



Dhunseri Petrochem & Tea Limited
Q1FY13 Earnings Conference Call
August 09, 2012



SPEAKERS: **Mr. Mrigank Dhanuka, Vice-Chairman and Executive Director**
 Mr. Rajiv Kumar Sharma, Executive Director – Finance

Moderator:

A very good afternoon, ladies and gentlemen. I am Sauradeep Sarkar, the moderator of this call. Thank you for standing by and welcome to the Quarter First Financial year 2013 Earnings Conference Call of Dhunseri Petrochem & Tea Limited organised by Seagull Value Consultants LLP. For the duration of presentation, all participants' lines will be in listen-only mode and there will be a corporate presentation followed by the question-and-answer session. I would like to now handover the conference to Mr. Hanumant Bhansali from Seagull. Over to you, sir.

Hanumant Bhansali:

Thank you, Sauradeep. Good afternoon to all. On behalf of Seagull Value Consultants LLP, let me welcome you all to the earnings call of Dhunseri Petrochem & Tea Limited for the quarter ending June 30 2012. Today we have with us the management led by Mr. Mrigank Dhanuka, Vice-Chairman and Executive Chairman, and Mr. Rajiv Kumar Sharma, Executive Director, Finance. I would now like to handover the call to Mr. Mrigank Dhanuka for initial comments about the company. Over to you, sir.

Rajiv Kumar Sharma:

Welcome participants for the conference call. I believe all of you must have got the presentation sent by Seagull. The first quarter result has not been very encouraging because of the Forex losses on a mark-to-mark basis. And there were two positive developments which has happened in between after the results were published. Company has gone and acquired tea states in Africa in a place called Malawi. With this acquisition the tea production of the group will be doubled. Haldia plant trial has started four days back. So we expect trial to stabilize in 15 to 20 days' time. Thereafter we will have the fruits of doubling the capacity. I am leaving the floor open for question-and-answer session now.

Moderator:

Thank you so much, everyone. With this, we go ahead and start with the Q&A interactive session now. So I would request all the attendees and the participants, if you wish to ask any question please press "0" and "1" on your telephone key pad and wait for your name to be announced. I would request all the attendees and the participants, if you wish to ask any question please press "0" and "1" on your telephone key pad and wait for your name to be announced. Here comes the first question from Mr. Vinay Agarwal

from Crisil. Mr. Agarwal, you can go ahead and ask your question.

Vinay Agarwal: Hello.

Rajiv Kumar Sharma: Hi, Vinay.

Vinay Agarwal: Hi, good afternoon, Mr. Sharma.

Rajiv Kumar Sharma: Good afternoon.

Vinay Agarwal: Sir, just wanted to have clarity on the ForEx losses because in this quarter you have shown a ForEx loss of around Rs. 44.4 crores. Are these notional losses or these are the...

Rajiv Kumar Sharma: Out of which about Rs. 1.3 crore is realised loss. The rest is all notional. At exchange rate of 56.32 I think.

Vinay Agarwal: Okay, but when are these payable? This must be on the creditors.

Rajiv Kumar Sharma: On the creditors, payable over the next 12 months.

Vinay Agarwal: Okay. So I think if the currency stays at this level then no further loss but if the payables are due then notional will be realised.

Rajiv Kumar Sharma: Absolutely.

Vinay Sharma: Okay. And sir regarding the tea estates, the tea estates that you have bought, last year also you have bought some 60-70 states then you sold off to – now again the company has gone into Africa.

Rajiv Kumar Sharma: No, no, Vinay, there was no tea state acquisition done by us. We had acquitted some tea factories.

Vinay Agarwal: Tea factories. Sorry.

Rajiv Kumar Sharma: Factories were not with the garden. So we have sold off almost all of them, maybe one or two are on the pipeline of being sold.

Vinay Agarwal: Sir, what is the strategy on tea? Is that was the mistake done by the company?

- Rajiv Kumar Sharma:** Yes. We would say that, correct. We had certain plan of actions. We found that the productivity we were not getting right people and the price of green leaf had shot up all those areas where we acquired the tea gardens.
- Mrigank Dhanuka:** Basic principle is that we do not want to keep any inefficient assets, where we have to put in hard work and there is no results. So we would rather dispose of such assets and keep only very good assets which are very good payback.
- Vinay Agarwal:** So what have been the strategy and the rational for going into Africa and buying these tea estates?
- Mrigank Dhanuka:** I think reason for Africa is mainly of course we already have African presence. So we have experience in dealing with African people, and Africa is a low cost tea producer and we wanted presence in a second country. So we saw this Malawi as a very great opportunity and 9 million kilograms of tea, 9 and half million kilograms of tea in two locations, you hardly find it anywhere in the world. So this is great asset. Let us say we got lucky to get it.
- Vinay Agarwal:** Okay sir how will be the margins over there? It will be lower, higher as compared to India?
- Mrigank Dhanuka:** No, right now the assets were not so well managed but we are going to make it more efficient with our tea expertise. Earlier owner did not have any experience in tea. So now we will see what we can do about it. Already it is profitable. But let us see how profitable we can make it. So we can discuss this one year from now. That will be better.
- Vinay Agarwal:** Okay. And coming back to the PET division, as you mentioned that the trial run has already been started. So is the capacities for the next few months booked or still the marketing team is going out for orders?
- Mrigank Dhanuka:** We would not take orders till we have final product out of the reactors which would happen in the next three, four days, ten days, I do not know. Once all is stabilized only then we will start taking orders for next months.
- Vinay Agarwal:** Okay so how is the demand shaping up in the domestic market and the export market given the slowdown that all of you...

- Mrigank Dhanuka:** Of course slow down is there. I mean there is a global slowdown of 1.5-2% in GDP growth. So demand for tea will also shrink by a similar amount of course. It is no exception to the common rule.
- Vinay Agarwal:** Okay. And how is the EBITDA per ton doing, I think it has gone down in this quarter?
- Mrigank Dhanuka:** It will keep going down I feel in the next one or two years because of intense competition.
- Vinay Agarwal:** Okay. So it will go down let us say below the...
- Mrigank Dhanuka:** But our cost will also go down to the similar extent.
- Vinay Agarwal:** What will go down?
- Mrigank Dhanuka:** Our cost will also reduce to a certain extent, because of the economies of scales. So margins would not be affected because of that.
- Vinay Agarwal:** In the presentation it is mentioned that the Egypt facility is also expected to start from Q4.
- Mrigank Dhanuka:** Yes, maybe a month or two delay, maybe February next year is the target.
- Vinay Agarwal:** Okay. What is the progress on the IT infrastructure part?
- Mrigank Dhanuka:** It could maybe, it should start leasing out second quarter next year.
- Vinay Agarwal:** Financial year, first quarter?
- Mrigank Dhanuka:** Financial year, first quarter. Current quarter, second year. This is our target.
- Vinay Agarwal:** Okay. That is all from my side.
- Moderator:** Thank you, Mr. Agarwal. I would repeat once again to all the attendees and the participants, if you wish to ask any question, please press "0" and "1" on your telephone key pad and wait for your name to be announced. I would like to repeat, participants who wish to ask a question please press "0" and "1" on your telephone key pad and wait for

your name to be announced. For the first question, from Mr. Devang Mehta from Canara Robeco. Mr. Mehta, you can go ahead and ask your question, please.

Devang Mehta: Yes. Thank you. Good evening. Actually I was trying to understand the whole industry on a global level, what would be the dynamics? I mean, demand-supply scenario in the pack?

Mrigank Dhanuka: Globally there is always a slight oversupply, because it is a seasonal business, so capacity run full five to six months in the year, whereas the remaining five to six months, the capacities will always be way below utilisation.

Devang Mehta: If you take a full-year average, what would be the utilisation level globally.

Mrigank Dhanuka: I would say in the high 70's.

Devang Mehta: And any absolute number of the capacity that you can attribute?

Mrigank Dhanuka: Yes, we can send you.

Devang Mehta: Okay. And for the new plant that is coming up, the raw material, raisins and all are tied up?

Mrigank Dhanuka: Yes, it is tied up.

Devang Mehta: Okay. Mostly it would be from Reliance...

Mrigank Dhanuka: No, we do not buy anything from them.

Devang Mehta: Okay. And on the tea division, what would be the loss so far due to the bad weather in Assam, what would be the loss for the year?

Mrigank Dhanuka: What do you mean loss for the year?

Devang Mehta: It means crop loss.

Mrigank Dhanuka: Crop loss is there like in all other Assam tea estates, it will be like 10-15%.

Devang Mehta: Okay. And the current problem which are going on in Assam, are there any...

- Mrigank Dhanuka:** No, no, nothing.
- Devang Mehta:** There is no...
- Rajiv Kumar Sharma:** Impact.
- Devang Mehta:** Okay. And this – going back to the PET division, what would be the utilisation for the year, the new plant utilisation for the year?
- Mrigank Dhanuka:** New plant has not even started, how can it have any utilisation?
- Rajiv Kumar Sharma:** We expect it to be on average, the philosophy on which we work is we operate on a full scale capacity.
- Mrigank Dhanuka:** We will try and operate as 100%. But time will tell.
- Devang Mehta:** Okay. Thank you for listening.
- Mrigank Dhanuka:** Thank you very much.
- Moderator:** Thank you, Mr. Mehta. Well, the next question is from Naga Deepika from Capital Market. You can go ahead and ask your question, please.
- Naga Deepika:** Hello, sir. Just wanted to take first question on IT space, can I know what would be the current rate running per square feet in that space, and what is our coverage in square foot?
- Rajiv Kumar Sharma:** See, the place where we have constructed, there are no place available for rent. There are two captive buildings which are operating there. In the adjacent area, because we are in Bantala, the closes IT hub is Rajarhat. The rates are about Rs. 60 per square feet. And we have taken in our projection Rs. 30 per square feet.
- Naga Deepika:** And this will flow – I mean, you will be taking it open for the rentals or lease rentals or you will be selling the space out?
- Rajiv Kumar Sharma:** No, there is no plan of selling.
- Naga Deepika:** You only lease it?

- Rajiv Kumar Sharma:** Yes, correct.
- Naga Deepika:** Okay. And what would be the total space?
- Rajiv Kumar Sharma:** Currently about 37500 square feet. That is the first phase. The second phase will be – for second phase, the construction will start only after the first phase has been leased out.
- Naga Deepika:** Okay. And coming back to the PET, please help me if I am going wrong somewhere. Do you know how far – what is the difference between our product as a market barrier resin and the normal PET resin which is used for bottle grade chip... So what is the product difference and how would be the EBITDA margin difference for this product?
- Mrigank Dhanuka:** You are talking about barrier resins?
- Naga Deepika:** Yes.
- Mrigank Dhanuka:** Okay. It is used for special bottle applications which require some barrier properties like beer and other oxygen-sensitive products. So we just started marketing two nascents, so I think we better discuss this in six to eight months from now. Maybe I will have a better answer for you then.
- Naga Deepika:** Okay, and what would be the capacity for this barrier resins of the company?
- Mrigank Dhanuka:** No, we are going to make it in the existing plants only. So there is nothing – we just made modification.
- Naga Deepika:** Okay. And PET we have would be the normal bottle grade resins, right?
- Mrigank Dhanuka:** Right.
- Naga Deepika:** Okay. And I just want to get a colour on the PTA shortages. Just you have also increased your capacity for PET, how will you be trying to source the extra capacity?
- Mrigank Dhanuka:** We have not had so much of problem with the PTA sourcing, but in future anyways we have decided to keep a

good ten to twelve days PTA stock in a factory, so that we do not face any future problems in manufacturing.

Rajiv Kumar Sharma: Our sourcing pattern is already tied up. We have a back-to-back arrangement for the entire 100% requirement.

Naga Deepika: Is it imported? How much would be the imported and how much would be the domestic?

Rajiv Kumar Sharma: Majority is domestic.

Naga Deepika: Okay. And did you feel any shortage in PTA sourcing for this quarter?

Rajiv Kumar Sharma: No we do not – If there is any plant shut down by our suppliers, then probably you can have impact on the supply.

Naga Deepika: Mostly it would be Mitsubishi, right?

Rajiv Kumar Sharma: Absolutely.

Naga Deepika: Okay. And on the demand of PET itself where there is actually a slowdown seen in the industry, and you came out with a capacity expansion, how are you trying to stabilize yourself on the demand front and taking your production capacities on your uptick from a 6 months to now down lane, how do you think the demand will span out?

Mrigank Dhanuka: It is a commodity, and every day sells, so if you are cost competitive, then you will be able to sell it. So our idea is just to reduce the cost. I mean, prevailing prices in the market are not under control.

Naga Deepika: Okay. What is the current price, sir?

Mrigank Dhanuka: Current price?

Naga Deepika: Right.

Mrigank Dhanuka: National price is around \$1300.

Naga Deepika: And can you throw some light on domestic demand and capacities and production of PET resin?

Mrigank Dhanuka: We can send you something.

- Naga Deepika:** Okay. Thanks a lot. And just one more point on the tea front. I think one of the colleagues was asking about your strategy in tea business, you already sold the tea business estate, tea plant, tea estate in Assam, right?
- Rajiv Kumar Sharma:** Correct.
- Naga Deepika:** And what is the strategy going forward in acquiring a new garden in Africa, do you want to cater that tea plant – get the tea from there to India and do the business or you want to expand your reach on international front also?
- Mrigank Dhanuka:** No, it is going to be more on international front.
- Naga Deepika:** Okay, sir. Thanks a lot.
- Mrigank Dhanuka:** Thanks a lot.
- Moderator:** The next question is from Mr. Siddharth Shah from Kings Tech Investments. Mr. Shah, you can go ahead and ask your question, please.
- Siddharth Shah:** Yes, sir. Thank you very much. Sir, I just wanted to know what kind of realisations are you expecting from the incremental capacity that you put up in Haldia?
- Rajiv Kumar Sharma:** Realisation, we may say – Are you talking about sales price or are you talking about EBITDA margins?
- Siddharth Shah:** No, realisation, sales price.
- Rajiv Kumar Sharma:** The sales price keeps on moving, every month there are different price relations. This is driven by international price movements.
- Siddharth Shah:** Okay. Thank you, sir.
- Moderator:** Thank you so much, Mr. Shah. I would like to repeat once again to all the attendees and the participants, if you wish to ask any questions, please press "0" and "1" on your telephone key pad and wait for your name to be announced. There are no further questions in the queue. So I would like to hand over the floor back to the speaker. Mr. Hanumant Bhansali, I would request you to please take over the floor.

Hanumant Bhansali:

Thank you, Sauradeep. Seagull Value Consultants is managing the investor relations for Dhunseri Petrochem and Tea Limited. If you want any information about the company or you want to meet the management, please feel free to mail me at hanumant@theseagull.in. Now, I once again thank you all for joining the call. Have a great evening ahead.

Moderator:

Thank you, everyone. Thank you all the speakers, all the panellists, and thank you all the participants. With this we conclude the conference for today. Wish you all a great day ahead. You all can disconnect your line. Thank you so much.