



“Time Technoplast Limited Q2 FY15 Earnings Conference Call”

November 14, 2014



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Moderator: Ladies and gentlemen, good day and welcome to the Time Technoplast Limited Q2 FY-'15 Earnings Conference Call. As a reminder, all participant 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 the conference call, please signal an operator by pressing '*' and '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anil Jain – Managing Director and Chief Executive Officer of Time Technoplast Limited. Thank you. And over to you Mr. Jain.

Anil Jain: Thank you. A Very Good Afternoon to all of you and warm welcome to this conference. I have with me my colleagues, Mr. Bharat Vageria, and also Mr. Sandip Modi. It is always a pleasure to be together with you. Friends we are here to look at the results of Q2 and also together with Q1 the actual results of FY-'15 and some in fact into how we are looking at the future. The financial results of Q2 and first are already with you. Now let me just quickly walk you through the key financial highlights. During the Q2 FY15 the net sale raised to 605 crores as against 533 crores in the corresponding period last year. EBITDA is at Rs.86 crores as against Rs.76 crores and PAT at Rs.26 crores as against Rs.22 crores. Compared to the corresponding previous year net sale grew at 14%; and the breakup is that in India it grew at 10% and overseas the growth was 21%. The volume growth was 10% which in India is 8% and overseas is 17%. EBITDA grew by 14% and PAT grew at 17%. During FY15, net sale came to Rs.1175 crores as against Rs.1023 crores in last year. EBITDA at Rs.166 crores as against H1 last year Rs.145 crores and PAT at Rs.46 crores as against Rs.41 crores in the corresponding period last year. Compared to the corresponding period of half year of last years. The net sale grew at 15%, in India 29%, overseas 23%, the volume growth was 10% in India 8% and overseas 17%. And EBITDA grew at 14%, PAT grew 13%. EBITDA percentage to net sale is 14.11% as against 14.22% in H1 FY14, despite increase in raw material cost by 1.5% that is 68.65% in H1 FY15 as compared to 67.15% in H1 FY14. We were able to maintain EBITDA as a percentage of sales by better realization in controlling other operational cost. Our total borrowing as on 30th September 2014 is at Rs.826 crores at the end of FY14 this was Rs.860 crores so there is a decline in total borrowings. The total borrowing net of cash as on 30th September 2014 is at Rs.763 crores in the same period of last year to Rs.791 crores. Working capital cycle is at 81 days which was 82 days in the same period last year. India it is 86 days and overseas it is 69 days. The total CAPEX in HI FY15 or up to FY15 is Rs.47 crores whereas in the previous year it was at Rs.118 crores. So these are some of the highlights of the performance in Q2 and also in H1 put together and now I will be happy to answer any questions that you might have with my colleagues here. Thank you very much.

Moderator: Thank you very much Mr. Jain. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from Ketan Wadia of JHP Securities. Please go ahead.

Ketan Wadia: Can you give a revenue breakup for the first half in terms of the packaging auto component in other division?



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- Anil Jain:** In terms of percentages the packaging is at 67%. Lifestyles products are at 9%, other components 7%, infra related products is about 16% and rest of the new products is about 1%
- Ketan Wadia:** And sir my second question is on the telecom battery business, how has been the performance over there and what is the outlook?
- Anil Jain:** We are very happy with the results are improved remarkably well in telecom batteries we have done a lot better in H1 let say the net sale in H1 this year is about 111 crores as against 90 crores last year. So we have seen a growth of 23% in the battery business and we expecting that this growth will percentage will be seen up to the end of this year. I think the telecom companies are now buying batteries because from quite some time they did not buy batteries as they were through a difficult cash flow situation but I think the increase of tariff, etc., we find telecom companies are doing well and they are now revamping their network and the first priority therefore to make sure that they have enough batteries which were probably not replaced.
- Ketan Wadia:** And sir any improvement in margins on battery front?
- Anil Jain:** As I would say, not quite actually because you would appreciate that the demand even now is much low than the capacity which is existing in the industry so while on the strength of our quality and relationship with the customers we are able to get business but the EBITDA margins more or less remains the same around 11 to 12%.
- Ketan Wadia:** And sir my next question is on the debt, we are since on reduction up to the first half, so what kind of debt level are you expecting for the year end, by end of March 2015?
- Anil Jain:** As you have seen that we have reduced our debt but we should be close to about 800 crores by end of this year that means total reduction of about 50 to 60 crores, out of which I think 30 odd crores you already achieved and the rest we will achieve in the next two quarters.
- Ketan Wadia:** And sir my last question in first round looking at the half yearly revenue in margins so what is the outlook for the second half and what kind of performance can you expect?
- Anil Jain:** We have seen in the past that we do something like 45% of our sales and profits in the first half and 55% comes in the second half so if we look at it then we will certainly would be something like 2400 to 2500 crores and EBITDA on consolidated basis would be about 14 to 14.5%.
- Ketan Wadia:** Okay, I will take that number sir. Thank you very much.
- Moderator:** Thank you. Our next question is from Sameer Dalal from Natwarlal & Sons. Please go ahead.
- Sameer Dalal:** Just couple of questions, the first one you mentioned CAPEX for the first half of the current financial year was 47 crores is it?



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Anil Jain: Yes.

Sameer Dalal: What is the expected for the remainder of the year?

Anil Jain: If you go for the historical numbers that we have, we should be around 100 crores or slightly than that.

Sameer Dalal: You will do 100 crores of CAPEX of the current year?

Anil Jain: Yes.

Sameer Dalal: Can you tell me out of this 100 crores how much of it is maintenance CAPEX and what percentage is for adding new capacities or is this all for maintenance CAPEX because I you see all your capacity increases have already happened. So where is this CAPEX what is it going towards?

Anil Jain: about 60% is on maintenance CAPEX and about 40% is product development, etc.

Sameer Dalal: 60% is maintenance you said?

Anil Jain: Yes.

Sameer Dalal: So 60 crores a year you can say is your average maintenance CAPEX?

Anil Jain: Yes.

Sameer Dalal: Can you tell me this 40 crores what is it going towards, what kind of capacities and where are you adding these capacities?

Anil Jain: It has been de-bottle necking and certain areas from product development also we started the project for IBC up in north we are also doing some debottlenecking in overseas units though relative new but again countered some bottle neck in between so considering that we are in different countries and in different locations, there are always some small CAPEX required to make sure we run them efficiently.

Sameer Dalal: Okay. Now can you also tell me one thing, what is the debt repayment that is there for FY15 and FY16 for the full year, how much is due by these period?

Anil Jain: In FY15 the total debt repayment is 155 crores and in FY16 it is 125 crores.

Sameer Dalal: Okay, now if I were to ask you utilization in your new units has always been going up slowly, gradually. Where have we reached there in utilization rates and how soon can we expect a quicker ramp up to happen because it has now been almost two years since most of these plans

have been active so looking to see when the real growth in revenue is going to come for the international operations?

Anil Jain: As you can see the growth in the international operational operations has been good and in the last year it was about 27%, this year we are closing about 22% or so in the first half. We are to the capacity utilization overseas close to about 60% or slightly less than 60%. I guess it will take us of remainder of this year and the next year to be able to reach about 85 to 90% capacity utilization.

Sameer Dalal: Okay. And any benefits going to be coming in from crude oil prices coming down given a lot of your raw materials depends on the crude prices?

Anil Jain: We are extremely happy and in the mean time you would see that the raw material prices have gone up but they are starting to plateau and some cases we have seen the decline so we are very happy because there is an effect on the raw material prices and there in many cases we have to pass on decrease to our customers but of course it takes a load off on us in terms of the cost of inventory that we carry and the receivables. So we are particularly happy with the crude prices coming down.

Sameer Dalal: Okay. And you said 45% you are expecting in the first half and second half will do 55% of the total revenue and profitability.

Anil Jain: That has only been the case up to now, but battery because the raw material price has started coming down in this month so we might also give it little bit of a tailwind on profitability part because we do not have the pass on the decrease immediately and we can hold in that in atleast for one quarter.

Sameer Dalal: Okay. I will come back in the question queue for more questions. Thank you at the moment.

Moderator: Thank you. Our next question is from Kamna Motwani of CRISIL. Please go ahead.

Kamna Motwani: Firstly if you could just give us an update on the composite cylinders front?

Anil Jain: I was hoping somebody would ask me this question, quarter for us though admittedly we did not do much of business we did about in the first quarter we did about 10,000 cylinder, in Q2 we have done 18,000 but I am very happy to tell you that we have just bagged order for 200,000 cylinders to be supplied end of next year. Probably 300,000 actually they have now revised the numbers unfortunately for the reason that we are confidentiality agreement I cannot give the name and location, as it is overseas and we have got quite a few other we got another out of a 50,000 cylinder out of which may be 10,000 would be in this year and the rest would go for next year. Just before the conference I spoke to another customer and we are looking at another 50,000 cylinder for the next year. And I say next year it means their next year starts at 1st January. So I am pretty excited about the cylinders we knew from the beginning it is time to take off and when we also tell that when somebody else claim that they have got the approval

from Korea we have it also in the meantime got approval from Korea and the same customer is now looking at our cylinder and probably we will end up doing substantial business with them in next year. So, I am pretty sure the next year is going to be very busy for the cylinders for us.

Kamna Motwani:

Sure. Sir have we started our Bahrain facility or that still remains to?

Anil Jain:

We had kind of change in plan, we did realize that we would first you know the capacity that we have in India and when we start falling short of that either it starts itself or we will see whether we need to relocate it, it didn't get almost probably we will do it there. Unfortunately the most of the business that you are getting is actually coming in from either Far East of Africa and not so much from the Middle East, but we are negotiating with big order that happens in Middle East and we will relate out of that.

Kamna Motwani:

But sir just to understand for that particular facility you will have to go through this entire process of getting approvals all over again so that would.

Anil Jain:

That is right, because the process and the design will be the same so you can actually cut short the time. But yes it is expensive to get approval for the location and some time is required. So it will be compulsively easy that probably on time there would be a slight change in the time to start with. So when the customers come to us they also have to do some preparation at their end and they give us around two to three months' time which is just about enough for us to kind of get the necessary approvals.

Kamna Motwani:

Sir also just wanted a quick update on some of the countries like Korea and China which were kind of lagging behind the others in term of growth so what is our game plan there?

Anil Jain:

Like we discussed last time all our locations are doing extremely well, China and Korea are still challenge for us and we are kind of fighting it out changing some product design and probably the product mix there. So I do hope, we had discussed and in China they do feel that they will be able to get over hump. So if you saying those two locations worry me, yes they do but I think other locations do make up short following these two places.

Moderator:

Thank you very much. Our next question is from Pankaj Bobade of Axis Securities. Please go ahead.

Pankaj Bobade:

Couple of questions. Firstly I have a doubt, earlier when the oil prices were rising we used to say that we have lag of one quarter for passing the rise in prices. Now when the oil prices are falling, dropping so how is our strategy, do we cut down all prices immediately as the oil prices fall or do we take the price cuts may be one quarter down the line?

Anil Jain:

In fact I just mentioned that in answering another question that was raised by one of our friends. That we do see an advantage as the prices have come down that we can hold back. The prices for at least a quarter before we pass on the decrease to our customers. While this is the

disadvantage when the price start going up, it works to our advantage when the prices go down actually.

Pankaj Bobade: Should I assume that we have sufficient pricing power in that case now, so in case.

Anil Jain: You don't need a pricing power when you are reducing the price. Of course we are very happy to get the price reduction but if you are asking me whether you are able to pass on the prices when the prices go up, the answer is yes. That we do pass on the price increase but you would appreciate at the same time that we are mentally prepared to reduce the prices if the raw material price has come down. So it varies along with the prices that are prevailing in international market.

Pankaj Bobade: So can we expect our EBITDA margins rising by few bps next quarter?

Anil Jain: I think while we can hold back the reduction by a quarter that should definitely reflect on our EBITDA margin by few basis points.

Pankaj Bobade: Okay. Sir one more clarification. In the composites cylinder in answer to one of the analysts you said that composite cylinders you have bagged around 200,000 cylinders an overseas order and also an additional 50,000 cylinders order is in pipeline, am I right?

Anil Jain: No, the 50,000 are received and another 50,000 is in the pipeline.

Pankaj Bobade: Okay, and third and last question sir. Just wanted to know about any development on auto side of our business how is the business looking? Since the auto numbers are relatively better so do we see our business ramping up in that segment?

Anil Jain: I would say that the bloom has gone away, the away if you have seen the numbers going up substantially to kind of mention but you have to also remember that we are at the commercial vehicle side order business and not so much on the car side. And I do believe they still are facing certain pressures and we all see the numbers going up but yes they are not going down anymore so that is the heartening feature.

Pankaj Bobade: In addition have we worked on any other additional product from auto segment?

Anil Jain: Yes we are now working on two more fuel tank projects one of the largest truck manufactures in India and also we are working on one each of the two other companies in fuel tank in the mean time we have got our remittance which we have started already supplying to the largest commercial vehicle manufacturing in the country. So we are constantly increasing and I can promise you our hands are full right now for the projects that we are doing it for some of these big companies but yes remember that from the time they give you a green signal and until they start buying it, sometimes there is a difference of 2 to 2.5 years because that's when they start planning it. So we remain pretty optimistic that this business will grow.



- Pankaj Bobade:** Okay. One more last question, you said our first half contributes around 45% of our total annual top line so currently we have done around 1175 so will it be safe to assume that we will be crossing 2500 mark this year?
- Anil Jain:** I suppose you mean more than 2500 crores?
- Pankaj Bobade:** Yes, that is what my question is?
- Anil Jain:** Yes. I think it is safe to assume that we will be somewhere there yes.
- Moderator:** Thank you. Our next question is from Prakash Ramaseshan from Kotak Mahindra. Please go ahead.
- Prakash Ramaseshan:** Just a couple of questions, the international business has been growing well over the past few quarters but the domestic business was caught up in quite low growth over the past couple of years, going forward in terms of outlook what do you see with the domestic business because from our experience of having dealt with the company for some time the margins are high on the domestic business and the overseas business. Second question I had was really on the EBITDA per ton, I think as the EBITDA per ton improves your margin should also reflect that, so maybe I can, that is the second question.
- Anil Jain:** This is true actually that our domestic has been given us good EBITDA margins and overseas it was not so much because the capacity utilization was still very low but as the capacity utilization improves there it think they would also start contributing more or less same EBITDA margins or may be a little less than what we have it in India which is an established business. Answering your question about the growth in domestic market, we are actually very optimistic about it, let say for example in infrastructure business we see this HDP pipes and we are now seeing huge demand building up for pressure pipes thanks to Ganga Cleaning Operation all the cities are getting effluent treatment plants and for the waste treatment plants for which they require lots of pipes and we are started seeing those orders coming in. There is a lot of emphasis on supply of drinking water of course that work stopped in between then the government changed and now established. We are seeing orders coming in and we have reasonably good order book in that area. The batteries I just mentioned to you we are seeing a growth, I think we should end up somewhere between 250 to 260 crores in battery business which was much lower last year. Packaging of course is our GDP growth related business but we now see one of our key customers BASF has started the new plant in Dahej and we are kind of exclusive supplier to them and they have a fairly large requirement at the packaging material so we will see some advantages and I must confess that as the raw material prices went up, we were at a price disadvantage vis-à-vis the steel drums but as the raw material prices come down we would see that advantage accruing to us and we should really be see some more orders coming in. So, I am pretty optimistic that business would grow and of course especially in the infrastructure related products where there is a lot of emphasis from the government side and the spending would be coming in from there. But with improvement of general sentiments I

read that lot of chemical companies to come to India who had stopped the projects in between and we are expecting that we will be able to do the business with them. So I guess going forward we would find that the growth in India would be comparable if not more. Beside composite cylinders which was absolutely quiet till now has shown a lot of potential. I did not mention in my other discussion but you must have read it in the newspaper that Oil Marketing Companies always talking about 5 kg cylinder to be available to the consumer from all their location and beside 14.2 kg which was their standard up till now and then they are talking about 5 kg cylinder they are essentially talking about our cylinders that is composite cylinders. So we are expecting they have come to our factory, they have seen. All the approvals are in place. They have taken the trials at their filling station and as they say In šā' Allāh! Before end of this calendar we should get substantial order from oil marketing companies and when they come, they come in a very-very big way. So all of these things contribute in our domestic business growing up.

Prakash Ramaseshan: So it should be in line with the international business I hope going forward, the question on the impact on EBITDA margins when the prices go up because the realizations per tons still the same but you are doing it on a higher base as the base comes off also there should be some benefits sir?

Anil Jain: Yes, certainly in the percentage term.

Moderator: Thank you. Our next question is from Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Sir I just missed out if you give the sales revenue mix product wise.

Anil Jain: I can give it to you, packaging is 67%, Lifestyle is 9%, auto is 7%, and infrastructure related products are about 17%.

Bhavin Chheda: And geographical revenue mix, overseas versus how much is this?

Anil Jain: 69% domestic and 31% overseas.

Bhavin Chheda: This is quarter two?

Anil Jain: H1

Bhavin Chheda: And the mix also you gave was H1?

Anil Jain: Yes.

Bhavin Chheda: Sir regarding the cylinder order update you gave if I try to add up the numbers 2,40,050 so basically you almost of have a visibility of the overseas cylinder sales of almost 3 lakhs for next year. Plus whatever you sell in domestic market.



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- Anil Jain:** As you know our local capacity right now is about 300,000 cylinders so I see ourselves being able to kind of use up that capacity next year. And then we will be working on our plant in Bahrain probably you will miss the first quarter there also or the second quarter because we will get the necessary approvals and that will also come into play.
- Bhavin Chheda:** So India capacity will be almost full next year?
- Anil Jain:** I suppose. This is our clear indication probably we will have a situation where if there is somebody who wants immediately we will have to decline.
- Bhavin Chheda:** Okay. And sir regarding this sharp fall recently in raw materials is there any hit on the inventory or mark-to-market losses which we will see in the coming quarter or so or your pricing is contractual so there will be no major hit on the inventory?
- Anil Jain:** What we normally do it is that we fix the prices for the quarter that is backed up by the raw material inventories that we carry. As the price is reduced actually we only have to pass it on in the next quarter and not the one in which....
- Bhavin Chheda:** No, so you may be holding some high cost inventory.
- Anil Jain:** Current price inventory then my price will also remain the same for the quarter.
- Bhavin Chheda:** Okay. So there is no major losses on inventory which can be expected.
- Anil Jain:** We are extremely careful and besides let me be honest with you we could see this prices getting corrected for a while so we were a little prudent actually in terms of inventory.
- Bhavin Chheda:** Because many companies have shown a sharp mark-to-market losses so I was wondering if that.
- Anil Jain:** Yes. But you know what happens is, those companies increase the price when the raw material prices go up and they do not decrease the price when the prices come down. But we are very-very open with our customers. We ask for increase when the prices go up and also pass on the decrease but with a time lag of a quarter so our challenge is more when the price is go up actually because we can only pass it on with a lag coming down that is not really so much of challenge.
- Bhavin Chheda:** Right, and what was the gross debt number in the quarter including the current maturities of debt less than one year?
- Anil Jain:** Total debt is 820.
- Management:** Repayment in the next one year is 125 crores.



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- Bhavin Chheda:** Okay. And what was the CAPEX in first half and the plans for the year you said last year you will be in less than 100 crores so?
- Anil Jain:** Total CAPEX plan incurred up to this first half is 47 crores and total plan is less than the 100 crores.
- Bhavin Chheda:** And next year also similar it will be right?
- Anil Jain:** As we have said totaling in the next three years it will be less than 250 crores.
- Bhavin Chheda:** Total including this year?
- Anil Jain:** Yes.
- Bhavin Chheda:** Okay. And how is the IBC business in the quarter, overseas and domestic market?
- Anil Jain:** In face overseas is looking up actually, we are now if I may say the third largest producer of IBCs in the world. And the numbers are increasing by the month, we had a busy first quarter in India and we expect to be having the busier quarter, busier half for the rest of the financial year. IBC sale is growing and I guess these IBCs are now gaining more acceptance even with those customers who had been conventionally using the IBCs of the big name Schultz and Mouser but they are now recognizing that there are advantages of using Gen XRDs especially in countries where road conditions are not best here.
- Bhavin Chheda:** Okay. Thanks a lot.
- Moderator:** Thank you. Our next question is from Kamna Motwani of CRISIL. Please go ahead.
- Kamna Motwani:** Just wanted one clarification you mentioned some other participant that you might gain something on the EBITDA per ton also but from what I understood was that EBITDA per ton would be fairly constant.
- Anil Jain:** As a percentage of sales.
- Kamna Motwani:** As a percentage of sales you would gain but then in absolute earnings term then you might not be accretive.
- Anil Jain:** No.
- Moderator:** Thank you. As there are no further questions from the participants. Mr. Jain would you like to add any closing comments?
- Anil Jain:** Yes. First of all I would like to thank all the participants for finding time to be with us this afternoon. Like we said we are looking at very exciting years ahead of us especially we are



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very encouraged by the response that our composite cylinders have got. This is a huge opportunity worldwide and we are amongst few who have not only made supplies but the cylinders have been in the market and have been used successfully. This will give us a lot of sales possibilities in the next year. We are also happy that this new scheme that the government has launched about the toilets for the schools and the community toilets in small towns and villages this is an appropriate product, our Prefab Shelters are aptly suited for that and we have created a model which has been liked by the government and we do expect in the coming years we should be able to do a sizeable business from this area. So as said battery is now back on track. We have seen good demand for the PE pipes so I think everything is working well and probably all of this will be seen in its full impact in the next financial year but we expect even this year the results should be encouraging. I thank all the analysts for reposing confidence in the company and as management will not spare any efforts to make it better. Thank you.

Management:

Thank you.

Moderator:

Thank you very much Mr. Jain and members of the management team. Ladies and gentlemen on behalf of Time Technoplast Limited that concludes this conference call. Thank you.