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In Conversation

## IN CONVERSATION WITH:



### Pankaj Poddar

CEO

Cosmo Films

Mr. Pankaj Poddar's career spans over 26 years. He started with Cosmo Films in 2011 as the CFO, managing its financial operations in India and overseas. Later, he went on to become the President - India Operations and eventually CEO in 2013, successfully leading multiple verticals for the company. Under his leadership, the company has ventured into several new businesses and crossed multiple milestones, receiving numerous awards himself including 'People's CEO' and 'Indian CEO of the Year'.

Here he talks to ORIENTATE about the company's growth into new markets and the challenges and opportunities ahead for biax films in India.

**OR:** Pankaj, our last interview with you was back in 2018. How has India's biax films market changed over these last five years? In your view, what were the biggest developments?

**PP:** Post the excellent run during Covid, multiple new lines were ordered by existing as well as new players. As a result, the margins for both BOPP, CPP and BOPET films have come under pressure and this trend is expected to continue for the next two or three years given the significant capacity additions that are going to happen over the next three years.

Some of the other upcoming trends in biax industry are the shift towards mono material film structures in packaging comprising of PP and PE films, recycling facilities put up by some of the film players including Cosmo, downgauging by brands and so on.

**OR:** Margins ran much lower in 2022 and 2023 than they have historically. Is 2024 proving any better and what are your expectations for the rest of the year?

**PP:** Margins are expected to remain low for the next two or three years. We do hope that some players will defer their capital investment, especially those who intend to enter this segment for the first time.

For the last 18 months or so, BOPET and CPP films have been making losses while BOPP is barely at a break-even or marginal loss. Most of the players are therefore, reporting losses and unless some future investments are deferred, the trend is likely to continue.

Cosmo with its strong R&D capabilities continues to build newer solutions for the customers. This has allowed us to remain profitable and invest in our newer businesses as well as grow in the films business.

**OR:** Excess supply due to bunching of new lines has been a challenge for Indian producers. What impact has this had on your business? Is it likely to affect any of your own investments, for example the BOPP line due by 2025?

**PP:** Cosmo has had a better performance, largely because of the specialty business. We are also impacted by the bunching of lines and our EBIDTA levels have come down from 15%+ to sub 10% levels, while ROCE (return on capital employed) has come down from 25%+ levels to sub 10% levels, largely due to new investments and decline in the profits.

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The silver lining is that the demand continues to grow with India being the fastest growing economy. The negative perception around plastics has certainly dented the demand growth. Some D2C companies are focussing on reduction of plastics, that has hurt the demand for BOPP tape films. Also, the Indian textile market is facing tough competition from the neighbouring countries and declines in European demand are impacting demand for textile bags and some polyester films.

**OR:** How are preparations for the new BOPP line progressing?

**PP:** We have ordered all the required equipment and machinery, and the construction of the plant has also started. We expect to start the line within FY24-25.

**OR:** What are the other main challenges that Indian film producers are facing at the moment?

**PP:** The biggest challenge remains the negative margins in the biax films business. The recessionary conditions in Europe also do not help the cause. We are seeing price competition and capacity additions in almost all the markets around the world.

Biax film manufacturers need to strategically plan their operations until the situation settles. This situation is akin to a test of 'survival of the fittest,' and companies that are able to navigate this challenge will definitely enjoy the long-term demand that we foresee from the global market.

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**OR:** Can you tell us more about your speciality BOPET line which you commissioned in 2022? How is the line performing and what are your expectations for this investment over the coming years?

**PP:** The newly commissioned BOPET line is aimed at producing specialty PET films for label films/release liners, window films, thermal lamination films, and a few other niche applications. We continue to focus on perfecting recipes, processes and quality parameters for various specialty and value-added films in line with the company's entry strategy in polyester films. Currently, 15% of the line is contributing towards the production of specialty films, and we are expecting to gain significant growth in our specialty films business over the next three years. Growing specialty films is a difficult and time consuming process involving significant investments. However, if you are successful then you can reap the benefits especially in the tough market situations.

**OR:** What challenges did you encounter when starting up your first BOPET line? What advice would you give to producers who are considering manufacturing a new material?

**PP:** There is a significant capacity addition for biax films in China and India. So, further investment into these lines should be avoided at this stage.

One must do a detailed planning before entering a new process or manufacturing a new material. Any such plan must be supported by strong market study and thorough product and process research. At times, new players get

attracted by good margins in a specific industry without realising that such good cycles are generally short lived in commodity products.

**OR:** Cosmo considers its R&D a core strength. Are there any R&D projects underway currently that especially excite you?

**PP:** We are actively investing in our R&D to introduce new, innovative, and industry-first products to the market. We are working on several new projects across our business verticals, such as packaging, labels, adhesives, masterbatches, DTP (direct thermal printable) films, PET-G shrink films, PVC-free promotional films, window films, rigid containers, barrier sheets, sheets for electronics and deep freeze etc.

**OR:** You recently unveiled a range of metallised capacitor grade BOPP films. What sort of demand growth are you anticipating for these films in the coming years? Is in-house production of the capacitor films something you would consider in future?

**PP:** As mentioned, India has always been an import-driven market. We are still dependent on raw materials from foreign markets. The need is to shift towards becoming an export-led market. Indian producers are working towards this vision, and we are strategically planning new capacity additions.

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**OR:** Are there any further biax film investments planned that you are able to share?

**PP:** We already have two functional CPP lines at Karjan and Waluj, with a capacity of 6,000 tonnes/year. We are planning to commission the third CPP line in 2024, which will add close to 18,000 tonnes to our CPP capacity.

**OR:** The company also launched Cosmo Plastech, a new business division extending into the rigid packaging space. Can you tell us more about this and your motivations behind it?

**PP:** Cosmo Plastech is one of the new businesses under Cosmo First to manufacture and sell PP/PET/HIPS sheet as well as thermoformed containers/trays and injection moulded containers. With Cosmo Plastech, we can forge stronger partnerships with the brands and provide them with both flexible and rigid solutions. We have currently invested around USD15 million to venture and plan to scale-up in the years to come. Cosmo Plastech would also help us to increase the use of recycled content into packaging.

**OR:** Currently your manufacturing operations are all based in India with the exception of one facility in South Korea. Given

that exports account for almost half of your revenue, do you have any plans for overseas expansion?

**PP:** India is a very competitive market, and hence, the majority of our manufacturing operations are concentrated in India. Our focus for expansion has primarily been in and around the regions of Aurangabad and Vadodara in India. To be closer to our customers, we have also set up distribution and sales facilities in several countries, including Canada, the United States, Germany, UK, Japan, and Korea while exploring options in South America too. While our immediate expansion plans are centred around strengthening our presence in India, we continuously assess opportunities for further overseas expansion to effectively serve our global customer base and meet market demands. Accordingly, we may plan expansions outside India as well.

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***“Mono-material structures are resulting in growth in CPP films, which should help consume some of the excess capacities in the CPP industry”***

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**OR:** Back in 2018 you spoke of the importance of anticipating the market to maintain competitive advantage. What trends are you anticipating currently? How are the needs of your customers changing?

**PP:** With the rapid evolution of the packaging industry and changing consumer mindset, we foresee several important trends. The customers require mono-material structures for easier recyclability that offer inherent barrier properties, strong seal strength, high clarity, graphic reproduction, and shelf appeal. Mono-material structures are resulting in growth in CPP films, which should help consume some of the excess capacities in the CPP industry.

A few more trends to note:

- Sustainability will remain a key focus, driving demand for eco-friendly packaging materials and promoting resource-efficient practices.
- Mono-material packaging and minimalist design approaches will gain traction, simplifying recyclability and appealing to modern consumers' preferences for sleek, elegant designs.
- The adoption of artificial intelligence (AI) and automation will optimize operations and streamline processes as companies navigate ongoing supply chain challenges and material shortages.
- Many companies, including Cosmo, are putting in recycling facilities to help promote sustainability.
- Lines are getting bigger and faster, but it is not so easy to sell so much material in one go and therefore, it is getting tricky on whether to invest in smaller width

lines that may have higher cost or to invest in bigger lines with much higher output. Machine manufactures need to invest more in R&D to incorporate recycled material into packaging. Whoever will bring this first solution can become the market leader.

- Some brands continue to push for the cheapest materials. It is, however, imperative to bring a balance between cheaper cost and packaging materials that can promote recycling and sustainability.

By staying attuned to these trends, we are committed to meeting the evolving needs of our customers and maintaining our competitive advantage.

**OR:** Expansion of your specialty portfolio is a priority for you, with aims of becoming a 100% specialty film supplier in future years. Are you on target for this? How are things progressing?

**PP:** Achieving 100% specialty can curtail growth. We would ideally like this number to stay between 60% to 80%. Every time, we reach these milestones, we would like to expand our capabilities and capacities. And with each such increase, the specialty percentage would come down motivating us to work even harder to research and bring newer solutions to the market.

**OR:** What are the major challenges you expect to face in the coming years?

We have multiple challenges in the industry, including:

- Significant overcapacity in most geographies, resulting in price erosion
- Negative perception around plastics
- Realignment of global supply chains
- Risk of wars and supply chain disturbances
- Impact of electric vehicles to the petrochemical industry

**OR:** What do you see as the long-term opportunities for biax films? Where will future growth come from?

**PP:** Biax films will continue to replace paper, metal and other forms of packaging material. Mono-material structures will surely see a demand, and we are readily investing to ensure that our biax films feature this structure.

However, while the packaging industry is growing globally, there have been discussions surrounding sustainability and plastic waste management. Companies need to address this issue as well. Hence, in the long run, companies investing in recycling will witness growth, but government support will be required to implement this from the grassroots level.