"Jindal Poly Films Limited H1FY16 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Jindal Poly Films Limited H1FY16 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performances and involve risks and uncertainties that are difficult to predict. As a reminder, all participants' lines will be in the listen-only mode and 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manoj Gupta who is the Chief Financial Officer for Jindal Poly Films Ltd. Thank you and over to you sir.

Management: Good Evening, Ladies and Gentlemen and Welcome to the Earning Call of Jindal Poly Films Limited. On this call I am joined by Mr. V.K. Gupta -- Accounts Head and Management Committee Member; Mr. Rakesh Tayal -- Accounts Head of Jindal Films; and the representative of SGA, our Investor Relations Advisor. I would also like to welcome my counterpart from Jindal Films America Mr. Sitakant Chaudhury who is on the call from US; he will comment upon any questions relating to the US business.

Our Consolidated Results and Investor Presentation have been uploaded on our website and I hope all of you have had a chance to go through this.

I will start with some of the Key Highlights of our Business and Financial Performance: Jindal Poly Films has been the leading player in the Plastic Films Industry in India and with the acquisition of BOPP Films business of ExxonMobil in 2013, we are now internationally one of the Largest BOPP Films companies. We have a manufacturing presence on 3 continents and sales to more than 40 countries. Our portfolio of Packaging Films include BOPP Films, BOPET Films, and Specialty Films such as Metallized and Coated Films. The broad difference between our Indian and European and American businesses is that India is primarily a low cost commodity business, while Europe and America is more sophisticated with higher volumes of Specialty Films which creates a significant strong entry barrier.

Let me start by giving you a brief on the Industry: Global BOPP demand is about 8 million tons and growing at a rate of about 5-6% p.a. The value added Specialty Films segment is growing at a slightly higher rate than this. The primary use of BOPP Films is in Food Packaging and labeling industry. BOPET Films are used in a variety of applications including Food Packaging, Labels, Electronics, Insulation, and PV Solar Cells. In India, the Packaging industry is still evolving and is growing at about 15%, largely led by increase in demand from FMCG players for Food Packaging and Labeling.

Now, Coming to Our Business: Our Business is broadly divided into the standalone India business and our value added Films business under our subsidiary, Jindal Films, spread across Europe and US. Starting with our Indian business: We have been present in the Indian Films market for almost two decades, since 1996. Our capacity in BOPET Films is 127,000 tons p.a. which is the largest in India. We are also backward integrated with ability to produce our own pet chips. In BOPP, our capacity is 210,000 tons per annum currently, which is also the largest in India. The standalone business has seen consistently strong performance and currently forms about 36% of our overall revenue.

Our subsidiary, Jindal Films America and Europe represent the BOPP business which was acquired from Exxon Mobil w.e.f. 1st October 2013. With BOPP capacity of 235,000 tons per annum spread across five plants in Europe and America, it has helped Jindal become one of the largest global players in this industry. Jindal Films is a clear technology leader in the industry and a preferred partner for some of the largest FMCG companies. To maintain our edge in technology and innovation we have two R&D centers -- one in the US and one in Belgium in Europe. The centers work very closely with customers to provide customized packaging solutions for their products. This has helped us maintain a very strong and long-term relationship with our customers. As a result of the investments in technology the company possesses 300 plus registered patents. Since our acquisition, we have identified and implemented a number of initiatives towards improving revenue quality and cost reduction such as targeted price increases, rationalizing overheads, leveraging global sourcing of raw materials and bringing in manufacturing efficiency.

Now, a little about one of our new initiatives, Global Nonwovens: We have set up a new subsidiary, Global Nonwovens Limited to manufacture Polypropylene-based Nonwovens Materials at our existing Nasik factory. The primary application of this product is in the hygiene and medical segments and it is another business that is closely backed by the FMCG industry and the focus is on value-added products. Currently due to absence of a local supplier a significant percentage of the finished products is imported. We are the first and only Indian manufacturer with new plant and machinery and ability to supply this market with high quality products. We have commenced the operation in July 2015 with a total capacity of 18,000 tons per annum at an overall cost of about Rs.480 crores with a debt of Rs.330 crores. The business requires significant approval lead time with the FMCG customers. We have already obtained some approvals and are at advance stages of approval with other leading customers.

Now, let me take you to the immediate CAPEX plan. We have prepared a structured expansion plan to be executed over the next two years. We plan to add three new BOPP lines; one each at our Nasik factory, in Europe and in the US with a combined capacity of 161,000 tons p.a. At the end of our expansion, our global BOPP capacity will stand at about 606,000 tons per annum. The plan also includes enhancing our metalizing and coating capacities. The total investment for the project will be approximately Rs.1,000 crores.

Coming to Consolidated Second Quarter Financial Highlights: Gross revenue for Q2FY16 was at Rs.1,803 crores, there is a marginal decline of about 5% as compared to Q2 FY15. Standalone revenue contributed 34% of consolidated revenue. The decline in revenue is as a result of lower raw materials cost which was passed on to the customers. Q2 EBITDA was about Rs.248 crores, improvement of about 46%. Consolidated PAT for the quarter was Rs.72 crores as compared to of Rs.45 crores of Q 2 FY 2015 which reflects a significant improvement.

H1FY16 highlights: Our revenue stands at about Rs.3,692 crores, there is a decline of about 5%, again due to lower raw material cost passed onto the customers. EBITDA was Rs.608 crores, growth of about 63%, EBITDA percentage was about 16.5 %, and which is an increase of about 650 basis points Y-o-Y. The overall PAT comes to Rs.241 crores, growth of over 100%. Net debt as on 30th September stands at Rs.1,446 crores, down from Rs.1570 crores as on 31st March 2015. This is a reduction of about Rs.124 crores, mainly led by early payment towards our acquisition loan for Jindal Films America and Europe. Consolidated debt-to-equity has improved from 0.9 to 0.7.

With the cash flow generated from Jindal Films, we have been able to repay a part of the original acquisition debt which was USD160 million. The acquisition debt as on 30th September stands at about USD92 million. In October 2015, this debt has been refinanced at a lower cost and without any recourse to the parent company.

We may now start with the 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 Rahul Khandelwal from Systematix Shares. Please proceed.

Rahul Khandelwal: Can you just run by the debt?

Management: Net debt as on 30th September 2015 is Rs.1,446 crores wherein as on 31st March 2015 it was Rs.1,570 crores.

Rahul Khandelwal: The capacities for the BOPP and BOPET?

Management: The total BOPET capacity in India is 127,000 and 210,000 for BOPP and for Jindal Films it is 235,000 only for BOPP.

Moderator: Thank you. The next question is from the line of Dalpat Mirza from Suncity Financial. Please go ahead.

Dalpat Mirza: My first question is can you give the breakup of what are the new capacity coming up in the country as our company has the largest capacity and what are the capacity expansion the company is looking for the Indian operations, and the market share?

Management: I cannot comment upon the competitors' expansion. As far as we are concerned we are coming out with one additional BOPP line with a capacity of 41,000 in India. Our current market share for BOPP, in India is about 30-35%.

Dalpat Mirza: Can you give us the breakup of total sales of this Rs.1803 crores for this quarter, out of this Rs.612 crores from the domestic company, break from the foreign and the Global Nonwovens or any other company?

Management: Global Nonwovens started operations only in this quarter, so Global Nonwovens revenue is only Rs.8 crores. I will give the breakup of the six months revenue; H1 standalone revenue is Rs.1,325 crores, for Jindal Films it is Rs.2,359 crores and Rs.8 crores for the Global Nonwovens turnover. So totally Rs.3,692 crores.

Dalpat Mirza: So Jindal Films is having almost double of the local unit?

Management: Yes, as it is producing much more value added products.

Dalpat Mirza: How we see this Global Nonwovens sale expanding in the next coming quarter?

Management Global Nonwovens started up in this quarter, so the capacity utilization was very-very low. As we go ahead in future quarters we expect the capacity utilization to improve each quarter and will eventually ramp up to full capacity utilization.

Dalpat Mirza: So in the remaining second half, how much we can sell at the optimum capacity and what do we expect to utilize the capacity in second half, at full capacity what turnover we can have from Global?

Management: At full capacity the annual turnover will be about Rs.250 crores.

Dalpat Mirza: We have made investment of around Rs.625 crores in Jindal India Powertech Limited for the Power business. Can you give some highlight about that Power business and when company will get the return of this investment?

Management: Jindal India Powertech is the holding company for a fully operational 2x600 MW pithead domestic coal-based power project. In our opinion, this is one of the best power projects in the country as it is fully operational and both the units have demonstrated that they can run at full load for a sustained period.

Dalpat Mirza: I learn that the company is not having power purchase agreement and due to that they are not having the required supply of the fuel, so the PLF factor is very low. What we have learnt, that maybe right or wrong I do not know.

Management: This power plant is within the Talcher coal belt with a large number of CIL mines within a 50 km radius. As a result, even without a large quantity of power purchase agreements, we are able to buy coal competitively thru the e-auction process. The unit has a coal-linkage for 600 MW which will be fully used once PPA's are singed and operational. .

Dalpat Mirza: Right now to whom we are selling in absence of this PPA?

Management: We sell through short term power purchase tenders and through the power exchange.

Dalpat Mirza: So are we getting at profitable rates or not?

Management: We cannot comment on profitability of this company as it is a separate entity.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain: Q1 to Q2 if we see there is a decline in even standalone margin and standalone sales as well. So, what was the reason?

Management Standalone EBITDA is Rs.89 crores as compared to Q1 EBITDA of Rs.163 crores. This is primarily because of fluctuations in gains and losses on inventory and because of an element of seasonality. Because of the volatility in oil prices some quarters we have an inventory gain and some quarters we have an inventory loss on raw material and finished goods stock. In our opinion, you should not read too much into quarter-on-quarter performance but look at H1 this year vs H1 last year. This gives a more accurate picture of the improvements made.

Sunil Jain: You mean to say Q2 we might have incurred some inventory loss?

Management: Correct, because our raw material prices have fallen significantly during this quarter.

Sunil Jain: Is it possible to quantify how much loss we might have incurred because of that?

Management: It is difficult to quantify exactly as the raw material and finished goods prices are changing on regular basis.

Sunil Jain: Even in the international operation also we had seen the similar trend. So, is that the same reason or something else?

Management: Partly yes, it is the same reason. Additionally, in Europe, in general, August is one of the weakest months of the year for industrial activity due to summer vacations, and August obviously comes in Q2.

Sunil Jain: Can we share that Euro or Dollar number of your international operations?

Management: Dollar numbers are already there on the presentation; if you see Slide #47 & 48.

Sunil Jain: Can you talk something about whether the volume growth was there or not in Q2 as compared to Q1? You said that there could be a difference of raw material cost. Was there any volume growth because if you see the sales in the standalone business it has come down from Rs.721 crores to Rs.612 crores, almost decline of over Rs.100 crores, so definitely there must be some impact of volume decline?

Management: The primary reason for the decrease in sale is again as we mentioned sharp decrease in raw material prices from Q1 to Q2. With respect to volume, broadly speaking the numbers were not very different between Q1 and Q2.

Sunil Jain: Was there any FOREX loss above EBITDA in this particular quarter?

Management: As a policy, the FOREX translation gain/loss is shown as exceptional item below the EBITDA.

Sunil Jain: You mean to say there is no profit or no gain above EBITDA line?

Management: No.

Sunil Jain: Can you talk a bit on the industry and pricing of the BOPP Films, how it has moved in the last 6-months and how you see the trend going forward?

Management: We cannot talk much about the forward trend; however, we can say that the general market conditions have been positive over the last two to three quarters and we see demand continuing to be strong going forward as we have not seen any adverse events.

Sunil Jain: In India, at what capacity utilization are we operating right now?

Management: Our machine uptime, in India, is approximately 85%. It is important to note that you cannot translate production equal to 85% multiplied by 210,000 of capacity as actual production volume in metric tonnes differs according to the thickness of the films produced. 210,000 tonnes of capacity is the nameplate capacity based on a standard thickness.

Sunil Jain: Was there any difference in pricing of BOPP Films and BOPET Films, I am not talking about the absolute prices, just directionally?

Management: In general, both are crude derivatives, so generally prices for both products move in the same direction; Decreases is raw material costs are, for the most extent, passed on to customers.

Sunil Jain: Yes, one part is perfectly alright. I was talking about the other part, in the sense demand and supply, if suppose BOPET Films prices are running faster or higher, then that can be substituted with BOPP Films, in that way the price can take a similar direction, is that the case or not?

Management: There is a small percentage of the market where this kind of substitution can take place. However, we do not consider this to be a significant percentage that can significantly affect market prices.

Sunil Jain: In your international operations, if I see the margins have come quite substantially high; we were talking about 9% and all, but the margin has come at 13% in this quarter and last quarter it was around 17%. Is that correct?

Management: Yes, this is correct. This is driven by operational improvements made over the last two years. We can see the impact of these improvements in these results. Main areas we are focused on are the sales improvements, manufacturing efficiency improvements, overhead cost reduction and leveraging global raw material procurement

Sunil Jain: These margins are sustainable then?

Management: We believe that the vast majority of improvements are fundamental and structural improvements and form a base for our future.

Sunil Jain: Nothing one-off, in the sense, these are all operational margins?

Management: We do not believe that there was anything major that was a one-off.

Moderator: Thank you. The next question is from the line of Deepesh Jain from Edelweiss. Please go ahead.

Deepesh Jain: I had a couple of questions; first, what would be the total investment in Jindal India Powertech Limited?

Management: Total investment as on date is about Rs.620 crores.

Deepesh Jain: How much more we are planning to invest?

Management: The captioned Power plant is now fully operational and the stabalisation period is over. So majority of the project CAPEX is complete.

Deepesh Jain: How do you see BOPP and BOPET capacity planning out globally?

Management: BOPP market is growing globally at about 6%, as is BOPET market. Globally BOPP capacity is about 8 million tons, BOPET is about 4 million tons as per the last PCI report. We do not see any major large announcements globally in terms of capacity expansion. There are regular capacity expansions that are taking place, but we do not see any special situation

Moderator: Thank you. The next question is from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta: Taking over the same question that were asked from the previous participant, just wanted to understand how the BOPET utilization has been increasing for the industry in India and how would that be say compared to global levels and do you see an increase in realizations in BOPET over last two-three quarters because the general perception is that the realizations have been moving up sharply and we can see a repeat of FY11 & FY12 the way we saw it, so just wanted to gain some understanding and how you think about BOPET realizations moving and even if you can comment about the trend for the last one or two quarters, it would be great??

Management: We can comment in general that the realizations have been stronger in the last two quarters or last three quarters and then in the previous year. It is again difficult to comment on the future.

Ritesh Gupta: But we see an uptrend in the industry utilization levels because clearly the demand is growing at a healthy level. In terms of supplies, do you see some sort of industry utilization improving?

Management: Demand for both BOPP and BOPET is growing at ~15% per annum in India. So, of course, till there are increases in capacity, this increase in demand will lead to improvement in the industry capacity utilization.

Ritesh Gupta: But in your perception would industry be at say 85% utilization levels, at 90% utilization levels, what could be the potential utilization levels as per you?

Management: As we said it is misnomer to give absolute capacity utilization number. You have to look at machine uptime number, which in our case is ~85%.

Moderator: Thank you. The next question is from the line of Ruchi Shah, who is an individual investor. Please go ahead.

Ruchi Shah: Just a follow-up question; on the Power investment, the way things are going in that project of us, do we have anything in our mind as in if you would like to exit the certain projects?

Management: At this time there is no such thought.

Ruchi Shah: Because we were also understanding that we plan to do some capital raising. So probably if we happen to exit this project, like that is part of steps taken care of, if you can just give us some news?

Management: At this time there is no such plan to exit the power project.

Ruchi Shah: On the International Packaging business, we also understand that our margins are very healthy. So, is it like driven by the global patents that we have?

Management: Yes, the Jindal Films' business is driven by technology and value added products. Our patents form an important part of our technology and create an entry barrier for others.

Ruchi Shah: Any plans to have these patents also get launched in our domestic business if you can?

Management: We cannot comment on exact plans for this.

Ruchi Shah: But then are we open to it?

Management: We are open to any ideas that will improve our long-term margins and prospects on a global basis. We continually review options and strategies.

Moderator: Thank you. The next question is from the line of Hitesh Shah, who is an individual investor. Please proceed.

Hitesh Shah: Just wanted to know, how is our ExxonMobil business shaping up?

Management: As you can see from the numbers the business is shaping up very well; the EBITDA for the H1 is USD 52 million, FY 15 full year we had EBITDA of USD 60 million.

Hitesh Shah: As we have a high profitability in ExxonMobil business, so what would be our plans with the cash that we generate there – would we be paying any dividend out of that or we have some other plans where the cash balance that we would be generating?

Management: As on today, the acquisition loan is about $92 million dollars and as you can see most of the cash that was generated in the last two years same has been used to repay the acquisition loan which was USD 160 million and has come down to USD 92 million. Our primary use of excess cash will continue to be to repay loans or for small CAPEX's with short payback periods.

Moderator: Thank you. The next question is a follow up question from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain: This is more related to your expansion plan. You are putting up three lines; one in India and one US and one Europe. By what time they are likely to come up, means whether the company has already placed the order or what is the stage of that? When can we start production from these lines?

Management: In India, the capacity will be operational in 2016 and for the Europe and US expansion it will be in 2017.

Sunil Jain: Whether we had already placed the order for the machines and all?

Management: For India, yes.

Sunil Jain: But in Europe and US, still you need to order that?

Management: Not yet, but we are in the final stages of this.

Sunil Jain: Is it possible to share what was the realization improvement or decrease in Q2 as compared to Q1 in Indian business or consolidated whatever available?

Management: We cannot provide exact figures for margins for each product.

Moderator: Thank you. The next question is a follow up question from the line of Dalpat Mirza from Suncity Financial. Please go ahead.

Dalpat Mirza: Do you have the export figure right now?

Management: Export, from India, is about 30% of our standalone turnover.

Dalpat Mirza: In which countries these are exported?

Management: Exports are to various countries worldwide, including to the Middle East, Africa, Europe, US, etc.

Dalpat Mirza: I am asking because I just want to know from the Indian unit how much we are exporting, and what is the cross country sales; from the European units do we have sales to the US or from US unit do we have sales to the European countries or not?

Management: There is not a lot of movement of goods from Europe to the US or vice-versa. We try to produce most products locally in those cases.

Dalpat Mirza: So anything produced in European units are sold in the Europe only and whatever we manufacture in US unit are sold in the US only, is it right?

Management: There are some exports from Europe or the US to other parts of the world such as Asia, South America, etc.

Dalpat Mirza: That maybe again in the dollar terms. So I just wanted to know is there any cross-country from US dollar to euro or euro to dollar, like that?

Management: Nothing very significant

Moderator: Thank you. The next question is a follow up question from the line of Hitesh Shah, who is an individual investor. Please go ahead.

Hitesh Shah: On ExxonMobil thing; what was the small CAPEX amount that you have mentioned?

Management: Small CAPEX's in the last 2 years has been ~USD 15-20 million with short payback periods.

Hitesh Shah: By when the acquisition loan would be paid off, next two-three years or it would take longer?

Management: This acquisition loan has an average maturity of 3.25 years. However, we have the option to pre-pay this with excess cash.

Hitesh Shah: Once the debt is repaid, we can expect cash flows from that unit to our Indian unit in form of dividend or something like that?

Management: We are pursuing growth opportunities in Europe and the US as well. Hence, we cannot comment on if and when dividends from these units will be paid.

Hitesh Shah: On the same growth opportunity, are you looking at some organic growth or inorganic growth like acquisition or something?

Management: We have already announced our CAPEX plan which is obviously organic brown-field expansion. We are evaluating inorganic opportunities as and when they come along, but there is nothing specific at this time.

Moderator: Thank you. The next question is a follow up question from the line of Deepesh Jain from Edelweiss. Please go ahead.

Deepesh Jain: Any update on the QIP?

Management: At this time, the QIP approval is only an enabling resolution. Now, we have announced our immediate CAPEX plan and we will start planning the QIP process and our longer-term CAPEX plan.

Deepesh Jain: So in the near-term we do not feel the need to raise these funds, right?

Management: As mentioned, we are still in the process of finalizing the plans.

Moderator: Thank you. The next question is a follow up question again from the line of Rahul Khandelwal from Systematix shares. Please go ahead.

Rahul Khandelwal: What about TUFS in the capital subsidy, what are the interest rates that we are paying for the loans?

Management: In our subsidiary Global Nonwovens there is a project loan in which the normal project interest rate is currently ~ 12.5%. This project also avails the TUFS benefit for the relevant portion of the loan including the capital and interest subsidy.

Moderator: Thank you. The next question is from the line of Rajendra Shah from Rajendra J Shah & Associates. Please go ahead.

Rajendra J Shah: Regarding consolidated result, other expenditure is increasing by somehow June quarter it was Rs.241 crores; it was Rs.236 crores on 30th September 2014, now it is Rs.268 crores; nearly 30-35 crores increase. Reason being is what?

Management: This is general business expenses.

Rahul Khandelwal: No one-off expenses?

Management: There is no major one-off expenses, these are normal expenses.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management of Jindal Poly Films Limited for closing remarks. Over to you, sir.

Management: We are very thankful for your participating in this Investor Call and for your questions. We look forward for our next call and hope that you all will participate once again. Wish You All A Very Happy Diwali and Prosperous New Year.

Moderator: Thank you very much, sir. Ladies and Gentlemen, on behalf of Jindal Poly Films Limited, that concludes today's conference call. Thank you all for joining us and you may disconnect your lines now.