

**“Time Technoplast Limited
Q2 & H1FY13 Earnings Conference Call”
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MANAGEMENT: **MR. ANIL JAIN - MANAGING DIRECTOR & CEO - TIME TECHNOPLAST**
MR. BHARAT VAGERIA - DIRECTOR(FINANCE) - TIME TECHNOPLAST
MR. SANDEEP MODI - SENIOR VICE PRESIDENT(ACCOUNTS & CORPORATE PLANNING) - TIME TECHNOPLAST
MR. ATUL GUPTA - VICE PRESIDENT(FINANCE) & COMPANY SECRETARY - TIME TECHNOPLAST
MODERATORS: **MR. BHASKAR BUKREDIWALA - CRISIL EQUITY RESEARCH**



- Moderator:** Ladies and gentlemen, good day and welcome to the Time Technoplast Q2 & H1FY13 earnings conference call hosted by CRISIL Equity Research. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Bhaskar Bukrediwala. Thank you and over to you sir.
- Bhaskar Bukrediwala:** Good evening everyone. On behalf of CRISIL Equity Research, I welcome you to Q2 & H1FY13 results conference call of Time Technoplast. We have with us the senior management of Time Technoplast represented by Mr. Anil Jain – Managing Director & CEO; Mr. Bharat Vageria – Director, Finance; Mr. Sandeep Modi – Senior Vice President, Accounts & Corporate Planning; Mr. Atul Gupta – Vice President, Finance & Company Secretary. During the course of this call, we will discuss the main factors that drove the financial performance of the quarter and first half and provide the business update and insights. This will be followed by a Q&A session. I would now like to hand over the call to Mr. Jain. Over to you sir.
- Anil Jain:** Good afternoon, friends. It is a pleasure to be with you this afternoon. As Bhaskar said, I have my other colleagues, Bharat Vageria, Mr. Sandeep Modi and Mr. Atul Gupta.
- Bharat Vageria:** Let me begin by apologizing for not being able to be in regular touch with the analysts and our investors essentially because the last 2-2.5 years have been terribly busy, but we have made it point that we will be now more often talk to our investors and analysts and I think this will be the beginning of this exercise. Friends let me just walk you through quickly on to the financial results. As we now know that we have the second quarter results already in place and then we will combine it together with H1 of the current financial year.
- The financial highlights are that during the quarter, the gross sales consolidated stood at 469 crores with a net sale of 432 crores, which if you compare with the last year is 381 crores and the net sale last year was 355 crores. EBITDA in the current quarter had been 74 crores as against 56.6 crores in the same quarter last year. PAT, of course, stands at 26.7 crores vis-à-vis 19.2 crores of the same quarter last year. If you would kindly look at the year-on-year growth, you would find that the gross sale has gone up by 23%. The net sale has gone up by 22%, EBITDA is up by 31% and PAT is up by 39%. EBITDA percentage which is of course a very significant number stands at 17.16% of the net sale as against 15.92% in the same quarter last year, but we have seen some improvement in our EBITDA margins. If you combine these numbers of Q2 together with the numbers of Q1 and then we talk about the first half of the year, the gross sale is at 904 crores in the first half as against 753 crores in the first half of last year, the net sale is at 836 crores vis-à-vis 702 crores in the last year and EBITDA is at 140 crores as against 121 crores in the same period last year. PAT on the other side is about 50 crores as against 47.7 crores in the corresponding period last year. If you take the numbers of H1, overall the gross sale has gone up by 20% irrespective of the last year first quarter first half. Net sale is up 19%, EBITDA is up by 16% and of course the PAT is up by 5%. EBITDA percentage during the half year stood at 16.85% as against 17.28% in the corresponding previous half year. Obviously, impact is coming from the first quarter as the second quarter you have seen that the EBITDA, they have actually improved. Since we have several segments in which we operate, I can give you revenue numbers in each of these segments. The industrial packaging which

is our main business is still at 62% of the total revenue followed by infrastructure related products which is at 18%, lifestyle products are 11%, auto components at 8%, and material handling and healthcare etc. comprise only 2% of our total sale.

In terms of the geographical breakup, I am pleased to say that we have got 75% of our revenues coming in from our Indian operations and our overseas operations bring in 25%. If you look at last year, then you would find these numbers were 80% and 20%; 80% from India and 20% from overseas. This clearly shows we are actually recording a growth of 20% in the first half. We still find that our overseas operations has gone up from 20 to 25% and that actually mean that we are seeing significant growth from our overseas operations. I think one of the questions that keep coming up about our numbers and its analysis, I think it is significant for us to understand that in FY11 and FY12, we had invested close to about 500 crores in various projects both in India and overseas; in fact if you want a geographical breakdown, almost 50% capex has actually gone in India and 50% overseas. Of course, this will have now tapered down significantly in the current year where we have done in the first half only 100 crores of capex and I think we will end up with a maximum of 150 crores and that is to complete the projects that we have already taken up and are in advanced stage of completion. I think from hereon this process of consolidation would start because we do not see any further increase in capex except for the maintenance capex that we would be required.

Just to give you an idea that we have a total investment of almost 445 crores that is about 30% of the total capital employed in our overseas operations and they have contributed 202 crores in H1 and the target revenue from there is going up to 450 crores because we are less than 50% of our installed capacity overseas. I think it is important to understand as to why we took aggressive expansion plan and we have gone into different countries. As you know now in the meantime, we got operations in China - Tianjin and in Guangzhou, two operations in South Korea's Busan, Indonesia's Jakarta, in Malaysia, it is near Kuala Lumpur. We have factory now in Taiwan that was an acquisition that we did 2 years ago, one and a half year in fact. We have two operations in Thailand, we have operations in India, in Sharjah which have been always there and of course Bahrain which is essentially to service the market in Saudi Arabia and Egypt. In addition to that, we would now start our operation in Vietnam and warehouse in Singapore. Now this is a very aggressive expansion that we undertook and raised questions whether or not we would be able to do it within the prescribed period and I am very pleased to tell you that we did it and we did it successfully. I think the reason was very simple and I would like to remind that most of these expansions overseas whether by way of an acquisition or the Greenfield projects have been mostly in industrial packaging domain and that is a business that we have been there for a long time. I think the reason why we went there is significant growth in industrial packaging demand in the Asian region. There was a time when almost 80% of the packaging products were sold outside of Asia and less than 20% were in the Asian region, but we have seen over a period of time, lots of petrochemical dye intermediate, leather chemical textile, auxiliary, specialty chemicals etc. These industries have moved from North America and Europe into Asia, China of course and India are the two biggest beneficiaries and we find today that 50% of the total packaging products are actually sold in Asia and 50% in rest of the world. Now if you look at our three major competitors worldwide which are international companies Mauser, Schutz, and Greif they have business in Europe and North America and a very small presence in Asia and they were of course looking at these growth opportunities and wanted to roll out here. So the question was whether they do it first or we do it. Secondly, we were pretty excited about a very

important fact that if you look at Indian drum market which is 15 million ton per year and the total plastic drums, are about 8 million, so almost 55% of the total drum market is plastic drums and 45% is actually metal drum. If you look at the world average, they would find that the plastic drums are only 12.7% and the rest is all steel drums. So we did something different in India to be able to penetrate more than 50% with plastic drum. Now if you look at Asia, the penetration of plastic drum was less than 6% and we thought rightly so that if we go into new geographies in Asia and only if we just try and convert metal drums into plastic which is 6% and if you can bring it somewhere to 18, 20, 22% and then further on, then we have got lot of opportunities coming our way. We did this experiment with Sharjah where percentage of plastic drum was less than 5% before we went in there, and which is standing at 22% today after we have gone in there. Thailand exactly the same; less than 3%, it is about 23% now. So it was a question of going into those geographies and doing exactly what we did in India and convert metal drums into plastic. So we have actually gone in there with plastic drum. I would like to tell you that we have no major interest in steel drum. We are focused on plastic drum which is our forte. The second thing was if you look at the drums IBC intermediates both containers which is 1000 liter capacity, we find that the presence of IBC in Asia is absolutely miniscule; as against 30% of the total drum market, IBC in Asia was less than 10%. So that is another significant step we took, but then we went into these geographies in Asia. We decided to go with IBC and plastic drums and we have now found that in most of the places, we are the only manufacturer of IBC. So, for example, in Indonesia, Thailand, Taiwan, Bahrain, and Saudi Arabia. So we took that initiative and the idea is on one side we convert metal drum into plastic drum and on the other hand we convert road tanker into metal drums into IBCs and we have both the products that would drive the growth.

If your question before us was whether that was the right time to go as economies were probably slowing down, the point is clear here a) the chemical industry continues to shift from high cost area into low cost area that is in Asia and other hand we are addressing replacement market from metal to plastic. Right now the metal prices are significantly higher than the polymer prices and therefore steel drums are more expensive than the plastic drum. If you remember we in India penetrated more than 50% at a time when plastic drums were more expensive than the metal ones, and purely on its merits no corrosion no rusting and no paint peeling, long shelf life and high featured value., if you could do it at that time it is much easier to do it today when steel drums are more expensive than the plastic drums. So I think those were the ideas which we went there and the way we have been able to get business in these geographies I think it vindicates our position.

Another important thing is that we have some of these biggest chemical companies as our customers namely Clariant Chemicals, Huntsman, BASF, Dow Chemical, PTT, SABIC. Now these are the companies who are present in more than one country in Asia and we would like to have exactly the same kind of packaging. So most of these customers actually provide us the base load when we gone into new geography and then we can build our business around these customers, many of them multinationals and on other hand than we go into with the local chemical company. So we are pretty excited as to how just industrial packaging business will roll out. Of course, we continue to grow from here on. We were looking at a combined growth in excess of 20% in at least next 2 years, we have a clear visibility even if the domestic business will slowly grow anywhere between 10-15%, we see a significant growth at 30% or thereabout from our overseas operations which will give us an aggregate of about 20% growth and there are investments which we have

already made but which have not started contributing. So I think as the business gets started, it will also contribute both to the top and bottom lines. So we remain very optimistic about our business both in India and overseas. I think with these opening remarks, we can open up for the questions that our analysts friends and investors would like to ask. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from Abbash Poddar from iAlpha Enterprises. Please go ahead.

Abbash Poddar: Sir just wanted to get an idea on the industrial packaging business, so in the new geographies which plants are on stream and what is the broad sense we are getting from our overseas clients from the demand side as we have done a large capex.

Anil Jain: Thank you. Yes, we have plants in operation; of course they have come on stream successfully end of last year and beginning of this year. We have our operation in Tianjin which is ongoing, Guangzhou also operational so is Korea; Indonesia is operational; Thailand of course we had an acquisition that company is always there. Taiwan was an acquisition, so they are already in operation. Bahrain is full in operation and they have undergone a small expansion in between, Sharjah for the last 3-4 years it has been there. So that is very much there. I think barring Malaysia which is just waiting for their UN approval etc. and Vietnam which is yet to start, we are more or less operational in all parts, but I would also like to add here that the product that we made, the industrial packaging products they need to get the UN packaging approval and that takes somewhere between 3 to 6 months after we have started the production locally. So it is a waste of time, but a necessary evil we have to face. So we have just started the factory, make the product submit samples for approval and then wait until the approvals come before we can then start supplying to the customers. Your question about the response from the customer, I can tell you we are very excited. BASF which is the largest buyer of industrial packaging worldwide, they buy about 800 billion euro industrial packaging products worldwide and I have been to BASF they called us for the discussions and they were pretty surprised that we had a production facility almost in all locations that they have the production facility in Asia and I told them it is not just coincidental. It is because we have been following them and they have now chosen us to be their strategic partner for industrial packaging which would actually mean that we can supply at all locations to BASF and I think the same things stands for Huntsman and Clariant they have the same arrangement with Dow Chemicals. We have already been servicing them in couple of geographies. So the customers are pretty happy and excited about the fact that while their other partners who are in Europe and North America have not really panned out in Asia to be able to meet the requirement in different countries, we have taken their position and are able to service them well. So they are supporting us immensely. Thank you.

Abbash Poddar: And sir another thing was on the domestic business. Sir how was the lifestyle products growth been and also some sense on the auto side, on the OEM order book and visibility?

Anil Jain: Our lifestyle business is growing. As you know that we have Durosoft and Duro Turf, Durosoft, and Duro Lite as our products; they have been growing at about 15-18% and they will continue to grow. Of course this business has been growing at this pace all along. We do not see any major activity from any of the competition. As far as auto components are concerned, we continue to Duro fuel tank and anti-spray flaps, which is a business which is actually growing also at about 15% or thereabout. The important thing is our fuel tank business will now get accelerated as up till now we

have been supplying fuel tanks for ACE that is one tonner and .75 tonner Tata Motors, and they have now approved our new projects for which moulds are now being made for their SUVs and other LCVs. So we have now total of three more projects from Tata and a project from Ashok Leyland. Likewise deaeration tank/radiator tank we have now developed two additional tanks for Tata and one for Ashok Leyland and the business of that will also start. So we remain pretty optimistic; of course anti-spray flaps continue to grow. We are now supplying it not only in India, but we are also exporting anti-spray flaps to Thailand, to Japan, and to Australia from here. So that's the business that is growing.

Abbash Poddar: Okay sir and sir my final question is that our tax rates have seen some declines, so any guidance for the full year FY13?

Bharat Vageria: The overall tax rate will be 23% and because in spite of that Indian tax rate is 30%, but in India some of the units are still having benefit of that 30% for the next 5 years. So remaining period is around 2 years or further and overseas average taxation because some of the units are in exempted areas like Poland unit, Romania unit. So average tax there in overseas country will be around 15 to 17%. So on a consolidated basis, it is around 22-23%.

Moderator: Thank you. The next question is from Punit Gulati from HSBC. Please go ahead.

Punit Gulati: Just wanted to understand few things. Would it be right to assume that you have done all your capex and you will not be spending any more going forward?

Anil Jain: Let me just qualify by saying for the time being - and when I am saying for the time being- probably for next 2 years or so - because we have done and I think it is the time for us to kind of let those investments work for us as we would like to slow down on our capex as like mentioned all the countries and in India we have already got several other locations. If your question is as to what is the kind of the capex that we will have in next 3 years, I would like to think it will be inside of 250 crores which is essentially for the maintenance capex and some product developments which is ongoing process. You will not see the kind of capex that we have rolled out in last 2 years which was about 500 crores.

Punit Gulati: So I see you have expanded largely in Asia and what other geographies do you think can still be targeted 5 years down the line?

Anil Jain: I am sure you would not like us to go to Europe after they have declared that they are going to be in recession and likewise in US which in any case have not been a market that we have been looking at. I would like to think Asia has tremendous business potential. Like I did mention 220 million drums that are being consumed worldwide, 110 million are in Asia and we are inside of 10 million right now. So we have got a lot of headroom available to expand in Asia likewise in IBC, the total IBC worldwide are 10 million. Only in Asia they should have been logically 30% is about 3-4 million, so total still less one million so we have headroom available there as well. So I think we are pretty happy by being in Asia and probably later on we might think of Africa which we believe will be the next destination.

- Punit Gulati:** You also mentioned that your plastic drum consumption in the world is just about 12.5% for Asia, it is just about 6%. Why steel still the dominant player despite plastic clearly giving some advantage in terms of pricing and now the quality has also improved and how do you intend to change that?
- Anil Jain:** That is an interesting point as you have made and that is the question we had been also wondering 5 years ago. The fact still remains that for a long time steel drums have been cheaper than the plastic drum. In the past that was the situation because prices of polymers were much higher and then you had a tier weight going up to 10.5-11 kg; but now the polymer prices have come down. The weights we have been able to re-engineer and have been able to bring it down to 8.2-8.5 kg. So we are now able to, they are being more and more competitive, but if you look at the large industrial packaging companies mainly Greif, Mauser, and Schutz these three companies have all the three products available with them and that is IBC plastic drum and the metal drums strategy had been that they go to the customers and whatever they can sell with minimum resistance they would sell it to them because we did not have the metal drum with us. We could only do business with the customer that if we could sell them plastic drum mentioned 12.7% worldwide, 6% in Asia, I think this is significant is now that in India it is more than 50%. I think it is basically the company which has been driving the plastic drums against metals. I suspect these three big companies did not do it and probably the other companies who are present in Asia, they were happy to have a niche market did not actually expanded by making efforts and probably they did not have the technology. Now just to give an example on a lighter note. When we bought this company in Taiwan and when we went in there to look at the plastic drums they were making 10.5 kg and we took 10 drums and we take a drop test normally we drop filled with water from a height of 1.8 meter and the performance was absolutely uniform. All the 10 drops on the busted out in the first drop itself, they broke and if you compare that in India, we do 8.2 kg and we take a drop test from a height of 2 meter 5 times each drum. So obvious these guys idea how to have this. Like polymers, the processing,, the mould design that is what we have been fixing for them and that is what we have been now imagine from 10.5 kg or 8.2, you are 20% or 25% less expensive and then you can actually beat the metal drum out of shape actually.
- Punit Gulati:** Sir is it safer also now or is steel still a more safer product in terms of storing various chemicals which could have reactive properties?
- Anil Jain:** Now the plastic drums are actually much better because they are inert to all chemicals. They can take the drop test better. If you drop steel drum from height 1.8 m to 2 m it has a dent and actually because it welded and joined together it can open and start leaking; a plastic drum is a single seamless product. So it has a much better drop performance. Now if you ask me and you will forgive me for being a little biased, but I think plastic drums are many times better than the metal drum.
- Punit Gulati:** And lastly how in terms of global competition where would you rank yourself and what kind of market share do you command?
- Anil Jain:** That is a difficult question to answer because if you look at worldwide, then we obviously should be number 4, I think the Greif would be number one followed by Mauser and Schutz would be the next one, but if you take Asia that is where we are present, then I would like to keep ahead of everybody else.

- Punit Gulati:** And for your larger customers like BSF or Clariant, what percentage of their demand do you currently meet?
- Anil Jain:** Asia?
- Punit Gulati:** Yes, Asian.
- Anil Jain:** I think 60-70% of their demand actually is being met up by us and it is basically because they are now changing over to us as we have moved into these geographies only recently, but if you look at their demand in India which is where we have been present for a long time, I think it is more than 80%.
- Punit Gulati:** And is there a risk that some of the European guys like Greif and **Schutz** you said could set up facilities in Asia to directly compete with you?
- Anil Jain:** The answer is yes and no, there is no restriction as to why they would not like to come in, but the point is they haven't come in India and they found us to be probably tough nut to crack. We have been in this market for a long time. We haven't seen Greif or Schutz here, Mauser of course had a joint venture with us which we have bought them out. So I think they recognize us to be a formidable competitor and since we have taken a position in these countries ahead of them, they would think twice before they put there feet in but in any case we will have the first mover advantage. We have the relationships going them. My answer is they would not come in a hurry.
- Punit Gulati:** And I just missed one thing, you said UN packaging approval, how long does it take for UN packaging to give approval from start of production?
- Anil Jain:** Depending it takes somewhere between 3 to 6 months actually. We have gone through that exercise already in most of the locations that I have mentioned to you about, but of course we still have to go through that in Malaysia and Vietnam.
- Punit Gulati:** And since most of your products are polymer based which is essentially derived from the crude oil, what is your ability to pass on any future increase in crude oil prices and hence increase in your raw material cost, how flexible are you in, how open are the customers to accept higher price?
- Anil Jain:** Let me answer your question in two parts. One is the price of polymers vis-à-vis the price of crude actually. I would like to mention very emphatically that now there is no direct linkage between the crude prices and the prices of polymer. As you know now the new generation polymers are now coming through the gas route and that is the reason why you have huge capacities coming up in Saudi Arabia, Iran some other places. So they are coming in through gas route and if you look at it, when they sell these polymers \$1350 or \$1400 and if you are through a gas route their cost of manufacture is less than \$459 a ton they are making tons of money there in any case.
- Punit Gulati:** But the marginal cost is still crude right? The marginal cost producers are still crude oil.

- Anil Jain:** They are, but the prices are driven by these big guys who are coming through gas route, so they really have to adjust the prices to match up with theirs. So there is no direct linkage. I have seen lately the prices of crude going up and the polymer prices actually coming down. On the other hand, our ability to pass on the price increase to the customer I think is significant because we have a significantly large market share. We have strong relationship with the customer and I think we have been fair to them. When the prices of polymer go up, we asked for a price increase. When the polymer prices go down, we also pass on the benefit to them. So that is an arrangement which has worked well over the years and I would like to think that it continues. We still have to test our ability in overseas markets, but I do not think that is going to be any different because our competitive situation is exactly the same and the customers essentially are fully aware of the prices as they go up and therefore it is easier for us to convince them.
- Moderator:** Thank you. The next question is from Prakash Ramaseshan from Kotak Mahindra. Please go ahead.
- Prakash Ramaseshan:** Sir, just two brief questions. First on the capex and second on the investments that you have made so far. If I just switch to maintenance capex mode, what kind of numbers can you throw up over the next 2-3 years? So the first question is around 250 crores that you have mentioned which could be the possible capex over 3 years, how much of that would be maintenance capex and how much of that would be possible expansion/new projects?
- Anil Jain:** Let me tell you, when I give you the number of 200-300 crores in next 3 years' time, it is essentially the maintenance and the new product developments. I would say it might mean that we really have one more machine in a particular location or we have to develop a new mould for a particular product that we need to really service our customers. So a separate project is not being set up. It is essentially doing something within the project that we already have in place and if you really want to ask me a breakup, I would say 50% would actually come by way of the general maintenance and upkeep and adding some conveyor or some handling equipment or whatever on one side and probably product development or adding some machines that would be another 50% of the total value.
- Prakash Ramaseshan:** At some level, perhaps we as investors and analysts would be able to track the capex at somewhere between 25 and 30 crores a quarter and may be we can, every quarter, ask you the capex numbers for that quarter and just get the grip for the fact that we have moved from a high capex phase to a maintenance capex phase, that is the first question.
- Anil Jain:** I think that is something that we are also monitoring at our end and 200-225 crores will be on the higher side. I think, we should be able to do with less every quarter and it is absolutely deal based. This is just a number which is estimated. If you ask me personally, I would like this to be as low as possible.
- Prakash Ramaseshan:** Sir, what we can do is over the next few quarters as we interact through concall, we can probably ask this question every time and then assess whether the number should lie?
- Anil Jain:** In our presentation, we will put that number upfront so that you know and you can track them easily.

Prakash Ramaseshan: Fair enough, sir. The second question was the investment that you have made over the past 3 years, which is close to 500 crores. If we move to maintenance capex, which is 20-25 crores per quarter, which we understand needs to be spent, from the current turnover level what kind of turnover levels can we get to perhaps over 3 years?

Anil Jain: I must say that we have some idea about this number. If you look at investment broadly speaking both in India and overseas, let us say if you are running at about 75% of our capacity utilisation in India and considering that 75% of our revenue has actually come in from India itself. So I would like to think, then in overseas if you look at capacity utilisation, less than 50% and that is being about 25% of the total. If you combine them, arithmetic sales, then we should be able to reach about 2,900 crores or thereabout with the investment that we have made already.

Prakash Ramaseshan: We should be able to get from current levels to about 3,000 crores or so in revenue?

Anil Jain: It will be an easy number to remember, 3,000 crores or thereabout.

Prakash Ramaseshan: And maintaining EBITDA more or less at current levels?

Anil Jain: Yes, that should be possible. Of course, it will only improve as we have new products coming up which should actually be bringing in and more than the average EBITDA that we have been getting, but I think it is a fair assessment that we should be able to maintain our EBITDA levels at this point in time.

Prakash Ramaseshan: Very well, so that gives us some kind of idea how we are going to scale from where we are to may be the next 2-3 years. Thank you for taking my question.

Moderator: Thank you. The next question is from Martin Hegnes from Elara Capital. Please go ahead.

Martin Hegnes: My question is on the packaging acquisition side. In the coming years, what do you think is going to happen with regards to industrial packaging (the kind of acquisitions going on) and what are your ambitions going forward?

Anil Jain: Yes, as far as the acquisition is concerned, as you now know that we have done what was available in Asia considering that Asia is our focus. We bought - most of these expansions we have actually done in Asia is through greenfield projects and also through the acquisitions that we have made. We acquired the business in Taiwan that was the largest industrial packaging company that we brought over. We also acquired a business a couple of years ago in Thailand and that was through an acquisition. When we did the deal with the project, we went around looking whether there were some assets available where we can build from on top of those. Let me tell you either they were too expensive or they were not actually suiting our requirement. So we have done a complete scan even so far as Asia is concerned and now that we have already got our greenfield projects in most of the geographies that are of interest to us and as far as inorganic growth actually lies, I do not see acquisition opportunity coming our way in Asia. Yes, we are aware of acquisition opportunities outside of Asia, which is mostly in Europe and North America, but honestly we are not looking at any such acquisition and certainly Europe and North America for industrial packaging are not on our radar. I think we have got enough opportunities available to us in Asia and will try and focus on that. Thank you.

- Moderator:** Thank you. The next question is from Ashi Anand from Kotak India Focus Fund. Please go ahead.
- Ashi Anand:** Firstly, I would just like to extend appreciation for you actually coming on the concall. As investors, we actually appreciate it when do you come on a quarterly concall and would like to actually see this is a practice continued going forward.
- Anil Jain:** I promise Ashi that we will try and do certainly. I know we have been missing out of that and that is the reason why I apologize right in the front that we have not been probably doing it for a while yet.
- Ashi Anand:** No sir, we would really appreciate that. Just coming down to one quick question. On the international operations, which are currently in the process of ramping up, once we actually say over a year/ year-and-a-half, we actually reach optimum utilisation, what are the kind of EBITDA margins that we see in the international operations and is there a difference in the working capital cycle?
- Anil Jain:** I will not say that we still have to understand these markets completely, so therefore my answer would be rather focussed on this one. If you look at historically, the EBITDA margins in this region have been about 12 to 14% and considering that we are very cost conscious and we have been running our operations little bit more effectively, I would like to think that we should be able to gain little better than those EBITDA margins. So we have been talking about 14-15% of our total sale. So far as working capital is concerned, the overseas working capital cycle varies from place to place. We would find that in Bahrain, which is actually Saudi Arabian market, the cycle is much shorter, but China's is as we have it in India than other geographies. So I think it will be fair to assume there will be about 65 days of working capital cycle actually overseas.
- Ashi Anand:** In terms of the net working capital cycle?
- Anil Jain:** Yes, net working capital cycle.
- Ashi Anand:** And, sir, just one other question. If you can just give an update with relation to the composite cylinder project?
- Anil Jain:** This actually continues to excite us as you know some of you might feel that it has been taken out, but then as you know the nature of this business, it is a slow start of the business but once it picks up it does very well. Let me just give you a quick rundown on this business. I know some of our analyst friends and investors will also be interested in knowing. This is a business we acquired actually in Czech Republic company called Kompozit-Praha and then we actually expanded its capacity there itself. Realising that Europe is going to be a difficult market where things were slowing down, and not because distribution companies are not expanding overtime new cylinders, we then moved this operation from there to Bahrain. The reason was also because we found that the companies in the Middle East, especially GASCO, which is the sole gas distributor in Saudi Arabia, Qatar Holdings which is Qatar, Bahrain Gas which is the Bahrain itself, ADNOC in now in UAE and Abu Dhabi -- they were pretty excited about the composite gas cylinders and when they found that we are putting up a factory in Bahrain, they accelerated the process of kind of getting them approval and I am pleased to tell you that ADNOC is coming out with a tender; we have already got the approval of ESMA that is required besides our EAM approvals, etc., which we already have, we also have ISO approval. So with ESMA approval, we are now actually qualified to service the requirements of these companies. So they have now taken small quantities for trials and testing

because they still are apprehensive whether they can work at 55 degrees centigrade outside temperature, etc., which of course they will, they certainly would like to experience so that is there. In addition to that we have put up a plant in Daman, in addition to the capacity of 250-300,000 cylinders for the first phase and the idea was that this would cater to the markets east of India. So Bahrain can take care of the Middle East, MENA and of course Europe or even South America, and I would point out here Brazil is the big market actually for composite cylinder. South Africa has shown a lot of interest and we have now affected supply of first lot to them and they remained pretty excited. So that we can cater to from Bahrain. On the other hand, there is significant interest from Indonesia, from Taiwan and Thailand, not to miss out on Bangladesh and even Sri Lanka. So we thought this is the market that we can feed from India and those efforts are still on. We never factored in India as a market for us because we thought other marketing companies would never ever switch over from metal to composite cylinders, especially when they are losing so much of money on the gas distribution. Now what has actually happened was expected, but it came literally quickly and that they are now restricted the cylinders to ships and that would mean that people will have to buy additional cylinders at the market price. It has given flap to private gas distributors to go out aggressively in this market and I would not say that Reliance sensed this opportunity coming their way and it is a big opportunity they already had some of their business in LPG distribution. We are working with them on this for getting our cylinders approved by the local authorities and we have now made an application with PESO, the approving authority in India formally called CCoE, Chief Control of Explosives which I must say we started it very late because we were not looking at Indian markets, but with the help of Reliance, we are pushing that approval to be in place. We expect this to be available in December. If we go by what our friends Reliance have told us then we do not have to really look at any of the customers from the capacity that we have in India; on contrary we may actually require additional capacity going forward. So there are things happening, I must say they haven't happened, but we are seeing significant movement in that area and this is a business which also comes from sea because I invested close to about 50 crores in this business and this is not really contributing anything right now but imagine we look at 600,000-700,000 cylinders, it will be more than 100 crores actually that we can generate from this investment which is not contributing anything right now to us. If you look at the total cylinder business worldwide, it is 2.5 billion cylinders and the cylinders have to be changed every 10 years. So, therefore, there is a demand for more than 90 million cylinders every year worldwide and we are talking of a capacity of less than 1 million cylinders or you can imagine that there is enough scope that it is just that we have really have to cross over to the other side of the hump. Clearly with advantages that are stacked up for composite cylinders – namely, they are absolutely explosion proof, less than half the weight, they can be translucent you can see the level of gas inside and there are aesthetically more appealing. I think lots of LPG distributors are pretty excited for the reason that when they do the LPG distribution, the question is how the customer can distinguish one supplier from another, the LPGs and LPGs. and I think this is what we learn from Reliance also. They would like to push these cylinders more as an absolutely explosion proof cylinders. They send their distributors to our factory to witness the fire test and some of these people remarked that we could have never have imagined a filled cylinder on flame and we are seeing it from only 10 meters, this is because this product is more so safe. So I think this is something that has gone down very well and we are just waiting for things to happen.

Moderator:

Thank you. The next question is from Maulik Patel from Equirus Securities. Please go ahead.

- Maulik Patel:** Coming on EBITDA margins, this quarter you have seen some uptake, but on a going forward basis, what is the trend you will see? Is it going to improve further or are you saying that overall EBITDA margin for the company will remain at around 60-40%?
- Anil Jain:** No, I would like to think that 15-17% is a good number to look at from the EBITDA perspective now and also going forward in future. Like I said, some of our exciting products actually should give more than average EBITDA margins and they are yet to come in as turnover increases and we get closer to optimum utilisation for capacity which will also reflect on EBITDA margins. If you are seeing the EBITDA margin improvement from last quarter to this quarter, I would like to think in the last quarter also, the EBITDA margin should have been around the same, but we have to report some foreign exchange impact in the last quarter which was missing in this one. So I think we have history of maintaining our EBITDA margins at decent levels and I think going forward you can expect the same.
- Maulik Patel:** And I think the second question is what is the cost of debt, just from bookkeeping?
- Bharat Vageria:** The average cost of debt is 10.7%, India and overseas both together. India is around 11.5%, overseas is around 6-7%.
- Moderator:** Thank you. The next question is from Jignesh Kamani from Nirmal Bang Equities. Please go ahead.
- Jignesh Kamani:** Sir, this is a follow-up on the composite cylinder. If you take our other competitors also, you can say setting up a similar capacity and already you can say gone through all the approval and by March probably, it will be out with the 5 lakh cylinder capacity. So how is composite dynamics going to play out post that?
- Anil Jain:** Let me tell you, I have no definite information that our competitor has already approached CCOE for any approval. I think they are yet to start production of the cylinders locally and we have no idea which technology they would be using because the three technology providers are not tied up with them. So to be honest with you, we only know that competitors putting up a capacity of 300,000 cylinders in India, but if you remember I just mentioned about 90 million cylinders being replaced every year and if you look at in India also, there is a population of 220 million cylinders and considering that we do not really value our lives so much in this country, they continue to use them well beyond its life of 10 years, 15 or 20 years, but they still have to buy close to about 13 to 15 million cylinders every year. Even if you put our capacities together, that is competitor, still it will be very significant part of the offtake of the cylinders in India alone. So I do not see that to be a problem. On the contrary, it will be a good idea that many a times the customer does not want to change over from one type of product to another because they think there is only one single manufacturer. I think to that effect, we welcome a good company coming into this business or like I said it is not one of the easiest products to make and we have the history of being in a business which is zero defect like our plastic drums where we have post-fill rejection going down to 0.0016%. So, composite cylinder is a tougher business than that one in terms of the quality management systems in making a product completely fool proof. So we remain excited about the competitor coming in. The concern that they should actually make a good product because it will reflect on the acceptability of the product class by itself. On the other hand, the market is large enough to

accommodate many such capacities that may actually come in and, therefore, it is something that does not worry too much.

Jignesh Kamani: And, sir, if you take earlier, along with composite cylinders, we are also planning to get into composite pipe which will be mainly used in oil and gas or similar kind of application, how is our experience with this product?

Anil Jain: Well, as you know, our infrastructure business is growing as compared to and this composite pipe is a part of it. I think as against 80 crores last year, we are looking at 150 crores - the pressure pipe as a product together which combines this composite pipe as well. Composite pipe is a new concept. Right now it is being used for highly chemically reactive fluids and discharge into the sea, etc., but we offer this product as a part of our product portfolio in high pressure pipes and we remain engaged with that, but we are not seeing a very significant growth in composite pipes in India just yet. But like I said this is something that happens over a period of time.

Jignesh Kamani: But in terms of accessibility of the product - is pretty good with the client?

Anil Jain: Yes, this product is available with us, but only thing is we are making pressure pipes available from all our facilities in the western region, that is Silvassa, also in South Gummidiipoondi in Chennai, that is East India that is near Calcutta and up North that is Pantnagar, composite pipes are being produced only at Silvassa. So to that effect, it is not as widely available as our key pipes are.

Moderator: Thank you. The next question is from Sanjeev Zarbade from Kotak Securities. Please go ahead.

Sanjeev Zarbade: Sir, my question was regarding the interest outgo that we are having, which is almost 80-85% of our consolidated debt PAT. In the next 2-3 years, how do you see this trend regarding the interest rate and this would be a normal level for the interest outgo?

Anil Jain: I will answer part of it Sanjeev and then Bharat will also supplement on that one. Right now our interest cost is high for two things. A) Because of expansion that we have carried out in last 2 years, significant capex to our borrowings that effect are on the higher side and the interest cost has actually moved up in India especially where we have borrowed last year. We expect that interest rate will come down at some point in time and it is difficult to guess because we get to hear that every time the RBI has review, but if the interest rate has to come down we will be one of the biggest beneficiaries to that. But if your question is whether our borrowings will actually go up, therefore the interest cost, I would like to think that we are mindful of the fact that we have to work within the borrowings that already are there and over a period of time they actually should be going down and not going up.

Bharat Vageria: I think interest cost in terms of the percentage in future, it is going to be down because there is a increase in utilisation and revenue will increase because whatever investment have been made in the past they will give the revenue as far as term loan part is concerned. Only in the current level it will increase by way of working capital only. So in terms of the overall percentage of the sales, it is going to be down in future.

Sanjeev Zarbade: And the other thing was on some of the large orders that like we were expecting from quite sometime, has there been any progress on that?

- Anil Jain:** Yes, this is not about the shelter prefab structure, but we already have the LOI with us and right now we are signing up the agreement. Let me tell you, it is just a beginning because the potential is much larger than what we have got. So to that effect, we should be looking at it very optimistically and so that application is very exciting in terms of the size and demand, it could be much more than what we would have got right now.
- Sanjeev Zarbade:** Sir, we have received this order as of now?
- Anil Jain:** Yes, we have got it. We just are in the process of signing up an agreement actually because when you are in the formulating they ask you some small points here and there which need to be finalised but the LOIs is already in place.
- Sanjeev Zarbade:** The order is executable over what timeframe?
- Anil Jain:** Well, if you ask our customer, he wants to be done yesterday except the fact that they took more than 6 months to finalise the order and I think this is always the case, they keep sleeping and they wake up. I think a significant part of it will happen in Q4 and it will spill over to the next financial year, but the point is by the time we go to Q4, they promised to top those orders up because they would like to keep toping it up, and so it is going to be, therefore, few quarters going forward.
- Sanjeev Zarbade:** And, sir, just one last question if I can squeeze in. Regarding our EBITDA margins, the guidance or probably the overall indicative margin that we are seeing is stable from these levels in the range of 16-17, but if the international operations, which are less than 50% capacity utilisation, ramp up to around 75-80%, then the margins should have an upside bias?
- Anil Jain:** Allow me to keep something with me, because I do not want to kind of overstate. The point you have made is absolutely right that we also should factor in that as we now expand the capacity and go into the market, may be we will have to buy from the market share in the short term. So I think these are the decent numbers to look at. Of course, there is improvement that it will not be left out..
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints we will take one last question from Sagar Karkhanis from Nirmal Bang Equities. Please go ahead.
- Sagar Karkhanis:** Just wanted to understand the products in bag. On the revenue front, I understand around 25% revenue has come from overseas. In terms of input cost, how much do we depend on imports?
- Anil Jain:** As far as raw material is concerned, we import about 70% of our requirement, 60-70% I would say, and the rest is actually bought locally because we have now. ISCL also come up with high quality polymers that we can use for our operations. Of course, overseas we continue to buy from the local markets wherever local suppliers are there otherwise we club them in the global buying depending upon where the price, the cost advantage is there. Like I said, these units are allowed to calculate their EBITDA margins converting everything and taking into effect the impact of foreign exchange for their local operations. So we do not really see and in most cases we have now started covering what is that we are buying. So I think we have been a little wiser now and, therefore, we don't see that it will impact significantly in future.

- Sagar Karkhanis:** Sir, in the non-industrial products segments like material handling and lifestyle, which forms a very miniscule position right now, what is the reason for us to be there in those segments because you foresee higher-than-industry average growth in those areas; if you can just throw some light on the outlook there?
- Anil Jain:** Let me put it this way, I think you are pointing out exactly to two businesses - basically material handling and the healthcare business. Now let me tell you, in material handling, there is absolute very small right now and it is very miniscule, but look at the potential of that business and of course it is not a very old business we did a joint venture with Schoeller Arca - number one company in material handling products. So we see a huge expansion in this business going forward and if FDI in retail comes in and some of this Carrefour, Wal-Mart that will come in, they are the customers of our partners worldwide and they would buy anything from us in India. It is a great opportunity for us to be in. I think your question is probably more pointed towards our healthcare business which is very small part of our overall business and to be honest with you since we have lot of other opportunities coming our way, has not been getting the kind of attention that we should be providing it. This is one of our things to do in the next financial year that we would like to let this business go to somebody who knows this business and take it forward. We have some discussions already and I think that is not really making much sense for us to continue. I would still like to add that it is not that this business is losing money for us, but it does not really excite us as much as we had thought it would.
- Sagar Karkhanis:** And just one last question, sir, if I may. In terms of your industrial packaging division, since you have a splendid market share and your customers are very happy with your presence in all the geographic locations where there are, but it is not really reflecting in either your EBITDA margins or in the working capital if I compare it to the other industry peers. So I just wanted to understand how do we negotiate the supplies to these large players like BSF, Clariant?
- Anil Jain:** Let me tell you, these big multinational companies of course they do give us stress in terms of buying their products from us, but the norms of buying continue to be the same. If they have been buying at 60 days credit just because I have a larger market share and probably can twist the arm and does probably agree for a 30 days credit and we have not really push them in this direction. I think significant presence in the relationship is getting reflected in we have been able to get business from them quarter-on-quarter or month-on-month. In terms of EBITDA margins, let me tell you historically we have not leveraged on our dominant market position to take the EBITDA margin to a point where customers start feeling uncomfortable or you invite too much of competition. So I think it is give and take on longevity of the business on one side and higher EBITDA margins on the other. I think with these EBITDA margins, we have been able to keep our customers happy and growing our numbers at the same time. So I think it is a conscious decision that we took as a part of our business strategy and not to push margins beyond a point where you made this business so attractive for your competitors.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments.

Anil Jain:

Thank you very much for very interesting and pointed questions and I think it was a good opportunity for us to share both our excitement and concern with our analyst friends and investors. Like I had mentioned in the beginning that something that we have invested 500 crores, and 250 crores of that has been in overseas market which is only 50% of the capacity utilisation on one side. On the other hand, we have significant investment which has not started contributing at all and we will now do it progressively as they are in the business of composite cylinders on one side or on the other that they came into existence only recently and are waiting for necessary approvals, etc. We will remain pretty optimistic as to how the business actually would grow from here onwards. I think our concern continues to be and the focus that we should allow the consolidation to take place and set these efforts which we have already created, which would eventually reflect on our ROCE and that is going to be an indicator that we will be closely watching. So we remain excited and optimistic about our business and we thank our investors and also our analysts for their confidence in the company and support that has been provided from time to time. Thank you very much. Thank you.

Moderator:

Thank you very much. On behalf of CRISIL Equity Research that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.