



“Supreme Industries Limited Conference Call”

April 25, 2012



**MODERATORS: MR. PUNIT CHOKHANI
MR. MP TAPARIA
MR. P.C SOMANI**



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Moderator: Ladies and gentlemen good morning and welcome to the Q3 FY12 earnings conference call of Supreme Industries hosted by Enam Securities Limited. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by "*" and then "0" on your touchtone telephone. Please note that this conference call is being recorded. I would now like to hand the conference over to Mr. Punit Chokhani from Enam Securities. Thank you and over to you sir.

Punit Chokhani: Good evening everyone. Thank you for standing by, it is a pleasure to have with us the management to have the management of Supreme Industries Limited. Today the company is represented by Mr. MP Taparia, who is the Managing Director and Mr. PC Somani, who is the Executive Vice President. We will begin the conference call from them with the results and this will be followed by a Q&A session. I would like to hand over the call to Taparia Ji first. Over to you Sir.

MP Taparia: Thank you very much Mr. Chokhani. Good evening to all the participants. I am MP Taparia, Managing Director of Supreme Industries Limited. I along with my colleague, PC Somani welcome all the participants who are participating in the discussion unaudited finance results by the company for the Q3 and nine months that ended March 31, 2012.

First of all I give the highlights, which are as under, the net revenue of the company for the third quarter under review was Rs.768.55 Crores as against Rs.662.51 Crores for the preceding third quarter in the previous year. The net revenue of the company for the nine months ended March 31, 2012 was Rs.2039.44 Crores as against the Rs.1721.22 Crores from the corresponding nine months of the previous year.

The company processed 1,77,439 metric tonnes of polymers and achieved net product turnover of Rs.1902.81 Crores during the nine month of the current year against processing of 1,67,680 tonnes and net product turnover of Rs. 1617.83 Crores, in the corresponding period of the previous year assuming volume and product and value growth of about 6% and of 18% respectively. Profit before interest, depreciation and cash flow during the nine months under review have grown up by 21.01% to Rs.298.58 Crores of Rs. 253.38 Crores in the corresponding period of the previous year.

The consolidated net profit after tax during the nine months under review has gone up to Rs.146.52 Crores as against Rs.179.59 Crores in the corresponding period of the previous year. The consolidated earnings per share during the nine months under review have grown

up to Rs.11.53 as against Rs.10.67 on equity face value of Rs.2 per share. The growth in the product segment of the company for the nine months ended on March 31, 2012 has been as under; Plastic piping system business grew by 10% volume and 24% in value terms. Packaging product segment grew by 7% in volume and 17% in the value terms. Industrial product segment grew by 5% in volume and 15% in value terms. Consumer product segment had a degrowth of 18% in volume and had a nil growth in the volume terms.

The overall growth in the volume sale in the value added product in the nine month has gone up to 31.48% of the product turnover as against 29.20% in the corresponding nine months of the previous year registering a growth of around 8%. Company's expansion plans involving total capital outlay of about Rs.250 Crores are progressing well. Our requisite effective steps including purchase of land, construction of building and ordering of key equipment, having taken to set up new unit and expansion of existing capacities. These status of the same is summarized here in below:

- a) New unit at Hosur in Tamil Nadu for about 15 packaging product, with an investment above Rs.25 Crores is likely to be operational by end of the current financial year as a company.
- b) Construction of buildings at new unit for an expanding capacity of closed limited film at Halol in Gujarat in full swing and orders for all equipments having placed. First film capacity of 6000 metric tonne per annum with an outlay of Rs.58 Crores is likely to be operational by September 2012.
- c) Our company (indiscernible) 5.59 to make further into composites and excellent growth potential were for the first unit to manufacture the 400,000 composite cylinder as Halol in Gujarat is progressing well and is likely to be operational during October-December 2012 quarter is an investment outlay of Rs.65 Crores.
- d) Lastly the company earlier closed down its PVC film business in Malanpur near Gwalior in Madhya Pradesh and this was the equipment, land and building of the same were available for new activities.

The company now has finalized this plan to move this facility to manufacture plastic pipe system which will enable us to reach large markets of Madhya Pradesh, Chhattisgarh and nearby areas. Wealth for the same has started market space (ph) with an investment of around Rs. 50 Crores will be operational by October 2012. During the nine months of the current year, the company has realized Rs.69.16 Crores from sale of 41,678 square feet of Supreme Chambers. There were few active enquiries and discussions and negotiations stage

for sale of premises of in Supreme Chamber. However permissive property market in Mumbai is great at this moment, there were no sales of premises in the quarter ended.

During the current whole year, the company envisaged annual growth in volume and product value of about 10% and 20% respectively over the previous year. This is a brief and overall summary. Thank you for your patience. Now I and now and my colleague Somani are available to reply to various queries going to be read by all of you. Thank you very much for understanding. Thank you dear friend.

Moderator: Thank you very much. The first question is from Samrit Poddar from Lucky Securities. Please go ahead.

Samrit Poddar: Good afternoon Sir and congratulations for a good set of numbers. My question is regarding the overall volume guidance that we are looking at 10% now. When we started the year we were looking around closer to 15%, so could you just take us through what has transpired and how because we are looking at 12% at the end of December quarter now we are looking more than 10 so how has the market shaped and are we cooperating that we will be able to maintain this 10% for the full year?

MP Taparia: There are two reasons. One was the degrowth in furniture with the increase in the raw material price due to the crude prices, we could not pass on the increased cost for furniture business so we have slowed down our furniture business, which has shown an 18% volume degrowth in the nine months. Secondly, industrial component customer there are variety of customer and segments continuously remains slow especially for the water purifier which the supply from Tata Chemical Limited and there were two reasons, which has resulted in volume growth note to our expectation. Value growth will come due to two reasons; one is that we have increased our share of revalued product and secondly due to increased cost of raw material but we are still comfortable that we are able to maintain a turnover of 2800 Crores, which was our original forecast and also able to maintain operating margin. This will be around 13.5% for the whole year.

Samrit Poddar: Sir what is the outlook looking for the FY 13? Do you think we can do more like 14-15% next year or next year we expect it to be more 9-10% volume growth?

MP Taparia: Volume growth now our focus remains more about to increase the business of value added product, so the forecast, which you can give very comfortably that we will grow our business by 600 Crores next year, so for the whole year our turnover should go to 3400 Crores next year. Volume growth may not be 12-15%, because the direction for the



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company is now to increase more and more share of value added product they may not require more volume but will be value addition.

Samrit Poddar: So in that case can we see that next year the EBITDA margin should see some improvement over current year?

MP Taparia: We anticipate like that.

Samrit Poddar: Secondly on the CapEx side with the sale on the commercial property not materializing into what we are looking at so does it mean that our CapEx is more or less on schedule as planned. Would it mean that we will now look to now have more borrowings to support the CapEx plan?

MP Taparia: In the current year which is going to end in two months we are not going to increase our borrowing, we will reduce our borrowing by very strong control on our working capital management. Our borrowing which was committed in the second quarter conference call we will be able to maintain to a level of Rs.350 Crores on 30.06.2012. For the next year we have increased generation of profit and also tried control of working capital management we do not envisage to increase our borrowing, our dream was to reduce our borrowing, which may not happen if there is no sale of Supreme Chamber. We were always telling our shareholders that our desire to bring down our interest cost to 1% of turnover, the same may not happen next year also, because if the Supreme Chamber is not sold our borrowing levels may not come down. We have no plan to increase the borrowing level.

Samrit Poddar: Sir but then how will you finance the additional working capital, you will be financing from internal accruals, the 20% growth that we envisage?

MP Taparia: It is through internal accruals.

Samrit Poddar: If I just last question a bit on what is happening on Supreme Petro I believe that has not a very good year in the current year. So what is outlook there how it is?

MP Taparia: Supreme Petro third quarter has come out well and new vertical whatever the company is committed investment they are all going to commercial production. The quality has been very well accepted in domestic and export market. These are the product, which has to again critical mass over the period of nine to twelve months. So within months these products will start getting a decent return .So we are quite optimistic about the working of Supreme Petro for the year 2012-13.



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- Samrit Poddar:** Any in the way sir you guided for Supreme Industries could you give some numbers for it would look at a Supreme Petro next year?
- MP Taparia:** Supreme Petro number we have still not made, so I cannot comment anything.
- Samrit Poddar:** Thank you very much sir and wish you all the best.
- Moderator:** Thank you. The next question is from Vinak Rohit from ICICI Prudential. Please go ahead.
- Vinak Rohit:** Good evening sir. My question is if I look at third quarter last year and third quarter this year volume growth not been much I mean it is flat so does this have in entirety to do with degrowth in consumer segment or it have the other segment where you are seeing less growth?
- MP Taparia:** I will tell my colleague Mr. Somani tell you the volume growth of the third quarter per se only, one minute.
- PC Somani:** The third quarter there is no growth in volume as such. It is flat per quarter from volume point of view. We have a degrowth in the consumer segment that is the furniture over 15% in the quarter and plastic package systems has a flat quarter and the corresponding increase we had in the packaging segment where we had a growth of 9%, and industrial product division we have a growth 8%, whole put together we made a flat quarter on the volume per tonne.
- Vinak Rohit:** Sir could you give me a debt number and standalone and console balance sheet?
- PC Somani:** Our total borrowing as on Mach 31 is 586 Crores.
- Vinak Rohit:** Sir we are planning the cylinder capacity so have received any approval for that or what is the status on that?
- MP Taparia:** Our company's cylinder has gone for approval in Europe to the AP authority because the supply has to stable the cylinder before the plant is shift and the product has come out quite well and it is in the trail going on, we anticipate that they may receive in the month of June, July and then a shipment will take place and our building is nearing completion by the client and we expect this up to October December quarter we will put in the plant in production.
- Vinak Rohit:** Thanks. That is all.



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- Moderator:** Thank you. The next question is from Nehal Shah from Dolat Capital. Please go ahead.
- Nehal Shah:** Congratulation sir for very good set of numbers. Sir coming to the debt on books you said is 596 Crores as of March 31? Sir then the debt has gone up from around 500 Crores last quarter to 586 Crores this quarter?
- MP Taparia:** This is 505 Crores so this has gone up by 81 Crores.
- Nehal Shah:** So what has lead to the increase in debt?
- MP Taparia:** That is by increasing our inventory we anticipate in the prices of raw material going up to where adequate inventory of raw material our inventory has up from 294 Crores to 374 Crores around inventory went up by Rs.80 Crores and it was the reason of growth in borrowing. Now that all are getting consumed so we are still maintaining that our overall borrowing level will come down form 586 Crores to 350 Crores.
- Nehal Shah:** Sir in terms of days what is the inventory level?
- MP Taparia:** The inventory level I can say working capital our booked debt level was 24 days, which was there on December 31 also 24 days and we maintained that 24 days on March 31st also same number, inventory definitely has gone up from 294 to 374 so it has definitely gone up number of days. Now we get it consume everyday now already we have planned 54 days for the current quarter that is the inventory as on April 1, that are 54 days requirement.
- Nehal Shah:** With the kind of accruals we will be getting in the last quarter or debt is expected to come down to 350 Crores?
- MP Taparia:** On June 30 it will come down to 250 Crores.
- Nehal Shah:** For that you do not assume any incremental sale of real estate coming in so
- MP Taparia:** We are not factoring anything.
- Nehal Shah:** Great sir and can you throw some light on the silpaulin you are doing the last quarter, which happened?
- MP Taparia:** Silpaulin sale overall we have been consumer products plastic segment the demand is quite brisk and we have backlog of orders, overall 31 product sale has gone up from 147 Crores to 183 Crores in third quarter and 13 folders constitute cross laminate sale and 43 coating



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product and performance are we are taking film and for the whole year we expect this sale to grow from 415 Crores to 489 Crores.

Nehal Shah: Sir basically about silpaulin last time we did on 313 Crores would it be fair enough to assume a sale on a 18 to 20% considering that will be utilizing a full capacity this year?

MP Taparia: We have a growth of around 20%, that is the capacity available. So you can just multiply by 20%.

Nehal Shah: Sir can we have a segment wise breakup of sales and revenue terms and in volume terms for the quarter?

PC Somani: I am giving the data for nine-month period.

Nehal Shah: Sir nine month and for quarter also you want?

PC Somani: I am giving for the quarter first plastic piping systems 3948 vis-à-vis last year 40568, packaging product 9557 vis-à-vis 8773, industrial product segment 11589 vis-à-vis 10708 metric tonne and consumer product 4890 against 5779 metric tonne of last year. For nine-months it will be piping system 107305 metric tonne against last year of 97681, packaging product 28017 vis-à-vis 26276 metric tonne, industrial business 28408 last year 26976 metric tonne and consumer product 13709 vis-à-vis last year of 16747 metric tones.

Nehal Shah: Value terms?

PC Somani: Values terms we want both quarters wise in last year in last year?

Nehal Shah: Quarter and nine- months?

PC Somani: First you write this thing for quarter and the nine-months of the current year plastic fabric system 329 Crores and 845 Crores for the nine-months against last year of 291 for the quarter and 678 Crores for this nine-months year, packaging 183 Crores and 489 Crores for the last nine months vis-à-vis 147 Crores for the quarter and 415 Crores for the nine-month period industrial business 177 Crores and 409 vis-à-vis 145 Crores and 355 Crores, consumer product 54 Crores and 186 Crores vis-à-vis 66 Crores and 187 Crores.

Nehal Shah: Thanks for answering my question.

Moderator: Thank you. The next question is from Viraj Mehta from Equirius Securities. Please go ahead.

- Viraj Mehta:** Sir if I look at your guidance for the full year, which you have given in the press release it says on 20% value growth that you are looking at, so if I take that number into account the total turnover for the company comes around 2900 Crores plus rather than 2800 Crores so what would be a kind of number we are working with for last quarter itself?
- MP Taparia:** Last year our 2333 Crores was our product turnover. In our turnover there are two component one is turnover and both of the treasure item turnover, so our turnover last year was 3333 Crores. Our product turnover and we anticipate 20% value growth, which make it 2800 Crores for the product growth and 100 Crores we expect from (indiscernible) 23.25 item so over all turn over we expect 2900 Crores for the current for the current year.
- Viraj Mehta:** Roughly we are looking at a 930 odd Crores in the final quarter, but sir if I look at the volume growth doing 6% for the three quarters would mean you will need to do more than 20% volume growth YOY in the final quarter how confident are you because my question is this because you have already closed down a net division which basically is reducing our consumer division numbers so doing that 20% plus volume growth in the final quarter how feasible would that be?
- MP Taparia:** Net division was hardly any volume. Net division does not make much difference because it is a very small dividend. Net division was totally Rs.15 Crores. Net division will not affect anything. We anticipate now all dividends this approval is going to be a very good quarter as we do not have much finished goods inventory we expect that our business should be better in this quarter we are seeing in the month of approval also things are going quite well. We expect that when we are saying 10% it was anything between 9 to 10%.
- Viraj Mehta:** But even to get 9% will need almost 18, 19% kind of volume growth is what and that kind of number we had not seen in last four quarters. So that is why this question is raised?
- MP Taparia:** We can be confident that in value wise our turnover will grow by 20%, value wise definitely we will reach 2800 Crores product turnover, we were 2373 Crores last year volume wise I do not want to be so infected this is what the number has been given our operational people and we may attain also but value wise we are very confident.
- Viraj Mehta:** Also we want to understand like if I look at company for the last 10 quarters and look at how volume has grown and value has grown and if I look at sales part damage or hitch actually it is not a reflect of a particular pattern especially in piping as well as in the industrial division now what will be the reason for that Sir?

- MP Taparia:** Plastic pipe volume and value is will always reflect properly only initial product volume may not be there because suppose the product is a very high cost wise there may be volume growth but value growth will be there but in plastic piping system volume and value will generally converge.
- Viraj Mehta:** CPVC number for this quarter and nine month?
- MP Taparia:** Which one?
- Viraj Mehta:** CPVC sales for the quarter and for the nine months.
- MP Taparia:** They are not immediately available with us
- Viraj Mehta:** Sure but I mean we are roughly looking at 150 Crores for the year that should be more or less on target?
- MP Taparia:** CPVC value growth we should be around 25% in the current year. In the first nine months we have grown by 25.8%. We maintain that by value wise, value wise we maintain the results of 25% plus in the year.
- Viraj Mehta:** What is the industrial subsidy for the quarter?
- MP Taparia:** For the current quarter it is 7.7 Crores.
- Viraj Mehta:** For the full year we would be doing roughly around 27, 28 Crores?
- MP Taparia:** Around 30 Crores this year.
- Viraj Mehta:** Thanks a lot for answering my questions. If I have any more I will get back on the queue.
- Moderator:** Thank you. The next question is from Chirag Setalvad from HDFC Mutual Fund. Please go ahead.
- Chirag Setalvad:** Sir my questions have been answered. Thank you very much.
- Moderator:** Thank you. The next question is from Rajeev Agarwal from SKS Capital. Please go ahead.
- Rajeev Agarwal:** Thanks for the opportunity. Thanks for the good set of numbers. Sir I want to just have the figures for the nine months value figure for the consumer product for nine months in quarter three value figure?



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- PC Somani:** Nine months turnover for the consumer product for your current quarter it is on 186 Crores for the current year vis-à-vis 187 Crores for the last year and for the quarter it is 64 Crores for the current quarter vis-à-vis 66 Crores in the last year.
- Moderator:** Thank you. The next question is from Samrit Poddar from Lucky Securities. Please go ahead.
- Samrit Poddar:** Question regarding the agri-segment we are often been reading about slow down on the in the agri-segment have we experienced have you experienced in slow in our sales segment?
- MP Taparia:** We are not experiencing because the season starts our plastic pipe system we are not in big system and we are hardly much in this sprinkler system it is a subsidiary business, our company does not deal in subsidiary business. Regular market we have not seen any slowness in demand for plastic pipe from any specialist. We are not seeing any slowness.
- Samrit Poddar:** You mentioned that your note does mention that has been some slackness in terms of the real estate commercial estate in Bombay and that is why you are not able to close the deal, has the expectation terms of pricing what are the type of private expectation is it significant below the private we are wanting to sell or that cap is not that large?
- MP Taparia:** Our property price in that region is around Rs.16000, Rs.17000 per square feet we sold it earlier Rs.15000 to Rs.15600 rupees, which we believed it is not only due to price alone, so there are somehow slackness in acquiring commercial space which furnish in the business growth in the country and Bombay is a commercial capital in the country we are being 12 that residential houses demand is quite brisk in India in Bombay but commercial demand is presumed to be slow.
- Samrit Poddar:** So you think it is more of a volume issue rather than a price issue?
- MP Taparia:** With our offices has large offices it is very large office. Our office is not a small office, there are 10000 to 12000 square feet office so there is good demand for small offices, the way our whole basically we plan the building where only large offices are available, since may be large of a demand is slow but we want large office then there is a good option to take our building. Our building has come up very well. We have got open certificate already in our hand, we are very confident that the property will sell at a proper price and the demand will come up very shortly. As we informed you earlier we have got negotiations going on, something will picturize also.



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- Samrit Poddar:** Sir currently what we have mentioned that some final negotiations are again for significant portion or these are again like one floor or half floor?
- MP Taparia:** It is always one floor, and half floor only. We are not in the market to sell the entire building to one customer. There is also enquiry gone also.
- Samrit Poddar:** I think we are also looking in terms of retaining some area for captive purpose and shifting from the existing from the existing premises. So that process is also going on or it is still not completed?
- MP Taparia:** We never had any plan because we are existing premises and we intent to stay in that premises only. We are not going to occupy for our own use.
- Samrit Poddar:** Secondly, you mentioned that you are looking to bring down the debt to 350 Crores by June quarter, so primarily most of the introduction will come from liquidation of inventory that could be primary source?
- MP Taparia:** Mostly from liquidating working capital, which have gone quite high the design it has gone to a very high level, which will come down to a normal level hopefully we will generate in the quarter.
- Samrit Poddar:** Secondly if you could just share the acceptances number for the quarter versus same quarter. Acceptance we also have this acceptance rather than debt on which we connect that we get from the suppliers. So if you just?
- PC Somani:** Acceptance are forming part of debt only. Our total debt what we are mentioned 586 as of now is your acceptance of 183 Crores.
- Samrit Poddar:** Thank you very much.
- Moderator:** Thank you. The next question is from Kartik Mehta from Sushil Finance. Please go ahead.
- Kartik Mehta:** Thank you very much for giving opportunity sir just wanted to know the CapEx what we have done so far in this fiscal.
- MP Taparia:** CapEx payment we have made Rs.192, money what we have told Rs.250 Crores in the current year Rs.256 Crores. We have committed 250 Crores in the current year, plastic piping it comes as 62 Crores and packaging 96 Crores, industrial 21 Crores, composite 64 Crores, consumer 5 Crores and Corporate 2 Crores. Totally 250 Crores we have committed for this year.



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- Kartik Mehta:** How about the next year number sir?
- MP Taparia:** Next year also around 250 Crores.
- Kartik Mehta:** Major spending would again in which segment?
- MP Taparia:** Major will be in plastic, piping and packaging and also in composite.
- Kartik Mehta:** Another question on the consumer volume side like since the raw material pricing pressure is there and there is you are unable to pass on to the consumer and deliberately keeping volume low. So where exactly demand is shifting or there is also compression in overall demand?
- MP Taparia:** Let me tell you about the consumer product. We have only with consumer product that is furniture and it constitutes two segments of commodity furniture and premium furniture. We were selling around 65% in commodity and 35% in value added premium product. So commodity market has not gone down probably the market you maintaining but the people are buying not from the prime material, people are buying from 50% scrap 50% original material, 70% scrap and 30% original material those type of product our company does not make. So the whole company is now shifting from 65% commodity business we will come down dramatically next year. We expect that this segment of 65% must come down to 50% next year and 35% must go up to 50%. So we are not looking at our volume growth in this business. In the composition of the business segment will totally change. We will stay in furniture business but our focus will be now more and more to make premium products only because we are not finding any problems passed on the increased cost of raw material.
- Kartik Mehta:** In terms of value added product we are roughly at around 31% plus?
- MP Taparia:** But that is for the whole company.
- Kartik Mehta:** So that figure is likely to shape up to what level, if you have any idea?
- MP Taparia:** Our aim is to take it to next two to three years to 34% to 35%. Turnover always goes on going up as we are saying now next year our turnover will be 3400 Crores so the value added even if I increase by 1% further that is a big increase. So our aim is to go on increasing it.
- Kartik Mehta:** Sir, can you just throw more light on the cylinders like it is only meant for the European market?



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- MP Taparia:** It is meant for the Indian market and international market. We are going to offer the product for the world market also and once we start production in our newest model for domestic market and export market.
- Kartik Mehta:** Is there any volume offtake commitment?
- MP Taparia:** No commitment for anybody. The Indian government has still not decided. They have not floated any tender for buying the company cylinder, so we are keeping the second option available whereas this does not come up then we will participate only in export market. Export market looks quite robust, able to put all our product in the world market.
- Kartik Mehta:** So globally the demand of this sort of cylinder is quite robust?
- MP Taparia:** For our capitation it is no problem. It is a small plant 400,000 cylinder is a very small plant.
- Kartik Mehta:** That is all from my side. Thanks a lot and good luck.
- Moderator:** Thank you. The next question from Harshid Kapadia from AMSEC. Please go ahead.
- Harshid Kapadia:** Good afternoon. Just wanted to understand you mentioned 20% growth guidance for the next year. Could you share which pockets can grow at a faster rate or where you see the slowdown continuing out of the four verticals?
- MP Taparia:** Value growth may not be there 30% in furniture because furniture where we are changing the product segment suppose we may do around 280 Crores this year, next year also it may remain 280 Crores, but the product usually can which means the topline may not grow but bottomline will be better in furniture because consumer business in our company is only furniture. Bottomline will be better, but the performance packaging film we are investing no money. There also there will be no value growth. In all the four segments, that is plastic, piping, systems and packaging product and industrial product all the three product has value growth. Every product we have value growth and so in this 3400 Crores number what we are talking we are not seeing any turnover from composite business. While composite products we start production by December for sure this year, but we are not seeing any turnover from their product in this 3400 Crores plant, whatever will come from composite will be additional to our 3400 Crores turnover.
- Harshid Kapadia:** That composite cylinders turnover would be coming from Indian markets or are you looking at European demand?



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- MP Taparia:** Our market is India and the International market.
- Harshid Kapadia:** But in India the approvals and all that are in place?
- MP Taparia:** It may not come then we will be placing our product, we are making separate model already, already moulds have been made for the world market and it is not European market, we are talking about world market.
- Harshid Kapadia:** Specific to industrial segment, do you see there also can be some stress or things have improved going from now to the next year compared to the last year's trend what it has been?
- MP Taparia:** Generally the demand will come up properly in industrial component, next year the water filter of Tata Chemical will be taken off but we are now very confident that there will be also a good demand for the next year, so industrial component we have good growth in the year 2012-13. We are not seeing any slackening of demand and we are also getting new customers also. New automobile companies are also coming into the country and we are also one of the vendor (indiscernible) 39.32.
- Harshid Kapadia:** What is your sense about the raw material prices? How you see that panning out and for this quarter and may be the way forward, what is your sense in that?
- MP Taparia:** We are seeing these crude prices are now stabilizing. It went up to \$125 and now they are trending around \$103, so based on crude prices there is no chance for any upside in the prices and the rupee dollar parity we cannot comment. It is not possible for me to forecast it. Our company does not give any unhedged foreign exchange exposure, but where the rupee will hang people tell us that the rupee move to 40 again, people say rupee may move to 55, it depends on the rupee dollar parity. If the rupee dollar parity go in favor of the country then rupee becomes stronger then our raw material prices will come down.
- Harshid Kapadia:** As of now from this quarter onwards the prices have moderated compared to the last quarter?
- MP Taparia:** The well market prices have moderated. There are nobody asking any increased prices.
- Harshid Kapadia:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from Nilesh Damnaskar from Religare AMC. Please go ahead.



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- Nilesh Damnaskar:** Thanks for the opportunity. Sir, could you share with us the segmental margins for the quarter and nine months?
- MP Taparia:** I will tell my colleague Mr. Somani to give you.
- PC Somani:** Segmental margin if you look at for the current quarter in plastic piping systems it is about 12.9%. packing products 19.3%, industrial business is 11.2%, and consumer product it was 9.1%.
- Nilesh Damnaskar:** What was the same for the previous quarter?
- PC Somani:** Previous quarter plastic piping systems was 9.6%, packing products was 17.7%, industrial product was 14.6% and consumer products it was 11.2%.
- Nilesh Damnaskar:** Fair enough. Can you share the nine month figure also?
- PC Somani:** Nine months figure, plastic packing system this year was 11.2%, last year it was 10.3%, packing products this year it is 17.8%, last year it was 18.4%, industrial business 7.7% last year it was 14% and consumer products 9% this year versus last year's 12.3%.
- Nilesh Damnaskar:** Why has been the margin trends fluctuating in the packaging segment from say, what has lead to the sharp jump in this quarter's packaging segment margin?
- MP Taparia:** As mentioned early also we had a lot of inventory losses, because the raw material prices have come down. Now this reversal has started and inventory has also given us the benefit. Some fluctuations up to 100 basis point will happen due to the raw material price fluctuation quarter-to-quarter.
- Nilesh Damnaskar:** What kind of trends would you expect in the industrial product segment margin since for the nine months there has been a sharp reduction?
- MP Taparia:** Segmental margins are generally maintained with no sharp variance in the (indiscernible) 43.33 margin.
- Nilesh Damnaskar:** That is all from my side. If I have any further questions I will come back?
- Moderator:** Thank you. The next question is from Niket Shah from Edelweiss. Please go ahead.
- Niket Shah:** Good evening. Just wanted to know how much CapEx out of around 200 Crores envisaged for this year has already been done?



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- MP Taparia:** Apart from 30-40 Crores everything has been committed already. We have paid interest for nine months around Rs.120 Crores.
- Niket Shah:** So 120 Crores has already been coming on the books?
- MP Taparia:** I have paid already. Ground might be more, but this is the payment that we have already made and whatever commitment we have made for composite so the building work is started, but the equipment still has not arrived, equipment will arrive in the month of July-August. So the commitment has been made, so whatever number when we tell you it is clearly the commitment made by the company, everything may not come on the ground by the time and necessarily the payment may not be made to that extent.
- Niket Shah:** Sir, just one more question, you mentioned that you had significant amount of inventory buildup before the Q4 quarter would it necessarily translate to an inventory gain also in Q4?
- MP Taparia:** Q4 will be inventory gain, that is why we are saying that if you have seen in the first nine months our operating margins is around 12.9% and we are committing the operating margins for the whole year may be 13.5 to 13.6%. In fact the whole year when the margin goes up so much, it means that the fourth quarter the earning will be definitely more than 13.5% definitely some component will be inventory gain.
- Niket Shah:** But on a YOY basis you will see some expansion in Q4 in terms of margins?
- MP Taparia:** Margins will be better in fourth quarter.
- Niket Shah:** That is all from my side.
- Moderator:** Thank you. The next question is from Nehal Shah from Dolat Capital. Please go ahead
- Nehal Shah:** Sir, basically one more question, it is a followup question. There was a transaction which we underwent during the last quarter wherein we negotiated for one block of 13116 square feet. That has not transpired during the current quarter, so any twitter on the same?
- MP Taparia:** The company comprises in excess of Rs.300 Crores joint deposit, the money still remains as a deposit with us and he still believes that he may be able to target the finance and be very keen to complete the deal but up till now it looks that things are going slow with him, and we want to give him long robe partially the checklist in the market and we exclude the thing near 55 in this quarter. Up till now, up till yesterday it was not fructifying.



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- Nehal Shah:** One more question considering our rupee has again started to depreciate. It has gone up by say 4% in the first one month, so do you see a pressure coming on to margins again?
- MP Taparia:** Rupee has still now depreciated by 20%.
- Nehal Shah:** I agree.
- MP Taparia:** 20% rupee depreciable up till now we have not seen much demand restriction, margin will not be affected by anything, but if the rupee goes down dramatically, nobody knows. If the rupee goes down dramatically then our demand may start some of the segment the demand may slow down. The demand what you are anticipating may not be approved to the extent what we are looking for, but we cannot say today where rupee will end up.
- Nehal Shah:** Absolutely, my point of contention is for example, if you look at the December quarter and the March quarter our margin expansion QOQ is around more than 100 basis points that is also because of the fact that rupee has appreciated QOQ by around 5%, now as we look from the point of view from March 31 to current rupee has again started to depreciate say by 4% to 5%. So will there be a pressure again coming on to margins?
- MP Taparia:** If the rupee remain at the current level of around 52.5 we do not expect any raw material price will go up.
- Nehal Shah:** So up till 52.5 we are saying we will be able to...
- MP Taparia:** Seeing the international prices are now holding steady, so they are seeing people are not able to arrange the working capital, so they are not in a position now to pass on any increased cost, the producer from naphtha cracker like Haldia, maybe many of us are aware, if they are not very happy with the price at which they are selling the polymers because the naphtha cost has gone quite high but they are not able to increase the price also because at the high price the demand is very slow, so as the price of international price has been maintained and local prices are maintained we do not see any pressure on margin anything fresh. Only pressure is that we require more working capital.
- Nehal Shah:** Perfect, the point of content here would be till that if the rupee remains till 52.5 we would be able to maintain our current year margins of 13.5%, is that right?
- MP Taparia:** For the whole year yes.
- Nehal Shah:** Thanks a lot.

Moderator: Thank you. The next question is from Viraj Mehta from Equirius Securities. Please go ahead.

Viraj Mehta: Sir, just one followup question, like if we are seeing such low volume growth, obviously we are doing more value added products and our value growth is there, but if our volume growth is so low why are we committing so much CapEx in advance for future years, instead what I wanted to understand is you know if you are taking our capacities high, would not the operational efficiency of the company as a whole come down over the next couple of years?

MP Taparia: If you see the component of investment what we are committing now that what is informed you that we are committing Rs.50 Crores in gross revenue product the capacity is hinting about 6000 tonne, which is just only 4% of our 2.5% of our current capacity and investment is quite high, so that will give us more and more percentage of value add product, composite also the volume will not be high but investment is 55 Crores, which is again a value added product. The investment company now is making more and more to value added product. The investment will be high, but the volume growth will be less. There are two purpose that we do not want to take any competition with unorganized sector even any percentage and secondly we want to improve our operating margins. We may remind our investors that we are the investment promotion subsidy which may not last beyond 2014 and we are prepared the company with the investment more than subsidy is giving a margin of 100 basis point to the company and when the industry promotional subsidy is not there our operating margins must still remain robust.

Viraj Mehta: Got it. Sir, coming back to one of the previous questions was inventory gains in this quarter would be let us say around 75-basis points to 100-basis points increasing our margins going forward would not that slightly increasing prices a) with the company in the long run or would the steady prices if the company in terms of margins. What is the better scene for Supreme Industries slightly increasing prices or steady raw material prices?

MP Taparia: The raw material prices cannot remain steady because the raw material prices always remain volatile. After they are linked to the crude prices and crude prices are never steady. That is why we remained always volatile and rupee dollar parity also cannot remain stable. In our country the dollar is not pressed to rupee. It fluctuates. With the dollar rupee fluctuating and crude prices fluctuating the raw material price cannot remain steady. Raw material is always going to fluctuate.

Viraj Mehta: That I agree, but I am taking it not over a quarter or two quarter period but what my point was that let us say over a six or eight quarter period what would Supreme Industry as a



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company prefer? Would it prefer a slightly increasing raw material prices or would it like steady raw material prices?

MP Taparia: Let the raw material remains low. There will be many advantages. We will require less money for working capital. Our demand will grow further so we will increase our investment mode, 20% growth we will plan much higher growth. The raw material prices may remain further lower.

Viraj Mehta: Then you will not have inventory gains or margin expansions from their coming, right?

MP Taparia: Inventory gain is not our part of our business. We want to do business by making quality product at a very competitive cost.

Viraj Mehta: Absolutely. Thanks a lot Sir.

Moderator: Thank you. As there are no further questions from the participants I would now like to hand over the floor back to Mr. Punit Chokhani for closing comments.

Punit Chokhani: Thank you everybody for standing by. Thank you Mr. Taparia, Mr. Somani. Thank you so much for coming.

MP Taparia: Thank you Mr. Chokhani.

Moderator: Thank you. On behalf of Enam Securities Private Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.