Q1 2012 Earnings Call - Jindal Poly Films Dt-12 Aug'11

Operator

Good evening ladies and gentlemen. I am Rashmia moderator for this conference. Welcome to the Conference Call of Jindal Poly Films Limited. At this moment all participants are in listen-only mode. Later we will conduct a question-and-answer session. Please note this conference is recorded. I would now like to hand over the conference to Ms. Pooja. Please go ahead ma'am.

Corporate Participant

Good evening ladies and gentlemen. On behalf of Concept Public Relation I welcome you all to the conference call of Jindal Poly Films Limited to discuss the financial results of the company. We have with us Mr. Samir Banerjee, Director and Mr. Sanjeev Agarwal Chief Financial Officer. I will now hand over the call to Mr. Samir to give an overview of the company and its expanded developments. Over to you sir.

Samir Banerjee, Whole Time Director

This is Samir Banerjee here. Good evening ladies and gentlemen at this conference call of Jindal Poly Films Limited. The Board of Directors of the company have taken on record the financial results for the First Quarter Ended 30/6/2011 Indian meeting held today. I have with me Mr. Sanjeev Agarwal Chief Financial Officer. Jindal Poly Films is engaged in the business of manufacturing of Polyester films and Polypropylene films and is India's largest producer of such flexible packaging products including metallised films. The company has the most modern film lines wide with and high productivity equipments to manufacture BOPET, BOPP and metallised films at Nashik in Maharashtra. The facility is the world's single largest location providing economies of scale, higher operating efficiencies and better control over the cost of production.

The company is a one-stop solution for all the flexible packaging requirements through it's capabilities to manufacture a wide range of products including speciality films. Now I will bring out the key financial highlights of the performance. The net sales for this quarter was Rs.622.76 crores as against 555.63 crores, an increase of about 12% over the corresponding period last year. The EBITDA during the quarter was 108.26 crores as against 134.79 crores during the corresponding period last year. A decrease of about 20%. The profit after tax was Rs.36.3 crores as against 83.49 crores, a decrease of about 33% over the corresponding period last year. Raw material prices for the quarter was Rs.84 a kg for BOPP and Rs.81 per kg for BOPET films. I would now invite you to ask questions that you have in your minds on the performance of the company.

Questions And Answers

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions]. First question comes from Mr. Bala Subramaniam from Sundaram Mutual fund.

Bala Subramaniam

I am sorry, I just missed on the realization. What would be the realization on the volumes for the quarter?

Samir Banerjee, Whole Time Director

Realization for BOPP films during the quarter was Rs.110 a kg and for BOPET, the realization was Rs.101 per kg, this was into the domestic market. In the export markets the realization for BOPP was Rs.117 a kg and for Polyester BOPET, it was Rs.132 a kg.

Bala Subramaniam

Okay. And how are the volumes, sir, roughly?

Sanjeev Agarwal, Chief Financial Officer

The total finishing quantitative terms was about 55,000 tons, for BOPP and BOPET put together.

Bala Subramaniam

Okay. And sir, could you just show some color, as to know how has been the volume trend between the last quarter and going into the current quarter, how you see the volumes behaving? And in terms of prices as well are we seeing any uptake in the prices?

Samir Banerjee, Whole Time Director

We are experiencing growth in the current quarter, compared to the last quarter. We expect the current quarter to be around 57-58,000 tons as compared to 55,000 tons in the previous quarter.

Bala Subramaniam

Okay. This is led frankly by exports or where are you seeing the uptake in terms of --.

Samir Banerjee, Whole Time Director

Growth is led mainly by the growth in the domestic market. Export growth should accelerate now because the penal duties that the company had in the United States and in Europe, had been reduced substantially in the end of March. And we are expecting the growth in the international markets to take place in this quarter.

Bala Subramaniam

Okay. And in terms of our expansion, in terms of our BOPP line, we have something scheduled from the December. So, is it on track?

Sanjeev Agarwal, Chief Financial Officer

Yeah. expansion for BOPP system is on track. And secondly, we have changed in fact deferred some of our plans for the expansion of BOPET plant.

Bala Subramaniam

Okay.

Sanjeev Agarwal, Chief Financial Officer

At couple of months. So, but otherwise the expansion plan for BOPP film and metallised film has come --.

Bala Subramaniam

Okay. So the BOPT film, we had at light to come up in September '11, so that is been deferred, sir? Or the subsequent ones?

Sanjeev Agarwal, Chief Financial Officer

I think the first schedule for December and...

Bala Subramaniam

Okay.

Sanjeev Agarwal, Chief Financial Officer

And I think we have -- for at least about six to eight months time and we will again review this decision because in the Indian market after the ban of...

Bala Subramaniam

Hello?

Sanjeev Agarwal, Chief Financial Officer

Sorry, you were asking about BOPP or BOPET, just confirming?

Bala Subramaniam

BOPET sir.

Sanjeev Agarwal, Chief Financial Officer

BOPET. So after we banned on Gutkha, we have deposit for about six to eight months time and we will review it again maybe after the markets gets stabilized.

Bala Subramaniam

Okay sir. Fine, fine sir. Thank you.

Sanjeev Agarwal, Chief Financial Officer

Thank you.

Operator

Thank you sir. Next question comes from Luca Fransa from --.

Analyst

Yes good afternoon. I just wanted to ask you the following, given the very extreme volatility in BOPP crisis in the past few quarters. Do you think we can assume that this quarter is now a normal quarter. I mean this profitability that we are seeing the kind of a normalized for the expected profitability to change significantly going forward. And also if you will provide an update on the power project? Thank you.

Samir Banerjee, Whole Time Director

The quarter has just ended that is April-June was a little bit below normal quarter. We expect improvement in the current quarter that is July-September and though it will not be similar to the year gone by, that is '10-'11 but from now on improvements both in volume and price are expected in about the end of the year, that means till December 2011.

Analyst

Okay. On the power project?

Samir Banerjee, Whole Time Director

On the power plant the project is under construction and the construction is going on as per schedule. So we can expect the first half to be commissioned lets say in the month of March 2012.

Analyst

March 2012. Okay.

Samir Banerjee, Whole Time Director

Yeah, between March to June you can say because of some heavy rains actually there is likely delay of about one or two months time. So but still this is as per schedule, so March was the scheduled it could be like June or something.

Analyst

Okay. Thank you so much.

Operator

Thank you sir. Next question comes from Amitabh Sonthalia from SKS Capital.

Amitabh Sonthalia

Yeah. Sir, I had a question to your dividend policy, companies has a ridiculously low pay-out ratio at 2% of profits last year whereas companies, other companies in your industry have much high pay-out ratio and in general corporate India itself has a much higher average pay-out ratio. Just wondering what is the reason you choose to keep your dividend pay-out ratio at so -- low levels? Last year you declared Rs.2.5 dividend out of an earnings per share of almost Rs.130?

Samir Banerjee, Whole Time Director

This is nothing to do first of all with the share price actually, because share price keeps on changing in the market.

Amitabh Sonthalia

I'm not talking about the share price. I'm talking about the dividend pay-out ratio.

Samir Banerjee, Whole Time Director

Yes, so the dividend payout ratio...

Amitabh Sonthalia

Which is the basically your dividend paid divided by the earnings.

Samir Banerjee, Whole Time Director

No, but basically the dividend payout is not very high, I agree with you because we see growth in the industry. And as we have been expanding capacities. So, and we need fund on the purpose of increase in the capacity of the company. And in fact, if you see last year the performance was quite good. And the company distributed 100% dividend and also
1:1 bonus. So this is not the case always. We keep the funds within the company redeploying the funds for the purpose of growth. So I think if an investor is for a long period, he should see the long-term growth of this company rather than getting the dividend of instead of less than Rs.2.50 could get to Rs.5 or so. And if you have seen the dividend strategies and policies of Warren Buffett you will better understand. Because the policy again there is the same that we should re-deploy the funds yet we can get a return which is much higher. And the growth potential is there in the company compared to given it back to the shareholders which is a smaller amount -- whatever. So we believe in redeploying the funds in better opportunities within the company.

Amitabh Sonthalia

I appreciate that, sir. But still just something like even a 10% payout ratio is also a very low payout ratio which is a minimum payout ratio one should maintain. However, you have also announced a buyback of 140 cores, this year and earlier you also had I think couple of years back you had done a buyback. So which is obviously shareholder friendly measure and but I'm just wondering that you mentioned rational of redeploying the funds, from that logic and you should not be doing the -- also.

Sanjeev Agarwal, Chief Financial Officer

No, the logic for buyback is completely in with the enhancement of the shareholders' value. So because the company believes that these shares are stock reported below even the book value and that is below the fair price, it should be coated at. So the policy is to deploy some of the funds for the purpose of buying back and creating the shareholders' value through reduction in capital. So this is in favor of shareholders and that the dividends if distributed, that is -- both the things are totally different such as any case we'll take your fine and we will inform to the Board to look at the dividend policy again.

Amitabh Sonthalia

Okay. And you mentioned that the price increases, some price increases that you announced recently or based on media reports what we've heard about, how sustainable is that? If you can just talk a little bit about that and what is the...

Sanjeev Agarwal, Chief Financial Officer

It used to be sustainable because the demand in this period especially few months ahead of the effective season is usually booked. So immediately after Diwali the another demand search comes from the wedding season and for the Christmas, New Year season. So I feel that in December this price level a little bit increased from this level is sustainable.

Amitabh Sonthalia

Okay. So in terms of the current quarter's performance, does that its like the trends for the rest of the year or rather we should see improvements from here on in terms of profitability and volumes as well.

Sanjeev Agarwal, Chief Financial Officer

The volume should increase, the price should increase definitely the performance should also reflect that.

Amitabh Sonthalia

Okay. And you had also I think mentioned something the earlier calls or in the media about the investment in power subsidiary, could you just once again clarify what is the total investment we have apart from in other businesses other than our core business. And what is our strategic content on that?

Sanjeev Agarwal, Chief Financial Officer

Business investment other than the core businesses into the power project only and which is about Rs.300 crore approximately we have invested so far in that project. And these shares are being acquired at par in the power company. So the benefits will be there once the power project is commissioned and this is not I think too far. So I think within the years time you will see the benefit enter into the company.

Amitabh Sonthalia

So you've invested so far 300 crores for the equity in the power

Sanjeev Agarwal, Chief Financial Officer

In the power plant.

Amitabh Sonthalia

And what is the 3 percentage stake that we have?

Sanjeev Agarwal, Chief Financial Officer

This percentage stake at the moment is about 48%.

Amitabh Sonthalia

48%.

Sanjeev Agarwal, Chief Financial Officer

Right. And this is through the special purpose. So with Jindal Poly I think gradually include Jindal India Power Tech Limited and which has further invested in to about into Jindal India Thermal Power which is 72% owned by the Powertech company.

Amitabh Sonthalia

And do you have, have you raised any private equity in the power company as well?

Sanjeev Agarwal, Chief Financial Officer

Not yet.

Amitabh Sonthalia

And what is the -- if you could just and just probably has been talked about before but you can quickly mention the size of the project and cost?

Sanjeev Agarwal, Chief Financial Officer

Total size is 1,800 megawatt, and the cost of the project is 9,000 crore. So this is being funded in the debt equity ratio of 80-20, 80% debt which is already been tied up from Indian Bank, and 40% will be the equity total requirement for the project. And this is being cases, so the equity requirement is over a period of time and we are also planning to invest this equity. Whatever, I think about Rs.500 crore, is already gone into the company. And out of which 300 crore, has already been invested in Jindal Poly Films and the --.

Amitabh Sonthalia

So out of the 1,800 crore equity commitment to the project, 500 crore has been invested you are saying. And out of that 500, 300 crores has come from Jindal Poly.

Sanjeev Agarwal, Chief Financial Officer

Yes, yes.

Amitabh Sonthalia

And so you anticipate further investments in Jindal Poly into this to maintain the same ratio in the future, which means would you be looking at doubling this investment potentially or tripling it?

Sanjeev Agarwal, Chief Financial Officer

No, because 48% is presently held to Jindal Poly Films, so whatever amount investment is required. If we are able to get the funds from outside that's fine, otherwise it will come from Jindal Poly Films and other coupon.

Amitabh Sonthalia

Okay. So, Jindal Poly is committed to sort of further investing in this project?

Sanjeev Agarwal, Chief Financial Officer

Yeah. If the funds are not tied up from outside.

Amitabh Sonthalia

Okay, which is part of the plan in terms of the you're sort of looking at what time frame you are looking to raise equity in that.

Sanjeev Agarwal, Chief Financial Officer

We have sufficient time available in the next one year time we can raise funds from outside.

Amitabh Sonthalia

Okay. That would be in the form of -- equity or something like that?

Sanjeev Agarwal, Chief Financial Officer

It could be anything and we have not yet finally decided but as and when the equity funds are required we will get it either from the promoters or from outsiders.

Amitabh Sonthalia

Okay. And what's the status on the project what is the stage -- in terms of the development et cetera?

Sanjeev Agarwal, Chief Financial Officer

The project is under construction as I said earlier. And I think we will be able to meet the scheduled commercial operation date which is March 2010. So between March 2012 to June 2012 we should be in a position to start one of the units out of three.

Amitabh Sonthalia

One unit, which roughly about 600 megawatts?

Sanjeev Agarwal, Chief Financial Officer

That's right

Amitabh Sonthalia

Okay. So the full commitment in terms of the entire project cost would be made over what over the next three years or so?

Sanjeev Agarwal, Chief Financial Officer

It would be over the next about one and half year's time.

Amitabh Sonthalia

Okay. Alright sir. Okay, thanks a lot that's all for me.

Sanjeev Agarwal, Chief Financial Officer

Thank you.

Operator

Thank you, sir. [Operator Instructions] There are no further questions. Let me hand over the floor to Ms. Pooja for closing comments.

Corporate Participant

I thank you all on behalf of Concept Public Relations for participating in this teleconference. If you have any further queries, please drop in your mail at pooja@conceptpr.com. Once again thanks very much.

Samir Banerjee, Whole Time Director

Thank you.

Operator

Ladies and gentlemen, this concludes the conference for today. Thank you for your participation and for using Doorsabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

Sanjeev Agarwal, Chief Financial Officer

Thank you.