



“Time Technoplast Limited Q2 & H1 FY14 Earnings Conference Call”

November 19, 2013



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Time Technoplast Limited
November 19, 2013

Moderator

Ladies and gentlemen, good day and welcome to Time Technoplast Limited Q2 and H1 FY14 Earnings Conference Call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing '*' and 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 CEO, Time Technoplast Limited. Thank you. And over to you sir.

Anil Jain

Thank you very much. A very good afternoon to all my friends. It is a pleasure to be together this afternoon. I have with me my colleagues, Mr. Bharat Vageria; Mr. Sandeep Modi; and Mr. Niklank Jain.

Friends, we are here together to brief you about the financial results of Q2 and H1 FY14 and the future outlook. The financial results for Q2 and H1 FY14 are already with you. Let me quickly walk you through some of the key financial highlights. During the Q2 FY14 gross sales on a consolidated level stood at Rs.577 crores as against Rs.469 crores in the corresponding period last year. The net sales in the quarter grew to Rs.533 crores as against Rs.432 crores in the same quarter last year. EBITDA at Rs.76 crores as against Rs.74 crores and PAT at Rs.22 crores as against Rs.28 crores. Compared with the corresponding period last year, the gross sale grew by 23%, and net sales of course grew by 23%; and just to give you a breakup in India it grew at 15% and Overseas it is 45% growth. In fact, if you look at the growth and we divide this into value and the volume growth, and volume growth being the most important parameter; the volume growth had been about 14% and in India it was 8% and Overseas it was 31%. EBITDA grew at 2% and the PAT of course declined at 18% essentially due to higher depreciation, but if you look at the cash profit compared to the same quarter last year, it grew by 4%.

Looking at the half yearly results during H1 FY14, gross sales stood at Rs.1,106 crores as against Rs.9,050 crores in the first half of last year. Net sales at Rs.1,023 crores as against Rs.836 crores. EBITDA at Rs.145 crores as against Rs.141 crores and PAT at Rs.41 crores as against Rs.50 crores. I think this half is reflective of more or less the same as quarter. Gross sales grew at 22%; net sales grew at 22%; India 15% and Overseas 45%. And the volume growth out of this one was 14%, India at 8% and Overseas 31%. EBITDA grew at 3% and PAT declined by 18% like I mentioned the cash profit corresponded to the first half of last year grew by 4%, so the net profit declined because of high depreciation, and that is essentially because we have just come out of investment mode where we invested close to about Rs.600 crores in last 3 years which is getting reflected on higher depreciation. EBITDA percentage to net sale during H1 FY14 stood at 14% as against 17% in the corresponding first half of FY13. Decrease in EBITDA due to increased raw material prices on account of foreign exchange volatility. Consequently, the percentage cost of the raw material consumed in H1 FY14 stood at 67.22% as compared to 64.78% in the corresponding half of FY13.

On to the balance sheet side, total borrowing as on 30th September 2013 was Rs.821 crores as against Rs.814 crores increased by marginally just Rs.8 crores. So we more or less remain at the same borrowing level. Working capital cycle marginally improved 79 days as against 80 though we plan to improve upon it further. The CAPEX for the first half stands at Rs.57 crores, and that is essentially because of modification and automation in existing locations for reduction in overhead capacities and basically maintenance CAPEX, and we of course increased marginally the capacity in Poland, because we had additional order coming in from IKEA. Indonesia we have added one Blow Moulding Machine, Thailand also one small Blow Moulding Machine, Sharjah we increased the capacity for Pails, and India like I had mentioned in last quarter, we have actually expanded in South of India, so we now have additional manufacturing capacity in South. Return on Capital employed is about 11.83%; India it is 12.87%; and Overseas it is 9.42%. The reason is that we still are at very low capacity utilization in our Overseas projects. Of course, ROC has now started improving in India and we expect it to grow further. With these opening remarks, I would be pleased to take questions.

- Moderator** Thank you very much sir. We will now begin the question-and-answer session. Our first question is from the line of Sameer Dalaal from Natvarlal and Sons. Please go ahead.
- Sameer Dalaal** Can you tell us more about your capacity utilization in the Overseas countries? You said that it has been quite low. What it has been around?
- Anil Jain** It has just crossed on the other side of 50% actually, we were hovering between 45% to 50% in the first quarter, but we have now crossed over to other side of 50%. But, considering that we normally like capacity utilization to be somewhere close to about 80%, this is much lower, yes.
- Sameer Dalaal** In India you are working at around 80%?
- Anil Jain** Closer to 75%.
- Sameer Dalaal** Now, on your debt side, of all the debt that you have Rs.270 crores of long term and about Rs.370 crores of short term, how much of the debt is raised in India, and how much is raised in the respective countries where you set up the capacities?
- Anil Jain** Total borrowings in India is Rs.553 crores and Overseas it is Rs.267 crores.
- Sameer Dalaal** What is the average interest rate you are seeing in India and Overseas respectively?
- Management:** India is around 12.5%, Overseas is around 7%.
- Sameer Dalaal** It would be difficult I am guessing to give detailed breakup of how each country different utilizations are working or would that be possible on this call?
- Anil Jain** We can work this out and offer it to you offline because I would not have it right now with me. You would like to have this capacity utilization of different countries?

- Sameer Dalaal** Yes. How much additional capitalization of any of your plans is going to be happening in the current financial year?
- Management** The total capacity in the first 6 months, we have done Rs.56 crores overall in FY13-14, we have a planning of near about Rs.80-100 crores.
- Sameer Dalaal** So another 50 crores maybe?
- Anil Jain** Yeah. On a broader side, actually we have said that our CAPEX for the current year or the next two years all put together will be inside of Rs.250 crores.
- Sameer Dalaal** Inside of 250 crores for the next 3 years you said?
- Anil Jain** That is right, including the current year.
- Sameer Dalaal** Of this CAPEX of 250 crores, do you see further debt raising requirements or you think it will be...?
- Management** No, in fact, what we are targeting at the level of the total debt put together, working capital term loan is Rs.825 crores. In spite of growth in value terms also 20%, we are trying to maintain the total debt within that limit only, we are not expecting any increase as far as debt part is concerned.
- Sameer Dalaal** The repayments of your debts, when do they start broadly for most of these...?
- Management** Repayment is ongoing, but to capture the growth of the 20%, if you are making the repayment of the term loan then that there will be the incremental requirement of working capital to capture the growth of 20%.
- Sameer Dalaal** So current year how much is the repayment schedule and for next year how much is the repayment schedule?
- Management** Current year we have a total repayment of Rs.120 crores and next year it is in the range of Rs.120 crores.
- Sameer Dalaal** Both year it is 120 crores?
- Management** Yes.
- Moderator** The next question is from the line of Prakash Ramaseshan from Kotak Mahindra – Dubai. Please go ahead.
- Prakash Ramaseshan** My question basically was around the EBITDA margin which is currently at the 14-14.5% range. I am trying to just see whether you believe over a period of time as you pass through the

increase raw material costs, you see the sustainable number go back to 16, 17% range which is what we are more used to seeing in the company?

Anil Jain We discussed this point in the last conference as well and I was very candid that this Overseas we do not really see these kind of EBITDA margins. So our Overseas projects will provide us EBITDA in the range of 13 to 14%, and in India we can still expect closer to about 15%. So the total EBITDA margins will be in the range of 14 to 15% as expected, and especially as a contribution of our Overseas projects keeps increasing like you have seen that it is almost 29% of our total sales, so we would expect that EBITDA margins on a consolidated level will settle somewhere between 14 to 15%.

Prakash Ramaseshan I am just asking the question, once you get over capacity utilization in your Overseas projects as well to about 70 to 75% like India, the overall mix of Overseas versus Domestic, what do you expect it to be?

Anil Jain 40% will be Overseas and 60% will be in India.

Prakash Ramaseshan So you expect to have this perhaps two years from now?

Anil Jain Yes, as you can see, we are growing almost 35 to 40% Overseas, and capacity utilization is also low, and there are fairly large markets where we have our market share compared to India is lower. So we have lot of head room for us to grow. So we are making steady progress in each of the countries that we have gone to, and looking back I think our decision had been right, we have gone into the countries where there is not only growth potential, but also the replacement of Metal Drums with Plastic and which is what we are currently doing. So you are right, absolutely, next 2 years, we should expect ourselves to reach capacity utilization of closer to 70 or 75% here.

Moderator The next question is from the line of Arafat Sayyed from Quant Capital. Please go ahead.

Arafat Sayyed Again, you said your margin was around 20% let us say 3 years back, now it has come down to 14%. So what is your outlook on the margin going forward? And second question belong to your Battery business. What is happening there if you could throw some light on that?

Anil Jain You are actually very right when we had 17, 18 or 19% EBITDA margins. At that time our Battery business was actually contributing significantly and they had experienced EBITDA margins in excess of 40% or thereabout. So the decline is essentially as I have explained to you that we are now having more and more business coming in from Overseas. The growth in India have been relatively lower than the kind of growth that we are seeing from Overseas. And if you look at the volume growth which is what should actually contribute to EBITDA margins, the value growth is like passing of the increase of raw material to the customer where we do not really earn additional EBITDA, and then take the percentage to the sale then it tends to have a negative impact in terms of percentage. But coming back to the Battery business, we are

expecting the Battery business to grow in excess of 15% in this year. We should be closing at a gross sale of about Rs.200 crores and net sale of about Rs.180 crores. In the first half, we have reached a net sale of Rs.90 crores and gross sale of 100 crores, so we are well on our way to do Rs.200 crores. As you know that in the past we had been entirely dependent upon Telecom business for the Batteries, and we took a conscious decision that we will change our product mix so that our dependence upon Telecom could come down, and we had set a target of 70 and 30%; 70% coming in from Telecom and 30% from other businesses, we have achieved that. We are now closer to more like 60 to 40%. But the other areas where we have grown are Inverter Controller business thinking that those businesses are doing very well and we had added significant capacity in that area, but I must say while the Telecom business has been going on better than what we had expected or projected, I think there is a bit of a slow down on the Inverter business because of very good rains, power shortage is much less especially in south which was a good market for Inverter, so the demand for Inverter Batteries is low, and I think the solar business is seeing a lot of headwinds as the company in the solar projects are not able to get their payments from government, so therefore they have also slowed down...

Arafat Sayyed

Second thing is what is happening on your Composite Cylinders business...?

Anil Jain

The Composite Cylinders business, as I had announced last time, we had received an order from Reliance Gas, which is continuing. So we continue to ...

Arafat Sayyed

Did you booked any sales from that business?

Anil Jain

In the current year we are expecting the total sales to be about Rs.15 crores this year. We have the order from Reliance and a couple of other companies overseas; we just executed a small order for ADNOC in Abu Dhabi.

Arafat Sayyed

My broad question is I just want to see the outlook of this business Composite Cylinders in the next two to three years. I know it is very small right now, but what is the growth you are likely to see in the next let us say 3 years down the line?

Anil Jain

We are very upbeat about our Cylinders business. As you now know that Reliance has launched LPG in Gujarat in Composite Cylinders, and as of last week, when we had discussions with them, we have reasons to believe that response from the consumers have been extremely, extremely good, and they are expecting to place orders in continuation. And if you go by the projections that some of these parallel LPG marketing companies are making, they are quite capable of taking our entire capacity because they buy those kinds of cylinders in any case. In addition to Reliance, as you must have read in newspaper, oil marketing companies are launching 5 Kg LPG from their gas stations and they decided to do first with 8 cities, but now they have decided to do it on an All-India basis, and they are coming out with a tender for 5 Kg Cylinders. We, in the meantime, have received PESO approval for our 5 Kg Cylinders for the prototype, and therefore we will be participating in this tender. If the indications are right,

of course, they have not frozen the quantities, even that is by itself is capable of taking our entire capacity.

Arafat Sayyed I know a slowdown in your CAPEX. I just want to know your outlook on your CAPEX for the next two to three years are you looking for any major CAPEX?

Anil Jain No, we are very much into the consolidation stage. Right now, we are not making any further CAPEX, not setting up any new projects, we are just fine-tuning our capacities for maintenance, product development, etc. We have projected that including current year and the next 2 years from now, the total CAPEX in 3 years period will be inside of Rs.250 crores and we intend to stick to that.

Arafat Sayyed Last question pertaining to your ROC and ROE. I know your ROC is very low currently. Do you have any plan to improve your ROC, ROE in the coming years?

Anil Jain We are very much focused to improving our ROC; in fact it has started now coming back, but as you know that we have been in expansion of CAPEX more for almost 3 years, which is where we saw that the ROC has been rather low, but now that we will improve our capacity utilization and the EBITDA margins will also get stabilized better, I am sure that it will reflect upon our ROCs getting better.

Moderator The next question is from the Ashi Anand from Kotak India Focus Fund. Please go ahead.

Ashi Anand I just wanted a little more clarity around the margin. The first question was in the first half are there any direct FOREX related impact which are one-off in nature possibly around inventory valuations, etc., which could have impacted the margins, and if so what is the quantum of the sales?

Anil Jain Let me tell you, the impact is only to the extent that when the foreign exchange is adverse, and it happens during the quarter, we have to wait for the increase to be passed on to our customers at the beginning of the next quarter because we normally have a price fixed for the whole quarter and we have seen that average exchange rate in the first quarter was closer to 54 or 55 and then it went up in the second quarter to 62.15, I am talking about the average exchange rate. So the increase that has happened has been passed on to the customer at the end of the quarter. So maybe to that extent for that particular quarter, we had to absorb that increase and which might have affected on our margins, but if we see the movement the other way, then this value is actually retrieved.

Ashi Anand Because there was a similar kind of delay in the past?

Anil Jain That is right. This is just a delay in order to be passed on.

Ashi Anand Would it be possible to quantify this impact or that is difficult?

- Management** Yes, in fact, that impact that is in the range of around of Rs.3 to 4 crores in a quarter, because you see that the exchange rate was Rs.56 in the June quarter, average was 62 in July, August, September, but in between it went up to 67 also. But I have taken the overall average out, so there maybe 3 to 4 crores but we have a possibility if we will be able to get that exchange rate of 60 to 63 which is currently ongoing, we maybe recover these monies in the coming quarters.
- Ashi Anand** The second question out here is when we are speaking of Overseas margins being lower of 13 to 14%, these are the margins are the current kind of 50% utilization range. As capacity utilizations reach 75, should these margins kind of expand given the kind of operating leverage and therefore over 1 to 2-year period, how do we see both overall business margins specifically the Overseas margins of the business?
- Anil Jain** Technically, what you say is right, if the capacity utilization improves Overseas, we should see the expansion in our EBITDA margins there, but we have been rather, I would say, 'conservative' in projecting the margins because for a new company to go into markets and push the business, where you may have to take a pie from your competitors, etc., so you may have to fight it out maybe for some time, but yes, in a 2 to 3-year horizon what you are saying with higher capacity utilization, with the improvement in our EBITDA margins there as well.
- Ashi Anand** Final question from my side, when we have started the Overseas expansion, where you were aware that Overseas margins are lower, there was also an expectation that the capital employed Overseas would be lower because of a lower working capital cycle. I just wanted to understand is that true as of date or have you already seen the benefit of the lower working capital cycle do you expect to see that going forward if you could just comment on that?
- Anil Jain** Let me tell you, the PAT level if you see that the Overseas business are as good as our Indian business for a simple reason that the interest rate is lower, and also the tax rates are much lower in those countries. We were aware of the fact that the EBITDA margins Overseas are not going to be as high as what we are experiencing in India. We also expected that the gestation period will be longer than what we see in India. But if you net it off and look at the net profit level, **even with the current margins as good or better PAT or better ROC.**
- Ashi Anand** If you could just comment on the working capital intensity, how is that compared to the Domestic business?
- Anil Jain** For example, as against 84 days of working capital cycle in India, our working capital cycle Overseas is only 65 days and that is for the initial period. We see ourselves improving upon our working capital cycle Overseas much better than what we do it in India.
- Ashi Anand** That along with the lower interest and the lower tax rate that is kind of international business earn actually on a reasonable ROE?
- Anil Jain** Exactly, that is right, yes.

- Moderator** The next question is from the line of Tanuj Mukhija from Ambit Capital. Please go ahead.
- Tanuj Mukhija** I have a few questions regarding your Composite Cylinders. Firstly, I would like to know what is the pricing of the Composite Cylinders that you are supplying to Reliance, how expensive are they as compared to traditional Metal Cylinders?
- Anil Jain** I think it will not be prudent to discuss the price to a specific customer on an open line, but I can promise you that this is exactly what we have projected, this is in the range of Rs.1600 to Rs.1700 on a basic price level. If you compare it with Steel Cylinders this is about 20% more expensive than the Steel Cylinders, and that is quite acceptable to the customer because if you see it from the customer standpoint, he does not really pay it from his pocket because eventually he collects the deposit from his customer. For me a Cylinder let us say for Rs.1600 to Rs.1700, he takes a deposit of Rs.2000 from the consumer and therefore the cash why it is quite neutral for him. He is looking at the longer life of a cylinder and the lower cost of distribution because of lower weight of the cylinder and that was his advantage.
- Tanuj Mukhija** My second question pertains to, you have a portfolio of Composite Cylinders of 2 kilos, 5 kilos and 10 kilos. Because globally what we have seen is that Composite Cylinders since they are light weight are traditionally used in emergency applications in hospitals or in travelling applications. So are these Cylinders designed for basic kitchen cooking gas applications or for some other applications?
- Anil Jain** Composite Cylinders are designed for all applications including commercial or domestic cooking. Since you mentioned about their application overseas, in most countries all the houses are getting a pipe gas therefore it is normally not used for the regular cooking, they normally would use it for a barbeque or in a caravan or in a yacht or whenever they go out on a picnic, etc., but in India I think the pipe gas is still less than 1% and most of it is by the Cylinders. So these 2, 5 and 10 Kgs Cylinders that we have got in our portfolio are being used for LPG just like is received Steel Cylinders for your domestic LPG here in Bombay or smaller town. Talking about Reliance who has already launched LPG, they are using 10 Kg cylinders and that is essentially for domestic and commercial cooking.
- Tanuj Mukhija** How does the Reliance order in terms of volume?
- Anil Jain** Their initial order is 50,000 Cylinders, but if you ask me what are their capabilities, they can buy easily about half a million Cylinders in a year. That is about the capacity.
- Tanuj Mukhija:** And sir what would be the steady state Composite Cylinder margin that we expect say about a year down the line?
- Anil Jain:** It is better than our average EBITDA margin.
- Tanuj Mukhija:** A lot of competitors mentioning that the EBITDA margins would be above 15% in this category. Would that be a fair assumption?

Anil Jain: Yes, you are absolutely right, it will be definitely more than 15%.

Tanuj Mukhija: And sir earlier you mentioned in the conference call that there have been few inquiries from overseas orders as well particularly a client in Abu Dhabi. Can you elaborate more on that? And what is the enquiry rate for your Composite Cylinders in Middle East? And if you can throw some light on the opportunity for Composite Cylinders in Middle East?

Anil Jain: I was specifically talking about (ADNOC) Abu Dhabi National Oil Company which is the only distributor of LPG in Abu Dhabi, and they control the entire LPG distribution in UAE. They are very keen to go for Composite Cylinders. Likewise, we have enquiry coming in from Saudi Arabia GASCO, wherein there is Bahrain Oil, and we have Qatar – Woqod. So these are the countries, there are LPG distribution companies who are looking for Composite Cylinder as a substitute for Steel Cylinders. There is a very specific reason, whenever there is a bit of an unrest in Middle East, they find that the Steel Cylinders is being used a tool to cause explosion. So what they do is they stack some tires and burn the tires and put a Steel Cylinder in the middle of those tires, and after a while the Cylinder explodes and brings down everything around that area. The Composite Cylinders are completely explosion-proof and much lighter in weight, you can see the level of gas inside, aesthetically more beautiful, but the one most important feature is that oil companies are liking it in the Middle East is that they are being completely explosion-proof and that is the reason why they are looking at it. Let me tell you the total cylinder including Steel Cylinders and Composite Cylinders is about 0.5 million Cylinders. That is the population. And 90 million Cylinders are being bought every year. Of course, this is predominantly Steel Cylinders because Composite Cylinders is only about five years old technology, but they are getting more and more market share, of course right now the population of Composite Cylinders is less than 2% of the total Cylinders but then there are only two manufacturers worldwide -- one is in Norway and we are here in India. I am sure this market will grow going forward and especially in India it will be mostly for commercial and domestic cooking unless economy grows to a point where even I start having yachts and some **caravans where** it can easily go.

Tanuj Mukhija: And sir my final question pertains to, you mentioned that even the domestic oil marketing companies have done enquiry, if I am not mistaken, they had come out with a tender in 2009 but that was canceled. So do you see any likelihood of another tender coming up in say a couple of months or six month's time?

Anil Jain: You are right. Absolutely, they had floated a tender way back in 2009 for 100,000 Cylinders but that tender was canceled because the lowest price they have got per Cylinder was Rs.1,500 from Norway and import duty, etc. would have added further on. So they probably found it expensive to introduce. And in between we had also explained to them that we will be starting manufacturing Composite Cylinders in India and therefore it would be worthwhile waiting for it. We kept our promise. Now they are available locally and they are more expensive than the Steel Cylinders but marginally more expensive. Talking about the tender, we do know oil marketing companies are working on a tender which would be out next month or probably

next-next month for 5 Kg Composite Cylinders and that is basically because they have announced the scheme of selling 5 Kg at a commercial rate; about Rs.100 a Kg from their gas station, and as a differentiator they would like to use Composite Cylinders because then the customer will be willing to pay higher deposit and higher LPG price because of the safety that is associated with Composite Cylinders.

Tanuj Mukhija: Any sense on how big the order could be from the oil marketing companies as compared to the tender canceled by them in 2009?

Anil Jain: It will be bigger than that for two reasons that the price is a more comparable now, and secondly it is 5 Kg as against 14 Kg. So they will need even more number of cylinders for that one. But the quantities have not been frozen just that. It will be a little premature for me to update on.

Moderator: The next question is from the line of Nehal Shah from Antique Stock Broking. Please go ahead.

Nehal Shah: I got a point on LPG Composite Cylinders. You said our revenues this year should be around Rs.15 crores from that segment. So the Reliance order should be getting completed by the year end?

Anil Jain: Yes, by the year end, we will be completing that.

Nehal Shah: That is say 50,000 at the rate of around Rs.1700. So that is around Rs.8.5 crores. So the balance 8.5 crores would come from where sir?

Anil Jain: We are expecting orders from ADNOC, also from South Africa, we are also looking at Total Gas and AG.

Nehal Shah: And sir can you help us giving the breakup in your revenue segment wise?

Anil Jain: I think more or less in the same range; Industrial Packaging 64%, Lifestyle Products 10%, Auto Components 8%, Infra 18% and the balance about 2%.

Moderator: The next question is from the line of Prakash Ramaseshan from Kotak Mahindra - Dubai. Please go ahead.

Prakash Ramaseshan: Just trying to get any insights on any other new product launches you are looking to do domestically, if you could give us any flavor because the domestic market otherwise will be growing only in line with the domestic packaging market. Apart from Cylinders are there any other new products that could lead to maintenance of the high EBITDA it would help improve the overall EBITDA numbers, that is the reason I ask?

Anil Jain: No, we are not really going for a major expansion or a new product launch. We will only be utilizing the capacity of some of our businesses such as Material Handling business which still has a lot of headroom. We also have products for Solid Waste Management as you must have seen 240 liters and 120 liters Refuse Bins which you find in Mumbai all over the places. We just got an order for 35,000 Refuse Bins from the Municipal Corporation of Mumbai, and IBC which is a reasonably good EBITDA margin business for us. We have the capacity only in the Western region but South and North we did not have the capacity. In the last quarter that is in Q2 we expanded our capacity in South of India at Hosur, and in the current quarter, we are setting up a project in North of India for IBC at existing location that is at Pantnagar and down South we have done it in Hosur. Typically for Rs.8,000 or Rs.9,000 IBC the freight charges from Western region to those areas is almost like Rs.2000. It was too expensive freight wise and therefore we could not grow IBC market in North and South. Now that we have reached closer to the customers there and to a large extent this freight cost would be set off, we expect that business to grow, and that will not only improve the top line, but also will improve our EBITDA margins because we are the only manufacturer of IBCs in the country.

Prakash Ramaseshan: I am hearing that outside of our existing line we are looking to go into any new products and the only new product really is the Composite Cylinders that we are looking to. So our whole focus is to basically better utilize our capacity.

Anil Jain: You are absolutely right. Though I must say that as a technology-driven company we keep some products in the pipeline, and as we see things settling down in India, and we see country coming back to the same growth trajectory, we will be ready for some products, but we have not yet planned to come out with any additional products. The focus is right now on utilizing our existing capacities or expanding our products which already are existing. In addition to what I just told you we have got now projects for Fuel Tank for Tata, we have now developed a 10-liter Fuel Tank for their Chota Hathi that half tonner and that will give us business, they have also signed us another Fuel Tank project which is for 90-120 mm 50-liter capacity. So these are the kind of businesses that we are already doing. The customers are the same, the product is the same but there may be a different product in terms of the size and that is what our focus is going to be.

Moderator: The next question is from the line of Kamna Motwani from Crisil. Please go ahead.

Kamna Motwani: I just wanted to get an update on the Bahrain Composite Cylinders facility.

Anil Jain: To give you the background, this capacity we used to have it in Czech Republic which we decided to move to Bahrain essentially to service the market in GCC. So this capacity has been shifted and kept ready there. In the meantime for ADNOC and Wqod and let us say GASCO, we are supplying initial quantities from India, and as they come back with their regular requirements that is when we will actually initiate regular production at Bahrain. We did not find it prudent now especially we have spare capacity available in India to also initiate that capacity and have partial utilization on both the locations.

- Kamna Motwani:** Sir something on your balance sheet, there is this current liabilities item which has gone up from Rs.188 crores to Rs.235 crores. So just wanted to check what is the reason for the same?
- Management:** That may be because there is a change in the company's rules that term loan repayment which is due in the next six months to be taken under the current liabilities.
- Kamna Motwani:** From previous year is that right from FY13 or that has come into effect from FY14?
- Management:** The difference between the last year repayment and the next six months repayment should be considered in the current liabilities, no, because of that.
- Kamna Motwani:** And short term provisions have declined significantly.
- Management:** In FY13 that provision for the tax provision is there which we have already paid in these six months.
- Kamna Motwani:** Could you repeat the split between the four business segments? I kind of missed that.
- Anil Jain:** Industrial Packaging 64%, Lifestyle 10%, Auto Components 8%, Related Products 18%, and the new products about 2%.
- Moderator:** The next question is from the line of Ashwini Agarwal from Ashmore India. Please go ahead.
- Ashwini Agarwal:** A couple of quick questions. One is again coming back to the question that were asked earlier on the call, if you look at the EBITDA margin for this quarter which has gone by it was a little over 14% on a consolidated basis in spite of the fact that Rs.3 or 4 crores as you mentioned was probably lost on account of FX volatility which would add say 0.6-0.7% to the EBITDA margin in a normal quarter and your international divisions continue to operate at 45% capacity utilization which is below particular, and the fact that your margins have taken a downward pressure purely because the way the raw material prices have behaved and therefore higher raw material prices increase the denominator but not the numerator in terms of margins which is I suppose stable in rupees per ton basis. So taking all this into account I would expect that margins in a normalized state would return to something like 16%-odd or so 12-18 months from now. So I am a little puzzled as to why you are saying that it should be in the region of 14-15%. I understand that you are trying to be conservative, but is there something that we are missing?
- Anil Jain:** You are right absolutely, in fact, looking at the model that you have just drawn, 16% is more likely than 15% or 14% in 18 months time but the fact that I have always told that it is always better to be conservative and do better than that rather than showing a rosy picture and not being able to achieve that. While we have said it is about 15% but you are right actually in a normalized way as things get stabilized I think we should do better than that.

- Ashwini Agarwal:** The second question is that on your overseas debt where do you account for the translation loss at the end of the quarter?
- Management:** Translation loss we are calculating into the foreign translation reserve account.
- Management:** Debt is taken in the overseas currency in the US dollar only, a term loan in the US dollar and working capital in the local country currency. As far as profit & loss account part is concerned that is not affecting because that loan is in foreign currency and the payment is also in foreign currency.
- Ashwini Agarwal:** So there is nothing you are charging to the P&L....?
- Management:** That company will earn no, overseas and they will repay there that. It is a normal course of their business for the working capital.
- Ashwini Agarwal:** Could you help me as to why is the other expenditure that is Item No.F, that has kind of gone up so much from Rs.56 crores same quarter last year to Rs.72 crores almost? Is there any particular reason? I thought there might be some FX numbers embedded in there.
- Management:** In the current year, September, we have started our two-three new units, that is our China unit...
- Anil Jain:** The expenditure earlier was being capitalized because they have not come up with the commercial production. Therefore, this was...
- Management:** In the current year we have started Malaysia and Vietnam.
- Anil Jain:** So all of these expenses actually have now started reflecting in other expenditure.
- Ashwini Agarwal:** This is all normal stuff?
- Anil Jain:** Yes, normal stuff.
- Moderator:** The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** I missed out. Did you said that your 2 Kgs and 5 Kgs cylinder have already got PESO approval?
- Anil Jain:** Yes, this prototype approval we have got. Now when we have order and we start producing there will be one final approval but that is a mere formality, but prototype approval has been given.
- Bhavin Chheda:** BPCL is the one who is launching it or already launched it. So basically you have to get them convinced to use Composite against Steel, right?

- Anil Jain:** They are quite convinced, in fact, they came and visited our factories for all the test, etc. We have provided them all the technical parameters so that they can include that in the specification that they are drawing. I think the convincing part has been done already and not only us, we had the joint discussion to affluent them and I think they are quite convinced about the usefulness of Composite Cylinders in 5 Kgs denomination. But, we are not only talking to them, as you know, and they expect this to become a very popular size, because this is available from the gas stations without any registration or anything, just show your ID and buy a cylinder from there. So even the parallel marketing companies are looking at 5 Kgs cylinders to distribute LPG including Reliance. So we are not entirely depending upon BPCL but also other parallel marketers.
- Bhavin Chheda:** When we spoke about the market size, I believe out of the 9 crores Cylinders locally almost 2 crores Cylinders sales in India right, is that correct?
- Anil Jain:** Yes, that is right, 2 crores Cylinders are sold in India, and that is mostly for replacement. Now they are expanding the market as well. So this quantity is going to increase further as the replacement is now increasing and on top of it Cylinders are required to improve the reach of this LPG into the rural markets.
- Bhavin Chheda:** Regarding our core business Plastic Drums, how that has been growing in volume terms in the Indian market and the IBC growth in volume terms, how much you must have seen in first half and what is the outlook there?
- Anil Jain:** The Packaging business altogether is growing at about 8% but I must say quite a lot of this growth is actually coming from IBC, and IBC we are growing at almost about 13-14%. So the Drum business is not growing as much as the IBC business is growing, but together the Packaging business is growing at about 8% in volume terms and of course the overall growth is about 15%.
- Bhavin Chheda:** 8% in volume terms and 6-7% would be price for value addition, so that is how the 15% growth in the Packaging comes right?
- Anil Jain:** Yes.
- Bhavin Chheda:** And what was the gross debt number in the quarter?
- Management:** Total debt is Rs.820 crores.
- Bhavin Chheda:** And what was the CAPEX done in first half?
- Management:** Rs.56 crores.
- Bhavin Chheda:** And for the year you will be spending 100 or ...?

- Management:** Rs.100 crores.
- Bhavin Chheda:** And what was the international business contribution in consolidated turnover?
- Management:** 29% of total turnover.
- Bhavin Chheda:** In the quarter?
- Management:** In the quarter same 29%.
- Moderator:** The next question is from the line of Chetan Wadia from JHP Securities. Please go ahead.
- Chetan Wadia:** I just want to ask you about the Lifestyle products and the Infrastructure segment of the results as to how have they done in the first half, and what is the outlook for the second half?
- Anil Jain:** I think the Lifestyle business is going at a normal pace of about 12%. That is what we have seen in the first half. I think it will continue to grow at the same pace if not better. It is a pretty steady business but of course since it is B2C business there is always a complaint that there are not enough consumers that are coming to the market to buy stuff, but we would now see another spurt in the New Year and then probably last quarter we always do better. That business is growing pretty well. On Infra I have got very interesting outlook because we now see that the Infrastructure business grows rapidly in the second half of the year because most of these projects are government projects, of course, we supply to the contractors in between, but they get their allocation and most of these tenders, etc. get finalized after the monsoons are over, because they are basically pipelines, and the funding is done in the third and the fourth quarters. So we expect Infra business also to grow and I think there will still be at about 12 or 13%.
- Chetan Wadia:** If I may ask margins in these two segments are above the blended margin of the company or below that?
- Anil Jain:** Lifestyle business is higher than the blended margin but in Infra it is lower than the blended one, but our gearing is much higher in Infra project because we with much less investment can get higher turnover slightly in HDP Pipes, etc.
- Chetan Wadia:** And considering that we have the first half results with us, what is the overall revenue target and the margin outlook can you provide for FY14?
- Anil Jain:** We are expecting overall growth to be in value terms about 20% growth and I think it will be fair to expect the EBITDA margins will be closer to 15% perhaps.
- Chetan Wadia:** And what will be the effective tax rate?
- Management:** Effective tax rate is in the range of 24%.



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Moderator: Thank you. As there are no further questions I would now hand the floor back to Mr. Anil Jain for closing comments. Over to you, sir.

Anil Jain: Thank you. It has been very interesting talking to our friends. Like we have said, I think after we have come out of investment mode where we have spent a lot of money, and apparently this turned out to be a right decision, because we are able to maintain growth which was not available in India, because of a lot of uncertainties that we have seen in the Indian economy, at least the Overseas projects are able to provide us as good margins and purely a lot more growth opportunities so that as a company we can maintain growth momentum. Clearly, the focus of the company is in making our assets work for us. We will be striving to improve our capacity utilization, on the other hand better utilization of our working capital. We should have improved upon it already, but as you know, situation in India is not very conducive for substantial improvement, but we are trying our very best. I think we are focused on not making further CAPEX and improve our ROCE and this is the effort that will continue this year and the next year as well before we take a call as to what we should be doing. We are aware of the fact that growth also has to be maintained and I think this will be a twin objective which we will be working. Thank you very much for all your support, and if there are any further questions, we are always available on the phone or mail. Thank you so much.

Management: Thank you very much.

Moderator Thank you. On behalf of Time Technoplast Limited that concludes this conference. Thank you for joining us, and you may now disconnect your lines.