Knack Packaging

Operator: Ladies and gentlemen, good day and welcome to the Q2 and H1 FY27 conference call of Knack Packaging Limited. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" and then "0" on your touch-tone phone. We are pleased to have with us the senior management team led by our Chairman and Managing Director, Mr. Alpesh Tulsibhai Patel, and our Chief Financial Officer, Dr. Ajay Kumar Dubey, who will share his perspective on the company's performance for the quarter and the key business developments during the period.

Before we begin, I would like to remind everyone that certain statements made during this call may be forward-looking in nature. These statements are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied. I now hand the conference over to management. Thank you, and over to you.

Alpesh Tulsibhai Patel – Chairman and Managing Director: Good afternoon, and thank you all for joining Knack Packaging's Q2 and H1 FY27 earnings call.

On the call, I am joined by Dr. Ajay Kumar Dubey, our Chief Financial Officer, and Adfactors PR, our investor relations partner.

I am pleased to share that Q2 FY27 was a period of stable and strong growth for Knack Packaging. In Q2 FY27, we delivered our highest-ever quarterly revenue. On a consolidated basis, revenue from operations rose 52.5%, EBITDA rose 29.9%, and PAT rose 21.2%, all on a year-on-year basis.

Talking about the industry, the first half of the year was challenging from an input cost perspective. The conflict in West Asia disrupted supplies, and the price of polypropylene, our key raw material, rose by more than 50% within a few weeks. Prices remained elevated throughout the quarter. At the same time, disruption in the Red Sea increased freight costs, which matters to us as an exporter to 75 countries. This factor exerted pressure on the industry, as the increase in input and logistics costs outpaced the pace of corresponding selling price revisions.

Knack was impacted by this industry-wide cost pressure. However, with our three decades of experience, long-standing relationships with our vendors, and strong procurement ecosystem, we were able to mitigate the price rise.

Talking about our EBITDA, it grew on an absolute basis. However, the EBITDA margin was impacted in Q2 FY27. About 45-50% of our customers are on a conversion-cost model, where the bag price moves with the polymer price. This price revision takes effect with a lag. We have already revised prices with our customers and initiated cost pass-through, and we expect this to reflect in our realization from Q3 FY27 onwards, subject to stabilization of market conditions.

Despite this, we see immense growth in the industry. Our growth ahead lies in our competitive strength. We have focused on three key pillars: product innovation, integrated manufacturing facilities, and long-term customer relationships. We work closely with major companies in food, pet nutrition, fertilizer, and more than 25 other industries, and many of our customers have grown with us.

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Packaging typically accounts for only about 1-2% of our customers' end-product price, yet it is often the first physical touchpoint between a brand and its consumers and can influence the purchase decision, especially in competitive categories. Once a supplier has proven its reliability and consistency, customers rarely risk a change. As a result, our customer stickiness is very high.

As of September 30, 2026, we served more than 2,040 customers with 13,974 SKUs, up from 2,000 customers and 13,500 SKUs at the end of Q1 FY27. Our export market contributed a significant part of our revenue during the half. As of the end of September 2026, we sold to 75 countries across six continents, up from 74 countries at the end of Q1 FY27 and 71 countries in FY26. Our exports included the US, Europe, Asia, and Africa.

Coming to H1 FY27, our top-line growth was driven by significantly higher export volumes, deeper wallet share with existing global FMCG, pet food, and agricultural customers, and the addition of new international accounts. We saw sustained demand for our premium bags, both domestically and in our export markets. Importantly, we began fulfilling orders from new customers ahead of our next phase of capacity expansion.

As a recent update, on October 2, 2026, we announced a new order and a three-year contract renewal worth about 150 crores per year from an international customer, one of the largest private corporations in the world, for pet food and animal nutrition packaging, including in the United States. This renewal underscores our reliability and product quality on a global scale.

Looking ahead to the rest of FY27, our focus will be on profitable growth. Our priority is to restore our EBITDA margin as pricing adjustments flow through from Q3 FY27, and then to improve it further by increasing the share of value-added products, controlling costs, and leveraging our integrated setup. We are also scaling up the {? Cyan-Knack ?} JV in Mexico towards breakeven and strengthening our order book.

Now, I will hand over to Dr. Ajay Dubey, our CFO, who will provide the detailed financial highlights for Q2 and H1 FY27.

Dr. Ajay Kumar Dubey - CFO: Thank you, sir. Good afternoon, everyone. I will now walk through our consolidated financial performance for Q2 FY27 and H1 FY27.

Q2 performance: Our consolidated revenue from operations for Q2 FY27 was 294.76 crores compared with 193.26 crores in Q2 FY26, representing year-on-year growth of 52.5%. This growth was driven by significantly higher export volumes, deeper wallet share with existing customers, new international accounts, and the ramp-up of recently added capacity.

About EBITDA and margin: Our EBITDA for Q2 FY27 was 49.77 crores compared with 38.30 crores in Q2 FY26, up 29.9%. The EBITDA margin was 16.35% against 19.25% a year ago, a decline of 285 basis points. This reflected industry-wide cost pressure and polymer prices [trails off]

Management: Rose with crude oil, and freight costs increased because of disruption in the Red Sea area. Pricing adjustments with our customers follow with a lag of one or two quarters, and we expect the margin to recover from Q3 FY27.

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About PAT, profit after tax for Q2 FY27 was 25.02 crores versus 20.64 crores in Q2 FY26, up 21.2%. The PAT margin for the quarter was 8.22% compared with 10.34%, a decline of 212 basis points.

Apart from this pressure on EBITDA, PAT was affected by a 2.62 crore share of loss from the Mexico JV in Q2, which I will explain in the half-year numbers. Basic EPS for the quarter was 2.07.

Now I will review the H1 performance. Consolidated revenue from operations for H1 FY27 was 569.11 crores, up 47.2% from 386.73 crores in H1 FY26. EBITDA for H1 FY27 was 108.94 crores compared with 76.98 crores in H1 FY26, up 41.5%. The EBITDA margin for the half was 19.14% against 19.91% a year ago.

ROE stood at 19.42%, with ROCE at 28.76%. The moderation in ROE and ROCE was an expected outcome of the IPO, which expanded the capital base. The funds were progressively deployed towards capital expansion and growth initiatives. Both ratios are expected to improve in the coming quarters.

About PAT, profit after tax for H1 FY27 was 55.55 crores compared with 41.30 crores in H1 FY26, up 34.5%. The PAT margin was 9.76% against 10.68% in H1 FY26. PAT for the half included a loss of 6.06 crores from the {? Shyam Nayak ?} JV in Mexico. The JV is at the scale-up stage, and this loss flows directly into consolidated PAT with no matching revenue yet. As the JV reaches breakeven, this drag will reverse and support our PAT margin.

Regarding key balance-sheet ratios, our balance sheet strengthened further. The debt-equity ratio improved to 0.26 times from 0.68 times a year ago, and our working-capital cycle was 75 days against 76 days in Q2 FY26.

With this, I open the floor for questions and answers. Thank you.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question, please press star and one on the touch-tone 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 Bhavna Israni from Ambit Asset Management. Please go ahead.

Bhavna Israni – Ambit Asset Management: Hello, am I audible?

Management: Yes, ma'am, you are audible.

Operator: Yes, yes.

Bhavna Israni – Ambit Asset Management: Good morning, sir. I just wanted to know how much volume growth we achieved in this quarter, and what our current plant utilization is.

Management: Basically, in the last quarter we closed at 10,940 metric tons, and this quarter we closed at 11,252 metric tons, which is 3% growth from the quarter. Our plant is operating at almost 90-91% capacity utilization.

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Bhavna Israni – Ambit Asset Management: Okay, current utilization. How do we see the capacity build-up coming in? Since we are running at 90-90% utilization, how will volume growth develop in the coming quarters?

Management: We added 5,040 metric tons of capacity in August alone, and the plant is just starting to ramp up. We are expecting almost 50% utilization of the new capacity, which is almost 2,500 metric tons. We expect Q3 FY27 to be better in terms of production and sales volumes in metric tons compared to Q2.

Bhavna Israni – Ambit Asset Management: Coming to raw-material price inflation, how much price increase did we take in Q2, and how much are we planning to take in Q3? As you said, there is a deferment in the price pass-through and there is a quarter's lag in the price pass-through, so how much have we taken and what are we expecting in Q3?

Management: Prices are continuously increasing due to the West Asia conflict. We continue to be in discussions with our customers. We have contracts with almost 45-50% of our customers to pass through any increase or decrease in material prices. Since we have already engaged with our customers, some customers have already passed on the price.

If I consider only Q2, between the beginning and the end of the quarter, there was almost {? 6 ?} 26% increase in raw-material prices. However, our gross margin was impacted by 7%. We have already passed on the remainder to customers, and discussions are continuing. That pass-through will reflect mainly in Q3, and we expect Q3 to be much better than Q2 if the market stabilizes and conditions remain in line.

Management: I would also like to add that our product cycle does not allow us to finalize the bag SKUs today and deliver them immediately. The design, cylinder, and production process take one to one and a half months for delivery. Therefore, orders received in the last quarter are delivered in this quarter, while prices in this quarter have immediately increased by 25-30%.

The impact on our buying price is therefore somewhat higher, and our conversion team is continuously engaging with customers and trying to obtain the best volume and pricing from them. This will be reflected in the next quarter. This is the transaction cycle, which is why the growth in profitability has not been converted 100% in line with the price increase.

Bhavna Israni – Ambit Asset Management: What were the volumes in the same quarter last year? You said 10,940 in Q1 FY27, and Q2 FY27 was 11,252. What was the same number in Q2 FY26?

Management: Last year, in FY26, it was 9,927 metric tons, and the growth from Q2 last year to Q2 this year is almost 13-14%.

Bhavna Israni – Ambit Asset Management: On a rough calculation, EBITDA [crosstalk] Yes, sir, go ahead.

Management: [crosstalk] Also, as per the packaging cycle, this quarter is always a slowdown quarter due to the rain. However, compared to the previous year, we have also achieved 30-40% growth at the quantity level.

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Bhavna Israni – Ambit Asset Management: On the numbers, our gross profit per kilogram has declined by roughly Rs.10 quarter-on-quarter, and EBITDA per kilogram is down by roughly Rs.16 per kilogram. EBITDA per kilogram is currently Rs.36 versus Rs.51-52 last quarter. Is that correct, sir?

Management: Yes, absolutely. I will explain the reason. In Q2, compared to the previous quarter, prices increased by 25-30% with immediate effect. The customer will give us that price, but we have a quarter's lag. Orders from Q1 are delivered in Q2 because our production timeline is one to one and a half months. Therefore, this will be reflected somewhat better in the next quarter compared to this quarter.

Bhavna Israni – Ambit Asset Management: Understood, sir. This is all from my side. Thank you.

Management: Thank you, ma'am. Thank you.

Operator: Thank you. The next question is from the line of Hetansh Shah from Seven Islands PMS. Please go ahead.

Hetansh Shah – Seven Islands PMS: Hello. Am I audible?

Management: Yes, sir. Please go ahead.

Hetansh Shah – Seven Islands PMS: Good morning, sir. I wanted to know the utilization of the pinch-bottom machinery.

Management: We recently added two pinch-bottom machines at the beginning of Q1, in April. We started the two new pinch lines then. Pinch-bottom bags account for 21% of overall sales revenue. In this case, we also have to convert customers, which takes four to five months because they need to finalize the bag designs and install their filling machines.

The entire process had already started some time ago, and we are continuously working on the conversion ratio for pinch-bottom bags. Today, 21% of our revenue comes from pinch-bottom bags compared to approximately 17-18% last year. This year, we are also trying to achieve a good number on a continuing basis.

Hetansh Shah – Seven Islands PMS: Can I know the percentage utilization of the total metric-ton-per-annum capacity that we have for pinch-bottom bags?

Management: Overall, utilization is 90-91%, but you are asking specifically for the pinch-bottom number.

Management: Pinch-bottom is basically a conversion line.

Management: Yes, it is a conversion line. It is not yet at 100% utilization for the new pinch-bottom machines. It is approximately 60-70% after adding the two machines. Therefore, we have some room to increase our conversion from regular bags to pinch-bottom bags. We are trying to capture that opportunity as much as possible by converting regular bags into pinch-bottom bags.

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We have room in that area. Our overall quantity growth is not that high, but we also have conversion growth available through pinch-bottom bags. Over the last two quarters, we have been increasing that area. However, quantity-wise, we will update you on the exact figure [trails off]

Management: To explain the history of pinch-bottom bags, the first machine was installed in 2017-18, the second in 2021, the third in 2023, and two machines were added in the last quarter, almost in March 2025. Those machines are now under ramp-up. As Alpesh said, overall utilization is approximately 60-70%, and it is increasing continuously. We expect Q3 to have higher production and sales of pinch-bottom bags.

Management: I would also like to add that pinch-bottom bags are mainly used in the rice industry, and the rice-industry market is now picking up. Historically, Q3 is always better for us. Therefore, in Q3 we expect much higher utilization of pinch-bottom bags in the rice industry, and we have already received good orders for pinch-bottom bags.

Hetansh Shah – Seven Islands PMS: Can I know the metric-ton-per-annum capacity for pinch-bottom bags in Q2?

Management: One machine can produce approximately 2 million bags per month. Overall, this year, in this quarter, we achieved 11,252 metric tons.

Management: Capacity measurement involves several processes. First, we have the tape line, then the circular loom, and then lamination. Capacity is added up to the laminated fabric stage. The final finished product is decided at the fourth stage. We can either finish a pinch-bottom bag or a PLWPP bag.

Therefore, capacity cannot be added at that stage in the same way. However, two machines were installed in the last quarter of FY26. Those machines are under ramp-up. Once our production capacity increases, because we are already at 91% capacity utilization today, we will have more space for production. Then utilization of the pinch-bottom machines will be higher. They are conversion machines, so we cannot state the exact percentage of total utilization for pinch-bottom bags alone.

Management: I will give you a simple example. If you produce textile fabric and also make a T-shirt or shirt from it, you receive a better benefit. In the same way, we produce fabric, and our capacity is almost fully utilized. However, instead of making a shirt, we are making a T-shirt because we obtain a better margin.

We are in the same situation. We already have full capacity utilization for PLWPP, but we are converting those customers to PLWPP plus pinch-bottom bags. We are trying to upgrade our revenue and obtain a better margin from pinch-bottom bags. That process is already underway, and the next quarter is expected to be better for pinch-bottom bags, particularly because of the rice industry.

Hetansh Shah – Seven Islands PMS: One last question. The new facility will add around 30,000-32,000 metric tons per annum. Can you give me the percentage of output that will come from pinch-bottom bags and how much will come from normal PLWPP bags?

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Management: Very honestly, our installed capacity right now is 42,000 metric tons annually. Out of that, our effective capacity is approximately 39,000–40,000 metric tons. After this expansion [cut off]

Management: Our capacity will reach between 69,000 and 72,000 metric tons. Out of that, five pinch-bottom machines are already installed, and two new pinch-bottom machines will be added because delivery of those machines takes almost one to one and a half years. Our target date for bringing them into production is October next year.

In the meantime, we can fulfill the capacity requirement through our existing two machines, and thereafter we will add two new pinch-bottom machines. We will then have almost seven machines. Out of approximately 70,000 metric tons, we can assume that 20,000–25,000 metric tons, or approximately 30,000 metric tons, will be from pinch-bottom bags. Installed pinch-bottom capacity is 32,000 metric tons out of 72,000 metric tons, and initially we will try to achieve 25,000–30,000 metric tons from pinch-bottom bags, later reaching 28,000 metric tons.

Hetansh Shah – Seven Islands PMS: Okay, sir. Thank you.

Management: Yes. Thank you, sir. Thank you.

Operator: Thank you. Participants who wish to ask a question, please press star and one. The next question is from the line of Aman Chawla from {? Ashph Holdings ?}. Please go ahead.

Aman Chawla – {? Ashph Holdings ?}: Good afternoon. Am I audible?

Management: Yes, Aman. Please go ahead.

Aman Chawla – {? Ashph Holdings ?}: My question was that the major impact on EBITDA margin was mainly driven by the gross-margin impact. We have a revenue bifurcation of 50% from contract revenues and approximately 50% from non-contract revenues. In the non-contract revenues, we can manage the impact through the inventory days that we hold. For the contracted revenues, we can adjust the price of the bags. I wanted to understand why we had such a significant impact even after that in this quarter.

Management: I fully understand your question. First of all, 50% of our customers are contractual, definitely. However, all customers do not place orders at the same time. They buy according to their consumption and seasonality. For example, the season for seeds, grains, and pulses will now start, while the fertilizer season is already over.

Therefore, although approximately 45–50% of our business is contractual, orders do not come from everyone at the same time. Secondly, prices increased by 25–30% immediately. We convince the customer, and the customer also understands. They are not denying it because everyone knows that global prices have increased. Ultimately, the cost has to be borne by the customer.

However, the existing order is a Q1 order delivered in Q2. Our invoicing rate and our selling rate are based only on the rate applicable when the order was placed, not on the rate at the time of delivery. Therefore, a Q1 order is executed in Q2 and supplied [line issue]

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Operator: Sir, please go ahead. We are unable to hear you, sir. Hello?

Management: Hello? Hello, can you hear me?

Operator: Yes, we can hear you now. Yes, please go ahead.

Management: Okay. I will repeat the first reason because perhaps the voice was not clear or there was some disconnection. First, our process time is one to one and a half months. Fifty percent of our customers are on a contract basis, but their business is not continuous; it is seasonal. Our Q1 orders are therefore delivered in Q2.

Our sales system finalizes the price according to the order date, not the delivery date. When the sale takes place in Q2, we receive the price applicable in Q2, but by that time Q2 prices have increased by 25–30% because of global political issues and global crude-oil prices. That impacts us.

You are right that this resulted in a 7% reduction in our gross margin, mainly because of this factor.

Aman Chawla – {? Ashph Holdings ?}: Again, regarding the 50% of contracted revenues, what is the timeline in which we can pass on costs to these customers? For the other non-contracted revenue customers, what is the timeline? We are holding sufficient inventory to manage the rise in raw-material costs.

Management: You are right. I will first cover the contractual business. Contractually, there are two systems: monthly price revisions and quarterly price revisions. Our largest customer revises prices quarterly. The rate applicable in Q1 becomes the price for Q2 orders, and the average price in Q2 becomes the price for Q3 orders. Therefore, the major customers revise prices quarter to quarter.

For smaller customers, prices are revised monthly. They may place an order this month based on the previous month's price. That price impacts the current month's order, but the order will be delivered after one to one and a half months. Overall, the impact of a monthly contractual price takes almost three to three and a half months, while the impact of a quarterly price takes four to four and a half months.

This is our business scenario. It is not limited to our company; this happens in the contractual business across almost all plastic companies.

For the non-contractual business, pricing is based only on an order-to-order basis. Whenever customers require bags, they inquire with us, we receive the inquiry, quote the price, and approve the price. Production starts at that time and takes one to one and a half months, after which the order is delivered. These are the two scenarios for our pricing and their impact on us.

Aman Chawla – {? Ashph Holdings ?}: Understood. My second question was that we are now adding significant capacity. What is the demand visibility for us? Where do we expect the demand to come from? We are also focusing more on pinch-bottom bags, but based on our DRHP figures and estimates, the market size of pinch-bottom bags is limited. How are we going to manage this?

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Management: First, I will explain the demand. We have two types of opportunities. We export to more than 72 countries, so we can increase the number of countries as well as our business with existing customers.

For example, the dog-food industry in India is now growing at a double-digit rate. We have a very good presence in the dog-food industry globally as well as in India. The growth of that industry is also our growth. We have customers such as Drools, and we also supply to Pedigree. These are good customers, and that segment is growing at a double-digit rate in India. We are growing with it.

Similarly, we operate across 27 different industries, including rice, grains and pulses, fertilizer, cement, seeds, and many others. We also have new applications under development, such as tire tubes. We are increasing our geographical reach, capacity, and marketing strength. The growth of each industry segment also impacts us.

Third, and most importantly, we are developing new industries for our products. Customers using jute bags are migrating to PP woven bags and WPL. We then move them to PLWPP, which is a printed laminated woven bag. For pinch-bottom bags, we directly target customers already using BOPP bags and convert them to PLWPP plus pinch-bottom bags.

Approximately 80% of customers already using our second-category product are moving to the third category. Our second category, PLWPP, contributes approximately 71-72% of our total volume. We therefore have a very large number of customers, and they are migrating from their existing product to our pinch-bottom bags because this product offers many advantages.

Our team is also converting these customers to pinch-bottom bags. Therefore, we have substantial demand opportunities. We have to work hard, definitely. It is not easy to say that we will automatically obtain the demand, but we accept the challenge.

Our company was the first to develop the PLWPP bag in 2004. The situation at that time was more difficult than today, because a bag then cost Rs.10 and we sold it for Rs.14-15. It is now well accepted. At that time, even with a 40-50% price increase, customers were happy to pay more.

The current situation is much better than that. Customers are already using bags priced at Rs.20, Rs.22, or Rs.24 for PLWPP, and those bags have shifted to Rs.28, Rs.30, or Rs.32. On a percentage basis, the impact is not very significant. In addition, for pinch-bottom bags, the overall material cost compared with the packaging cost is less than 1-2%. That is how we also obtain a good benefit from this product.

I have mentioned many times that once a customer joins us, they do not move to another supplier. That is the biggest strength of the product. This is how we are thinking about and planning our capacity expansion.

Aman Chawla - {? Ashph Holdings ?}: Right.

Management: I would also like to add one more point that I missed. Paper availability and pricing in Europe and the US are currently facing significant challenges. You can check this online. Paper pricing and availability are at very difficult levels.

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Paper block-bottom bags and paper bags are therefore already being converted to our PLWPP bags. This is a shift from paper to PLWPP. Paper pinch-bottom bags are also an old product, dating back approximately 30 years. Paper customers are directly migrating from paper pinch-bottom bags to our PLWPP pinch-bottom bags.

This is another factor supporting demand for our products and pinch-bottom bags.

Aman Chawla – {? Ashph Holdings ?}: Right. Yes, sir.

Operator: Thank you very much. Mr. Chawla, may we request you to please rejoin the queue? We have participants waiting for their turn. Thank you. The next question is from the line of Hitesh from SBI. Please go ahead.

Hitesh – SBI: Thank you for the opportunity, and good afternoon, sir.

Management: Good afternoon, sir.

Hitesh – SBI: I have a few questions. First, I missed your opening remarks. What was the overall Q2 volume, sir?

Management: Q1 volume was 10,940 metric tons. It increased by 3% to 11,252 metric tons in Q2.

Hitesh – SBI: Year-on-year, how much growth have we reported?

Management: Metric tons.

Hitesh – SBI: Pardon? Year-on-year, how much growth have we reported?

Management: 52.52%.

Hitesh – SBI: Okay, volume is 52%?

Management: In value, sales revenue growth was 52.2% year-on-year. EBITDA growth was 29.92%.

Hitesh – SBI: I am asking only about volume growth on a year-on-year basis.

Management: Year-on-year volume growth was 13%.

Hitesh – SBI: 13%? So the major portion of the revenue growth this quarter was driven by the price increase, correct?

Management: Correct.

Hitesh – SBI: Regarding the gross-margin decline, you said that you are going to take a price increase, which will mitigate the gross-margin decline from Q3 onwards. Are we on track for the gross margin reported in previous quarters to return to that level with this price increase? Or will this flow into Q4 as well, meaning that we will need to take further price increases and gross margin will normalize in Q4?

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Management: Q3 and Q4 are always better for the company, both in terms of quantity and margin. However, we have a limitation on quantity because utilization is already approximately 89-91%. It also depends on the market.

We are quite confident about converting PLWPP bags to pinch-bottom bags because we have spare capacity internally. Overall, we do not have additional capacity, but internally we can move from PLWPP to PLWPP plus pinch-bottom bags.

The biggest market for this is rice, and the rice season is starting now. It has already started. This month is also good, and next month onwards is a good season for the rice industry. A majority of our domestic sales are also to the rice industry. There is therefore good consumption of pinch-bottom bags in the rice industry.

We expect Q3 and Q4 to be similar to Q1 in this respect.

Hitesh - SBI: So Q3 will see a significant recovery in gross margin? Will we recover in Q3 whatever we lost in Q2?

Management: We definitely hope to do better than that. However, approximately 1% depends on the market. Crude oil and the global scenario matter. Before the war, the polymer price was Rs.92, and then it reached Rs.1 [trails off]

Management: Rs.135-Rs.140 after the war. After that, it again reached Rs.145-Rs.143. Then it declined to Rs.120-Rs.125, and it later jumped to Rs.160.

There have been repeated ups and downs, but our company still has a very good relationship with its customers. In our 30 years, we have never seen a situation like this. In these 30 years, this is the highest polymer price we have seen. However, we are still in a good phase and at a good stage, and we definitely have very positive expectations for the coming quarters.

There is a 1% element that depends on the market, but we will cover 99% of the impact.

Hitesh - SBI: In your comments, you mentioned that in October you received a good order of about 150 crores from an international client. How scalable is it? Is it a one-off order?

Management: This is from an existing customer. The customer is based in the US, as you know, and during that difficult period of tariffs, they continued buying from us. At that time, they extended our contract for one year. After that, they evaluated suppliers globally and increased our contract to the next three years.

This is an order of 150 crores every year. It is for a minimum of one year and a minimum value of 150 crores. They are already adding products and countries. We currently serve only 8-9 countries for them, while they operate in more than 100 countries.

We expect to receive good volumes from them. This contract has a minimum value of 150 crores, and it is a three-year contract, not a one-year contract. They can also add more countries and more product variants to our product portfolio.

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We also expect further opportunity because the company currently uses paper bags, and they are already trying to shift those paper bags to our portfolio. Therefore, we have very positive expectations from them.

Hitesh – SBI: What is the value—

Operator: Sorry to interrupt. Mr. Hitesh, may we request you to please rejoin the queue?

Management: Please allow him to ask the last question. I can answer it quickly. Please go ahead.

Operator: The participant has already left the queue.

Management: I am sorry. Please take the next question.

Operator: Ladies and gentlemen, in order to ensure that management is able to address questions from all participants, we request you to limit your questions to two per participant. If you have a follow-up question, you may rejoin the queue. The next question is from the line of Prakash Kapadia from Intrust. Please go ahead.

Prakash Kapadia – Intrust: Thank you for the opportunity. Am I audible?

Management: Yes, Prakash.

Prakash Kapadia – Intrust: We have seen operating cash flow decrease in H1 from 39 crores to 22 crores. I see three items: an increase in inventory, which is understandable due to price increases; an increase in receivables; and a significant tax impact.

Is this seasonal or a one-time impact due to the war? Should this normalize? Generally, H1 bunches up and H2 normalizes, as you said H2 is generally better for us. That was my first question.

Secondly, you mentioned the Mexico JV impacting us at a consolidated level. When do we achieve breakeven? Production has started, and asset turns and margins would be similar in Mexico. Also, what would our capacity be by next October? Those were my questions. Thank you.

Management: In operating cash flow, there has been an increase in inventory due to the continuous scaling up of sales. Inventory increased by almost 26.9 crores. On the debtor side, sales have also been increasing continuously, particularly export sales, which have increased significantly compared to previous quarters.

The receivable cycle for exports is longer than for domestic sales, so there has been an increase of approximately 55 crores in receivables. These are the two major factors compared to the last quarter and Q2 of the previous year, because of which operating cash flow has declined.

Prakash Kapadia – Intrust: There was some tax element as well, correct? Income tax has also increased, which is also affecting cash flow. What was that?

Management: The reason is the increase in profitability. Our tax rate is still 22% under the new regime, and including surcharge and everything, the effective tax rate is 25%. The tax impact is therefore visible.

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The IPO expense was approximately 28 crores, as already reported. That was eliminated from the securities premium and also had an impact regarding deferred tax. Overall, the impact comprises both deferred tax and current tax. This is the net impact reflected in cash flow.

Prakash Kapadia – Intrust: Understood. And regarding the Mexico JV and capacity?

Management: Mr. Alpesh will address this.

Alpesh Tulsibhai Patel – Chairman and Managing Director: Mexico is a greenfield project, and this is only the second quarter. We are definitely trying our best to achieve breakeven as early as possible. The last quarter was significantly better than Q1, which is a good sign from Q2, and we expect to have almost achieved breakeven in Q3.

In our projections, Q4 was the target for achieving a positive position. We may not achieve it exactly as committed, but we expect to reach a good level of performance in Q3.

From a margin perspective, the business comprises mainly pinch-bottom bags and a very small percentage of PLWPP bags. We already have a very good margin on pinch-bottom bags. We therefore expect better results from Mexico in Q3.

Installed capacity is approximately 400 metric tons. Last quarter, our average sales were approximately 80 metric tons per month, and this quarter we expect 100-120 metric tons. Approximately 120 metric tons is close to the breakeven quantity. We therefore expect next quarter to be a positive quarter.

Prakash Kapadia – Intrust: Understood. I will come back if I have more questions. Thank you.

Management: Please do. Thank you.

Operator: Thank you. The next question is from the line of Sandeep Chhabra from {? Raozi Investments ?}. Please go ahead.

Sandeep Chhabra – {? Raozi Investments ?}: My questions have already been answered. However, since I have the opportunity, I would like to ask one thing. Will all the margin that has been lost be recovered, or will there only be an improvement from Q3?

Management: [laughs] It is very difficult to recover all the losses in one quarter, but Q3 will be a positive quarter, and we expect to recover a little more of the loss. However, it is a very small quantity.

We are producing approximately 3,500 metric tons, or 3,000 metric tons, in India, while the installed capacity in Mexico is only 400 metric tons per month. We expect a good margin from Mexico. However, the first and second quarters were impacted by the greenfield project because of the long process and the long machinery waiting period. This affected interest costs and other expenses.

Q3 will definitely bring recovery of a small portion of the loss, though not a substantial amount, as we had expected.

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Sandeep Chhabra – {? Raozi Investments ?}: Regarding capacity, you said 5,040—sorry, you were saying something?

Management: Installed capacity is 400 metric tons. We are currently utilizing 70–90 metric tons. Our breakeven is approximately 120–130 metric tons per month. In the current month also, we are achieving almost 120 metric tons of sales from Mexico.

Sandeep Chhabra – {? Raozi Investments ?}: I am talking about the India operations. Between now and October 2027, will any capacity be added, or will everything happen only in October 2027?

Management: No, there are two things here. We added a plant approximately two months ago, and that plant is already under ramp-up. It is a rented plant and will bring additional capacity in the next one or two months.

We are also strongly pursuing our expansion plans. We are already progressing well with the expansion, and we are trying our best to achieve the additional expansion and production capacity before October. Currently, October 2027 is our deadline for the expansion capacity. However, we have some additional room for quantity in the interim.

Sandeep Chhabra – {? Raozi Investments ?}: As we move forward, last year you had only three pinch-bottom machines. The remaining two were added around the end of March 2026. Logically, the margin in FY27 should be higher than the margin in FY26. This quarter, because of the sharp increase in—

Management: Yes.

Sandeep Chhabra – {? Raozi Investments ?}: I am talking only about pinch-bottom bags.

Management: Yes.

Sandeep Chhabra – {? Raozi Investments ?}: This year, because of the sharp increase in raw-material prices, there was a problem. However, if you achieve complete pass-through, as you are saying you have achieved in Q3, then Q3 margin should logically be much higher than the previous year's Q3 margin. Last year, there were only three pinch-bottom machines, whereas this year, in Q3, you will have five pinch-bottom machines. Am I on the right track?

Management: You are perfectly right. You can compare Q1 and Q2 of the previous year with Q1 and Q2 of this year. Q1 year-on-year growth was approximately 45–50%. This quarter, compared with the previous year, growth is already approximately 27–28%. Q3 is also progressing in the same way.

Compared with the same quarter last year, we are definitely in a good phase because of pinch-bottom bags. We have already obtained the benefits, and this is reflected in Q1 and Q2 compared with the previous year.

Sandeep Chhabra – {? Raozi Investments ?}: Okay.

Management: It is already reflected.

Sandeep Chhabra – {? Raozi Investments ?}: All right, then. All the best.

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Management: Thank you, sir. Thank you.

Operator: Thank you. The next question is from the line of Abhijit Mitra from {? Alpha Investment Management ?}. Please go ahead.

Abhijit Mitra – {? Alpha Investment Management ?}: Thanks for taking my question. To understand margins better, if raw-material prices move up by Rs.10, from Rs.100 to Rs.110, you can try to pass that Rs.10 on to the customer, which is the best you can do. You increase your product prices by Rs.10, but the customer will not give you a margin on that Rs.10.

Effectively, your percentage margin will look lower as this type of inflation takes place. Should one look at your percentage margins, or should we look at absolute EBITDA per ton, because recovering that should be easier than obtaining margins on the increase in product prices?

Management: Yes, Abhijit. First of all, we have always received this support from customers, and there is no doubt about that over the last 30 years. However, in Q1 and Q2 this year, prices jumped by approximately 30%.

I already gave the example: the price was Rs.92, then Rs.125, then Rs.143, then it came down to Rs.120, and then it rose to Rs.160. From Q1 to Q2, the price moved from Rs.120 to Rs.160, which was a jump of approximately 25%.

We definitely receive customer support. For example, when the price was Rs.120, the first rate was approximately Rs.130 and we closed the order. Then the price moved from Rs.130 to Rs.145, and one delivery was made at Rs.145. A second order was delivered at a time when the price had moved from Rs.120-Rs.130 to the Rs.160 range.

Prices are currently at a peak, but even during the peak period we received good orders. However, the production time is almost one and a half months, so the impact is not immediately reflected in our conversion into profit. It will be reflected positively later.

Abhijit Mitra – {? Alpha Investment Management ?}: The reason I am asking is that, as a company, and I am sure your customers are also observing this, they benchmark your pricing. Whatever the increase in raw-material prices is, you pass that on, and then you obtain the incremental delta through value addition.

However, to expect percentage margins to return to where they were means that you have to charge customers a margin on the price increase as well, which is not logical.

Management: I will answer that very honestly. I have explained many times that during an increase, we try to obtain the percentage, while during a decrease, we try to obtain the per-kilogram amount. Everyone knows that this is a very difficult scenario for crude prices, but our customers are very [trails off]

Management: Cooperative. We definitely ask for the incremental percentage amount, but we will definitely obtain the per-kilogram amount.

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In some areas, I may want to increase prices by 5%, but we may obtain 3% or 4%. For example, I may seek an increase of Rs.25 per kilogram, but the customer may negotiate it to Rs.22 or Rs.23 per kilogram. That is possible.

However, the impact is limited, and we also control it because this is a normal pricing mechanism. I will give you the petrol and diesel example. A price increase means an increase in price. In this type of industry, and in the plastic business generally, a price increase means an increase in price.

The percentage we can achieve depends on the customer and our relationship with the customer. You are absolutely right that we cannot obtain 100% of the increase, but we are trying our best to average it out at a good level.

Abhijit Mitra – {? Alpha Investment Management ?}: Understood. What kind of EBITDA per ton, or EBITDA per kilogram, can you return to over the next two quarters? Can you return to your Q1 absolute EBITDA per ton?

Management: EBITDA per kilogram was Rs.55, while this quarter it is approximately Rs.46–Rs.47.

Abhijit Mitra – {? Alpha Investment Management ?}: Rs.55 was Rs.54 last year—

Management: Rs.54 last year and Rs.45 this year.

Abhijit Mitra – {? Alpha Investment Management ?}: Rs.45.

Management: Yes, Rs.54 and Rs.45. There is a Rs.10 difference.

Abhijit Mitra – {? Alpha Investment Management ?}: Do you think Rs.54 can be achieved in the next two quarters? Can you return to that level?

Management: Almost. I have explained the increase in pinch-bottom quantity. We have tried our best and want to achieve more than that, but we are trying to get close to that level.

Only 1% depends on the market. Apart from that, we are very comfortable because the season has already started, and that is already having an impact on our business. We are quite confident in that area.

Abhijit Mitra – {? Alpha Investment Management ?}: Understood. Thank you, and I wish you—

Management: In yearly terms, whatever we have proposed for the year, we can almost achieve it. There may be some doubt regarding the yearly achievement because this quarter was somewhat lower, but our yearly target remains on track compared with what we have already indicated.

Abhijit Mitra – {? Alpha Investment Management ?}: Thank you, and I wish you all the best. That is all from me.

Management: Thank you, sir.

Operator: Thank you. Ladies and gentlemen, due to time constraints, we will take that as the last question for today. I now hand the conference over to management for closing comments.

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Management: To conclude, H1 FY27 was a half year of strong growth for Knack Packaging as a listed company, even as industry-wide cost pressures weighed on our margin in Q2. During the half, we stayed focused on the right things: adding value to our products, expanding capacity efficiently, and maintaining operational excellence.

Our integrated capabilities and customer partnerships continue to be key advantages. Looking ahead to Q3 and Q4, we expect volume growth to continue, supported by the ramp-up of contracted orders, including the renewed international contract, and higher wallet share from existing clients.

We also expect margins to recover from Q3 FY27 onwards as pricing adjustments flow through. We will remain cautious regarding costs and capital deployment. The new Gujarat plant remains a key milestone, and its timely completion and utilization will be our primary focus through 2027.

Finally, I extend my gratitude to our shareholders, customers, suppliers, bankers, and employees. Your support empowers us to achieve these goals. We look forward to updating you again next quarter. Thank you.

Operator: Thank you. Ladies and gentlemen, on behalf of Knack Packaging Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

Management: Thank you. Thank you, everyone.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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