



“Time Technoplast Ltd.Q1 FY18 Results Call”

August 17, 2017



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MODERATOR: MR. PRATIK THOLIYA – EMKAY GLOBAL FINANCIAL SERVICES



*Time Technoplast Ltd.
August 17, 2017*

Moderator: Good Day, Ladies and Gentlemen and a very warm Welcome to the Q1 FY18 Results Call of Time Technoplast Ltd. hosted by Emkay Global Financial Services. We have with us today Mr. Anil Jain, Managing Director and Chief Executive Officer; Mr. Bharat Vageria, Director (Finance); Mr. Sandip Modi, Senior Vice President (Accounts and Corporate Planning); Mr. Niklank Jain, – Vice President (Legal) & Company Secretary. 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. Should you need assistance during the conference call, 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. Pratik Tholiya of Emkay Global. Thank you and over to you, Sir.

Pratik Tholiya: Thank Ali. On behalf of Emkay Global Financial Services, I would like to Welcome all the participants who have logged into this conference call of Time Techno. At the outset, I would like to first thank the management for giving us this opportunity to host this conference call. Thank you so much, Sir. I would like to request Mr. Anil Jain, Managing Director and CEO, to first open the call with his opening remarks and take us through the results as well as give us a broad overview on the industry. Thank you and over to you, Sir.

Anil Jain: Thank you. Good Evening friends. Let me begin by first thanking my investor fraternity who have shown a lot of confidence in the company and its management. I had just been told that our stock touched light time high today. It could not have been possible without your confidence and trust in us. We are here to talk about the results of Q1 2018 and the outlook for the rest of the year. I am happy to announce that our young organization will be turning 25 years in coming September and I must thank the shareholders and the stakeholders for their support. The results are already announced, but I will just walk you through some of the key financial and operational highlights.

During Q1 FY18, net sales stood at 681 crores, these are the consolidated numbers, as against 620 crores in the first quarter of the previous year. EBITDA was at 102 crores as against 92 crores and PAT at 36 crores as against 32 crores. I must put in a caveat here that Q1 for our Indian operations is always the slowest one in terms of the total revenue and also for the growth. Also overseas because we consolidate them at a gap of three months, the real Q1 for our overseas operations also and historically that is always the slowest quarter, so therefore usually you have to look at these numbers in the light of this being the Q1. The net sales grew at 10% and the breakup is in India it was up by 8% and overseas it was 13%. This was in value terms, but however in volume terms, the total growth has been 12%, India 11%, and overseas 16%. EBITDA grew by 11% and PAT grew by 14%. You can clearly see that there has been a small little improvement in our EBITDA margins which has almost touched 15% that we have always hoped.

Net profit has also improved by 18 basis points and about 5.33% as against 5.15% of revenue in the previous year. Interestingly, our share of business in India and overseas is at 68% and 32%,



*Time Technoplast Ltd.
August 17, 2017*

respectively. Last year, it was 69% and 31%, so therefore, the breakdown for the local and overseas business has remained more or less the same. The interesting thing has been about our established product versus value-added products. The breakdown of the total turnover of 681 crores, our revenue from the regular business was 566 crores and the value-added business were at 115 crores. The growth of our regular business had been at 6% vis-à-vis the value-added business grew at 36% in Q1, and therefore, the share of business for our regular business was 83% and value-added business 17% as against 87% and 13%, so therefore, the share of business for the value-added business is actually increasing. Of course, in terms of EBITDA, our regular business has recorded EBITDA of 14.38% and the value-added business is at 17.75%. We have not allowed our debts to go up despite of this growth, so that remains at around 720 crores. ROC has improved by 31 basis points as compared to the last year. In fact, Q1 is not the real indicator, we had ROC of 14.68% in the previous year for the whole of previous year and we are expecting this ROC to further grow in the current year. I would like to open the floor for any questions that you would like to ask. Thank you.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. We will take the first question from the line of Pragya V. from Edelweiss. Please go ahead.

Pragya V.: Sir, I have two questions, one is on the revenue front, can you give us in volume terms how many composite cylinders did we sell and how much of that was domestic and how much was international?

Anil Jain: We did about 116,000 cylinders in the first quarter, the local sale was almost 0, so everything was actually exported. Our composite cylinders are in 26 countries already and the number is growing by the day.

Pragya V.: These were exported to 26 countries or, because approval we have for around 48 countries, if I am not wrong?

Anil Jain: Now, it has gone up to 55 or 56 countries already, but yes, until now we have exported to 26 countries already, but we are adding new countries every quarter.

Pragya V.: On full-year basis, can you give some guidance on what can be the number from composite cylinder?

Anil Jain: Pragya, we are looking at about 700,000 cylinders in the current year like I mentioned before, we are adding the capacity, in fact our capacity would get doubled up by the end of this quarter or early next quarter and that would help us in improving the numbers in coming quarters, but we are looking at about 700,000 cylinders in the whole of this year.

Pragya V.: How much of this will go to the Bangladesh order book which we have?



*Time Technoplast Ltd.
August 17, 2017*

Anil Jain: Bangladesh is a small quantity, but right now we are not supplying in fact we have not supplied anything in the current quarter to the Bangladesh at all, it has been to other countries, Nepal of course is one of them, Korea is another one, Maldives, South Africa, I can name all the countries.

Pragya V.: My second question is on mox film, so we did a turnover of around 93 crores, so can you give the volume number and was it export-oriented or it was domestic oriented?

Anil Jain: Pragya, I would love it to be 93 crores but actually it is 9 crores, because we launched this project only in the month of April and we straightaway ran into GST situation where lot of destocking took place, but the interesting feature is that we have now the distributors in more than 200 cities in India and the product has taken off extremely, extremely well, so we have currently the capacity of 6000 tons only because we have a variety of products which are to be done only on one single line, so the effective capacity is definitely lesser than that. As far as the whole year is concerned, we are looking at total revenue of about 80 crores in the current year for the mox film.

Pragya V.: In tonnish terms, what was our volume for the quarter?

Anil Jain: We have done something like 375 metric tons in the first quarter.

Pragya V.: Sir, my last question is in the drum sales we saw subdued kind of a growth of 5% or so, so can you throw some light on it, what led to this scenario?

Anil Jain: Well, GST I think we are still one of those fortunate companies who did not have to show any degrowth, but the fact remained that almost everything got affected because of destocking that took place in anticipation of the GST coming in, so our customers could not sell as much as they would have otherwise because of the GST coming in and therefore, our sales to our customer also reduced, but we now see that it is getting made up after the GST has been successfully implemented. I am sure the stocking will take place and this will be duly compensated.

Pragya V.: In a normal scenario, what kind of growth would we have achieved if not GST?

Anil Jain: We should be looking at about 12%, 10% to 12% is the growth that we should be looking within India and we are looking at the growth of about 20% from overseas operations.

Moderator: Thank you. We will take the next question from the line of Gunjan K. from Nivesaay. Please go ahead.

Gunjan K.: I wanted to ask in the industrial packaging segment we have drums and jerry cans, so what is the breakup of the margin, of composite cylinders and jerry cans?

Anil Jain: In the industrial packaging, we essentially have four products namely, plastic drums, also the jerry cans, and pails, all these three products actually have EBITDA margins of about 14.2 to



*Time Technoplast Ltd.
August 17, 2017*

14.4%, and it also has Intermediate Bulk Container and they normally record an EBITDA margin in excess of 18 to 20%.

Gunjan K.: What about composite cylinders?

Anil Jain: Composite cylinders, we do about 20% in terms of EBITDA margin, but that is the part of our value-added businesses.

Gunjan K.: I wanted to ask what is the outlook on the irrigation corrugated pipes, which you launched?

Anil Jain: The corrugated pipes have, we launched it only in the month of April and we got the capacity of 9000 tons and we had to wait until the BIS approval was given, so therefore, in the Q1 we did not do corrugated pipes much, but right now we have the order book of almost about 800 tons, which has to be supplied quickly, but the interesting thing is, there are tenders which are in pipeline adding up to 25,000 tons of corrugated pipes and I honestly do not know who is going to supply them if all these tenders materialize into orders or whoever, so I guess it is a very bright future. It took us about a quarter to get the BIS approval and that is already in place. We have corrugated pipes in three locations, Silvassa, Pantnagar, both of them have got the BIS approval and we just commissioned our plant in Medchal, Hyderabad, for which the process of BIS approval is on right now.

Gunjan K.: What is the launch schedule of CNG cylinders?

Anil Jain: CNG cylinder is something that we are going to be launching somewhere in 2019-20. We have got the cylinder, we manufactured this, it has passed all the requisite test, we now will put it on field trials. Normally, we allow about a year for these cylinders to be tried out and then we start the process of approval though we have no doubt that we will get the approval, but the process takes something like 6 to 8 months, so we plan that, we will be launching this product from next to next year.

Gunjan K.: I wanted to ask about the quality of your composite cylinder that is the LPG cylinders that you launched, is there any complaints regarding that the cylinder is breaking like out of part or something that complaints....

Anil Jain: The composite cylinder there has not been any complaint of leakages etc., but the outer part is subject to the handling at the customer's place, so if there are some accidents or they break or they drop or they hit against something, then of course there could always be some few cases where the casing can get damaged, but that casing can be easily replaced, but insofar as the composite cylinder quality is concerned, we have had no complaints at all.

Moderator: Thank you. We will take the next question from the line of Ayush Sharma from Investec Capital. Please go ahead.



*Time Technoplast Ltd.
August 17, 2017*

Ayush Sharma: Sir, I have couple of questions around mox film, first thing in which states have we launched this product?

Anil Jain: We have launched it in several states, I can name Kerala which has turned out to be the best-selling state for us, but we have strong presence in Karnataka, in Andhra Pradesh, probably not so much in Goa because the demand was not so much, but Maharashtra we have a very, very strong presence and going up, Madhya Pradesh, Rajasthan, and we have gone right up to Punjab, Himachal, and Haryana. On the eastern side, we have a presence in West Bengal, little bit in Orissa, and in UP, we have now got few distributors who have taken the product. We have a strong presence in Bangladesh now and also in Nepal, and now we are taking this product, we just got the order from Europe, which is being executed and we are now participating in an exhibition which is coming up next month then I am sure we will be able to setup our distribution network in Europe where this product is very well received and adds further value.

Ayush Sharma: Sir, on order from Europe, what is the pricing and margin differential versus peers?

Anil Jain: The margins in India itself is not very bad, but of course there could be an advantage of about 10 to 15% even over and above, but the margins we have in India, like I said we just started, I think it is the first two containers which are going. I am sure going forward we will be able to find new applications. Here also, there is a very large requirement of greenhouse application where this will be aptly suited and I am sure as people have experienced with our mox film, we will be able to get additional order in future. Right now, my problem was that we had the capacity of only 6000 tons and we have got again about 12 different sizes and about five different colors, so we have to be juggling between sizes and the color, but with this additional capacity that we have already planned and are expected to come in by under this year, we are pretty hopeful that we will bring in lot of internal efficiencies and the capacity utilization will also improve.

Ayush Sharma: Sir, some of our competitors have launched the higher grade of the film products, so anything we are doing about it?

Anil Jain: You have also been confused with this one, now as a matter of fact if you look at our regular film that we are making was much, much better than the competitors regular product and still as against the new product is much better in terms of strength, in fact whenever we meet I can show you the comparative test results and you will find that the test parameters that we have been able to pass way ahead of BIS that is applicable to this product and also the competition product that is available in the market.

Ayush Sharma: Sir, is it possible to quantify the number of distributors that we have currently and going forward, how do we plan to take it?

Anil Jain: I would put it this way that we are at reach now in about 300 towns and cities in the country, there could be some more distributors or dealers in some locations, it would not really be



*Time Technoplast Ltd.
August 17, 2017*

possible to give you the exact numbers, but I think what we are concerned about is the reach that we have.

Moderator: Thank you. We will take the next question from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.

Dhananjay Mishra: Sir, can you give the breakup of the 234 crores CAPEX we have in terms of how much we are going to put in composite cylinder, how much for PE pipe, and how much for the maintenance CAPEX?

Anil Jain: We have budgeted 234 crores for the whole of this year, so the CAPEX in the established business which also would include, it is a long list about 38 crores will go towards capacity increase of the regular products, PE pipes will take about 25 crores, CAPEX required for innovation and technology and upgradation that is regular R&D that we invest about 1% of our total revenue, but we have budgeted this time 14.3 crores, we have got CAPEX requirement for debottlenecking of capacity that is about 11 crores, automation about 5.3, the CAPEX required for regular maintenance of the machine itself is about 38 crores, so this adds up to 140. In addition to that, we have got composite cylinder another 49 crores, mox film 24 crores, and IBC business, we are adding IBCs in three of our overseas locations, that will be about 21 crores so that adds up to 234 crores for the whole year. Of course, in Quarter-1 we have used up 46 crores both for established business about 14 crores and the value-added business, we have invested 32 crores.

Dhananjay Mishra: In Q1 Sir, we have already completed PE pipe CAPEX, 16,000 tons?

Anil Jain: The 9000 tons for the corrugated pipes, yes, we have completed this, maybe a small further investment may be required as our Hyderabad plant is getting commissioned, but otherwise most of it was done in Q1.

Dhananjay Mishra: What is the price difference between this corrugated pipe and PE pipe?

Anil Jain: It depends upon, right now because there is not much of a supply available for corrugated pipes, I would like to think it is about Rs. 20,000 a ton but in terms of our cost that remains more or less the same, so therefore, corrugated pipes qualify to be amongst the value-added business because we expect better EBITDA margin from them.

Dhananjay Mishra: In slide number 9, we have mentioned the DWC pipe order book of 800 tons and the amount we have mentioned is 920 million, it should not be 920 million, it should be 92 million actually because I was just calculating, it was giving me calculation of Rs. 11 lakh per ton?

Anil Jain: We had a quota of making one mistake, we have consumed it.

Dhananjay Mishra: If you could also provide the volume data for this IBC as well as PE pipes for this quarter?



*Time Technoplast Ltd.
August 17, 2017*

- Bharat Vageria:** IBC total number is 1,05,000 pieces and PE pipes is 6000 tons.
- Moderator:** Thank you. We will take the next question from the line of Umesh Patel from TCG Asset Management. Please go ahead.
- Umesh Patel:** Few question Sir, just wanted to know you mentioned that debottlenecking would be done, so what percentage of incremental capacity that will help us to add and what CAPEX you said earlier?
- Anil Jain:** Let me put it this way that we are talking about in my regular business a growth of about 10% to 12% and that will be mostly coming in by way of debottlenecking or doing some Brownfield project, which will not require a very large investment, so right now we are reasonably sufficient in terms of our capacity to be able to record the growth of about 12% to 13%. The debottlenecking of 10.9 crores is actually for this margin increase in our capacity at different locations.
- Umesh Patel:** Sir, but what capacity you said to spend on for debottlenecking, overall?
- Anil Jain:** 10.9 crores.
- Umesh Patel:** That would be across your three segments, that it would be lifestyle products...?
- Anil Jain:** The investment could be 1 crore, 2 crores.
- Umesh Patel:** Sir, wanted to know few things I mean debottlenecking will increase your capacity by how much percentage say around 5% to 10% from your current existing capacity?
- Anil Jain:** It is 5% or thereabouts.
- Umesh Patel:** What percentage of your revenue comes from value-added products as of now and what was it in two years back?
- Anil Jain:** It is 17% of our revenue in the Quarter-1 has actually come from value-added products. In the previous year for the total previous year, it was only 13%.
- Umesh Patel:** What is our target?
- Anil Jain:** End of this year, we should expect the value-added business to be about 18% of the total revenue.
- Umesh Patel:** Which segment looks more promising as a value driver in the next two years, and what kind of revenue and PAT growth that we are expecting for this year FY18?



*Time Technoplast Ltd.
August 17, 2017*

Anil Jain: We are expecting value-added business to grow at about 65% for the whole year, so we are pretty bullish on, but since the base number is small its share of business is going to be only about 18%, let us not forget that our regular businesses are also growing because in the regular business, we have PE pipes which are also recording a growth of about 45% or thereabouts, so therefore that will also grow and the value-added business will also grow and here our business for value-added business will be about 18%; ultimately we look at the numbers that we have projected for the year 2021, we expect the value-added business to contribute 25% of total revenue.

Umesh Patel: That would be by 2021, right?

Anil Jain: That is 2021, at which time we are expecting the revenue to be approximately 5000 crores.

Umesh Patel: Last question was related to composite cylinder business, last time you were mentioning that the capacity expansion would be over by the end of first quarter, earlier remark you said that it would be in the second quarter so is there any delay that we are facing as of now and you also mentioned that last year I think we delivered around 4.5 lakhs or 5 lakhs increase of volume for composite, this year we are expecting 7 lakhs, so post CAPEX of this composite cylinder in consolidation, what kind of revenue by the end of FY18 and FY19 that we are anticipating from composite cylinder to contribute?

Anil Jain: Let me just go one by one, probably I may have listed, but we are expecting our composite cylinder capacity to kick in by end of second quarter and we are more or less on schedule, so we will be having this additional capacity available only for half of the year. We are expecting a total of about 160 crores revenue in the current year and total number is going to be about 700,000 cylinders. Going forward, the composite cylinder business will contribute 250 crores in 2018 and 19, and in 19-20, we should be looking at about 350 crores.

Umesh Patel: EBITDA margin we are expecting around 25% or it would be more than that?

Anil Jain: As we go to the larger numbers, we will have some internal efficiency, so the EBITDA margin will grow, for the moment it will be proper to estimate it at about 20%.

Umesh Patel: It would be 20%, right?

Anil Jain: That is right.

Moderator: Thank you. We will take the next question from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Sir, my first question is any update on the battery business?

Anil Jain: If you remember in the last conference I had taken a moratorium of two years to build this business to the newer heights, we are well on way to do that. I am very happy that we have



*Time Technoplast Ltd.
August 17, 2017*

developed a battery for the E-Rickshaws, which is right now under field trials and we have a customer waiting for these batteries to come in. We are now moving quickly away from telecom batteries, I am very happy to tell you in the Q1 almost 60% of our business was from solar batteries and I think this change will continue. We will probably not be very actively participating in telecom batteries as it is the demand is pretty low and the prices are terrible, so we would not be focusing. The capacity that we had actually is now being used for solar batteries and the UPS batteries. In addition to that, we are working very hard to develop this better for E-Rickshaw as you know that the demand for E-Rickshaws in this country is going to grow very big and we certainly would like to bring in a battery which can meet the performance requirements which are very, very challenging.

Ritesh Shah: How much is the total capital that we have deployed over here and any guidance that are you looking to deploy any more money in this business?

Anil Jain: Time Technoplast has invested around 60 crores in that company, but we are not looking at further deployment here. Of course, they can use their internal accruals for any CAPEX expansion or converting their telecom battery capacity into solar battery is concerned, but we are not investing anything further there.

Ritesh Shah: Sir, do we have 100% stake in this business?

Anil Jain: Almost we are now at 98%, 2% is with the employees.

Ritesh Shah: Second question is on debt, if you could please give some breakup of long-term debt and working capital, it will be quite useful?

Bharat Vageria: We have a total debt of 720 crores, out of which 360 crores is short-term debt and 360 crores is long-term debt, 50-50 percent.

Ritesh Shah: Working capital?

Bharat Vageria: It is 360 crores.

Ritesh Shah: Sir, can you give the same numbers for March end?

Sandip Modi: The level of depth are same, March almost 12% revenue growth is there.

Moderator: Thank you. We will take the next question from the line of Kunal Mehta from Vallum Capital. Please go ahead.

Kunal Mehta: Sir, just wanted to understand your utilization in the overseas business, if you can just give us a separate number for the Southeast Asian parts and for the Bahrain and Sharjah part?



*Time Technoplast Ltd.
August 17, 2017*

Anil Jain: On an average, our capacity utilization is between 70-72% overseas, this is more or less the same actually in the Far East and also in the GCC or Egypt put together, so it has been more or less the same. We have now better capacity utilization as the demand is growing and of course in terms of revenue we are growing at about 20%, I mean even in Quarter-1 we have seen a growth of 15% in our overseas operation.

Kunal Mehta: Sir, in terms of the CAPEX of 234 crores which you have planned for this year, so how much of it would be dedicated to the overseas facility expansion, if you can throw some light on it?

Anil Jain: Overseas will be about 47 crores and the rest will be in India.

Kunal Mehta: Okay Sir and that the entire 47 will be for the expansion of capacity in the packaging side of overseas?

Anil Jain: When we went overseas actually out of total nine countries, we had the manufacture of IBC only in six, so three countries we did not really go with IBC but now we have been able to develop the market of IBCs in those countries as well and we have decided to add IBCs to our product portfolio there, so that is in Malaysia, in Sharjah, and in Vietnam we also have IBC, therefore we can say at all our overseas locations, we will have the IBCs available for customers there.

Kunal Mehta: Sir, there is one question with respect to mox film, so this year you given us a target of around 80 crores for mox film, so considering next year, so would we be able to do at least 150 crores of revenue for mox film considering we have the capacity of 6000 tons?

Anil Jain: We will do better than that actually. Internally, we are looking at about 180 crores in the next year for the mox film.

Kunal Mehta: The margin should be around 30% for mox films?

Anil Jain: All markets, the margins are very good, but we will have to wait and see how the competition will behave and so far as we are concerned, we are very clear that we would like to sell our products at least 1% more expensive than the competition, because we do believe sincerely that we have a better product on hand, but of course if the market situation changes, we will have no options but to respond to that.

Kunal Mehta: Sir, just one last question, any guidance on the, how you expand to scale up the IBCs, you have mentioned that you have increased the capacity for IBC and also entered new market, so going forward if I can just pick up a number for FY19, what would be the scale of the IBC business if you can give us some understanding?

Anil Jain: In 17-18, we are looking at a total IBC business of about 342 crores, in 18-19 it will be about 393 crores.

Kunal Mehta: Sure, that has a range of around 18% margin, it is more than?



*Time Technoplast Ltd.
August 17, 2017*

- Anil Jain:** Yes, 18-19% margin.
- Moderator:** Thank you. We will take the next question from the line of Sanjeev Zarbade from Kotak. Please go ahead.
- Sanjeev Zarbade:** Sir, it is regarding the debt, so based on the CAPEX plan that we have of 232 crores what could be the level of debt that we could end this fiscal with?
- Anil Jain:** I think we will at almost the same level actually if not better, but we are following a very strict discipline in terms of our debt in fact we have got a long-term strategy about the debt also, like I said if you look at March 31 and up to the end of the first quarter, we have not really allowed our debt to go up despite of the revenue growth of 10% and we hope to maintain this by the end of this year, I cannot say which is marginally higher but no significant change. Our internal discipline is that at any point in time, our debts will not be more than two times of then EBITDA and within that, we will actually explore the growth opportunities and expand, so we have not let the debt run up to a point where we might have difficulty in servicing them.
- Sanjeev Zarbade:** Sir, regarding the interest cost it has declined 10% on a year-on-year basis, so do you think this 21 crores run rate will continue or will it increase because we are also simultaneously incurring some CAPEX?
- Anil Jain:** On the run rate basis, we should really be able to maintain that through the year and of course we have taken some steps whereby the cost of borrowing has improved marginally, I am sure the efforts will be on for the rest of the year as well, position for the purpose of our business model, we should take the borrowing cost being the same as it is today.
- Sanjeev Zarbade:** Around 75 crores?
- Sandip Modi:** About 90 crores, for the whole of the year, it will take quarterly 21 crores, so for the year it will be 84 crores, so it should be around that.
- Sanjeev Zarbade:** Tax rate, around 23% to 24%, stable?
- Anil Jain:** At that rate the same rate will be maintained.
- Moderator:** Thank you. We will take the next question from the line of Mahindra Jain from Way2Wealth. Please go ahead.
- Mahindra Jain:** I would like to understand how the raw material prices are shaping up, is it crude affecting or what is this year or in the nearby future?
- Anil Jain:** I would like to clarify here that the prices of polymers has divorced themselves from the crude prices. As a matter of fact most of the polymers in the last 10 years are now being produced out of gas and the gas is a byproduct in Middle East and some of these countries, therefore, we have



*Time Technoplast Ltd.
August 17, 2017*

seen situation where the price of crude and the price of polymer actually move in opposite direction. Right now, there is overcapacity for the polymers, lot of new capacities have come in Middle East, Iran is also pumping in, but more than anybody else, it is United States of America where they have added a huge capacity which is based on Shell gas and because the freight cost from US to India is also not very high right now, they are able to come this far and offer products to the customers and they are looking for the companies who can use lot of these polymers, so we are in a sweet spot and another we but all polymer product companies where raw material is available in plenty and the prices are pretty stable with the downward bias and I am sure this will continue for at least next five years if not more.

- Mahindra Jain:** Sir, one more question, regarding GST, can we see some effect in Quarter-2 or is it over?
- Anil Jain:** The pain is over, in fact we must congratulate government for implementing GST pretty well, we are seeing the demand from our customers has come back and everybody seems to be happy that they have been able to implement GST at their places pretty well and also down the line with the distributors and dealers, so I see no reason why GST will continue to impact revenues in Q2 or further down.
- Moderator:** Thank you. We will take the next question from the line of Pragya V. from Edelweiss. Please go ahead.
- Pragya V.:** My follow up question is on mox film, can you just let me know the incremental capacity we will be putting in and what is the CAPEX for incremental capacity in mox film.
- Anil Jain:** Pragya, right now our capacity is 6000 tons, that is our nameplate capacity, but in reality what is actually happening is because you have got one line and you have multiple products every time you change the size or the color, you actually have a downtime, and therefore, the real capacity available on hand is not 6000, but it is less than that. We are now adding 6000 tons additional capacity which will kick in by end of this year and this will not only add the capacity, but will also help us improve the capacity utilization on our first line, so we are investing in the range of 65 crores for this additional capacity of 6000 tons.
- Pragya V.:** Initial investment was how much for 6000 tons?
- Anil Jain:** That was about 72 crores.
- Moderator:** Thank you. The next question is from the line of Umesh Patel from TCG Asset Management. Please go ahead.
- Umesh Patel:** Sir, my question was related to raw material thing, I am positively surprised after seeing your raw material management, if I look at all the polymer-related companies across sector, you have managed to report negligible inventory loss, what kind of strategy that we implemented actually, wanted to know that stuff?



*Time Technoplast Ltd.
August 17, 2017*

Anil Jain: It is very simple really because we do not speculate in raw material and we have a pricing which is absolutely pass-through, so therefore, we do not really go through these pains, of course we carry the inventory, but we also have the contract in front of us where this inventory is used, so we actually give price to our customers which are fixed for a quarter which is led by the raw material for that quarter. In the next quarter, we effect the price change based on our procurement price in that particular quarter, so the therefore there is a 100% pass-through with a time gap of one quarter, considering the fact that prices have been more or less stable all this time, we have not really seen any drop or any inventory losses, and like I said, we can pass on the increase or decrease to our customers, so even that does not get affected.

Umesh Patel: Sir, if I look at all the commodities it is of PVC, PLG, LLDPE which are the raw materials, the prices have bottomed out from May and onwards, but in April and May, the prices have come down significantly by around 8% to 10%, so inventory level that we are keeping is around 1.5 months or two months, am I right?

Anil Jain: Yes.

Umesh Patel: Sir, then in that case there would be some inventory loss that we might have taken in this quarter which was not the case because it takes as you mentioned one quarter to pass it on, but this quarter there would be definitely some positive price movement or there would not be in fact inventory loss, but last quarter if I look at the pricing scenario, there would be definitely something actually, which I did not understood or I am not getting?

Anil Jain: I will explain to you, it is simple, first of all if you look at most of the polymers we use are polyethylene and some polypropylene, if you look at the price chart of these two polymers, you would find that they have not really changed as much you would find in LLDPE or PVC or some other polymers, so therefore it would not be a fair comparison with the companies who use other polymers because they may really have seen this kinds of ups and downs. Now, what we do is we also continuously keep buying, so therefore, you have to take your average procurement price of the raw material it is not that we buy enter quantity for the whole two months at one go and they do not buy anything, so we do buy regularly and therefore you would find that it automatically gets averaged out, and therefore, I do not know if there is some marginal difference, probably that gets accounted for within our internal system, but we have not seen any significant revenue loss in the inventory value that I could be mentioning.

Umesh Patel: Sir, are we following some pricing mechanism like FIFO or LIFO method for inventory to procurement?

Anil Jain: We take the average of the quarter.

Sandip Modi: Weighted average we are taking it.



*Time Technoplast Ltd.
August 17, 2017*

- Umesh Patel:** Second question was related to composite cylinder, few months back we had announced about that we had tied up with Reliance to roll out composite cylinders in India and also related to your carbon fibre-based composite cylinder for automotive application, so wanted to know what is the status and how the things are developing in that space?
- Anil Jain:** We have supplied some small quantity of cylinders to Reliance as they have launched LPG in Pune, which is through the composite cylinders.
- Umesh Patel:** That was for household or automotive, industrial?
- Anil Jain:** It was for the household, so far as composite cylinder for CNG is concerned what we showcased was that we have been able to successfully produce a composite cylinder type for CNG in India for the first time, and worldwide it is probably second or the third company who have been able to do it successfully, so that before we launch it in the marketplace, there is a whole lot of exercise that has to be conducted which includes prolonged field trials and approval processes etc., so we are not going to commercialize it before FY 19-20.
- Umesh Patel:** That agreement that is exclusively for Reliance or we are open for?
- Anil Jain:** CNG, we have nothing to do with Reliance, CNG is for automotives where you now find a lot of CNG vehicles some of them are factory fitted and some of them are from the aftermarket. Let us say for example if a typical car you take it, if you take a CNG cylinder for 60 liters capacity that would be weighing something like 70 Kg or 68 Kg to be precise, but we have been able to develop a composite CNG cylinder which is weighing only 16.5 Kg, so therefore that is a big advantage and we expect that in the aftermarket there will be a good potential for this one and they are also talking to some OEMs who are very, very keen that because everybody is now wanting to reduce the weight of the vehicle, there is significant reduction in weight so therefore they are also considering that as an alternative.
- Moderator:** Thank you. We will take the next question from the line of Jatinder Kumar, an Individual Investor. Please go ahead.
- Jatinder Kumar:** Sir, my question is regarding composite cylinder, is there any progress for supply of composite cylinder to OMCs?
- Anil Jain:** Yes, there is a progress, now we supply them some 15,000 cylinders, I think it was about nine or 10 months ago and this has been sitting with them for launch, but for variety of reasons, it did not take place but now they are getting very active and now I am told that they would be launching it in the month of September, but I am keeping my fingers crossed. The interesting part is from our discussions with OMC at a very senior level, we have been assured that if this trial goes through successful, they would like to come back with large requirement of composite cylinders and they at least recognize that this has the potential for penetration in areas where LPG is already not there. We now know for sure that private LPG distributors are also getting



*Time Technoplast Ltd.
August 17, 2017*

very active and you have seen it already that the subsidy on LPG is now getting removed and that would mean that private LPG distributors will have a level-playing field and they were not very keen to try something new because they had a distinct disadvantage in the market place, but now the market is opening up for them, I am sure we will be able to offer our composite cylinders to private players as we are in discussion with few already.

Moderator: Thank you. We will take the next question from the line of Nitesh Dhoot from Emkay Global. Please go ahead.

Nitesh Dhoot: Sir, my question basically pertains to the raw material prices once again, so steel prices we have seen 40%, almost 35% to 40% YOY versus our raw materials like HDPE, PPE, which is basically flat YOY, so is not a very interesting situation and as our products become much more competitive as compared to the metal counterparts, if that is so, then do not you think the revenue growth should have been better in your established product business especially?

Anil Jain: Let me just tell you that as against penetration of 12.7% worldwide the polymer drums vis-a-vis steel drums in India we already have a penetration of 55%, and if we look at the balance 45%, most of it is coming from Oil Marketing Companies and they have their own cousin, Balmer Lawrie, who is the largest producer of steel drums, so even if we try our very best, we are unlikely to penetrate that market, therefore, yes, what has actually happened is the earlier the polymer drums were almost about 10% more expensive than the metal drums, now they are more at par, so you are right the ground is right for us to penetrate further, but the choices are pretty limited, but it most certainly is going to help us in overseas business where we already have seen a good growth and there we are in a better position to replace metal drums with the plastic ones.

Moderator: Thank you. We will take the next question from the line of Kunal Mehta from Vallum Capital. Please go ahead.

Kunal Mehta: Sir, you mentioned that for fulfilling the growth requirement of at least 10% to 12% in domestic industrial packaging business, we would this year consume a CAPEX of around 60 crores, so I just wanted to understand from the standpoint of this business that what are the factors because of which the incremental CAPEX required for additional sales is considered to be lower in our business, so if you can just give us some understanding about that?

Anil Jain: We are talking about total CAPEX of 37.6 crores for normal growth of 10% to 12%, that is what we are expecting. Our capacity utilization is already in excess of 80% or 85%, so therefore if we have to register that growth some CAPEX is certainly required. Year-on-year growth, we are looking at about 12% and I am sure that we will continue in the next year as well. This kind of a CAPEX can be expected even in the next year for our industrial packaging business, of course we are in a very unique position where we have a significant market share in India and lot of customers are dependent upon us for their industrial packaging products requirement, so we really have to keep pace with their growth and their additional requirements that keep coming.



*Time Technoplast Ltd.
August 17, 2017*

- Kunal Mehta:** Sir, just wanted to understand that for additional 1000 crores of revenue traditionally given the setup that you have, how much CAPEX would be required for 1000 revenue?
- Anil Jain:** On an average basis, you can say that our asset to turnover is about 2.2 times, it will give a broad idea as to how we can look at that.
- Moderator:** Thank you. We will take the next question from the line of Pragya V. from Edelweiss. Please go ahead.
- Pragya V.:** Sir, I just wanted to know like the CNG facility, you will have to put a separate line or it is integrated to the composite cylinder line which we already have?
- Anil Jain:** It will be a separate line Pragya and in that line not only we can make composite cylinders, but we can also make missiles and rockets, so it will be a dip in line, but we are fully care to undertake that. Incidentally when you want to make some of these products, you require special five or six extra winding machine and that is not allowed to be imported because they get covered in the missile proliferation treaty or whatever, but we have found a way by which we can get two axes machines from overseas and additional axes, so we are ready, we have developed a machine on which we can do that, but when we go for the commercial production, we will be required to setup a separate line and of course we will require additional investment at that time.
- Moderator:** Thank you. That was the last questions, I now hand the conference over to Mr. Pratik Tholiya for closing comments.
- Pratik Tholiya:** On behalf of Emkay Global Financial Services, I would like to thank the management for this detailed discussion on the company as well as on the industry, this was very, very helpful for all the participants who have logged in to the conference call, so would you like to make any closing comments.
- Anil Jain:** We are well on our way to meet our guidance, I think the business is at inflection point where we have got lots of new products, new areas of business. We are clearly focused on improving our ROCs and that is something that you would see in the coming years. We have a roll-in five-year perspective plan and we are projecting good growth going forward, so we are pretty excited about where the business stands today and the future prospects for growth. I thank you once again, my investor friends, for the confidence in the company. Thank you so very much.
- Moderator:** Thank you. Ladies and Gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.