"Time Technoplast Limited Q4 & FY14 Earnings Conference Call"

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Moderator Ladies and gentlemen, good day and welcome to the Time Technoplast Limited Q4 & FY14 Earnings Conference Call. As a reminder all participant 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 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. Anil Jain – Managing Director and Chief Executive Officer, Time Technoplast Limited. Thank you and over to you Mr. Jain.

Anil Jain Very good afternoon and very warm welcome to all of you. I have with me my colleagues Mr. Bharat Vageria – Director (Finance), Mr. Raghupathy Thyagarajan – Director (Marketing), Mr. Naveen Jain – Director (Technical), Mr. Sandip Modi – Financial Controller, and Mr. Niklank Jain – Company Secretary and Compliance Officer.

Friends we are together to brief you about our financial results Q4 and the total results of FY14 and the future outlook. Financial results of Q4 and FY14 are already with you and you must closely have had a look at it. It has been a very regular quarter without any significant events, so probably you will feel that a lot of what we are going to discuss is more of a repetition.

Financial highlights during Q4 FY14:

Gross sales stood at Rs. 668 crores as against Rs. 570 crores in the corresponding period last year, Net sales Rs. 621 crores as against Rs. 525. EBITDA at Rs. 91 crores as against Rs. 79 crores last year. PAT at Rs. 32 crores as against Rs. 24 crores last year. If you look at the complete results for FY14 during the year the gross sale to that Rs. 2368 crores as against Rs. 1956 crores last year, net sales at Rs. 2192 crores as against Rs. 1803 crores last year, EBITDA at Rs. 314 crores as against Rs. 297 crores and PAT of Rs. 95 crores as against Rs. 103 crores. So if you compare the results of FY14 with FY13 you will find the gross sale has grown at 21%, net sales also has grown up at 21%. Volume growth if we divide this net sales growth to 21%, India it is 14% and overseas it is 43%. And this year's growth is both volume and value because raw material prices have gone up in between so the volume growth is rather low i.e. 12%, which is India's 7% and overseas 34%. EBITDA grew at 6% and PAT declined by 8% however if you look at the cash level, the profit has gone up by 7%. It is because we have had depreciation due to expansion in recent years. EBITDA percentage to the net sales during FY14 stood at 14.34% as against 16.48% in the corresponding period last year. The decrease in EBITDA due to increase in raw material prices, the percentage cost of raw material consumed in FY14 stood at 67.48% as compared to 65.24% in the corresponding year in FY13.

The total borrowings as on 31st March, 2014 is Rs. 860 crores as against in 2013 being Rs. 824 crores but if you look at total borrowings, net of cash that is on 31st March, 2014 is at Rs. 791 crores as against Rs. 771 crores on 31st March, 2013. Working capital cycle is at 82 days. In FY13 it was 80 days so it has gone up by 2 days. In India it is 86 days and overseas it is 72 days. Total CAPEX in FY14 stood at Rs. 132 crores and it is essentially because in the last quarter we completed our project for IBCs in north of India. I will be happy to answer the questions that you may have.

Moderator Thank you very much sir. Ladies & gentlemen, we will now begin the question and answer session. First question is from the line of Arafat Sayeed from Quant Capital. Please go ahead.

Arafat Sayeed Sir my first question is of course on margin. If you look at the margin is now below 14% and I think it is the lowest in the recent quarter. Earlier you used to make margin of 17-18% and 22% also three-four years back. But now the EBITDA margin has come down sharply to less than 14%. So I just want a clarification that if you are looking again back to EBITDA margin of 18-20% in the coming years or it would remain in this kind of level?

Anil Jain Let me just explain it to you that if you look at our EBITDA margins in absolute terms, actually they have only grown, they have not really declined.

Arafat Sayeed I am talking about EBITDA margin, not about EBITDA rupee.

Anil Jain I am talking about EBITDA margin only.

Management If you see the consolidated EBITDA margin it is 14.60% as against 14.26%.

Arafat Sayeed Okay, I think that is if you add other income as well but I do not want to add, let it be. Second question is you look at in the last 3-4 years, your profitability has not increased at all. What I mean to say suppose you see in terms of your return profile or in terms of I agree the sales have expanded very sharply but that is not converted into PAT. So is that what you are looking for to make higher margins or you are looking for profitability improvement in coming years?

Anil Jain I think one of the reasons why the profitability actually has not increased in the same ratio is because in the last three years we have expanded in different countries actually. We have gone outside of India and China, Taiwan, Malaysia, Indonesia, Vietnam, Thailand, Bahrain and Egypt and Sharjah of course. So we have expanded a lot actually and we are seeing a huge CAPEX. And the CAPEX utilization of these new units is at still around 50% or so whereas the expenses are fully kind of covered. That is the reason why we are seeing pockets actually are not growing. And now we see that the capacity utilization of the sale of our units overseas increases. Some of it we will now find that the profits will also improve.

Arafat Sayeed Okay fine. And my third question is your guidance on CAPEX for the next 2 years.

Anil Jain See now our CAPEX cycle is over, in fact this year we had to do it because we had some own projects which were carried forward from the previous year to this year but we have put a check on CAPEX so we are expecting that in FY15 the CAPEX should be less than 100 crores actually.

Arafat Sayeed And my last question is on battery business sir. I think NED Energy is there in battery, right?

Anil Jain Right.

Arafat Sayeed So if you look at the sales of that entity has not grown at all in the last 3-4 years, means suppose if you look at in FY 08 the NED Energy sales was close to 132 crores and in FY13 is at around 120 crores. I do not have figures of this year. So what is the logic behind that sir and why the sales have not grown?

Anil Jain I think this year the total sales is 185 crores as against 158 crores, so this actually has grown.

Arafat Sayeed So PAT number of NED Energy, if you can help me with that.

Anil Jain 5.1 crores as against 5.9 crores last year.

Moderator We have next question from the line of Prakash Ramaseshan from Kotak Mahindra Bank. Please go ahead.

Prakash Ramaseshan The numbers have all been explained to us and they are available on the Quarterly, so just asking your outlook going forward in the three core business as I see them, the domestic business given that hopefully with Majboot Modi Sarkar things should improve from here and volumes should come back. The exports business, more in terms of getting operating leverage out of that business because the margins have got impacted to what I hope is a low for the company and from here should improve and the third just your thought around the non-care business, which is the battery business, both in terms of where you see this business and in terms of saying is exit a opportunity keeping it in the fold as an opportunity? What are your thoughts?

Anil Jain Let me start with the business outlook actually for the current year. I think it is correct that the new government has come in and they had majority therefore, there will be governance, and lot of projects which actually get stuck up would come through. This will certainly impact business for pressure pipes which is directly related to infrastructure and especially for water supply and I do know that the government has the priority of allocating a lot of resources for water supply schemes and sewage plants and water treatment plants. So we are very happy and we have seen a drop in sales with automobiles and if overall economy improves then I think auto sector will also do very well. We are not very badly impacted between matting and other technical businesses but we have seen that if there is a better growth and confidence with the consumer in the market the sales will also go up. So we are very excited about what will happen. But still there might be some time delay in what is happening. So we are looking at a total growth of about 15% in the current year which will be about let us say 10% in India and we are looking at overseas growth to be between 20% to 25% more towards 25%. But yes these factors as we have just discussed play in then we should see better growth in India as well. And we surely expect that our composite cylinder business will grow quite rapidly with the new government coming in because Reliance was stopped by the previous government on the sale of distribution of LPG because they said the agreement said that they will sell this LPG to OMCs only and will not market it and they disputed this. I think with this new government Reliance should be able to get their clearances and if that happens they will have substantial requirement of composite cylinder. So that was the first question.

Prakash Ramaseshan I asked for domestic and exports, both of which you explained. On other business would you have any thought sir because as we see it even as they bought out the certain national, while the company has a certain amount of debt on this book and this business in true sense is non-core. Are there any thoughts around divesting that business?

Anil Jain If you are talking about non-core business that I can think of is the battery business which is not in tune line rest of the things that we do. Of course we would be on that business, like you heard me on some of the questions has done well last year and they are projecting good numbers even for the current years because telecom companies we will see some consolidation in telecom sector and the tariff up going up. So the health of telecom industry will improve. Our biggest problem with this business was we have got largely depended upon telecom and suddenly they applied brakes. So we had to really for newer markets so we now have solar batteries which we have done very well last year and are likely to grow. So the business has given us a good number. Where in the meantime talk to reputed investment banker and they have offered that if there is a good buyer, strategic buyer we would be very happy to diverse the business so that they can take this company from this point to 500 crores which is what they have the potential to grow in the next three years. In the meantime of course we have loads of dependence upon telecom batteries but I must admit that there is a tremendous demand for battery business in this year and I think we will expect the same for the next years because in the last 3 or 4 years we did not change the batteries and they cannot really prolong with the same batteries to be changed every 3 years.

Prakash Ramaseshan So sir if I hear you right basically you are saying even though the business is non-core the outlook of that business is quite good.

Anil Jain Absolutely. If I go by the projection that has been done by my management there they are pretty happy and there are good order booking positions as well the times of (Inaudible) 17.33 are a little bit more stable and there is a very strong demand for solar batteries. There are not very many people who have got solar batteries because it has different specification and longer guarantee because government approves a project with minimum 5-year guarantee. So we are seeing good growth there as well. So if we find a good buyer and we get the value, of course we will be very happy to hive it off but otherwise this business continues.

Prakash Ramaseshan And just a reconfirmation the CAPEX cycle apart from the spillover CAPEX from previous year is largely done so the whole focus from here to increase capacity utilization, get the operating leverage and reduce the debt.

Anil Jain That is what I can confirm it to you because we have really made a lot of CAPEX in the past years and though we expected in 2014 the CAPEX to be low but there was this spillover before it went up a little bit more above 100 crores but this year we are certainly expecting it to be less than 100 crores. Though I know for sure there will be lot of demand on us towards the end of the year to increase our capacity for special pipes because we have seen very good demand and just as I speak we got a very major order from L&T in Chennai because they have got lots of projects where we want to apply schemes. But the target is that we will keep it still within 100 crores.

Moderator Next question is from the line of Kamna Motwani from CRISIL. Please go ahead.

Kamna Motwani Just a few numbers I required. First of all what is the volume growth in quarter 4?

Anil Jain Volume growth in quarter 4 is 14%.

Kamna Motwani Okay, and between international and domestic market how does that look?

Management India is 8% and overseas is 35%.

Kamna Motwani Also, I was just comparing the standalone versus consolidated numbers, so the profit after tax and standalone is lower than consolidated. So did we incur some losses in one of our subsidiaries?

Anil Jain No, it is not really so because what happened was some of these units we had to take their expenses.

Management That alone on consolidated basis like India and overseas both put together from the percentage it is same as far as PAT level is concerned and in standalone basis there is an increase over the dividend part because in consolidated dividend is not there. So you can get the individual data if you require for that. For the company you can get the data from Mr. Sandip Modi. There is no major variance as far as currency is concerned.

Kamna Motwani Also there seems to be a reclassification between the polymer and the composite segment in the segment reporting.

Anil Jain It is been there. For more than a year we have been doing it because the composites actually includes IBCs and battery papers.

Kamna Motwani Right, so there is no reclassification in quarter 4 because the number of quarter 3 as reported in last quarter and as reported in this quarter was a little different.

Anil Jain No, that is a very different matter. I will check and I will inform you.

Kamna Motwani Any updates on the composite cylinder sales, of course you said that Reliance orders may pick up now with the new government coming in. Any headway with the export orders also?

Anil Jain Yes, in fact though I must say that when Reliance kind of put the brake and they could not really pick up the cylinders we started looking outside. Reliance had told us last year to keep our capacity reserved for them whereas we had not been making attempts but eventually when they did not so we then went around and got the approvals, etc., from overseas. So even last year we had done export of about 2.5 to 3 crores. But this year we have strong order bookings and even if you leave aside the Reliance order which is about 7.5 crores, yes there are orders about 7.5 crores coming from Tanzania, Kenya, Ukraine, Zimbabwe, Nigeria, Yemen, Saudi Arabia, and Philippines. So we are absolutely focused on export businesses but of course as you know that we have a local approving authority so these are the countries where we have been able to get approvals for us and have got orders and the trial quantities have already been supplied. And like I said we have about 7.5 crores of order booking in hand.

Kamna Motwani And how much was the utilization of international capacities in the last quarter?

Anil Jain It is slightly more than 50% as the growth is there but it is still between 50% to 55%.

Kamna Motwani And lastly what is the breakup for revenues between different business segments for this quarter?

Anil Jain I continue in percentages. Strategy is 64%, lifestyle products, technical products is 9%, auto is 8% and family related products are 17%. And other businesses including 2%.

Moderator We have next question from the line of Samir Dalal from Natwarlal & Sons Stock Brokers. Please go ahead.

Samir Dalal I just have a quick question regarding the pricing of products in your IBCs and your containers how are the prices versus the metal drums and other comparative products, I mean you will always have this thing that pricing of the metal drums is also quite important when you see how you price your plastic drums. So how are the pricing differences going on right now?

Anil Jain I think the prices of steel drums and the plastic drums are becoming a question of comparison when you want to change a customer from metal to plastic. But once the customer is there in plastic drums we have, we again found them going back to steel drums no matter some point in time the steel drums may be cheaper than the plastic ones. So right now because the polymer prices are also high and the steel prices are quite moderate, so the prices of steel and plastic are almost the same. Of course IBC is different animal altogether, though in terms of capacity it is 5x a drum and one should logically think that the price should also be equivalent to 5 drum prices but it is not quite so. So IBC is quite expensive, let us say a typical IBC would cost you something like Rs. 8500 as against the plastic drum of about let us say Rs.

1150 to Rs. 1200. So you can not quite compare the capacity of the price of plastic or metal drums.

Samir Dalal So then why would buy an IBC when it is 7x the price and the volume carried is only 5 times? What is the benefit for someone who wants it? Why would someone take an IBC over drums?

Anil Jain There are several advantages. For example a drum if you really want to track you need to have a pallet whereas the IBC has and built in pallet where (Inaudible) 26.41 you can very easily stack. Now you do not have to fill 5 drums, you only have to fill one IBC, so there is a lot of cost saving. It is been quite. It saves a lot of space both in your warehouse and also when you are exporting in a shipment container. But on top of everything it is the customers in North America and Europe who do in things that they would like to impose or get sorted in IBC because labor cost is very high. They are mindful of the cost that they have to incur on handling and empty in that structure and also the space for storage. So therefore the Indian exporter has detailed or no choice but to actually follow the customer. Of course in the meantime the customer pays him that extra price because he has been shifting an IBC. So IBC of course has another advantage. It is a pity that it is not being used largely in India for the domestic transfer of goods, sale of goods and the reason being that it has 1000 liters i.e. 1000 kg and that was the entire supply chain. You need to have forklift or some mechanical elevated treatment. In India the drums are still popular because people can just lift the drum and put it in a truck or stack on one another. You do not see this happening in the western world or let us say in China or Japan or Korea. The customers who are buying stuff from India they used to storm on IBCs even though it is a little bit more expensive.

Samir Dalal We will go to the next question, you discussed about India the pricing is similar. How about in some of these other countries where you have just set up a drum containers and IBC containers capacity? How is the pricing different because in India we do still have some import duty on steel but in some of these countries where there may not be import duties on steel pricing could be probably lower than plastic containers or it is another situation?

Anil Jain No, but then they do not have import duties on polymers also if I am right in my information. So the material cost wise if you compare it is exactly the same. Though the numbers might look different but otherwise the price will play out for plastic and steel will play out exactly the same as we see it in India. So our strategy for selling drums and IBCs continues to be the same.

Samir Dalal So then why is it that we have not been able to actually increase our utilizations and increase sales of the international operations at a quicker pace given there are so many advantages like you mentioned for the plastic over steel, why are we not able to implement that real quick because now it has been about a year, year and half since you had a lot of your international capacities up and running?

Anil Jain The first thing is that whenever we go into any country after deciding the plant we have to get the UN approval for the product and that job used to take somewhere between 6 to 8 months. It is ironical that you have the plant and everything ready and then you are waiting for the UN approval because that is the prerequisite for customers in those countries who have to use IBCs or drums. So it takes a lot of time. Secondly, the company's overseas are very careful when they choose their vendor for packaging. I mean if somebody has a requirement of 1000 drums or let us 500 IBCs he does not change over completely. They would start with may be 10-15% and then they will wait and get the feedback from their customers in turn and then they will gradually increase the percentages. So it is something that historically takes time whether it is hard for our international competitors. But yes, I can only tell you this that we are doing more sales every month as compared to the previous year. We are pretty sure that we will reach there but I guess these are typical behavior of the customers that the packaging, because you see most of the customers actually pack their hazardous indigenous products in drums or IBCs. So they do not want to change over because of the fear of unknown. So they would buy small quantity, send it to the nearby country, and then they will buy with more quantity and sale it is farther and then eventually they start giving you more business.

Samir Dalal Last question, it is based on balance sheet. Your debtor days and inventory days have both seen a rise here. Debtor days have gone from 73 to about 86 and inventory has gone from 73 to 84. Any particular reason why these are rising and how do we see them settling down going forward? Where would the debtor days end up eventually?

Management Our debtor days has increased little.

Anil Jain It has gone up from 63 days to 67 days.

Samir Dalal Debtor days on a consolidated basis would be, they are a bit more like 86 on the net sales.

Management Yeah, I agree but in debt point of view you see that as far as '13-14 is concerned there is a value enhancement of 15% because we are comparing from 2013-14 you see that if you take the 15% which is the value increase only, so if we see number of the days, the actual terms it is less than that because you will see that if the same number of the days we are taking in the last year, the venue was, the overall growth is 21%. Value growth is 7% but comparing the last year in terms of the percentage, number of days is increased by 4% only. If the value terms of 12% - another thing net working capital cycle time also, it has increased by 2 days only.

Samir Dalal So it is not a major change.

Anil Jain There is no denial to the fact that there are certain delays from our customers in making payments. I believe it is the net result of the overall liquidity crunch that we find in the industry. I mean I cannot name them both but even big customers who would make a payment to us within 60 days you could just go and pick up the cheque today. They will give you a post-dated cheque because may be their cash flows are also late. But we are working very-very hard. I am ensuring that we do not allow it to run away.

Samir Dalal So then in effect I have to just ask you when you give out products, normal debtor day cycle would be 60, you give a 60-day line of credit, is it?

Anil Jain 65 days. It is average because some are 90 days as well and some are 30 days. So there is about 60 days and then because of the delay it further grows up by 6 days.

Moderator We have a follow-up question from the line of Kamna Motwani from CRISIL. Please go ahead.

Kamna Motwani Sir just one last question that I had was on the tax rate, what are we expecting for the coming year?

Management Average tax rate is in the range of 24%.

Kamna Motwani Because this year I think we had a slightly lower tax rate.

Management Current year our effective tax rate is coming out to 23%.

Kamna Motwani Right, so we expect it to go to 24% now?

Management Yes, I mean because the tariff overseas is low and then we have three units which are in tax exempted zone that is Bahrain, Sharjah, and also Poland.

Moderator As there are no further questions from the participants I would like to hand over the floor back to management for your closing remarks. Over to you sir.

Anil Jain I thank you investors for reposing their confidence in the company admittedly these are difficult days. I think like everybody else we also say “Acche Din Aane Wale Hain”. We are waiting for them to come. When we go across meeting our customers I think the confidence is coming back. In the last two years we did not see our customers expanding their capacities or adding some more products. But I think they have started talking about it. Overseas companies have been waiting for the election results in India and it is looking to be a stable government. We prime that they are very-very happy with the results and they would like to bring in more of their capacities from Europe to India. So for example the case like Huntsman and Dow Chemicals and BSF, they will need the packaging in India so we are their strategic partner in packaging. And like I said some of the areas results where of course we have registered modest growth even during difficult time we should see exceptional growth. So we are keeping our fingers crossed and of course overseas we continue to see good growth more so because we have still a small base and there will be a lot of headroom available. So we hope we will be able to give you better results next time. Thank you very much for your confidence. Thank you.

Moderator Thank you all. On behalf of Time Technoplast Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.