



“Jindal Poly Films Limited Nine Monthly FY-16 Earnings Conference Call”

February 1, 2016

**MANAGEMENT: MR. V SWAMINATHAN– GROUP CHIEF FINANCIAL
OFFICER
MR. MANOJ GUPTA– CHIEF FINANCIAL OFFICER
MR. RAKESH TAYAL – HEAD (ACCOUNTS), JINDAL
FILMS**



*Jindal Poly Films Limited
February 1, 2016*

Moderator:

Ladies and gentlemen good day and welcome to the Jindal Poly Films Limited 9 monthly FY16 Earnings Conference Call. This Conference Call may contain forward-looking statements about the company which are based on the belief, opinions and expectations of the company as on the date of this call. These statements are not guarantees of future performances and involves risks and uncertainties that are difficult to predict. As a reminder all participant 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 assistance during the conference call, please signal for an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manoj Gupta, CFO Jindal Poly Films Ltd, thank you and over to you sir.

Management:

Good afternoon ladies and gentlemen and welcome to the earnings call of Jindal Poly Films Ltd. On this call I am joined by Mr. V Swaminathan – our Group CFO; my colleague Mr. Rakesh Tayal – Head (Accounts) for Jindal Films and representative of SGA our Investor Relations Advisor.

Our consolidated results and investor presentation have been uploaded on our website and I hope all have had a chance to go through. I will start with some of the key highlights of our business and financial performance.

Jindal Poly Films has been present in the domestic films market since 1996. We have a capacity of 127,000 tons of polyester films which is BOPET films and 210,000 tons of BOPP films apart from metalising and coating capacities. Both of these are the largest in the country, we are also backward integrated with pet chips manufacturing facility for our BOPET films. Our CAPEX in BOPP is ongoing and is likely to be operational by mid-2016 adding 41,000 tons capacity. We will also commission our new coating and metallizing capacities in 2016. The stand-alone business has been consistently showing a strong performance and currently forms about 36% of our overall revenue. Jindal Films Europe and America, our subsidiary represents the BOPP business which was acquired from ExxonMobil effective 1st October 2013. With BOPP capacity of 215,000 tons spread across America with two plants and Europe three plants it has helped the company to become a global leader The BOPP capacity expansion of 60,000 tons each in Europe and America are on track and the new capacities expected to be operational by early 2017. We are also expanding our metallizing capacities in these plants.

Global Nonwovens subsidiary manufactures polypropylene based nonwoven material had a project cost of about Rs. 450 crores and has commissioned operation on 1st July, 2015. It has already achieved ~ 50% capacity utilization in some of the recent months. This business



Jindal Poly Films Limited
February 1, 2016

typically has a long lead time of customer approval and in the process with several large customers.

Highlights of consolidated Q3 FY16 Performance:

We have seen that Q3 is usually subdued quarter of the year for this Industry due to seasonality effect. However, we have been able to achieve a fairly good performance in this year due to better capacity utilization and largely better market conditions. Gross revenue for the relevant quarter was Rs. 1,614 crores versus Rs. 1,692 crores there is a marginal decline of about 5%. The stand-alone revenue contributed about 36% of the consolidated revenue, the declining revenue is as a result of lower raw material cost which was passed on to the customers. Q3 EBITDA was about Rs. 180 crores as compared to about Rs.100 crores, there is a drastic improvement of about 75%. The consolidated PAT for the quarter was about Rs. 53 crores as against a negligible one last year which reflects the significant improvement on YoY basis.

Highlights of consolidated 9M FY16 performance:

The 9 M FY 2016 Revenue is Rs. 5,308 crs vis a vis Rs. 5,571 crores is a decline of ~ 5%. This is again due to lower raw material cost which was passed on to customer. The EBITDA is Rs. 788 crores vis a vis Rs. 472 Crs a growth of ~67%. EBITDA as a percentage was 14.5% vis a vis 8.5% increase of over 600 bps. PAT level Rs. 294 crs as vis a vis Rs.108 crs growth of over 170%. The net debt is. Rs 1,604 crs which was about Rs. 1567 crores as on March 2015 mainly led by some early payments towards acquisition loan of JF balance brought down on our GNL loans and some short-term borrowings for working capital in India. Our consolidated debt to equity has improved from 0.93 to 0.73.

Jindal Films EBITDA has grown from \$ 15 Mn pre acquisition to about \$ 60 Mn for the full year in FY15 which was also our first full year of operation and nine-month FY16 EBITDA is close to \$ 65 Mn that is incremental \$ 13 Mn for Q 3. The current net debt level in JF business stands at USD 112 million as compared to about USD 145 million as on March 2015. The current capacity utilization continues to be over 90%. The increase in the finance cost for this business is due to a one-time of charge of Rs. 10 Crores associated with refinancing of the acquisition loan.

Now we can start with Q&A session.

Moderator:

Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Dikshit Mittal from Shubkam Ventures. Please proceed.



Jindal Poly Films Limited
February 1, 2016

- Dikshit Mittal:** Can you share with us volume details for the nine months on a consolidated level, how much volume of film have we sold in last quarter as well as nine months?
- Management:** Capacity utilization in India is ~ 75%. For Jindal Films Europe and America it is ~ 90%
- Dikshit Mittal:** How does it compare with the industry, how is the industry working at this point of time in terms of utilization?
- Management:** Our estimate is that our capacity utilisation is better than the industry.
- Dikshit Mittal:** How much is the stake that Jindal Poly Films holds in JF Europe and America?
- Management:** 51% Equity shareholding.
- Dikshit Mittal:** Barring our plan to expand the capacity around 161,000 tons is there any other CAPEX plan?
- Management:** At this point of time there are no other confirmed capex plans.
- Dikshit Mittal:** Because we were planning to raise funds through QIP so just wanted to know what is the purpose of fund raising?
- Management:** In addition to announced Capex we are also on the lookout for acquisition opportunities that will add value to the company. Hence we need to augment our resources. We are a financially responsible company and want to keep Debt to Equity ratio under control.
- Dikshit Mittal:** Lastly you mentioned in your opening remarks that domestic business is more a kind of commodity and your global business is more value added so if you can tell us how much is the margin differential between domestic and your global business?
- Management:** The margins varies based on specifications and value addition. For value add products the margins are better as compared to Base films.
- Dikshit Mittal:** In this quarter result minority interest is very less if I compare QoQ, so is it because the profitability at the subsidiary level is lower in this quarter?
- Management:** The minority interest includes the share of profit/loss of our 2 subsidiaries. It comprises of loss component of Rs.2.41 crores from Global Non Wovens and profit component of Rs. 3.05 Crores from Jindal Films resulting in a net amount of Rs. 0.41 Cr.



Jindal Poly Films Limited
February 1, 2016

- Dikshit Mittal:** If I want to get some idea on how much is the profitability of your JF Europe and USA so should I rely on this quarter minority interest or is not.... Which are the businesses which are making losses?
- Management:** There are 3 subsidiaries. JF, Global Nonwovens Ltd and Jindal Films India. JF is profitable. Global Nonwovens started commercial operation on 1st of July and has achieved breakeven, but at the PAT level it is showing losses because of the interest and depreciation, etc., so one subsidiary is positive and other is negative at PAT level that is the reason it is showing lower nos.
- Dikshit Mittal:** So this Global Nonwoven if you can just talk about products because I'm not very clear how is the product different from your main Jindal Poly Films?
- Management:** Global Nonwoven makes products that are used in the making of diapers and other hygiene products. These products are different from packaging films while the raw material is same . This is a relatively new and upcoming segment.
- Moderator:** Thank you. The next question is from the line of Riddesh Gandhi from Discovery Capital. Please proceed.
- Riddesh Gandhi:** You have Rs 650 crores investments in redeemable preference shares of Jindal India Power Tech Ltd, will you plan to convert that into equity or is it going to continue to be preference share or how do you think about exiting this and also if you can give us the rationale of making investment in unrelated business?
- Management:** The Power plant is fully operational and generating revenue. We are planning to raise resources at the power business level and there after the preference shares can be redeemed.
- Riddesh Gandhi:** How long is that expected to take?
- Management:** We expect to raise resources in 2 years.
- Riddesh Gandhi:** The other question is on pricing pressure globally in BOPP and BOPET if you look at the revenue raw materials are you seeing any pressure on the deltas in the industry?
- Management:** The Plastic Films Industry today is a competitive industry. Between the two films i.e BOPP and BOPET, BOPET Film in general are competitive products because it is easier to transport.
- Riddesh Gandhi:** As you think about capacity expansion, are you seeing across the industry others expanding capacity which could ultimately lead to pressure in margins or is there a new capacity coming both globally and in India?



Jindal Poly Films Limited
February 1, 2016

- Management:** Again we do not see anything out of the ordinary. Other companies are gradually expanding as the demand is growing on a year on a year basis.
- Riddesh Gandhi:** You do not see the incremental capacity coming on line impacting either your margins or your utilization levels?
- Management:** We are focused more and more on value added films, whereas the capacity expansion affects margins in standard films. Hence we expect our margins to be protected.
- Riddesh Gandhi:** Last question with regard to given oil price reduction is there any inventory of holding, and inventory losses that we expect to see or that we have seen either this quarter or in this existing quarter?
- Management:** No we do not expect any significant inventory loss since we are maintaining a low inventory levels.
- Riddesh Gandhi:** Is there any kind of EPS guidance you can give us for FY16 and FY17?
- Management:** We do not have the practice of giving guidance.
- Moderator:** Thank you. The next question is from the line of Pratik Agarwal from Badjatia Stock Broking. Please proceed.
- Pratik Agarwal:** My only question is that on the debt-equity ratio that you mentioned has come down but our finance costs in the consolidated result is consistently rising any reason and can you give some clarity on that?
- Management:** Q 3 Finance cost includes one-time refinancing expenses for Jindal Films of Rs 10 crs and interest cost of Global Non wovens of Rs 5 crs . The refinancing has led to reduction in interest margins of 95 Bps for acquisition loan for Jindal Films.
- Pratik Agarwal:** How much will be the interest cost taking into consideration the topline?
- Management:** .The Original acquisition loan has been refinanced with a reduction of Interest cost of 0.95 Bps
- Pratik Agarwal:** How do you see the demand of our product and how do you see this entire commodity fall, is it benefiting our company but do you see it sustaining and taking 3 to 5 year kind of view?
- Management:** The demand for BOPET and BOPP in India is growing ~10% and globally ~ 6% . We expect the same growth rate to continue.



*Jindal Poly Films Limited
February 1, 2016*

- Moderator:** Thank you. The next question is from the line of Moin Shaikh who is an individual investor. Please proceed.
- Moin Shaikh:** I would like to know that our Jindal Film in Europe in the quarter has done sale of Rs 1000 crores so is the profit is low in Q3?
- Management:** As explained earlier, Q3 2015 results includes onetime finance charge of Jindal Films and Global Non Ovens In addition Q3 is seasonally a weak quarter for JF.. YTD EBITDA of JF is \$ 65 Million
- Moin Shaikh:** It is okay, now the expansion which is happening through QIP, etc., is the expansion happening there or for some other purpose?
- Management:** We are doing expansion in all three regions viz India America and Europe.
- Moderator:** Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.
- Sunil Jain:** This is mainly related to your foreign subsidiary, is it possible to share Dollar or Euro number of that subsidiary main figure sales, EBITDA and PAT?
- Management:** Q 3 FY 2016 EBITDA \$ 13 Mn, 9M FY 2016 EBITDA is \$ 65 Mn.
- Sunil Jain:** Just now you said that if one quarter is weak, is it same for the international subsidiary level also?
- Management:** Yes. Globally also Oct to Dec Qtr is the weakest qtr as there are several holidays.
- Sunil Jain:** What I can understand is your gross margin has improved even QoQ but when it comes to EBITDA level there is a decline.
- Management:** Yes. Due to seasonally weak qtr the volumes are low hence EBITDA margins are also low.
- Sunil Jain:** So seasonality whether you can say that Q4 is weaker than, which one is better?
- Management:** The Q1 and Q2 are the best, Q3 is weak, Q4 is average.
- Sunil Jain:** Summer months (April to Sept) is the best period , while winter Oct to dec is the weakest qtr.
- Management:** Yes



*Jindal Poly Films Limited
February 1, 2016*

- Sunil Jain:** In international the expansion which you are planning is there any figure at all defined or it is still work in progress? How much you are expanding in India and how much expanding in international market?
- Management:** We have already announced expansion by 41,000 in India the capacity will be operational by mid-2016, 60,000 each in US and Europe it will be operational by early 2017.
- Moderator:** Thank you. The next question is from the line of Sailesh Gandhi who is an individual investor. Please proceed.
- Sailesh Gandhi:** The results have come out very nice. Last to last quarter is 2 crores versus 52 crores profit, so I want to know today market reaction, how it has happened, what has happened that the price in the market of Poly has gone below 500?
- Management:** We do not comment on the share price movements.
- Sailesh Gandhi:** When is the QIP coming?
- Management:** We have not yet finalized the QIP timelines
- Sailesh Gandhi:** In dividend I am surprised that our company has been earning so much profit still why are you paying dividend only of Re.1.
- Management:** Dividend decisions takes into account maximizing shareholder value.
- Moderator:** The next question is a follow up question from the line of Pratik Agarwal from Badjatia Stock Broking. Please proceed.
- Pratik Agarwal:** Coming back to the finance cost part, can you highlight on what is the cost of capital of the borrowed funds on an average?
- Management:** Cost of Loan for Jindal Films Europe and America is ~ 3.5%, while for Jindal Poly Films it is Libor plus 3.5%.
- Pratik Agarwal:** Then we must be exposed to currency volatility also since our debt is Dollar dominated or foreign currency denominated, how are we protecting ourselves against that risk?
- Management:** We have robust currency risk hedging policy which takes in to account the available natural hedge.
- Moderator:** The next question is from the line of Neesha Shah from NS Limited. Please proceed.



Jindal Poly Films Limited
February 1, 2016

- Neesha Shah:** I just wanted to know your plans on non-woven segment. Just give your overview on the market for this product, any other new products in the pipeline like non-woven.
- Management:** As I said non-woven is used in the hygiene segment mostly in diapers and this is the first of its kind investment in India and we expect it to be a very fast growing market in India in the upcoming years. So that's about non-woven.
- Neesha Shah:** Any other new products in the pipeline like non-woven, any other you are looking at?
- Management:** We are consistently developing new types of BOPP and polyester films and that continues to be our focus.
- Neesha Shah:** What was our CAPEX on this segment?
- Management:** For non-woven it is approx Rs 450 crs.
- Neesha Shah:** What is the potential of this business margin-wise? Is it better than our other business?
- Management:** Yes. We expect it to be better than the films business.
- Neesha Shah:** What TUF benefit we get on this segment?
- Management:** Yes, so we are eligible for TUFs benefit, Both by way of Interest and Capital subsidy.
- Moderator:** The next question is from the line of Nidhi Agarwal from ShareKhan. Please proceed.
- Nidhi Agarwal:** In continuation with the previous question what is the revenue we have booked or we are seeing in this year from non-woven business?
- Management:** Non-woven Revenue for 9 M is Rs 40.96 crores. This is effectively only for six months as the plant started on 1st of July and being a new plant in a new industry, capacity utilization is relatively low. Hence this fig is not a representative fig. On a full year basis if capacity optimally utilized we expect Revenue in the range of Rs 250 crs.
- Nidhi Agarwal:** Who will be your customer here, the FMCG companies?
- Management:** Established FMCG brands in the hygiene sector.
- Nidhi Agarwal:** The margins are likely to be at the company level or it will be little lesser?
- Management:** It will be better than the film business segment



Jindal Poly Films Limited
February 1, 2016

- Nidhi Agarwal:** I couldn't get, somebody asked this before also, what is the rationale for investing in a non-related business like power?
- Management:** The investments were expected to be value accretive for the company.
- Nidhi Agarwal:** So it's limited to what we have invested so far or we are planning to invest more in that?
- Management:** Power project is fully commissioned and we have completed our equity contribution. There are no guarantees given for any of the debt.
- Nidhi Agarwal:** So it is fully functional now? Is it making profits or how is it?
- Management:** Yes. The Power Plant is fully operational.
- Moderator:** The next question is a follow up question from the line of Riddesh Gandhi from Discovery Capital. Please proceed.
- Riddesh Gandhi:** If you look at the historical numbers of your profitability it actually kind of kicked out in 2011 and reduced and it is increasing again which is kind of giving an indication that there is a cyclicality in this business driven by increased capacity. Which stage of the cycle do you think we would be at the moment and how much and how much volatility do you expect to continue to see, or do you expect this to steady out?
- Management:** 2011 and the subsequent year 2012-2013 were exceptional years because in 2010-2011 the polyester film industry saw an unprecedented supply shortage which led to an unprecedented margin expansion. As a consequence in 2012-2013 there was a significant supply increase and the Supreme Court banned the use of polyester film in the Pan Masala/Gutka segment. This led to intense competition and very low margins. So we view these two years as an extraordinary two years. If you look at the history of the company before that or subsequent it's much more stable.
- Riddesh Gandhi:** To your investment in the power company is there any interest on your preference shares or after a couple of years you just expect to get your capital back?
- Management:** We are expecting to get the capital back in 2 years.
- Riddesh Gandhi:** So it's effectively like an interest-free loan that has been provided?
- Management:** No. There is a redemption premium factored into the preference shares.



*Jindal Poly Films Limited
February 1, 2016*

- Riddesh Gandhi:** In case there is an exit of the business would there be an option to convert and then sort of make additional returns or in a best case you just expect to get your money back?
- Management:** We have already stated that there is redemption premium factored in.
- Moderator:** The next question is from the line of Pratik Agarwal from Badjate Stock Broking. Please proceed.
- Pratik Agarwal:** Can you give a sectorial breakup of revenues just like you mentioned the pan masala segment, what are the major segments which are dominating our sales?
- Management:** Majority is food segment
- Pratik Agarwal:** Can you tell me the invested capital in this Power investment of our, preference share?
- Management:** As on 31st December at 658.25 crores.
- Moderator:** The next question is from the line of Brijesh Gupta from Ambit Capital. Please proceed.
- Brijesh Gupta:** I wanted to get your outlook on domestic packaging film business? Are the realizations firming up or say H1 was more a one-off and probably in second half the realizations will go down or kind of normalize. And what's the outlook for next year on packaging films in domestic as well as international?
- Management:** As we said this plastic films industry in India is growing at 10-12% and globally it's about 6.3-6.5%, so we expect the same trend to continue in the coming period.
- Brijesh Gupta:** That's more on the volume side but more on the pricing side is what I wanted to check with you.
- Management:** Prices are basically competitive in India so it depends on the market but we don't see any abnormal drivers in the coming months.
- Brijesh Gupta:** The realizations or the margins will remain where they were, say, last year or so?
- Management:** As said earlier, we do not see any abnormal drivers in the coming months.
- Brijesh Gupta:** As you said our domestic market is growing 12-13%, would you expect say even 2 years, 3 years down the line we might see a reversal of what we saw in FY11, FY10?
- Management:** They were exceptional years. We do not expect to see that kind of situation being repeated.



Jindal Poly Films Limited
February 1, 2016

- Moderator:** The next question is from the line of Ashish Shah from Praj Financials. Please proceed.
- Ashish Shah:** Are you going to invest more in Power?
- Management:** The Power project is fully operational and generating revenue. All the capex requirements are met.
- Ashish Shah:** When will you declare the dividend policy?
- Management:** We decide on dividends at the time of annual results
- Ashish Shah:** But out of your earnings 20%, 30%, will you make a policy like that?
- Management:** We would take decisions that will be value accretive for shareholders.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management of Jindal Poly Films for closing remarks. Over to you.
- Management:** We thank you for your participation in this investor call and for your questions. We look forward for our next call and hope that you all will participate once again.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen, this concludes today's conference call. Thank you for joining us and you may disconnect your lines.