



“3Q FY12 Earnings Conference Call of Dhunseri Petrochem & Tea Limited”

February 02, 2012



**SPEAKER: Mrigank Dhanuka, Vice Chairman and Executive Director
Rajiv Sharma, Chief Financial Officer**



Moderator: A very good afternoon, ladies and gentlemen. I am Souradeep Sarkar, the moderator of this call. Thank you for standing by and welcome to the Dhunseri Petrochem & Tea Limited Conference Call. For the duration of presentation, all participants' line will be in the listen-only mode. There will be a presentation followed by a Q&A session. I would like to now hand over the conference to Mr. Ricky Vora. Over to you, sir.

Ricky Vora: Thanks, Souradeep. Good evening, everyone. Seagull Value Consultants welcomes everyone to the conference call for Dhunseri Petrochem & Tea Limited to discuss this quarter three FY12 results. From the management team, we have with us Mr. Mrigank Dhanuka, Vice Chairman and Executive Director; and Mr. Rajiv Sharma, CFO. Mr. Dhanuka will make the opening remarks and brief us on the expansion progress of Haldia plant and Mr. Sharma will take us through the numbers. We will then open the call for the question and answer. Over to you, Mr. Dhanuka.

Mrigank Dhanuka: Good afternoon, everyone. I will just quickly brief everyone regarding the expansion projects in line. The project in Haldia which is 210,000 tons per annum factory is under the erection stage and almost two-third of the piping has been completed. We expect mechanical completion on 30th of April which is again the date given by REPC Contract in the contract. So we are absolutely on schedule. So we should be able to commission the factory definitely by mid May.

Regarding the Egypt project, it is under the civil stage and we expect the action to begin in mid April. So it's again very much ahead of schedule actually. So we expect mechanical completion at the end of the year and commissioning in January. Regarding amount arrangement spent on the project, already around 250 crores has been spent on the Haldia project and around 34-35 million has been spent on the Egypt project. We are already in the process of building a larger marketing team worldwide. So that process is also on. All our working capital etc is tied up. Raw materials are under the process of being tied up. So everything is ahead of schedule in this matter.

Ricky Vora: Rajiv, can you throw some light on the numbers?

Rajiv Sharma: I think we have circulated the presentation which you will see that as compared to previous quarter, the numbers are slightly better although the market has not been so favorable this quarter. The volumes have gone up. We expect the margin also



to improve in this current quarter. Let the floor be open for the question and session so that we can have more interactions.

Moderator:

Thank you so much, sir. Now we are going to start the Q&A interactive session. So I would request the participants, if you wish to ask a question, please press "0" "1" on your telephone keypad and wait for your name to get announced. I would request the participants, if you wish to ask a question, please press "0" "1" on your telephone keypad and wait for your name to get announced. Attendees, we would request you to please press "0" "1" on their telephone keypad and wait for your name to get announced. Here we go. The first question is from Mr. Rahul Shah from JJ Securities. Mr. Rahul, your line has been unmuted. You can go ahead and ask your question please.

Rahul Shah:

Good afternoon. My question is related to the exports and domestic sales. Where do you exactly see better realization coming from, from exports or domestic sales? As you can see that the exports have grown up by 41% in this quarter. So this is where my question comes from.

Mrigank Dhanuka:

Net realization from both is more or less the same. Maybe half a rupee, a rupee difference depending on the time of the year. So it's insignificant. Let me put it this way.

Rahul Shah:

Okay. Thank you.

Moderator:

Thank you, Mr. Shah. The next question comes from Vinay Agarwal from Crisil. Mr. Agarwal, you can go ahead and ask your question. Your line has been unmuted.

Vinay Agarwal:

Good afternoon, sir. Sir, my question is related to the margins for both the segments. For tea business, the company has shown a significant contraction in margins. Last year, in the same quarter, it was around 30-35% and this year it has contracted sub 10 levels.

Mrigank Dhanuka:

Actually, this year, there are few things that have happened. We have bought a few tea factories. This is the first year of the tea factories. These tea factories have made some losses. So to some extent, this loss has circumvented our profits from the tea gardens. Secondly, we had a pest attack in the major tea gardens this year because of which we lost maybe 14 to 15% of the crop. So it took a big hit on the profitability but we are doing whatever we can do next year to prevent such thing. We are making extra efforts, extra vigilance. To be very honest, it was not the most efficient year for tea production.



- Vinay Agarwal:** Yes because Q3 is supposedly the best quarter for the tea business because it's seasonal. In Q3, I was just observing.
- Mrigank Dhanuka:** Operationally, we didn't do a great job.
- Vinay Agarwal:** Okay. In the PET division also, because the volumes are seeing a significant growth. So are the margins panning out? Is the company able to pass on the raw material cost?
- Mrigank Dhanuka:** Yes. That's usually the case. Whatever is our decrease, we pass on to our customers right away.
- Vinay Agarwal:** Because there also, there was around 200 price contraction in margin in the PET division also.
- Mrigank Dhanuka:** That happens because you see a contraction at times when the prices are falling because when the prices are falling sometimes we have to reduce the prices faster than the reduction in the raw material prices. So this was in the third quarter. Prices were falling. So we sold at very fast rate at very low prices just to prevent inventory losses. So that's why the contraction.
- Vinay Agarwal:** Okay. What is the outlook for the Q4? For the margins, will you maintain or it will be...?
- Mrigank Dhanuka:** I feel January went very well. So in the next two months also, I expect to do very well because it's the best quarter for us... actually Q1 & Q2 calendar year. So Q1, you should see a... assuming rupee remains where it is at 49, 49.50, you should see a good happy Q4.
- Vinay Agarwal:** Okay. Thanks a lot, sir.
- Moderator:** Thank you, Mr. Agarwal. Well, the next question comes from Mr. Badal Manuj from Jyoti Securities. Mr. Manuj, you can go ahead and ask your question. Your line has been unmuted.
- Badal Manuj:** Thanks for the opportunity. Numbers in terms of volume growth, are we safe to assume that Q4 you already give us a sense about the realization however in terms of volume given that you are already running at 100% plus in terms of capacity utilization, it will be flattish sequentially?
- Rajiv Sharma:** In terms of volume, yes, it will be flattish. But in terms of EBITDA, it should be better.



- Badal Manuj:** Okay. While the realization also might be dipping a little bit, right?
- Rajiv Sharma:** Yes.
- Badal Manuj:** Okay. And a quick check on your Egypt project, you have shared that 33 million has already been spent. This is out of a total of what kind of overall budget?
- Mrigank Dhanuka:** We have a 160 million project cost which we have already informed to the public. 30 million is already spent. The amount committed is – we have opened a letter of credit to the extent of 80 million. So almost 110 million is already committed. Next slot of LC will be opened by the end of February. So the substantial part, we already committed. But February, I think more or less, 90% amount we have already paid and the rest is working capital margin money etc. So you can't count that ready.
- Rajiv Sharma:** The balance amount of equity contribution is also gone which will get reflected in our Q4 numbers. We will see that. Our entire equity contribution on Egypt would have been committed by March.
- Mrigank Dhanuka:** Also, the good thing is, in Q4 our first plant in Haldia will become debt free.
- Rajiv Sharma:** Yeah, that's also important.
- Badal Manuj:** Okay. And then finally, if you could share something on the volume growth, pretty robust numbers there. Where is the demand coming from? If you could share a little light on that.
- Mrigank Dhanuka:** All around the world, developing countries as well as the developed countries – as you know, we are selling to more than 50 countries. So we have customers everywhere. I can't really pinpoint any market specifically.
- Badal Manuj:** And you expect that to remain kind of earmarked?
- Mrigank Dhanuka:** Right.
- Badal Manuj:** Okay. Thanks for taking my questions.
- Moderator:** Thank you, Mr. Manuj. I would request the participants, if they wish to ask a question, please press "0" "1" on their telephone keypad and wait for their name to get announced. I would



request the attendees, if you wish to ask a question, please press "0" "1" on their telephone keypad. Well, yes, we have the next question from Mr. Mihir Kapadia from Woodhouse. Mr. Kapadia, you can go ahead and ask your question. Your line has been unmuted.

Mihir Kapadia: I would like to know which business segment or which business category do you expect to perform the best in the next quarter and also from a one-year projection?

Mrigank Dhanuka: Our focus is PET and in this segment only we expect the performance to be better because in the tea segment we have acquired some new factories which are still in the process of stabilization. On IT SEZ, the construction is still going on. We expect by September, construction should be over. So IT SEZ will not be giving any major contribution in the next financial year.

Mihir Kapadia: Okay. Thank you.

Moderator: Thank you, Mr. Kapadia. Well, now we have Mr. Sagar Parekh from Enam Holdings for the next question. Mr. Parekh, you can go ahead and ask your question. Your line has been unmuted.

Sagar Parekh: Sir, wanted to know what is the PTA and MEG price for the quarter?

Mrigank Dhanuka: I think, approximately it went on from 1300 dollars in the beginning of Q3 to 1100 dollars at the end of Q3.

Sagar Parekh: Okay. I precisely wanted to know what is the average for the quarter then for you?

Mrigank Dhanuka: That we cannot tell you. How can I tell you my PTA price?

Sagar Parekh: I think the delta which you have calculated according to what the prices are available on Bloomberg and all, the raw material price becomes close to Rs. 75 per kg and a realization of Rs. 86. That is why I wanted to back calculate. Since you mentioned the delta which is essentially the sales minus raw material cost...

Mrigank Dhanuka: As I have said, we had some inventory losses also during this period.

Sagar Parekh: That was what precisely I wanted know.



Mrigank Dhanuka: That I cannot although it's very difficult to explain that.

Sagar Parekh: Okay. Normally, sir, what kind of inventory do you carry for your PTA ABG?

Rajiv Sharma: Whatever minimum possible.

Sagar Parekh: How much that will be?

Rajiv Sharma: Varies from month to month but on an average 2.5 weeks maybe.

Sagar Parekh: Okay. Thanks a lot.

Moderator: Thank you, Mr. Parekh. Well, the next on line we have Mr. Vinay Agarwal from Crisil. Mr. Vinay, you can go ahead and ask your question. Your line has been unmuted.

Vinay Agarwal: This is Vinay again. I had two queries. One was regarding the tax guidance for the Q4. In Q3 because of some MAT credit, tax also [indiscernible]. What is the guidance for Q4?

Rajiv Sharma: We will continue to be in the MAT.

Vinay Agarwal: Okay. So it would be in the range of 10-12%, same as Q3.

Rajiv Sharma: Correct.

Vinay Agarwal: In the past couple of months, the company has been buying share from the open markets. So is there any sort of promoter holding the company is taking it up or it is sales opportunity now?

Rajiv Sharma: At this price, it is good for the promoters to increase stake.

Vinay Agarwal: Okay. So any further buying will be happening in the...?

Rajiv Sharma: Yes. We have certain figures in mind which we keep on buying.

Vinay Agarwal: Okay. Thank you, sir.

Moderator: Thank you, Mr. Agarwal. Well, the next on line we have Mr. Kunal Agarwal from [indiscernible] Investment for the next question. Mr. Agarwal, you can go ahead and ask your question, please.



- Kunal Agarwal:** Good evening, sir. My question would be on your strategy on the ForEx policies. Do you have any particular strategy for ForEx policy or are you following the same as the earlier one, that is the opening position for the ForEx?
- Mrigank Dhanuka:** No, we have been following one simple policy for the last six, seven years. We have been selling forward our exports and we were keeping our imports open. In the last quarter, we were able to obtain a lot of Packing Credit in foreign currency which many of the players were not able to get. So as long as you have Packing Credit in foreign currency, we don't sell forward. Those positions are open. Otherwise, we sell forward and keep our imports open.
- Kunal Agarwal:** Okay, sir. Thank you.
- Moderator:** Thank you, Mr. Agarwal. Well, as there are no further questions in the queue, I would request the participants once again, if they wish to ask a question, please press "0" "1" on their telephone keypad. The next on line we have Ms. Shivani Mehra from Techno Shares & Stock Broking. Ms. Mehra, you can go ahead and ask your question. Your line has been unmuted.
- Shivani Mehra:** Good evening, sir. I just joined the call late. I am so sorry. Sir, your outlook on what is happening in the Tea business and how do you see the auction prices moving ahead?
- Mrigank Dhanuka:** We feel it should be a tight here. Next year, the prices should harden because of shortages that we have seen in the current year.
- Shivani Mehra:** Sir, the loss that we have seen this quarter and production numbers, this would be carried forward you think into Q1 auction prices, sir?
- Mrigank Dhanuka:** Maybe not Q1 at least. When the season arrives, which is very short for tea, so maybe there... you can't predict actually. I mean, sometime during first or second quarter, probably second quarter.
- Rajiv Sharma:** Ms. Mehra, we had given a small explanation about the loss which we have essentially... because you were not there. So you probably have missed that. There were two main reasons because of which our profitability on the tea segment has not been good for this quarter. As you know, we have acquired four, five factories and all these four, five factories are still in the stabilization process. So we could not produce the quality



tea. So that has resulted in the loss of profitability, number one. Number two, there was a pest attack on the North Bank where we have four prime gardens. This has resulted in a loss in productivity in the months of October and November by almost 15-16%. So these are the two major factors which have affected the profitability of tea.

Shivani Mehra: Pest attack was primarily on our gardens, sir, or is it a phenomenon which is spread?

Rajiv Sharma: Because it was in the entire North Bank area. We had checked all other producers.

Shivani Mehra: Okay. Sir, the winter onset has also been earlier this quarter. Has that also been one of the causes for this production?

Rajiv Sharma: Marginally, yes.

Shivani Mehra: Sir, when we see cyclically, the winter setting in earlier, do we see this phenomenon carries onto the next year production numbers? Cyclically, does that impact our next year production?

Rajiv Sharma: Too early to say on this.

Shivani Mehra: Okay. But you see prices hardening going forward, sir?

Rajiv Sharma: This is what our expectation is.

Shivani Mehra: Okay. Thank you so much, sir.

Moderator: Thank you, Ms. Mehra. AS there are no further questions in the queue from participants, I would like to hand over the floor back to Mr. Vora for the final comments. Over to you, Mr. Vora.

Ricky Vora: Thanks, Souradeep. Seagull Value Consultants is managing investor relations for Dhunseri Petrochem & Tea Ltd. All the participants who have any query or who want to get in touch with the management, please mail at ricky@theseagull.in. With this, we conclude the conference call. Thank you for your participation and have a pleasant evening.

Moderator: Thank you, sir. Thank you, Mr. Sharma. Thank you, Mr. Vora. And that concludes the conference for today. Wish you a pleasant evening ahead. Have a great day. Good bye.