



“Supreme Industries Limited Conference Call”

October 29, 2013



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Moderator: Ladies and gentlemen, good day, and welcome to the Supreme Industries Q1 FY 2014 earnings conference call, hosted by Axis Capital. As a reminder all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during this conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now like to hand the conference over to Mr. Kashyap Pujara from Axis Capital. Thank you and over to you Mr. Pujara!

Kashyap Pujara: Good evening everybody. It gives me a great pleasure to invite Mr. M.P. Taparia, Managing Director and Mr. P. C. Somani, Executive Vice-President of Supreme Industries on this Q1 FY14 conference call. Without taking too much time, I will now hand over the floor to Shri. Taparia Ji. Over to you Sir!

M.P. Taparia: Thank you very much Mr. Poojara. I am M.P. Taparia, Managing Director of Supreme Industries Limited. I welcome all the participants who are participating in the discussion of the unaudited standalone and consolidated financial results of our company for the first quarter ended September 30, 2013.

First, I will give the highlights. The standalone result and the consolidated results are already with you. I will give the highlights of the company's operating performance. The company sold 49,978 metric tonnes of polymer and achieved net product turnover of Rs. 671.03 Crores during the fourth quarter of the current year against sales of 4973 kilometric tonnes and net product turnover of Rs. 596.73 Crores in the corresponding quarter of previous year, achieving volume and product value growth of about nil volume growth and 12% value growth.

The volume growth remained flat principally due to unprecedented price increase of raw material between 15.5% to 19.5% in less than two months time during the quarter compared to June 1 prices. During the current year the company envisaged annual growth in sales volume and product value of about 12% and 32% respectively over the previous year. Total consolidated income and operating profit excluding construction business for the first quarter of the current year amounted to Rs.705.14 Crores and Rs.92 Crores as compared to Rs.617.64 Crores and Rs.84.78 Crores for the corresponding quarter of the previous year recording an increase of 14.17% and 8.52% respectively.

The consolidated profit before tax and profit after tax excluding construction business for the first quarter of the current year amounted to Rs.60.58 Crores and Rs.43.01 Crores as compared to Rs.56.72 Crores and Rs.38.97 Crores for the corresponding quarter of the

previous year recording an increase of 3.86% and increase of 10.37% respectively. The business scenario for all the product segment of the company is as under in the first quarter.

Plastic piping systems business grew by 7% in volume and 22% in value terms. Packaging product segment business had a degrowth of 6% in volume and growth of 4% in value terms. Industrial product segment business had a degrowth by 13% in volume and growth by 4% in value terms. Consumer product segment business had degrowth by 8% in volume and remained flat in value terms.

The share of overall sales in the value added product has been 27.96% of the total sales in the first quarter as against 31.31% in the corresponding quarter of the last year. The company's focus remains to increase the share of value added product in its turnover. The company has launched silent pipe system for building, which will be a superior solution for SWR system, requiring high rise buildings, hospital and hotels. The same will also be preferred by even in single-storey house owner who are averse to noise. The company's manhole of 1 m and 1.2 m diameter was installed and well received by the user.

The company's bathroom fitting has been launched. The entire range of 27 varieties will be in the market by December 2013. The company newly introduced closed laminated film, 35 gram square meter, 55 gram square meter thickness, roll on reel plus several mega product all received encouraging response during off season scheme which was launched in October. This augers well to sell plan 23000 tonnes plus capacity this year against sale of 17700 tonne last year. The company has subsequently produced locally film guard CPCV fire sprinkling system under the license of US Company, M/s ESL (ph) Manufacturing Company. The products are now under trial in the collaboration laboratory. The shared products are expected to be submitted to BIS and Fire Department, India very shortly.

The Company's manufactured composite cylinders are under the process of perception for final approval from TUV, Rheinland of Germany. Negotiated sale of 26283 square feet at Supreme Chamber at an aggregate consideration of Rs.38.5 Crores is progressing towards completion. An amount to Rs.28.8 Crores has since been received and likely to be completed during the current quarter. The Company has envisaged capex plan of about 230 Crores during the year. All investment plans are progressing well. The brief status of the same is summarized in the results already with you.

Raw material prices remained at the peak during the quarter and coupled with steep and volatile rupee depreciation further worsened the situation. Since beginning October prices of polymer started easing out and rupee also moved in a stable range, which enabled the market to absorb the increase for the remaining part of the year.

The Company's borrowing may increase by around 75 Crores during the current year as compared to a borrowing of Rs.469.85 Crores as on October 30, 2013. This should bring the plant's capital expenditure and increase in working capital requirement.

Hence this is a brief and overall summary for the quarter under review. Thank you for your patient hearing. Now I and my colleague Mr. P.C. Somani are available to reply to various queries raised by all of you. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from Mr. Chirag Setalvad from HDFC Mutual Fund. Please go ahead.

Chirag Setalvad: Good afternoon. Sir, could you give us the volumes revenue and margins by segment?

P. C. Somani: This time we have started reporting the sales volume. The first quarter for the current year the plastic piping system, there is sales volume of 32337 metric tonnes vis-à-vis last year of 30259 metric tonnes. Packaging products were 6915 metric tonnes vis-à-vis last year of first quarter 7386 metric tonnes. Industrial products were 7486 metric tonnes vis-à-vis of last year of 8578 metric tonnes and consumer products 3240 metric tonnes vis-à-vis 3537 metric tonnes last year. On the revenue side the plastic piping systems closed at 357 Crores against last year of 301 Crores. Packaging products were 129 Crores vis-à-vis 124 Crores. Industrial products were 134 Crores and last year was 129 Crores and consumer products 50.4 Crores vis-à-vis 50.2, the same.

Chirag Setalvad: In terms of margins?

P. C. Somani: In terms of margins the piping systems the current year first quarter was 15.3%, last year was 14.8%. Packaging product was 15.7% and last year was 18%. Industrial products 9% and last year was also 9%. Consumer product this year 4% and last year it was 10%.

Chirag Setalvad: There was a large increase in stock adjustment of 147 Crores if you could just highlight that large number? Any results in stock in trade increased by 147 Crores versus 87 Crores in the previous quarter?

M.P. Taparia: In case of finished goods inventory we are not expecting the demand that Mr. Som is thinking. So this year onwards we have started reporting on sales basis and not on processing basis. The packaging had a growth of more than 11% whereas sales growth has only 0% in volume.

Chirag Setalvad: What was the processing growth?



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- M.P. Taparia:** Processing growth was 11% in volume.
- Chirag Setalvad:** Margins for this quarter has come in a little bit lower at about 13%. What would be guidance for the full year margins?
- M.P. Taparia:** The full year we expect our margins to be between 14% and 15%.
- Chirag Setalvad:** What was the subsidy element this quarter?
- M.P. Taparia:** This quarter it is 7.16 Crores, last year it was 5.34 Crores.
- Chirag Setalvad:** What was the subsidy element this quarter?
- P.C. Somani:** This quarter it is 7.16 Crores, last year it was 5.34 Crores.
- Chirag Setalvad:** Lastly what was the inventory gain this quarter?
- M.P. Taparia:** There is nothing great to talk about inventory gain. We believe that in second quarter there is some inventory loss but generally inventory gain we count it nowadays only at the end of the year whatever goods were struck on June 30, 2013 then we value the stock on June 30, 2014 if the value of finished goods go up then to that extent we consider our inventory gain. We do not consider inventory gain now because when we are asked to go and transferring some increased price to our customer also. So we do not count inventory gain now in our business.
- Chirag Setalvad:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Viraj Mehta from Franklin Templeton. Please go ahead.
- Viraj Mehta:** Hello sir, just a couple of questions. First of all Sir, when we look at your division wise growth almost except piping everything has seen a reasonable decline in terms of volume be it packaging or industrial and especially in industrial especially in auto sector we are not seeing any pickup or any ramp up even in festival season, a huge pickup. I mean, how confident are you or what are your targets as far as probably industrial and packaging division wise what are you looking at? Where will this 12% overall volume growth come from?
- M.P. Taparia:** Overall volume growth we can give you the detail. We expect volume growth by 13% plastic piping. We expect volume growth of 3% in furniture. We expect a growth of 9% in

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volume by industrial division and we expect a 20% volume growth in our packaging division for the whole year. So we are looking into all the product volume growth. When we made our balance sheet in the month and published in the market we were expecting the volume growth will be 14% but due to continuing demand context in automobile and also demand (inaudible) 14.12 curtail our volume growth target by 2%, which means 55000 tonnes, we reduced our business for the year.

Viraj Mehta: So, if I understand correctly, this reduction is only coming because of the decrease in the industrial division. No other division the programs your expectations have been torn down?

M.P. Taparia: You are very right, on the industrial division, which comprised industrial component and material handling systems and both are related to large plants where demand context in the product and due to extended monsoon up to middle of September there is a poor demand so they have reduced it purchased by the company and automobile we are doing quite good with Maruti but other customer other than Maruti and they do not take recovering their demand.

Viraj Mehta: Sir, as per the packaging is concerned, especially Cross Laminated Films, we have already increased our capacity from 17000 or 23000, in fact 30000 and we are seeing demand contraction for not only this quarter, but for a few quarters packaging division has not shown up the growth as the overall company has been growing. Can you throw some light on that Sir?

M.P. Taparia: Let me talk about the Cross laminated film. Last year our capacity came up late, but we had a growth from 17000 tonnes. We sold last year 17700 tonne. This year our plan is to sell from 17700 to 23000 tonne, which is all in proper place in the first quarter which is the lean season for this product. We had a constriction because of our export market what we expected so we mostly export during this quarter to Middle East and Middle East due to turmoil their export demand has shrunk in the July September period. So that is why in Cross Laminated Film also there is a degrowth in demand in the first quarter, the off season we introduced in the middle of October up to February. Already 14-days have passed after the announcement of the off-season scheme and we are getting order intake 14% more than last year so we are very confident that against 17700 tonnes this year we will sell in excess of 23000 tonnes. Our overall capacity 27000 tonnes will be fully sold out next year. We are having a growth in plastic packaging division also for the whole year and we are also in growth in performance packaging film and that is why we are confident that we will grow 20% by volume in our packaging division in the current year.



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- Viraj Mehta:** Last thing on piping, if I know correctly one of our competitors is also trying to get the BIS for the plastic fire sprinklers. So, when do you expect the commercial production of it, will it be by FY15 or even probably later?
- M.P. Taparia:** It will be in FY'15. They are ahead of us. They are enjoying collaboration with Blaze Master, they are in a collaboration with steel manufacturing company. As per our information they are the two companies in the world, both are American companies who have perfected fire fighting system from CPC raw material. We have the collaboration with the Steel Manufacturing company and we have already produced goods in our plant under their supervision and they have gone towards their approval in the laboratory and then we will submit to BIS in fire fighting department. This is a long process. So we therefore expect that we can have a turnover from this product in the year 2014-15.
- Viraj Mehta:** This is very helpful. I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Ajay Vora from Enam Asset Management Company. Please go ahead.
- Ajay Vora:** Extremely sorry for repeating the earlier request. Can you just help us with the volume data again?
- P.C. Somani:** Only volume data?
- Ajay Vora:** The four divisional volume data please?
- P.C. Somani:** Plastic piping division is 32337 metric tonnes vis-à-vis last year of 30259 metric tonnes. Packaging division is 6915 metric tonnes vis-à-vis 7386 metric tonnes of the last year first quarter. Industrial product is 7486 metric tonnes vis-à-vis 8578 metric tonnes last year, and consumer products 3240 metric tonnes vis-à-vis 3537 metric tonnes last year.
- Ajay Vora:** Thank you very much. Sir, I am just trying to understand on a year-on-year total volume has been more or less flat and we are guiding for 12% volume growth for the full year, so what gives you basically the confidence for the next three quarters to achieve this number because you are seeing that the industrial is subdued so on the remaining three divisions what exactly are you seeing?
- M.P. Taparia:** As far as the company last year we sold 270000 tonnes out of which industrial sales 40000 tonnes. In that 40000 tonnes we are seeing not a much growth. We have planned in our budget, but now we are not seeing this much growth. In all other division, there we sold 230000 tonnes last year all divisions are showing positive sign. There is a growth in all of

the division. Now the crops are very good and we have got full assurance from our distributors that demand is going to be brisk starting from Diwali time. We have a good time now also in the month of October and we are very confident and we are planning to settling down and Rupee remaining at 61 to 62 but the prices will not go over haywire now in the remaining part of the year. Anything can go wrong with the rupee goes to 70 in a very short time. Very difficult to say what can happen to rupee.

Ajay Vora: Sir, you said your capex for this year will be 230 Crores?

M.P. Taparia: Capex will be 230 Crores. Yes you are right.

Ajay Vora: Can you give a split of that 230 Crores? Where exactly are we spending it?

P.C. Somani: This is mainly on the plastic piping system where we are expanding the existing size to Rs.60 Crores and we are putting at Kharagpur complex which comprises of piping system and which is comprised of packaging unit put together we envisage this year the capex would be around 75 Crores in that. In composite pallet equipment which we are putting this year would be close to 25 Crores, and we are spending the replacement of some old machines, which is new energy efficient machine, and some automation of the existing systems of auto feeding, auto conveying and autoloading and launches of the new products into all the segments, there is fittings, whether there is furniture they still require Rs.75 to Rs.80 Crores and the new office which we are acquiring in Noida to our existing offices in Delhi close to Rs.15 Crores are there. We have the major capex plan for this year.

Ajay Vora: You said 15 Crores?

P.C. Somani: Yes.

Ajay Vora: What is the capex for next year, which we are planning?

M.P. Taparia: As on today we have not planned. It should not be more than 250 Crores.

Ajay Vora: Thank you very much. All the best.

Moderator: Thank you. The next question is from the line of Pradeep Poddar from ICICI Prudential Asset Management Company. Please go ahead.

Pradeep Poddar: Sir, just one question on the composite cylinders part. Last time you had mentioned that our approval is pending from American Petroleum Institute and this time in the press release it is TUV Rheinland. So, if you can just?



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- M.P. Taparia:** Dear friend, this year American Petroleum Institute was given to composite pipe. American Petroleum Institute they only approve the composite pipe, so we have still not manufacturing composite pipe. As we informed earlier also that we are still issue shortage without taking a collaborator up till now issues have not sorted out, which around Rs.8 Crores on composite pipe and investments are lying idle as on today. Composite cylinder is definitely is never going to be approved by American Petroleum Institute and the TUV Rheinland what we told is the authority, which is a German best certificate agency and there people are there to test our product and once they approve then we will be submitting to the press and government of India Authorities. So we know the process and that is why we are hopeful. Generally in March 2014 we will start regular production and make a sale.
- Pradeep Poddar:** This would all be exports initially?
- M.P. Taparia:** Initially we have exports already in our hand.
- Pradeep Poddar:** This technology we have licensed from a European company if I am not wrong.
- M.P. Taparia:** It comes from European, and from Germany.
- Pradeep Poddar:** Is it a job working kind of an arrangement?
- M.P. Taparia:** We are making our own product. We are making our own brand in the market. They are suppliers of machine in the technology.
- Pradeep Poddar:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Good evening Sir. Sir, I have a couple of questions. If you can give highlights on your new product launch which we have talked about earlier like bathroom products, and how the markets have received this product?
- M.P. Taparia:** We will talk first about the silent pipe system, and we are the first pioneer to launch silent pipe system that is for housing purpose. This year already we are leader in the country in supplying housing SWR system to draw the water from the roof and now high rise buildings are coming on to the open tree, any building with more than 20-storey they do not like the sound of the water to come when the water comes down from the pipe system. Anywhere where the water sound is 30 decibel and coming at a rate of 4 liter per second it covers noise in a normal pipe. In our pipe the noise will be less and will be 2 decibel so it



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will be not carrying any disturbance to the evident in the house. It will be very useful again also for the hospital and for hotel and even some people who are in their own bungalow or villa they like to instal a silent pipe system so that there is no noise of the water. This manhole of 1 meter and 1.2 meter dia there also we are the pioneers and this replace the brick and mortar manhole without being built by the municipal corporation. We have already received enquiry and we have supplied them and installed them and the customers are very happy. It could be installed at a very great speed and it will be a cost effective product. We have also supplied bathroom fittings, which will be supplementing the regularized bathroom fitting which are made by the pioneers Jaguar, and in the coastal area, this is averse to corrosion and we believe we are having a very good market for this product. We also launched very new product in our premium furniture, which are all very received in the market where we launched all the products in September second half to October during festive season. We have 50 to 60 varieties of fittings in the system and all the products are now properly marketed. So these are the variety of products we have marketed in our furniture and apart from that we are launching new variety of products in our cross laminated film and all the products we have launched and fortunately we have got positive response in all of them. We will be maintaining a 12% volume growth and 22% value growth in the current year.

- Maulik Patel:** On this CPVC business what type of growth we will be looking for this quarter?
- M.P. Taparia:** CPVC we have a value growth of 25% in the first quarter. For the whole year we expect 40% value growth.
- Maulik Patel:** What about the volumes?
- M.P. Taparia:** Volume would be around 32%.
- Maulik Patel:** 32% volume growth for the full year? Last year we did close to around I think 214 Crores in the revenue?
- M.P. Taparia:** Yes, 214 Crores.
- Maulik Patel:** Volumes?
- M.P. Taparia:** We did close to 9000 metric tonnes last year.
- Maulik Patel:** 9000 metric tonnes last year. So what was the debt number you mentioned earlier?



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- M.P. Taparia:** For the year we are talking in case of ROCE 475 Crores for the full year. From 478 it will go to 545 Crores.
- Maulik Patel:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.
- Kashyap Pujara:** Just wanted to understand from you the opportunity on the composite cylinder front. If I assume you are beginning the production from January, is it possible to actually run the capacity flat out in the next year?
- M.P. Taparia:** Definitely we will sell 60% capacity. We have got many aspiring enquiries and one enquiry that will fructify from South Korea. We are discussing some further export orders from some African countries so we are reasonably optimistic that we will be selling at least 60% capacity next year.
- Kashyap Pujara:** How are the margins in this business? They would be 17% plus surely?
- M.P. Taparia:** It will be difficult to say today to make a sale. If there is proper production then because in our paper it looks all okay but we must start making proper sale.
- Kashyap Pujara:** Thanks.
- Moderator:** Thank you. The next question is from the line of Kalpesh Goti from Wallfort Financial. Please go ahead.
- Kalpesh Goti:** Good evening Sir. Sir, what is the volume growth of cross laminated film?
- M.P. Taparia:** There is a degrowth of 4%.
- Kalpesh Goti:** We are expecting?
- M.P. Taparia:** We are expecting growth from 17700 tonnes to 23000 tonnes so 5300 tonnes volume growth we are expecting. This comes to more than 30% for the year.
- Kalpesh Goti:** Sir, what is our current debt?
- M.P. Taparia:** Current debt is 903 Crores with an increase requirement of working capital and increase in inventories, the present debt is 903 Crores as of September 30.



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Kalpesh Goti: This is the gross debt?

M.P. Taparia: That is the gross debt.

Kalpesh Goti: Sir, cash?

M.P. Taparia: This is interest rebate where we have to pay the interest.

Kalpesh Goti: What is the current capacity of Cross Laminated Film?

M.P. Taparia: It is 27000 metric tonnes.

Kalpesh Goti: So we are expanding it?

M.P. Taparia: We have only expanded last year from the existing of 18000 tonnes where we have expanded to 27000 metric tonnes last year itself.

Kalpesh Goti: For this year?

M.P. Taparia: This year there is no expansion. We have to sell the entire capacity. Last year we have sold 17700 metric tonnes and this year we are planning, we are envisaging it to be 23000 metric tonnes sale this year.

Kalpesh Goti: How much of subsidy remaining?

M.P. Taparia: After this September quarter, it is close to 45 Crores is still pending.

Kalpesh Goti: So, it will be distributed in the next two, three, four quarters?

M.P. Taparia: Next four quarters you can say.

Kalpesh Goti: Thank you Sir.

Moderator: Thank you Sir. The next question is from the line of Nilesh D., from Religare Invesco. Please go ahead.

Nilesh D: Sir, my question pertains to your industrial segment. Based on the data points, which you just gave, if we were to workout the realization per tonne then that has grown by 19% on YOY basis, which is much higher than the realization improvement in the other segments. So, any particular reason for that?



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- M.P. Taparia:** It depends on the product mix and the raw material required for this particular component. The industrial component we make custom made product. So, we cannot say anything differently. There is only a question of how much capacity utilization and we can say that we are not able to utilize the capacity of industrial component division. We are manufacturing the industrial component in six plants and three plants are fully loaded while remaining three plants are not running fully.
- Nilesh D:** So, basically something to do with the product mix within the industrial segment?
- M.P. Taparia:** Sorry.
- Nilesh D:** This is something to do with the product mix within the industrial segment?
- M.P. Taparia:** Product mix and also the model for which we are manufacturing for them. Same companies some model may require lesser raw material or extensive raw material. So it depends on the particular requirement of the customer.
- Nilesh D:** My second question pertains to your consumer division. As you just mentioned that you have launched new furniture in this segment, but why have not seen volume growth in the segment? I mean the volume degrowth is high in the segment also despite the fact that the new line of furniture was launched?
- M.P. Taparia:** We will give you the details. We launched 12 new varieties of product from middle of September up to today in the furniture items. All are premium article and one of them is the almirah, which is the first time we have launched plastic almirah and overall for the year we are expecting a volume growth of 3% in furniture. Now we have moved our focus from commodity furniture more aggressively to premium furniture. Last year we sold 40% furniture premium only. The current year we have now planned a budget of 40% sale by value in premium. So the value will drop more than 3% and it will become more profitable than what we were doing last year. Overall our sale may go to 310 Crores in furniture out of which premium article sale maybe 145 Crores, last year we sold premium furniture of 105 Crores, and turnover of 265 Crores. Turnover will grow only by 45 Crores, most of the 45 Crores will be towards premium segment only.
- Nilesh D:** The fact that these are high end furniture's, the margin profile of the revenue coming from this would be higher?
- M.P. Taparia:** The count in premium article in furniture are only those items where operating margins is around 17%.



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Nilesh D: That is all from my side. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Vinay Rohit from ICICI Prudential Life Insurance. Please go ahead.

Vinay Rohit: Sir, just wanted to check the debt has gone up from 470 to 900 Crores, am I correct?

M.P. Taparia: You are right. I will tell my colleague Mr. Somani to deploy on the debt side.

P.C. Somani: Yes you are right.

Vinay Rohit: Just because last year it also went up but that was a 230 Crores number between June and September, but this debt going up by 430 Crores is significant higher number and how do you intent to bring it down to 540 Crores?

P.C. Somani: Inventory has gone up quite a large, about 147 Crores, it went up by 240 Crores. That is 145 Crores is going to be finished goods.

Vinay Rohit: 140 Crores.

P.C. Somani: That is finished good plus raw material inventory has also gone up, because this is the lean quarter and we procure the raw material also. In the quarter the rupee has gone up more than 230 Crores.

Vinay Rohit: Rest 200 Crores.

P.C. Somani: Pardon.

Vinay Rohit: Because there is increase of 430 Crores, so you are saying...?

P.C. Somani: Ultimately the dividend payout takes place in the first quarter, your advances takes place in the first quarter and so whole of this is a part that goes from the stated loan.

Vinay Rohit: Could you just tell me receivable number?

P.C. Somani: From number of days we are at 24 days right now.

Vinay Rohit: In absolute number?

P.C. Somani: 208 Crores versus last year of 204 Crores.



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- Vinay Rohit:** Thank you.
- Moderator:** Thank you. The next question is from the line of Jignesh Kamani from Nirmal Bang. Please go ahead.
- Jignesh Kamani:** If we take your inventory on the March was around 460 Crores roughly and as you mentioned that there are raw material prices going up by around anywhere 15% to 19%. Our inventory was around 460 Crores as on June and since raw material prices have increased around 15% to around 19%. Sir roughly we remain close to around 50 Crores to 60 Crores kind, so is it safe to assume that we can say book anything and we will be probably accounting in Q4 or will pass it on and distribute it to them?
- M.P. Taparia:** 460 Crores we are saying is the inventory on June 30, it is inclusive of the property inventory not an operating inventory.
- Jignesh Kamani:** What would you say the operating inventory?
- M.P. Taparia:** It is about 357 Crores.
- Jignesh Kamani:** So roughly around 35 Crores maybe since inventory gain, so hope you pass on to the dealer distributor to support volume or we will see impact probably in the third or fourth quarter?
- M.P. Taparia:** As of now we have further increased the inventories by more than 230 Crores. So as far as the first quarter goes the inventory has further increased.
- Jignesh Kamani:** We have kind of pass on this benefit to the distributors who support our volumes?
- M.P. Taparia:** Some inventory which we increased last quarter there is some loss now in this quarter. So, the net gain, net-net there will not be any gain in the inventory. Hence there is no inventory gain. Whatever is there the customers are also properly looked after so they suffer industry loss.
- Jignesh Kamani:** Sure, you said the inventory will come down in second half?
- M.P. Taparia:** Inventory will come down and we are very confident. We have a borrowing of 900 Crores. It will definitely come down by 150 Crores by end of December and as we have already informed earlier that our overall borrowing end of June 30 will not go up by 75 Crores.
- Jignesh Kamani:** Second thing on the real estate part, are we done with the saving of the real estate at least for this year or we are still continuing to walk out in serious opportunity?



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- M.P. Taparia:** We have sold this area around 27000 square feet we have sold that has fluctuated in half Crores only very prestigious building and very large office space.
- Jignesh Kamani:** Sir, are we planning to sell more in this year or probably wait for the right time?
- M.P. Taparia:** We plan to sell the entire property even now also and we do not want to wait for the right turn because today replacement we cannot do it with Rs.15000 or so, but we have no plan to waste also. We (indiscernible) 40.09 in our business.
- Jignesh Kamani:** So, when you say 175 Crores additional debt that includes also the income from the real estate?
- M.P. Taparia:** This is accounted. We have not counted any further sale when we are targeting 75 Crores debt increase.
- Jignesh Kamani:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Sanjay Satpathy from Merrill Lynch. Please go ahead.
- Sanjay Satpathy:** Sir, congratulations on a decent set of results given the kind of circumstance. First thing I wanted to understand from you is that you have built up that inventory during this quarter when the price was going up, so will we end up having more inventory loss? Is it some kind of a competitive disadvantage going through the busy season?
- M.P. Taparia:** When we were building inventory last quarter, there were some inventory gain also, when the Rupee was at 68:80 and people were talking it may go up to 75, so we maintain our competitive position, we have to keep properly in our godown and also for cross laminated film we always announce off season scheme in a big way between October and December so we will have to build the inventory of those goods also where we do not suffer loss even when the prices come down because we do not change the prices. So net-net we do not believe there will be any inventory gain or loss and in inventory gain if any, will be counted only on June 30, 2014 and after finished goods we have will till June 30, 2013 and the stock is now valued on June 30, 2014 as a higher value it only will be considered inventory gain or if it comes down, we will see an inventory loss. For the whole year we now in our business model we cannot count any inventory gains. Generally we do not have any inventory loss unless the price goes all dry which happened in 2008.
- Sanjay Satpathy:** The other thing that we had kind of believed that after fiscal 2013 debt will keep declining to a much lower level, but now we are looking at some 75 Crores increase by the end of this



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year. Can you just tell us like how much is the increase is because of working capital and what are our really little longer term goal in terms of debt, by the end of fiscal 15 or 16?

M.P. Taparia: This 75 Crores is only due to finance, additional working capital requirement. So when we are expecting 22% growth in value terms we have to keep raw material in value, more finished goods and more outstanding. We have no plan to take medium term debt also and we want to maintain our debt equity to 1.26 and this will definitely be lower than 0.6 when we end June 30, 2014.

Sanjay Satpathy: By fiscal 2015-2016 do we see this amount of debt going down substantially?

M.P. Taparia: We intend to maintain debt level.

Sanjay Satpathy: This fixed amount?

M.P. Taparia: We are paying today 9.6% interest on our debt overall and we are running higher than 25%, so some debt they are unbilled. As on today we have no plan to become zero debt company.

Sanjay Satpathy: The amount will be around 500 to 575 Crores?

M.P. Taparia: Around 0.6% of the equity.

Sanjay Satpathy: Sir, the other thing, I could not get it properly is this cross laminated film which you have introduced some new products and are also you have suffered some export slowdown and you are essentially indicating some 25% plus for remaining part of the year. Can you just help us understand a little better as to how this cross laminated film will grow so much for the rest of the year?

M.P. Taparia: Cross Laminated film more and more volume we share in 70 grams square meter and 90 gram square meter. This year we introduced further cross laminated film, which is having good strength, which is useful for our customers, in 55 gram square meter and 35 gram square meter. After all consumer requires in meter so in spite of increase in the cost net-net to the consumers the cost per meter has come down. So this was the two films that we are able to introduce with our new technology in our plants and which has been received encouragingly by the market. Export segment was eroded only in the first quarter. Overall for the full year our customer in the world market has assured us higher volume. Last year we exported 2000 tonnes product finally. This year we have been given commitment by our customer that they may buy 3000 tonne products. So overall we are expecting 50% volume growth in export also.



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- Sanjay Satpathy:** Actually in Cross Laminated Film, is it something, which is also benefit from this agriculture outlook and what are the plans relating to extending the product plus the outside of Kerala? Can you just help us understand?
- M.P. Taparia:** In Cross Laminated Film more than 70% share goes to agriculture use, and in agriculture more and more applications are being found out and it is very well received as many acres were used and also for rainwater harvesting. That is now being used throughout the country. Earlier, it was more selling in Kerala now our product is sold throughout the country. Wherever we have gone to the export market also, product is very well received. We are quite optimistic about the growth of the product.
- Sanjay Satpathy:** Sir my last question you have given a very strong growth guidance of the CPVC product and are also planning for something more on the CPVC side for fire system. Basically, your competitors are fairly entrenched there. What really gives us this kind of growth? Is this because of the industry or something more than that?
- M.P. Taparia:** The CPVC products are very well accepted in the country and more and more contractors, architects and builders are using CPCV systems instead of VI systems. So, we are anticipating a 40% major growth, which is very reasonably likelihood all going to plumbing. We have not circled any growth from the fire sprinkler system in the current year. We do not envisage this fire sprinkler system. We can make a sale before next year. Our competitor has come in the fire sprinkler system than us. India is a huge country. We are very confident that we will all believe that the market for that product whenever we are able to launch it in the country.
- Sanjay Satpathy:** It would be for the next year as you are saying?
- M.P. Taparia:** In our company it would be next year.
- Sanjay Satpathy:** So far the response of market intelligence shows that it is good?
- M.P. Taparia:** Fire sprinkler system is required now in each of the high rise building. Fire safety is a very important subject and so our fire sprinkler system as it is being used in a big way in USA and now BIS is already strengthened for the fire sprinkler system so we are confident that our product also will meet the extended on BIS and we will be able to market next year.
- Sanjay Satpathy:** Thanks a lot and last question, what is the outlook for bathroom fittings that you have launched for this year as well next year?



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- M.P. Taparia:** This year we may sell between 12 and 15 Crores. We are quite optimistic within three years time, we must have a share of more than 100 Crores in this product.
- Sanjay Satpathy:** Thanks a lot and all the best.
- Moderator:** Thank you. The next question is from the line of Sachin Kasera from Lucky Investors. Please go ahead.
- Ashish Kacholia:** I just want to understand if the board has set in place any policy or framework for succession planning?
- M.P. Taparia:** Good question. We are very young.
- Ashish Kacholia:** I know Sir. I know you are going to live for 125 years.
- M.P. Taparia:** I am very young also. Thank you very much.
- Ashish Kacholia:** I am absolutely sure you are just getting started, but just wanted to understand the policy.
- M.P. Taparia:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Kamalesh Kotak from Asian Markets. Please go ahead.
- Kamalesh Kotak:** Good afternoon. Just wanted to understand one thing have we already done the pass through of the raw material price increase which has happened in the revenue in the first quarter or something more is spilled over to the second quarter? The price revision has been done to offset the cost of raw material which has gone up significantly, is it entirely being done in the first quarter or we have to do something in the second quarter?
- M.P. Taparia:** First quarter prices have come down so whatever price increase or decrease took place it is all reflected in our pricing today.
- Kamalesh Kotak:** I just wanted to understand that when you are talking of margin expansion, is it going to be only a function of the volume growth or is it going to be the price revision or the prices are moderated, which should be the function, which will lead to a better margins?
- M.P. Taparia:** There are three factors. Better utilization of capacity, which will reduce our costs, secondly increased sale of value added product, in the first quarter we had a reduction in the value added product sale with launching of new product that is silent pipe systems or bathroom

fitting, or varieties of new fitting or many volume growth in our cross laminated film, we will restore break our value added percentage which has come down by more than 3% first quarter. So with the reduction in the production cost, with the increase in share of the value added items and with more sale we should be able to increase our margins which has come down to 13.06% in the first quarter to a level of between 14% to 15%. Primarily first quarter's margins always remain under pressure. Last year first quarter margin was only 13.75% so for the whole year we earned 15.55%.

Kamalesh Kotak: Secondly, off the total debt that has gone up, does it also include significant capex for the year which we have already had incurred?

M.P. Taparia: We are increasing capacity every month.

Kamalesh Kotak: How much or any amount you can quantify in terms of the capex done till now?

M.P. Taparia: So far the first quarter is concerned the capex was hardly 75 Crores, but the main debt has been placed for the purpose of building of the inventories, any payment due and payment outgoing cash, cash outgo.

Kamalesh Kotak: Sir, what is the amount of exports revenue, is it significant in this quarter?

M.P. Taparia: It is very insignificant. We export hardly \$3 million in the first quarter. We expect our export to remain between 3% and 4% of the turnover.

Kamalesh Kotak: For the year?

M.P. Taparia: Yes for the year. Our AU turnover may be 4000 Crores and export maybe anything between 3% and 4% of the turnover.

Kamalesh Kotak: Thank you very much.

Moderator: Thank you. The next question is from the line of Nehal Shah from Daulat Capital. Please go ahead.

Nehal Shah: Good evening Sir. Sir, coming back to the CPVC fire sprinkler systems phase, just wanted to understand what kind of opportunities in this place? Is it true that we will be replacing the GI pipes?

M.P. Taparia: We will be replacing mostly in the plastic system they installed horizontal and vertical pipe, after we have been advised by our collaborators that this is mostly in vertical lines GI pipes



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can be replaced by CPVC fire sprinkler systems. So vertical line CPVC may not be available, but we still have to test the water. So it is too early to say, but we are very confident that CPVC fire sprinkler systems give a good market in the country.

- Nehal Shah:** What will be the kind of price differential between the CPVC, fire sprinkler and conventional GI pipe?
- M.P. Taparia:** CPVC pipes must be cheaper and better, but it is too early to talk about.
- Nehal Shah:** What would be the kind of opportunity in the space, like what is the kind of market currently GI pipe has in the fire sprinkler space?
- M.P. Taparia:** Multinational is 1000 Crores.
- Nehal Shah:** In excess of 1000 Crores and once we get into commercial production in the fire sprinkler space, how will we get the CPVC raise in for that particular segment?
- M.P. Taparia:** We are assured by our limited supplier, Karnica Corporation they assured us. Actually they only arranged our collaboration between Spear and our Company. So the assured us also that the raw material will be fully available.
- Nehal Shah:** Sir, other thing is the other segment has grown at around 81%, so can you quantify what is that all about? Like plastic product has grown at around 12.5% and the other segment has grown by 81% on 14 Crores to 25 Crores?
- P.C. Somani:** I could not really understand.
- Nehal Shah:** Plastic product sales have gone up by 12.5% from 597 Crores to 670 Crores, and if I reduce the total amount from the plastic product segment, the other segment will be around 25 Crores versus 14 Crores.
- M.P. Taparia:** Might be polymer trading.
- Nehal Shah:** Bulk of it is polymer trading only.
- M.P. Taparia:** The debt only.
- P.C. Somani:** Polymer prices have gone up.
- Nehal Shah:** Thank you.



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- Moderator:** Thank you. The next question is from the line of Kamna Motwani from CRISIL. Please go ahead.
- Kamna Motwani:** Good evening Sir. Thank you for taking my question. Firstly I wanted to understand that in the consumer segment our margins seems to have declined very sharply as compared to the other segments, so what has really gone behind that? I wanted to understand.
- M.P. Taparia:** This furniture is being made from polypropylene raw material. The raw material price has gone very steeply so it is difficult to increase all the prices at one go. So we had to increase our price in two intervals because consumer products we increase our price with two to three weeks time lag the increase was too steep and too short. So we could not increase our price immediately and went on supplying the goods to our customers which has given a big hit to our margins in plastic furniture's.
- Kamna Motwani:** Contrary to the fact that we found the increase volume Supreme Petrochem seems to have done quite well during the quarter. So what has really happened in that case?
- M.P. Taparia:** Supreme Petrochem raw material, they import it only and the imported raw material prices went up very steeply. The rupee depreciation and the cost to the customer went very high. It went up by more than 25%, many product could not recruit that price so the demand has shrunk steeply. Now they started batch, it will come down, which will also become stable, Supreme Petrochem has been able to drop the price. So definitely will cause inventory low for the second quarter which we have informed to our shareholder, but we expect now good business from January onwards.
- Kamna Motwani:** But contribution from Supreme Petrochem has gone up from about 19 Crores last year?
- M.P. Taparia:** We have increased it from Re.1.40 paise to Rs.2.50, we get the revenue and income only and the July income definitely has gone up this year.
- Kamna Motwani:** That is all from my side.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Kashyap Pujara for his closing comments.
- Kashyap Pujara:** I thank M.P. Taparia and Mr. P.C. Somani for attending the call. Thank you so much.
- M.P. Taparia:** Thank you very much.



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Moderator: Thank you, very much. Ladies and gentlemen, on behalf of Axis Capital that concludes this conference call. Thank you for joining us. You may now disconnect your lines.