Please go ahead.

Nitin S Dharmavat – Aurum Edge: Thank you for the opportunity. Am I audible?

Management: Thank you. Yes.

Nitin S Dharmavat – Aurum Edge: First of all, congratulations on completing the expansion in record time. I wanted to understand: you mentioned last time that our revenue guidance remained at 1,300 crores for financial year 2027. Now, with the production stoppages due to the expansion, where are we, and are we on target? I also wanted to understand the specialty mix now versus the 25-30% target that we had given earlier.

Management: Yes, we are heading towards achieving our annual targeted sales value of 1,300 crores plus. We are going to achieve that. As far as the specialty paper portfolio is concerned, we are currently at a level of about 17-18%. Going forward, we will reach our target of 25-30% in the next year, or in the next 12-15 months. A significant amount of R&D is required to establish the

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appropriate production and product quality specifications on our machine. Therefore, we do not want to do it in a hurried manner. We will take our time to develop the appropriate product at the appropriate cost and create the appropriate market for it.

Nitin S Dharmavat – Aurum Edge: What were the September–October volumes and PM3 utilization, and has the environmental clearance, or EC, come through?

Management: We have applied for the EC. It is in the advanced stages, and we are likely to receive the relevant approvals soon. As far as PM3's operation in October is concerned, it is quite stable. We established it at an optimized level very soon, which is a credit to the entire team. We are on our way to fully executing and implementing it.

Nitin S Dharmavat – Aurum Edge: What are the annualized savings from this P&L contract? We said that for the chemicals, we now have one large contract rather than several small ones. How long is the vendor lock-in? Will this expose us to a single-vendor supply risk and reduce our cost-pricing leverage later?

Management: That is not the case because both lines have different vendors. We already have the entire vendor portfolio, and the chemical supply was received earlier. We have tested the vendors, and the best one wins. The expected cost saving would be around 1.5–2% on overall chemical consumption.

Nitin S Dharmavat – Aurum Edge: Can you also quantify the Q2 impact of the PM3 shutdown, from 29 January to 25 August, on production volume, revenue, and EBITDA? How much of the margins that were guided at 16–18% was related to the shutdown, and how much was cost-related?

Management: The production loss was approximately 6,300 tonnes, primarily from PM3. At the EBITDA level, approximately 40 CR per tonne would be lost from the top line.

Nitin S Dharmavat – Aurum Edge: What is the remaining 139 crore of capital work in progress, or CWIP? Why did payables increase?

Management: The 139 crores is primarily the balance portion of the projects outlined earlier. These are primarily environmental projects such as the lime kiln and CNCG. They are being implemented in Q3, and that is what the outlay is for. As they are being implemented according to schedule, the amounts will be spent out of these CWIP balances.

Nitin S Dharmavat – Aurum Edge: You mentioned that the demand scenario now looks quite robust. How confident are we about the current quarter and next year? The current quarter would be too early to assess because we have already completed 2 months of the quarter, so it would not be justified. I wanted to understand the subsequent year, financial year 2028. Do you see this carrying over into next year as well, considering the global challenges we have?

Management: My personal opinion is that we should see a far better performance in the next financial year, FY27–28. I think the uncertainties cannot continue for so long. They are going to be balanced out. Even if the war situation remains or another uncertain disturbance arises, by now the economies and markets have, by and large, absorbed the impacts of such uncertainties. Going forward, given the way we are positioned, we are quite confident that with our enhanced capacities

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and the efficiencies of higher production, we should be able to contain those impacts even further and deliver a more robust performance.

Nitin S Dharmavat – Aurum Edge: Thank you, sir, and all the best.

Management: Thank you.

Operator: Thank you. Next question is from the line of Samarth Singh from TPF Capital. Please go ahead.

Samarth Singh – TPF Capital: Good afternoon, and thank you for the opportunity. You mentioned the ADD and anti-subsidy applications covering 48-140 GSM writing and printing paper. Where do they stand procedurally, and what is the realistic timeline for a preliminary finding?

Management: The positive aspect is that the relevant government departments have taken our representation on board. They have listed it for determination and sent it to various other departments for their comments. Based on those comments, they will be able to define the way forward and determine how and when to implement the anti-subsidy duty or anti-dumping duty structure. Normally, once this happens, it takes between 3 and 6 months for successful completion.

Samarth Singh – TPF Capital: You mentioned that imports have reduced because of high container freight rates. Is my understanding correct that the higher container freight rates due to the war have been a net positive for the industry and for us?

Management: Overall, yes, that would be the right assessment. However, at the same time, exports from India to foreign markets have also decreased. In a way, the supply-and-demand situation has, by and large, stabilized. Once exports start recovering, the industry will have to redefine its market strategy and rediscover markets abroad in order to keep this demand-and-supply situation balanced.

Samarth Singh – TPF Capital: What price hikes have you taken in Q1 and Q2?

Management: In Q1, there was no price hike whatsoever. In Q2 also, the entire period largely remained without a price hike. We were able to initiate one only towards the last week of September. That was in the range of about 4%. Going forward, in Q3 and Q4, we are going to initiate, and are hopeful of initiating, a price hike of 7-11% overall.

Samarth Singh – TPF Capital: To clarify, in Q1, I believe we attempted to take a price hike but rolled it back. Is that correct? Have we been able to maintain the price hike taken at the end of Q2?

Management: Yes, the price hike initiated by the industry in Q2 is being maintained. Going forward, the second half of the operational year is generally far better than H1, and we are observing and budgeting for price hikes to go higher in H2.

Samarth Singh – TPF Capital: Until ADD comes into place, are we looking at any other support, either in terms of QCO or an MIP similar to what has been introduced in the paperboard segment?

Management: The representation made to the government includes MIP as well. There is a three-pronged strategy on behalf of the industry: MIP, anti-subsidy, and anti-dumping. The positive

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aspect is that MIP is already in place for the kraft paper and paperboard varieties. Our segment, which is the writing and printing paper segment, has been taken up next. Hopefully, we will see a similar favorable dispensation from the government for our segment as well.

Samarth Singh – TPF Capital: Thank you very much.

Management: Thank you.

Operator: Thank you. Next question is from the line of Arjun Vinay Tambe from {? Yardley Crest ?}. Please go ahead.

Arjun Vinay Tambe – {? Yardley Crest ?}: Good morning, sir. My only question is about financing costs and depreciation costs. When will the deleveraging benefits begin?

Management: Today, we are at our peak debt level of about 700 crores. It is only going to improve from here. I think that over the next 2 years, even if the impact of interest and depreciation is relatively higher, we should be able to absorb it through better business prospects, at least for financial year FY27-28, which is the period closer to our budgeting purposes. We are looking at achieving good operational revenue and profitability to take care of both these items. After that, deleveraging will begin, and we will return to a good operational level.

Arjun Vinay Tambe – {? Yardley Crest ?}: What are the total volumes sold, and what realizations did we achieve in Q1 and Q2? In Q1 FY27, it was said that realizations would be around 72,000-75,000 per tonne in the next 3-6 months. Are we moving toward that or below that? What is the trend? Is it still falling, has it bottomed out, or is it still trending?

Management: In terms of production, in Q1 we were at approximately 46,000 tonnes. This quarter, because of the PM3 shutdown, we lost about 6,000 tonnes of volume. On the remaining machines, we operated at 100% capacity and were able to achieve an output of 40,600 tonnes. In terms of realizations, we are on track. We implemented a price hike in the last week of September, as I mentioned earlier, which we are sustaining, and we are looking at further price hikes in Q3 and Q4, taking the overall price hike to 7-11% by the end of the year.

Arjun Vinay Tambe – {? Yardley Crest ?}: From a favorable-environment perspective in the paper industry, rather than from a deleveraging point of view, how much margin expansion are we expecting? Is the worst really behind us, or is it still uncertain?

Management: I would say that the worst is behind us. Things are only going to improve. We have bottomed out as far as industry margins are concerned. We have reached levels of about 10-12%. An upward trend is being indicated through association meetings and our discussions with other industry experts. We should be able to return to EBITDA levels of 18-20% by the next financial year.

Arjun Vinay Tambe – {? Yardley Crest ?}: By the next financial year itself?

Management: Yes.

Arjun Vinay Tambe – {? Yardley Crest ?}: From a broader point of view, what is your vision for the next 1 year, and what is your vision for 2030?

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Management: Right now, the clear effort is toward stabilizing operations and achieving the cost benefits and efficiency improvements that we outlined as part of this project implementation. The positive aspect is that we have achieved the production levels that were planned for all four machines. Now that the project implementation is over, the team is focused on achieving the appropriate cost initiatives and implementing various techniques to reduce and optimize costs and increase efficiency. Along the way, we will also diversify our product portfolio and enter the specialty paper segment. That effort will also help bring a positive impact to our top line and bottom line.

Arjun Vinay Tambe – {? Yardley Crest ?}: What was the volume growth and value growth in this quarter?

Management: This quarter, we came down, as I said, because 6,000 tonnes were reduced due to the PM3 shutdown [cut off]

Management: But next quarter we are going to regain that, and Q3 should be better, far better than Q2.

Arjun Vinay Tambe – {? Yardley Crest ?}: Regarding the MIP, as far as I know, in August 2025 the MIP was canceled. What is the situation now?

Management: As I said, MIP for the paperboard kraft segment has already been accepted and notified, and that segment is receiving the benefits of the MIP suggested by the government. Our MIP for the writing and printing paper segment is currently under investigation by the government, and hopefully we should see some kind of favorable outcome in the next 3-6 months.

Arjun Vinay Tambe – {? Yardley Crest ?}: Would the debt repayment for this year be around 125-200 crores?

Management: No. For this year, the total is 180 crores, which is on track. There is a similar amount for next year as well.

Arjun Vinay Tambe – {? Yardley Crest ?}: That is in FY27, correct?

Management: That is right.

Arjun Vinay Tambe – {? Yardley Crest ?}: That is fine. All the best. Thank you.

Operator: Thank you. Next question is from the line of Tanmay Kataria from BRK. Please go ahead.

Tanmay Kataria – BRK: Congratulations on the good set of numbers in this difficult period. I have a few questions. First, are you doing anything on the tissue line? If so, what percentage of total revenue does it represent?

Management: No, we have not entered the tissue line. Our current four machines, which are primarily for producing writing and printing paper products, are the ones we have optimized, improved, and upgraded, and they are going to give us better varieties of writing and printing paper. As I said, on PM3, which we have just commissioned, we have additionally installed a film press, which will help us produce surface-sized paper as opposed to the non-surface-sized paper

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we were producing earlier. We will begin catering to a better segment of printing paper and achieve better economies of scale there.

Tanmay Kataria – BRK: You have raised 100 crores of NCDs. I was checking the disclosure that you uploaded. What is this about, and what is the end use of the funds?

Management: We utilized the funds for prepayment of an existing term loan. They have been fully utilized.

Tanmay Kataria – BRK: Your cost of goods sold has reduced by almost 1.5%, while wheat straw prices have increased over the last 3 months. How have you managed to reduce the cost of goods sold? Can you please elaborate?

Management: This is because of the efficiencies in our operations that we have been able to achieve. The economies of cost—our COO, Jagdeep, also mentioned that with the implementation of our DDS, we are getting better yields on wood pulp. We have been able to reduce steam costs there. Everything has been done with a purpose as part of the implementation of this project. The entire project was not only for the upgradation of machines, but also to reduce the cost of operations across various segments. That is what we have been able to achieve.

Tanmay Kataria – BRK: Are you doing any institutional business or government business, or is it all private?

Management: It is mostly private because we are a market-oriented operation. Most of our products go toward serving customer needs, but that is not to say that we do not participate in government tenders at all. We take them up on a case-by-case basis if we find them to be on favorable terms.

Tanmay Kataria – BRK: Thank you. That is all from my side.

Management: Thank you.

Operator: Thank you. Ladies and gentlemen, a reminder to all participants: please limit your questions to two only. We will take the next question from the line of Aryan from AV Investments. Please go ahead.

Aryan – AV Investments: Thank you for the opportunity. It is very encouraging to hear that you are positive about the industry bottoming out and improving next year. I have 2 questions. Usually, when the industry goes through a difficult period such as the last 1-2 years, we see consolidation, with mills being acquired by larger players such as ourselves. What trend have you seen in the industry over the last 1-2 years? Have you seen consolidation? That is my first question.

Management: We have seen some consolidation in the industry. Recently, ITC did take up Century, and we have also seen companies taking up some smaller ventures in the packaging segment and related fields. Consolidation is something that will happen, but apart from Century, I think it will mainly be the smaller players that are taken up by larger ones.

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Aryan – AV Investments: The industry has more or less bottomed out. My second question is that we were seeing that the profits of a Chinese paper manufacturing company had actually doubled. We would like to understand what information and opinion you have regarding Chinese and Indonesian paper manufacturers. What is the outlook there? Once freight rates normalize, could they again start dumping their production, which had stopped because of the war? What is the situation on the ground?

Management: China, I think, is going through a difficult economic phase at present. Paper industries there are being closed because of the weak economy. Indonesia has always been a leading exporter because domestic demand is very low. We do not see any decline in Indonesian paper coming in. From China, however, if you look at the graph, imports have gone down in Q2, and we do not see China recovering very soon either.

Aryan – AV Investments: What proportion of our imports [crosstalk]

Management: [crosstalk] I do not really agree with the statement that Chinese paper mills have doubled their profitability. I do not think that is a statement that should be relied upon. I do not know where that came from.

Aryan – AV Investments: We were looking at the large manufacturer there. Its profit for the last year had doubled, so that is the number I saw, which is why I asked.

Management: Just to name them, Chenming has closed down its operations. Nine Dragons has closed down 3 paper mills. These are the 2 biggest names in China. Correct.

Aryan – AV Investments: Understood, sir. Thank you.

Management: Thank you.

Operator: Thank you. Next question is from the line of Rishi Modi from Modi Advisory. Please go ahead.

Rishi Modi – Modi Advisory: I have a few questions. First, you mentioned a GSM issue: we built our machine for 60–40 GSM, but demand is now not there for 60–40. It is for 55 to 50–odd GSM, and therefore we will not be able to produce the quantities we had envisioned. I am trying to understand whether this is a structural issue and our capex will not yield the returns we expected, or whether this is more of an easier off-take for now, after which we ramp up utilization and move toward higher value-added products. What exactly did you mean by that?

Management: It is a mix of everything. We now have the capability to produce 675 tonnes, and we can change the product mix as well. Specialty and industrial grades are predominantly at the lower GSM. Having said that, we do have the capability to go up to 675 tonnes, and at higher GSM that is the maximum throughput we can achieve. However, in the case of specialty products, while the top line increases, production levels are lower because of the lower grammages. Therefore, the two factors offset each other. We should target the top line rather than production throughput.

Management: To answer your question differently, on the days when we produce copier paper with GSMs of 70, 75, and 80, we actually achieve 675 tonnes. But that is not something prevalent every

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day of the year. We have created the capability, and depending on market trends and market requirements, we need to adapt and amend, which is exactly what we are doing. If market demand comes in for a lower GSM at a relevant and better price, we will produce it.

Rishi Modi – Modi Advisory: Understood. I also wanted to understand the price hike. Almost everyone in the industry has already started taking price hikes in Q3. In the last 30-45 days, people have started taking significant price hikes. Has the 7-11% hike that we have been discussing for Q3 already been taken, or are we waiting for Diwali? Are we going to capture the entire 3 months at the new price and new production levels, or will we see it at a later stage?

Management: A hike of about 4% has already happened, and it is being sustained and accepted by the market. You are correct that the next hike will possibly happen post-Diwali, when the entire market opens up and all the workers and operations resume for paper converting. That is when demand will increase and conditions will support a relevant price hike. The 7-11% price hike I mentioned applies across Q3 and Q4 as well. And that is

Rishi Modi – Modi Advisory: Understood.

Management: That is a very significant price hike, in my view, considering the current prevailing market conditions.

Rishi Modi – Modi Advisory: Are costs also increasing? If I take Q2 as the base for our per-tonne cost, is that also increasing at a per-tonne level? I am trying to understand 2 things on the cost front. First, is price inflation continuing into Q3? Second, does the Q2 cost per tonne, or the absolute cost, include the cost of the new capacity, or will there be a production-linked cost increase in Q3 for the new capacity?

Management: I think the production-linked cost is actually going to be favorable for us. With an increase in production, the cost per tonne of production should decline because of better steam and power efficiency. However, there are temporary increases in the pricing of our raw materials and fuel. That is temporary in nature. We have visibility of tailwinds developing and those prices normalizing and balancing over the next 1-1.5 months. Therefore,

Rishi Modi – Modi Advisory: Okay.

Management: It is an aberration right now. It should normalize by the end of November or December.

Rishi Modi – Modi Advisory: But in Q3, we should not see an absolute per-tonne [crosstalk]

Operator: [crosstalk] I am sorry to interrupt, Mr. Rishi. We have other participants waiting for their turn in the queue.

Rishi Modi – Modi Advisory: I just had one last question, if I can include it. Given that we have given a lot of time to the participants ahead of me, I wanted to ask one final question.

Management: Sure.

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Rishi Modi – Modi Advisory: Finally, on the capital allocation policy, I know deleveraging is the priority, but that priority may be based on a certain EBITDA level that you have envisioned: 14–15% for H2 this year and 18–20% for next year. If we exceed that, would you use the excess cash for prepayment of loans, or would you consider buybacks as a way to return capital to investors? Also, instead of dividends, would you incrementally consider buybacks to raise the promoter stake to 75%?

Management: Our focus is very clearly on generating the appropriate cash flow to repay and take care of our debt repayment liabilities. Nothing else is on the table for now, and I am not considering any changes in our equity capital structure.

Rishi Modi – Modi Advisory: Understood. Thank you. That is all from my end.

Management: Yes.

Operator: Thank you. Ladies and gentlemen, in the interest of time, we can take only 2 more questions.

Operator: The next question is from the line of Sparsh Jain from Mayfair Capital. Please go ahead.

Sparsh Jain – Mayfair Capital: On the power mix, you said 85% of our power is from coal and 15% is from other sources, correct?

Management: Correct. Yes, that is about right.

Sparsh Jain – Mayfair Capital: Regarding the price increase, you stated that 4% has already been implemented and perhaps another 7–8% will follow. After the anti-dumping duty application, could we see a further price hike? What is the cost increase in percentage terms? We need some understanding of how this will affect the EBITDA margin in the second half.

Management: Right now, it is quite difficult to predict the cost of coal because government policies are being introduced under which coal is being diverted to the power sector. As we said earlier, the industry has taken a price hike of around 4%, which we are going to sustain, and we are looking at around 7–11%. Based on the present situation and the Q2 figures we have, coal input prices have increased by around 2.5–3%.

Sparsh Jain – Mayfair Capital: I mean the total cost as a percentage. If realization increases by 10%, what cost increase are you projecting? We need to understand the normalized EBITDA per tonne or per kilogram that you are targeting for FY22.

Management: You should look at about a 2% differential EBITDA, given the increased NSR and increased costs.

Sparsh Jain – Mayfair Capital: If ADD comes in, could we see a further price hike beyond the 9–10% we are discussing?

Management: That is too far in the future to assess. Once those developments occur, we will see, because global market factors are also at play. That is something that needs to be assessed in the future.

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Sparsh Jain – Mayfair Capital: Right.

Management: What could be relevant here, Sparsh, is that there is a level up to which the market will accept a price hike. It is not unlimited.

Sparsh Jain – Mayfair Capital: Of course.

Management: Those kinds of [cut off]

Sparsh Jain – Mayfair Capital: Our margin target will be around 14% for this year, and hopefully 17–18% for the second half?

Management: Sure. Sure.

Sparsh Jain – Mayfair Capital: Thank you.

Operator: Thank you. Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to Mr. Pawan Khetan for his closing comments. Over to you, sir.

Pawan Khetan: Thank you all for participating in this earnings conference call. I hope we were able to answer your questions satisfactorily and, at the same time, offer insights into our business. If you have any further questions or would like to know more about the company, please reach out to our investor relations managers at Valorem Advisors. Thank you.

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

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