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INDUSTRIES
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Manufacturer of Quality
Writing, Printing & Speciality
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Dear Sirs/Madam,

This is in continuation to our earlier notification dated 28.10.2022 regarding schedule of earning call on Q2& H1 FY23. We are attaching herewith the Transcript of the above conference call held on Monday, 31st October, 2022 and the same is also being uploaded on the website of the Company.

You are requested to take the same on record.

Thanking you.

Yours faithfully,
For Satia Industries Limited

(Rakesh Kumar Dhuria)
Company Secretary

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“Satia Industries Limited
Q2 FY 23 Earnings Conference Call”

October 31, 2022



MANAGEMENT: **MR. R.K. BHANDARI - JOINT MANAGING
DIRECTOR, SATIA INDUSTRIES LIMITED
MR. RACHIT NAGPAL - CFO, SATIA INDUSTRIES
LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY'23 Earnings Conference Call of Satia Industries Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle from EY Investor Relations. Thank you, and over to you, sir.

Diwakar Pingle: Thank you, Stephen. Good afternoon, good evening friends. Welcome to the Q2 and H1 FY'23 Earnings Call of Satia Industries Limited. To take you through the results and answer your questions today, we have the top management team from Satia, represented by Mr. R.K. Bhandari, who is the Joint Managing Director; and Mr. Rachit Nagpal, who is the CFO. Please note that we have sent out the press release and the financials to all of you. The presentation link for the present quarter has already been uploaded on the BSE website. In case, if you don't have it, you could write to the IR team at EY and we would be happy to send it over to you. Before we start, I'd like to say that everything that is said on this call that reflects any outlook for the future, or which can be construed as forward-looking statement must be viewed in conjunction with the risks and uncertainties that we face. These uncertainties and risks are included but not limited to what we mentioned in the prospectus and subsequently in annual reports, which you can find on our website. With that said, I'll now hand over the call to Mr. Bhandari. Over to you, Mr. Bhandari.

Rajinder Bhandari: Yes. Mr. Rachit, I think will give the introduction.

Rachit Nagpal: Yes. Thank you, sir. A very good evening, and I welcome all the participants. Hope you have gone through our financial results earnings updates for Q2 and 6 months ending financial year '23.

Our company is an agro and wood-based paper pulp paper producing company, and it's fully backward integrated. Our locational advantage is in the wheat belt of India, ensure year around availability of raw material and our in-house state-of-the-art clean energy production capability ensures cheap power availability throughout the year. Further, the caustic soda recovery facilities and eucalyptus plantation based on Karnal technology helped us in lowering cost and managing their water discharges in a clean and efficient way.

I'm happy to announce that we delivered strong performance for Q2 FY'23 with our highest ever quarterly revenue and EBITDA and healthy growth on both Q-on-Q and year-on-year basis. Revenues for the quarter was at INR4,593 million, up 146% year-on-year on the back of increase in sale realization and sale volume, which has grown at almost 50%. We continue to realize the benefit of our new plant, which went operational in Feb 2022. The demand looks strong, evident from our robust order book. Despite of the external headwinds faced by the industry, we were able to steer through these challenges and the company continued its growth trajectory and made steady progress by focusing on customers. EBITDA margin has improved to 20.14% during the quarter from 16.74% in the last quarter on back of better sales realization, stable raw material pricing environment and advantage of our increased capacity. PAT grew up by 151% in Q2 financial year '23 at INR508 million as compared to Q2 financial year '22. For H1 financial year '23, income from operations stood at INR8,763 million, an increase of 132% year-on-year. EBITDA for the period grew by 89% to INR1,623 million. PAT grew up by 92% to INR 811 million. During the period, our debt equity has also improved to 0.51x from 0.57x in previous period, which is at a very comfortable situation. With this, I request the floor for any questions on the same or about the company. Thank you.

Moderator: The first question is from the line of Ayush Agarwal from Mittal Analytics. Please go ahead.

Ayush Agarwal: Good afternoon, sir, thank you for the opportunity. I hope I'm audible. Congratulations on a good set of numbers. So, my first question is on our CapEx that we had done as 300 tonnes per day capacity, including pulping and everything. So,



what is the status on the pulping capacity given that our material cost is still very high, where are we in the pulping expansion?

Rajinder Bhandari: The CapEx that we had done is complete. The only part that is left out is the expansion in the wood pulping capacity. So, the additional wood pulping capacity will be operational by January 2023. Rest all is complete.

Ayush Agarwal: Given that earlier we used to use most of in-house pulp and right now, because wood pulping hasn't expanded yet, so we are using wastepaper, right? Is that why our material cost is higher than our past gross margin?

Rajinder Bhandari: Yes. Slightly, yes, that is one of the reasons. Yes, you are right.

Ayush Agarwal: Okay. So apart from wood pulping, everything has come online. So sir, when we look at our balance sheet for H1, we see that we have done a large expansion in the last 6 months. So we have spent around INR90crore in H1 of this year. So what has this expansion been towards?

Rajinder Bhandari: That has been more or less on the wood pulping capacity only because earlier we were planning to take it from 160 tonnes to 250 tonnes. But later on, that capacity is now planned to go to almost 300 tonnes because the raw material prices of even wheat straw, which earlier used to be in the range of INR5,000 to INR6,000 per tonne have increased exorbitantly. And to reduce dependence upon wheat straw pulp alone in a major way, we have planned to increase our wood pulping capacity to 350 tonnes. So other element, I think, Rachit will tell you what else is there.

Rachit Nagpal: Yes, sir, almost INR45 crore to INR50 crore-related to the CapEx towards this pulping capacity. INR10 crore is for some paper machine parts and rest is the routine Capex.

Ayush Agarwal: Understood. So including this, what is our total CapEx that we have done on this expansion? And what can be the benefit of this INR45 crore, INR50 crore that we have done on wood pulping capacity?

Rachit Nagpal: Yes, the total CapEx is around INR67 crore for this pulping capacity. The payback period of this capex is around 1.5 to 2 years. Currently we are using batch system for our existing pulp making and after this capacity extension, there will be continued digesters which will allow continuous pulping. So our wood capacity will increase from existing 160 tonnes to 300 tonnes from this technology of pulping. Our wood capacity will increase by this new advancement.

Rajinder Bhandari: Yes. I would like to add here that it will, number one, reduce steam consumption on the wood pulping from existing 3 tonne to almost 1, 1.5 tonne, which could lead to savings of almost to INR15 crore to INR20 crore every year, number one. Number two, with increase in wood pulping capacity, we would be saving that additional cost of almost INR10,000 per tonnes on wastepaper cost. So that will be second major advantage.

Moderator: The next question is from the line of Rajiv Mehta from Yes Securities. Please go ahead.

Rajiv Mehta: Sir, congratulations on a very good performance. So sir, my first question is on the average selling price in second quarter? And what was it in the first quarter?

Rajinder Bhandari: Our average sales price in the second quarter was almost INR87,000 per tonne, while it was INR78,600 per tonne in the first quarter. The main reason for the lower realization in the first quarter was, as we have been telling on our previous calls also because we do government business. So we were carrying certain old government orders with us, which we executed in the first quarter, mainly. So that was one reason for the lower average utilization in the first quarter.

Rajiv Mehta: Sir, what will be our sales breakup between such tenders where the pricing is slightly sticky and fixed? And maybe outside of those tenders, which is more market-



determined pricing. Is there a rough breakup of our sales so that we can understand how the pricing will move for us in the coming quarters?

Rajinder Bhandari: Yes, like in the first 6 months, we did almost 100,000 tonnes. So we supplied almost 36,000 tonnes to be exact to the government sector. So normally, as previously, it is in the range of 40% to 60%. 40% is government business 60% is the open market business.

Rajiv Mehta: And typically, what is the pricing difference between the two? So is it a fixed supply rate of time in a government tender? And what is the tenure of the tender typically?

Rajinder Bhandari: Normally, tender tenure is 1 year, but practically, all supplies once the order is placed happens within 4 to 5 months. So whatever is the existing price at that moment when we file that tender, normally, we have to carry that in the tender to win any order. Because if you think that yes, okay, today we will buy INR5,000 unnecessary and then quote a tender from the present existing price level. So that is difficult to get. So sometimes you win on that, sometimes you lose on that. So you average out. Like in COVID period, we had very good time while others even big players were running at almost 60%,70%, we were running at 117%. And our margins were still intact because of this only. So it plays both ways, yes.

Moderator: The next question is from the line of Anika Mittal from Nvest Research. Please go ahead.

Anika Mittal: Sir, my first question is on the current capacity utilization. Sir, what is the current capacity utilization for quarter 2 financial year '23?

Rajinder Bhandari: Yes. Our total installed capacity as on date is 205,000 tonnes. Overall, we will be saving almost 105% in this year. But if we look at the previous year, we have been doing on the old capacity almost 135,000 tonnes. And the new capacity that we have added of 100,000 tonne, that capacity will be using 75% to 80%. So next year, there is a margin of using that 25,000 to 30,000 tonnes additional production coming to the total volume.

Anika Mittal: Okay. Sir, my next question is, what is the export percentage in quarter 2 financial year '23 and the earlier quarter, quarter 1?

Rajinder Bhandari: Our export direct and indirect is in the range of 10% of the total sales, and it is likely to continue in the future also.

Anika Mittal: Okay. My last question is, sir, we have seen trends of increase in demand from Europe due to financial crisis they are going on because paper manufacturing is also an energy-intensive business and the prices in Europe are impacting energy in terms of businesses. So are we seeing any trend of demand from there?

Rajinder Bhandari: Will you repeat the question once again, please?

Anika Mittal: There are energy crisis going on in Europe. And due to the high energy intensive manufacturing facilities have been shutting down. So I think, as per my knowledge, paper manufacturing is also an energy-intensive business. So are we seeing any export demand from Europe side due to this ongoing crisis?

Rajinder Bhandari: Actually, enquiries do come from Europe, but normally they do not mature. And energy crisis like you said it's energy intensive so coal definitely is high price at the moment. But since we are using rice husk and rice straw. Rice straw is the cheapest fuel at the moment available, which is costing us almost INR2,000 per tonne only, where husk prices is in the range of, as on date, INR7,000 to INR8,000 per tonne. And so that is why, as far as energy cost effect is there, it is minimal on our unit because of the use of rice straw to that stand to 50% of our fuel cost.

Anika Mittal: Sir, I'm asking about export demand actually.



- Rajinder Bhandari:** That's what, yes, I told you that there are queries from Europe, but they are not maturing.
- Moderator:** The next question is from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.
- Yogansh Jeswani:** Thanks for the opportunity, sir, and congratulations to the team on a great set of numbers. Sir, a question on your pulp mill. So we have put in a pulp mill of 550 tonnes TPD, right? Out of which, in the initial question, you mentioned that wood pulp is still in the ramp-up phase. We're still setting it up. So what about the remaining, sir, is that pulp mill fully operational and contributing to our margins in terms of margin saving, I mean?
- Rajinder Bhandari:** Actually, we have three sections in the pulp mill. One is the agro-based. So agro-based, our average for the first 6 months was almost 220 tonnes per day that we consume. Now in the next 6 months, we will be increasing this 220 tonnes to almost 270 tonnes per day. So this 220 tonnes was commissioned long back and was operational already. We only increased this to by 50 to 70, 80 tonnes. So average should be coming around 270 tonnes of wheat staple. That is number one.
- We already had wood pulping capacity operational for 150 tonnes to 180 tonnes per day. It was already operational. So already, we were having 220 tonnes of agro pulp and 180 tonnes of wood pulp, which was already operational. So that capacity of agro is being increased from 220 tonnes to 270-280 tonnes, number one, and wood pulping from 180 tonnes to 300 tonnes plus. So 180 tonnes is already operational. We are planning to increase this to 300 tonnes plus. Since our machine has already started in February, so that additional production, we are meeting with the wastepaper deinking plant, which is the third section of the pulping unit, yes.
- Yogansh Jeswani:** Okay. Understood. Sir, I also wanted more clarity on like now we already have some pulping, right? We have a well-integrated plant in terms of power, in terms of pulp and everything, right? So now our efforts to bring the pulping unit, so when this pulping unit is fully operational can our margins improve more like in the past we have done 25%, 26% kind of operating margins. So when our pulping mill is fully stabilized and will run with the new plant so can our margins, these 20%, 21%, will that grow to 25%, 26%, 28%?
- Rajinder Bhandari:** Actually, this is like since this new machine, PM4 which runs at almost 1100 meters per minute that meets a strong furnish for which this pulp expansion in wood pulping is being done. So once that is done, then we should be able to feed that machine with 100% in-house wood pulp or 10%, 20%, some supplementary pulp. So with that, we should be able to make good quality surface size Maplitho paper, which was the original plan for the kind of machine we did put up as PM4. So once this wood pulping starts, so that quality will be produced and then we try to place that product at par with JK, TNPL, Andhra and all these mills. So the real story for PM4 should begin almost 2 to 3 months thereafter. Number one, this will increase the sales realization of that paper. Number two, as on date for PM4, the kind of orders that we are getting are in the range of average grammage is almost 54 to 55 GSM. So once we establish a product in Maplitho segment, the average grammage will go up to 65 GSM, which will help us achieve 100% or 100%-plus capacity utilization for that machine. So this new pulpmill will contribute both in quantity terms, number 1, and in value terms also but that will happen once the pulping starts in January. And, it will result in cost savings also because presently, we are using 10% to 20% of imported softwood pulp also. For which if we cost it today, it costs anywhere around \$1,000 to \$1,100 landed in-house, which is INR90. So if you take 90% yield, the pulp cost would be anywhere around INR100. So once you have your own in-house wood pulping cost it cannot exceed under any circumstances, even at today's teak wood raw material price is on INR60,000 a tonne. So that saving of INR40,000 per tonne for whatever imported softwood, hardwood we use will be the cost savings. So it will have multiple effects in times to come.
- Moderator:** The next question is from the line of Nairit from TSG Capital. Please go ahead.



- Nairit:** Hello, sir, and congratulations on a wonderful set of numbers. It gives me great pleasure to see that. I just wanted to know what is the reason for the higher 'other expenses' the quarter 1- results, if you can shed some light on that?
- Rajinder Bhandari:** Rachit, I think you will be able to explain better.
- Rachit Nagpal:** Yes, there is a commission that we have paid to our dealers through procured sales. So this is the reason, this is a little higher. With the PM4 coming up there is an additional sale, which shall be like procured through the dealers. So this is a commission amount, which is on a higher side. So this is the reason that the other expenses shoot up.
- Rajinder Bhandari:** Actually, if you look at the percentage-wise margin wise, last year, it was total 7.8%. And today also if we look percentage wise it is more or less same. If we look at last quarter, utilities, stores and spares is just 5%. Earlier, this used to be 7.7% in the last year, selling expenses in the last quarter was 6.3%. Last year, average was 7.8%. So value-wise, it looks more than that because the prices have almost increased more than 50%, 60%. Sales price has increased, yes.
- Rachit Nagpal:** Also we have included fuel in these other items. So fuel costs have also increased. So this is another reason for this hike.
- Nairit:** Okay. That answers my question. The next question I wanted to ask is, so we work to achieve 100% capacity utilization of the new capacity of 240,000 tonnes by next year FY'24?
- Rajinder Bhandari:** No, our installed capacity is 205,000 tonnes at the moment. So this year, we should be doing 210,000 tonnes almost, achieving more than 100%. But previously, our record is we have been continuously doing almost 130% to 140% of capacity utilization. The new capacity, which we should be doing almost out of 100,000 tonne, we should be meeting almost 70,000 to 80,000 tonnes. So that 20,000, 30,000 tonnes is likely to come additional next year. That's what I said.
- Nairit:** And after that, so if the demand scenario looks stronger since, is there any greenfield CapEx possible?
- Rajinder Bhandari:** Yes. We are looking to some probability of increasing speed of our PM3, which is now running at almost 650 meters per minute. So management is evaluating all the factors, what kind of increase we can have with what kind of CapEx. So that exercise is already owned. So once we finalize that, we shall come back to you.
- Moderator:** The next question is from the line of Harsh Mulchandani from KRIS PMS. Please go ahead.
- Harsh Mulchandani:** Sir, a follow-up question to just ask that I wanted to understand that where do we want to take our capacity after the current expansion like I understand that demand scenario, et cetera, in the PM3, you look to increase the speed. But do you look at a 3-year time horizon that we still want to grow aggressively from the current 2.05 lakh tonnes to 3 lakh tonnes in 3 years or some ballpark number or vision you have in terms of capacity to be grown over slightly longer periods.
- Rajinder Bhandari:** Actually, with our increase in pulping capacity of wood from 150 tonne and grow to almost 280 tonnes. So that means we have 580 tonnes of pulp with us. So with 580 tonnes pulp, one can easily make with pulp to paper ratio of 0.85, anywhere around 680 tonnes paper per day. So 680 tonnes with 350 working days so we could easily go up to 240,000 tonnes. So management at the moment is thinking, can we remain within this ambit of 240,000 to 250,000 tonnes in the coming 2 to 3 years. So that is the target at the moment. But at some stage, there could be a possibility of going in for some tissue machine. That is not decided at the moment.
- Moderator:** The next question is from the line of Aneesh Shah, an individual investor. Please go ahead.



Aneesh Shah:

Thank you for providing this opportunity and congratulations for a good set of numbers. I have a few questions. One is regarding what is the general trend on the paper industry regarding demand versus supply and export versus import and also regarding the price trend for the paper industry? My second question is regarding the cutlery business. What is the current status on that? And are we planning any further expansion on that, which is linked with Zume of U.S.A.? And third question is regarding, do we have any plan for the debt repayment in this year or in FY'24? And one more last question is regarding new education policy. Is there any plan by government to implement it in next year, this new education policy? Any news on that? These are my few questions.

Rajinder Bhandari:

The new education policy is already under implementation. They have made it basic which is suggesting new syllabus, new curriculum and new course structure, which is still to come, but it is being implemented in steps only. The first stage of changed syllabus has come this year only. And that was the reason for slight dent in demand last year, but with the new syllabus coming this year being released by NCERT, the private publishing should go in full swing this year. So that demand is likely to be come in full swing in next 2 to 3 years.

So debt repayment, we are already reaping every year, almost INR65crore to INR70 crore. So our long-term debt is in the range of almost INR280 crore. So within 4 years, the old debt should be clear, unless management comes up, as I said, on PM3 or some other activity which directly give returns to the company and to the shareholders, but we will explain at that appropriate time.

And in cutlery, we have more or less disengaged with Zume because their machines were not operating at the desired level of production. They had given us machine just 2 tonne capacity, but they were making only 600 kilogram per day. So they are now taking back those machines. And in place of those machines, we have ordered six 1 tonne per day machines from a new Indian supplier. So that is likely to be commissioned by 31st March. So first, we'll have 2 machines and second lot of 2 machines and then third lot of 2 machines. So we would put up 6 machines, for which order has already been placed. But once we clear the space of these 2 Zume machines, maybe we can add 2 more Indian machines there. So we'll be operating next year with minimum 8 tonnes to 10 tonnes capacity per day. So that is the plan for cutlery segment. Order advances everything is already in place and first machine is likely to come in December itself.

So as far as your first question, the general trend as far as other segments of paper industry are concerned, which is newsprint and packaging and craft paper, the prices of that have come down by more than 30%, 40%. And similarly, raw material imported wastepaper is like OCC has come down by more than 50%. But similarly in duplex packaging grades, the prices again are on the lower side and demand is quite weak also. But in writing and printing fortunately, the demand is very strong at the moment. And from 1st November after the weak normal Diwali season, mills have already started increasing the prices, which have gone down slightly in the last 2 months. So already even we have announced a first hike from 1st November. And the demand in writing printing segment is very strong at the moment. We are already booked for more than 45 days, and we are likely to be placed with almost another 30,000 to 40,000 tonne orders at very good price, almost INR90,000 tonne plus sale realization from government segment in the next 1 or 1.5 months.

So our order book is more or less planned till 31st March. So for writing printing, the demand is very good. So export earlier first 4, 5 months of this financial year, export demand was very strong. But now the prices have come down by almost 10% to 15% in the export market. We can still do the exports, but the prices are down by 10% to 15%. That demand remains there, but the prices have come down in the export part. But in Indian market, in indigenous market prices till 30th of June next year are likely to remain bullish.

Moderator:

The next question is from the line of Dinesh Kumar Jain from Coard Investment. Please go ahead.



Dinesh Kumar Jain:

Sir, I just have one question. I wanted to ask like what do you expect the coming quarters, like we have increased the capacity to 15% to 20% more than that we have increased our capacity and also our EBITDA margins are around 20% to 23%. So what do you see because the demand is on the stronger side and the supply is also able to match. So what do you expect the coming year to be for the paper industry as such because that is our main segment? Your views on the paper industry as such in terms of turnover and as well as in terms of EBITDA margin.

Rajinder Bhandari:

Yes. In paper industry, as I explained earlier, other segments are weak. Even newsprint is weak which starts to almost INR80,000 tonne price is now at below INR60,000 but writing and printing is going strong. And looks to be going strong in the coming 1 to 2 years. Still all things are in place like new education policy another 3 years, as I explained earlier, number one. Number two, the literacy rate, as we have been explaining time and again, country like Brazil, these are having 94% literacy and their per capita consumption is 50 kg while in India, we are at 17 to 18 kg only. So with our government focus on literacy, writing and printing segment should not go weak in another, I would say, 5 to 10 years. That is our view.

Number 3, is the GDP growth. So presently, we are anywhere around INR2.5 to INR3 trillion economy. So with growth and the size of GDP and with the increase in standard of living that leads to direct increase in the demand of writing and cultural paper. So demand is good. But as far as we are concerned, we should be if the prices remain plus/minus 5%, 10% in this segment. So we should be doing this year anywhere around INR1800 crore and next year, we should be doing almost, we could do INR2,000 crore plus also. And margin, definitely as we explained earlier, with in-house pulping in good increasing and the cost benefit accruing because of that and by replacing imported costlier pulp, so all those things should add to the margin and it should be consistent positive growth in the margin in the coming quarter. So that is how we see as far as this year is concerned, yes.

Moderator:

The next question is from the line of Ayush Agarwal from Mittal Analytics. Please go ahead.

Ayush Agarwal:

Sir, thank you for the opportunity once again. I have two questions. One is that you said that we are trying to take up capacity to 2.4 to 2.5 lakh metric tonnes in the next 2, 3 years. But given our very strong execution that we have seen in PM4. So sir, is this volume of 2.4 lakh metric tonnes can easily be done in FY'24 itself. Correct me if I am wrong, so how are we planning to increase our volume beyond that, like you're mentioning that demand is very strong for writing paper segment and we are developing higher-grade products as well. So how will our volume increase beyond FY'24, something on that will be helpful.

Rajinder Bhandari:

Actually, I related it with the pulp that we produce because one of you just pointed out, that with the use of high cost wastepaper pulp and imported pulp, the margins are definitely affected. So if you go by an ideal combination, so that is why I told that the best scenario is if we use the 580 tonne to 600 tonne in-house wood pulping or/and agro pulping capacity and plan accordingly, so then 250,000 tonnes looking to the pulp capacity that we'll be building. We are going to build within the next 2 to 3 months is now ideal thing. That is number one. And if we want to go beyond that and if the market scenario permits, we always have 150 tonnes of pulping capacity also. We can any day use that also to increase our production capacity. But that is not the focus at the moment in the next 2 to 3 years. The idea is to achieve this 250,000 tonnes. And in the meantime, see that whether to go in for additional capacity in writing and printing only or in tissue segment also. So tissue could be the second option that management is considering at the moment.

Ayush Agarwal:

Understood. And sir, last question is on currently what percentage of wastepaper and softwood imported pulp you are using of the total pulping that we have? You said 10%, 20% is softwood pulp and how much would be wastepaper?

Rajinder Bhandari:

Wastepaper is almost 15%, Agro is 45%, wood is 30%.

Ayush Agarwal:

Okay. So currently still 35% to 40%?

- Rajinder Bhandari:** 45% is the agro pulp and 30% is the wood pulp, 15% is the wastepaper pulp and 10% to 12% is the imported pulp.
- Ayush Agarwal:** Okay. And once our wood pulp comes online or is operational, roughly 90% to 95% will be in-house pulp, right?
- Rajinder Bhandari:** No. As I said earlier, in last quarter, we used 215 tonne agro pulp, which will be 260 tonnes to 270 tonnes per day in the next third quarter. And wood will be almost 160 tonnes to 170 tonnes in the third quarter. So whatever increase comes in agro pulp will be the reduction in imported pulp and wastepaper pulp. And in the final quarter, maybe we reduced the imported pulp to 4%-5%.
- Moderator:** Next question is from the line of Vaibhav Badjatya from Honest and Integrity Investment. Please go ahead.
- Vaibhav Badjatya:** I just have two questions. One is on the Europe competition from imports. So as we all know, I mean, last year, 1.5 years has been clearly tough from the import I mean, imports have really dropped because of sharp rise in the freight rates. But now the freight rates are significantly going down, so do you think that there can be increased import of writing and printing paper from countries like Indonesia? Do you think that this can now happen that can put some pressure on prices?
- Rajinder Bhandari:** Yes. It is already happening. They are already booking large tonnage from the big consumer in some sectors. Actually, the issue is in imported paper, you are restricted with using only one size. So the big consumer, they can definitely place their orders on them who have standardized their products, standardized the grammage and standardized the reel size and who can invest in the lead time also. Because if you place order today, the imported paper comes within a period of minimum 2 to 3 months, in today's delivery scenario. So once you order one thing today, you cannot change the size and grammage. But in the market, with the competition, there is always a chance that if one person is making 54 gram reel, the second person asks for 53 gram, third person instead of 55 gram he will ask for 54.5 gram reel. So that is the kind of cut-throat competition is there in the market at every level. So then you are left out as you don't have that flexibility. Due to this reason a majority of the consumers, which are more than 90%, they use only indigenous paper.
- But secondly, the price factor, even today the imported paper, anybody who is away from the port city of Bombay, he gets cost landed INR91, INR90 near at home, today our realization, that is also INR87,000 per tonne. So our cost is almost the same and quality is the same. So unless our prices go up exorbitantly number one and number two, their prices come down another 4%, 5%, 10%, so that people are able to carry the inventory and carry the risk of stock-outs also. So that is the kind of tension because of which imported paper is not working in the small consumers. Big consumers were already doing it when prices were fitting them well, and they are doing it today as well, anybody like Navneet Prakashan who buys big volumes, 1000, 1500, 2000 tonne, they have already placed orders for imported paper so that kind of paper has always been coming to India and will keep coming. So the major problem in times to come could be in the copier paper. Earlier in copier paper from government there was some protection, but now Indian mills, they have to compete with their quality and their costs. So time will tell, but we have to live with the competition and survive.
- Vaibhav Badjatya:** Right. Got it. Sir, thanks for answering that question. Last one was on the pricing for agro residue, we keep hearing different things about the agricultural produce and hence the agri residue and also because of the energy crisis, coal shortage, there is some diversion of agri residue towards power. So what's your sense on the pricing of agri residue going forward? If you can give your views that would be great.
- Rajinder Bhandari:** Actually, if we look at the agro residue raw material, which was being used for pulp and paper making as you rightly said with the crisis in the coal prices and other energy inputs raw material, so people have even started using the bagasse as fuel in so many states. So that has led to increasing pressure on the supply side of the wheat

straw, which used to be the first major agro input and second used to be the bagasse but earlier, we were using a lot of grasses also which come in the bamboo category only. And we had stopped using sarkanda since in the last 2, 3 years though, this is a very good pulp material. But once the pressure on agro has started coming, we have started using now sarkanda also from this year. We are becoming aggressive on that raw material also. So naturally, as the market dynamics change, one has to find ways to save wherever one can. So that is the way one has to work.

So as far as fuel is concerned, we have explained earlier also we had three boilers running. One is running on rice husk alone. And the second boiler is running on rice straw alone. So now we are putting up a new boiler, which will be able to run off all kind of biomass available, which could be leaves of the sugarcane, which could be mustard straw, which could be mustered husk also, which could be rice straw also. So all those materials pricing is below INR3,000 per tonne. So we may be replacing our existing rice husk based boiler also in the coming year to other biomass-based which cost us anywhere between INR2,000 to INR3,000 per tonne of fuel. So that is going to be the major savings in the coming year as Satia is planning. In paper industry at the moment, nobody is using that kind of quantity that we are using for rice straw. We are using in these 2 months, today, we are getting almost 5,000 tonnes to 6,000 tonnes of rice straw, which used to be burned in the fields daily into our 10 different locations, open stock grounds. So we will be storing 1.5 lakh tonne of rice straw in this 2 months, which will be burned in the next 10 months. So there is no other way around to survive in the market. You have to save where you can save. So that is how Satia is working. That is why you see sometimes, there is a lot of capital expenditure also. So capital expenditure coming with growth and lots of cost economics, I think it is always good. And you can see it in our return on capital employed that is a very good percentage.

Moderator: The next question is from the line of Prashant Rishi from Cascade Capital. Please go ahead.

Prashant Rishi: Sir, once agro pulping capacity improves to, like you said, 280 tonnes per day and wood pulping capacity increase to 300 tonnes per day, after that the present wastepaper pulp capacity, what is the plan? Will it lie idle after that meaning, post January '23, like you said?

Rajinder Bhandari: Actually that capacity, we always keep even when we were earlier making 300 tonne paper per day, we used to have 60 to 80 tonnes wastepaper pulping capacity. Sometimes there is a situation that your soda recovery boiler is under maintenance. So that period is normally 15 to 45 days depending upon the work that you do unless you have standby recovery boiler. So in that period or in times of difficulty in any kind of raw material or in case of any plant maintenance or plant shut off, any of the wood pulping or wheat straw pulping, we always get the import of the wastepaper pulping. So that our total volume of production doesn't suffer.

Prashant Rishi: Okay. All right. Sir, your agro pulping capacities which is expanding, 280. This will happen by next quarter, by sure, no?

Rajinder Bhandari: No, No, actually earlier we had done certain modification in the wood pulping capacity. So with that modification, I think we already told that we had put up a DD washer, which is 5th or 6th installation in India in any pulp mill that washes the pulp. Normally, you must have seen paper industry so pulp is washed in 4, 5 stages so that single washer does 3 washing in itself. So from that our one pulp washing line was vacated and we had a standby wood cooking apparatus available with us. So we shifted that line to agro, and it is already operational.

Prashant Rishi: 280 tonnes per day already turned to agro? Agro pulping capacity?

Rajinder Bhandari: Yes, it has been done and today, we are using almost on average in this month, almost 260 tonnes to 270 tonnes per day of agro pulp, yes. Last 6 months, earlier half year in that average was 215 tonnes. That is what I explained earlier.

- Moderator:** The next question is from the line of Rajiv Mehta from Yes Securities. Please go ahead.
- Rajiv Mehta:** Sir, what will be the structural outlook for pricing because you limited your comments on pricing, saying that till June it looks good. And I think you also spoke about having taken some price hikes from November. It's a 2-part question. Do you see your Q3 realizations being better than Q2 in terms of average for the quarter? And what can structurally keep the pricing at these levels for a longer period there beyond June also?
- Rajinder Bhandari:** Yes. I just said we are certain till June because of the orders that we are getting from the government sector. If I'm getting, today I have 20,000 tonnes in hand, and I'm getting good-priced orders from government sector, another 40,000 tonnes, 50,000 tonnes in the next 1.5 months. So that means I have in hand orders of almost 70,000 tonnes. So that leaves me with the additional production capacity available for open market just another that's 30,000, 40,000 tonnes. So I said based on that, I'm confident till June my prices will be good even in market prices go plus/minus, it will not affect us. That's what I said. Otherwise, if that momentum remains in the market, I think the cost level which is for everybody. Fuel prices are high for everybody. Caustic prices going around INR60,000, INR70,000, it's for everybody for a site and all kind of other chemicals, same for everybody. Wood prices they are increasing, agro raw material increasing for everybody. So that cost effect is for everybody. So that kind of price is likely to sustain in the longer run also. But my comment was in view of the orders that I'm getting.
- Rajiv Mehta:** Okay. And my second question is whether Q3 realizations will be better than Q2. Is that possible? And one more thing is on whether the other capacity, so as you spoke that for craft paper and for other kinds of paper, which other players are into, their prices have corrected by 30%, 40% or 20-odd percent. Can they change their capacity to writing and printing? Is that a fungible capacity or it's not possible for them.
- Rajinder Bhandari:** Actually, only some of the newsprint manufacturers, they can change to writing printing, but they won't change because the raw material part in newsprint has corrected by more than 40%, 50%. So at the moment, even at INR60,000 a tonne, newsprint manufacturer, they won't shift to writing printing, who are the only ones who could shift to writing printing, but they don't match the quality that we make. They affect the lower end of the writing printing manufacturer who make paper only from indigenous paste. Yes. And craft people or duplex people, they cannot shift, yes.
- Moderator:** The next question is from the line of Aneesh Shah, individual investor. Please go ahead.
- Aneesh Shah:** This is regarding Zume machine, which we are now no longer doing business with them. So can you please advise what was the CapEx done on that? And what is the CapEx plan for the new machine, which we are going to install, I think, 6 or 8 numbers? And last question regarding renewable energy certification. So what was the revenue from that part in this quarter or for the half year?
- Rajinder Bhandari:** Rachit, I think you will be able to take that.
- Rachit Nagpal:** Yes, to renewable energy, we have received almost INR2 crore in the first half year of 2022. We are expecting another INR6 crore to INR7 crore in the next 2 quarters. So on an average, we are expecting around INR8 crore in this year from RECs.
- Aneesh Shah:** And what was the CapEx done for the Zume machine.s
- Rajinder Bhandari:** CapEx was almost INR20 crore, INR10 crore, INR12 crore was on the supply side of pulp to the machine, number one. And INR6 crore, INR7 crore was the cost on the machine itself. Building was already there. So there was total CapEx was in the range of INR15 crore to INR20 crore. Out of that, the machine cost will be reimbursed by the Zume, whatever we have spent. So they are repaying us that back

because they could not deliver and they are placing those machines somewhere else. So we don't stand to lose on that. The only loss that we are making on this is idle line capacity for the pulping section, which is INR10 crore to INR12 crore. So once the new automatic machine starts coming from December, so we will slightly start using that capacity and by the first quarter next year, total capacity of that plant will be utilized.

- Aneesh Shah:** Okay. And what would be the CapEx for that?
- Rajinder Bhandari:** Yes. The cost of these 6 machines is again in the range of similar same price INR 7 crore to INR 8 crore.
- Aneesh Shah:** It is per machine or total cost?
- Rajinder Bhandari:** Total. Total cost installed will not exceed more than INR10 crore.
- Aneesh Shah:** Okay. And what will be the revenue potential for this business?
- Rajinder Bhandari:** So if they operate as has been committed by the supplier to be at 70% capacity. So 704 tonne per day and 330 days if we take, it should be anywhere around INR30 crore to INR40 crore, yes.
- Moderator:** The next question is from the line of Dinesh Kumar Jain from Coard Investment. Please go ahead. Mr. Jain your line is in talk mode, kindly go ahead with your question please. As there is no response from the current participant, we move to the next question from the line of Ayush Mittal from Mittal Analytics.
- Ayush Mittal:** Yes, sir. First of all, thanks a lot for the detailed discussion and insight and congratulations on a good performance. Sir, between the discussions, if we carefully observe at one hand, you are saying that our performance will get better now as we start using more of wood pulp and it became more integrated in coming quarters and maybe already that we are doing. So what I can understand is that our margins are bound to go better and operationally, we'll be much better off. So have we started benchmarking ourselves to the leaders in the industry or something like that because we have several benefits in terms of cost structure, like you are saying that we are one of the few who are using so much of cheaper cost power sources and all those things? So how is the thought process at the management and to leverage from here the company to the next level?
- Rajinder Bhandari:** If we see at the performance of the company, so our performance has been more or less quite consistent in the last 3-5 years if we look at as well. So our efforts, all the time is to do what best we can do at this point of time. And results are definitely bound to come with time. Nobody could earlier think of using a rice straw boiler in the process industry, which were used only in the power industry in Punjab. Because in power it happens that today if you have to close the boiler for 2 days for cleaning so you can manage that. But in process industry you cannot shut down the boiler even for half an hour or 1 hour forget about 2 days.
- So we have been putting efforts only and results are coming. And as you rightly said, with the full backward integration with increase in agro pulp, with increase in wood pulp and with fuller utilization of the capacity to, let's say, 240,000 tonnes plus minus in the next financial year and with the installed commissioning of the new boiler, which could use 100% other than rice husk, biomass-based fuels. So results could be extraordinary also. Yes, I would comment only that I won't go beyond that.
- Moderator:** Yes. Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference back to the management for their closing remarks. Over to you, sir.
- Rajinder Bhandari:** Thank you, everybody, for your keen interest and your interesting questions. You are always welcome. If you have any queries, you can contact our CFO, Mr. Rachit and myself also. So thank you. Thank you for your interest once again. Thank you.



SATIA INDUSTRIES
AN ISO 9001, 14001 & OHS

Satia Industries Limited
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Moderator:

Thank you. Ladies and gentlemen, on behalf of Satia Industries Limited, that concludes this conference. We thank you all for joining us, and you may now disconnect your lines.