

Managing business environment volatility is expected to remain a challenge next year: Cosmo Films CFO

Cosmo Films plan on Rs 1000 crores in books over the next four years, Neeraj Jain the CFO of the firm shares that it is on the back of robust cash generation expected from operations in coming years which should further increase the capacity - the expansion in specialized BOPET line and BOPP line will add close to 50% capacity to company's existing capacity base. While robust earning is facilitating the growth of the company in FY22.

Vartika Rawat • ETCFO • Updated: December 02, 2021, 12:05 IST



Cosmo Films CFO Neeraj Jain

By Nikhil Agarwal and Vartika Rawat

Rawat

In an interview with Neeraj Jain, CFO at Cosmo Films discusses the organisation's expansion strategy and financial outcomes expected.

The Delhi-based films and packaging manufacturer Cosmo Films has recently commissioned a Biaxially Oriented

PolyPropylene Films (BOPP) production line from Brückner Maschinenbau at its production facility in Aurangabad. According to Jain, this has been funded through internal accruals and debt, while the line is expected to commence commercial production in FY 2024-25.

The company's Q2 net profit was up by 84.59%; EBITDA grew by 53.87%. "Q2FY22 EBITDA has increased by 54% on the back of higher speciality sales (20%+ growth), better-operating margins and uptick performance by subsidiaries.

Enhanced EBITDA together with lower finance costs and lower effective tax rate led to an increase in PAT by 84%. Increase in EPS was still higher at 96% due to impact of buyback of shares in December 2020," Jain told ETCFO. Edited Excerpts.

Q: Cosmo Films announced plans to install the world's largest BOPP line? What are the financial outcomes expected and what opportunities are you looking at with this?

Neeraj Jain: The BOPP line with a rated capacity of 67,000 Million Tonnes Per Annum (Mtpa) will require the investment of about Rs 350 crores to be funded through internal accruals and debt and is expected to commence commercial production in FY 2024-25. The line shall be one of the largest in the world and shall enjoy the low cost of production.

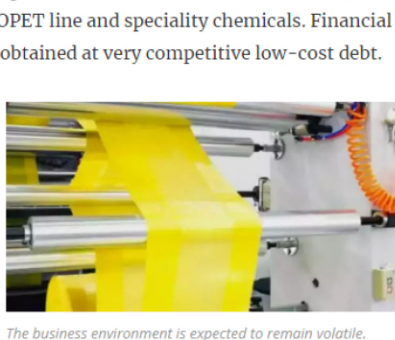
Currently, the company enjoys robust financials (Net Debt/Equity at 0.5 times and Net Debt/EBITDA at less than 1 time). The financials are expected to remain robust even post this capex as a major part of capex on the line shall be done in FY24 and FY25.

Earlier announced specialized BOPET line (expected to start commercial production during H1, FY23) and proposed BOPP project taken together should add close to 50% capacity to the company's existing capacity base. Further, these two production lines will facilitate Cosmo Films to move further towards a value add product portfolio.

Q: At the start of this FY you said that the CAPEX planned for FY21 is around Rs 270 crores, how much of that has been utilised and what are the plans till end of this FY.

Neeraj Jain: Capex for FY22 is expected to be between Rs 260 crores to 300 crores largely on specialised BOPET line and speciality chemicals. Financial closure for the capex has been obtained at very competitive low-cost debt.

Q: The company has launched petcare business Zigly, synthetic paper business and now BOPP this year, and is expanding in speciality business as well. How are strong earnings shaping your future plans and expansion plan? Anything specific in the pipeline in terms of new partnership, merger or acquisitions?



The business environment is expected to remain volatile. Managing volatility and trying to optimize the same for the interest of the company is expected to remain a challenge next year.

Neeraj Jain: The company is taking steps required to transform into a speciality packaging and speciality chemical company with B2B and B2C segments in years to come. Uptick company's performance reaffirms the strategy working in the right direction.

In coming years, B2B segments (focus towards growing speciality sales, specialized BOPET line, BOPP line recently ordered and B2C segments - pet care and specific speciality chemicals) will drive growth. Robust earning is definitely facilitating growth. We are excited and confident for growth whether it comes organically or through an un-organic route.

Q: What is the realistic growth that you are expecting this FY?

Neeraj Jain: The company is expected to continue its growth journey during FY22 in identified areas including specialized flexible packaging films, speciality chemicals and pet care under Zigly brand. We are looking for assertive growth both in flexible packaging and new business verticals (speciality chemicals and pet care).

Q: How much is crude oil price volatility impacting you? Are there concerns over inflation as well?

Neeraj Jain: Crude oil price movement has an impact on the company's key raw material price called polypropylene however since there is a price reset mechanism in India's flexible packaging industry i.e. price movement of polypropylene generally gets passed to customers, it generally does not impact margins.

- NEERAJ JAIN, CFO, COSMO FILMS

Q: The company leadership said in media coverage that they would have around Rs 1000 crores cash in books in the next four years, where are you at now and how will the company plan to deploy it?

Neeraj Jain: Robust cash generation is expected from operations in coming years which should further enhance with increase in capacity (specialized BOPET line and BOPP line). The company is working on options to deploy cash rationally so as to maximize shareholder's value.

Q: In one of the interviews you gave to ETCFO, you said, Cosmo films have plans on water conservation, monolayer structure packaging of food, 100% recycled, this is supposed to, in the long run, (in how much time?) save Rs 30-40 crores on an annualised basis... are you still on that number? What is the cost of being sustainable?

The Company is working on several ESG initiatives. Besides environmental and social impact, these initiatives shall bring cost rationalization (Rs 30-40 crores on an annualized basis) as well during the coming quarters.

- NEERAJ JAIN, CFO, COSMO FILMS

Some of the initiatives include:

- 1) Renewable power at all plants
- 2) Offering mono layered structure for ease of recycling
- 3) power/water/gas consumption rationalization,
- 4) rain water harvesting and reuse of effluent treated water
- 5) waste elimination and recycling the waste
- 6) We have also planted 5,000 trees and is targeting to plant 50,000 trees

The Company is committed to ECG and is working on several new initiatives as well which we will share in due course.

Q: As a CFO what are the major risks that you foresee next year?

Neeraj Jain: The business environment is expected to remain volatile. Managing volatility and trying to optimize the same for the interest of the company is expected to remain a challenge next year.

Q: How do you see the CFO leadership changing with the current times? As the CFO is donning more hats than ever, a) what are the constant pressures on them with digital driving business strategies? b) How should CFOs manage those pressures for them and their teams?

Neeraj Jain: The role of CFO is diverse today. A CFO today has to be a business partner and should have the ability to take strategic decisions and know how to create stakeholders' value.

The world is moving towards a digital-first age and all CFO's should learn to adapt to the changing environment. The future is digital and business dynamics are going to change towards such angles.

The pandemic has taught us that organizations need to be flexible in their strategy in the changed scenario and at the same time act on the same quickly. The post-pandemic CFO is not only strategically smarter but also is more confident than ever before to manage volatility.