"Time Technoplast Limited Q3 FY 2017 Results Conference Call"

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ANALYST:	**MR. NITESH DHOOT – EMKAY GLOBAL**
MANAGEMENT:	**MR. ANIL JAIN – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - TIME TECHNOPLAST LIMITED** **MR. BHARAT VAGERIA – DIRECTOR (FINANCE) - TIME TECHNOPLAST LIMITED** **MR. SANDIP MODI – SENIOR VICE PRESIDENT (ACCOUNTS AND CORPORATE PLANNING) - TIME TECHNOPLAST LIMITED** **MR. NIKLANK JAIN – VICE PRESIDENT (LEGAL) & COMPANY SECRETARY - TIME TECHNOPLAST LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2017 Results call of Time Technoplast Limited hosted by Emkay Global Financial Services. We have with us today Mr. Anil Jain, Managing Director & Chief Executive Officer, Mr. Bharat Vageria, Director (Finance), Mr. Sandip Modi, Senior Vice President (Accounts and Corporate Planning), and Mr. Niklank Jain, Vice President (Legal) & Company Secretary. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Nitesh Dhoot of Emkay Global. Thank you and over to you Sir!

Nitesh Dhoot: Good evening everyone. We would like to welcome the management and thank them for giving us this opportunity. With this, I would now hand over the call to Mr. Anil Jain. Over to you Sir!

Anil Jain: Thank you very much and good afternoon to all my friends. Welcome to this conference call. As you have been told already Mr. Bharat Vageria, Mr. Sandip Modi and Mr. Niklank Jain, they are accompanying me for this conference. First of all, I would like to give you the highlights of the performance in Q3 FY2017 and also the numbers for nine months combined together from this year's outset, which we have had very good results in Q3 and we are well on our way to achieve what we have projected for the whole year. The key performance numbers are in the Q3 FY2017 the net sales on a consolidated levels stood at Rs.670 Crores as compared to Rs.570 Crores in the corresponding period last year, EBITDA is at Rs.103 Crores as compared to Rs.85 Crores in Q3 last year and PAT at Rs.37 Crores as against Rs.28 Crores in the same period last year. If you look at the percentage growth, you would find that net sale is grown at 18% in value terms, the volume growth has been at 19%, EBITDA grew at 21% and the PAT went up by 31%. If you take these numbers for the nine month period, net sale have been at Rs.1945 Crores as compared to Rs.1777 Crores, EBITDA is at Rs.293 Crores as compared to Rs.260 Crores last year and PAT at Rs.104 Crores as against Rs.86 Crores.

In our nine month period you would find the net sale has grown at 10% in value terms, in volume terms has been 12% growth, EBITDA grew at 13% and the PAT grew at 21%, but then these numbers are not quite comparable because there were some businesses that existed in the corresponding periods in 2015-2016. Therefore, if you look at the business that has continued those growth numbers would change. In nine months period, this number would be, that the net sales grew at 14% and the breakup is, that in India we grew at 11% and in overseas it is 19%. The volume grew at about 15%. India is 13% and overseas 20%. EBITDA grew by16% and the PAT grew at 23%.

The other key financial highlights for the third quarter of FY2017 are that the EBITDA margin improved by 45 basis points on year on year that would be – it is now at 15.30% as against 14.85% of sales. Finance cost reduced by 66 basis points, which is at 3.29% as against 3.95% of sales. Net profit margin improved by 54 basis points that is 5.44% as compared to 4.90%. The net debt to EBITDA improved, which is at 1.66 times of EBITDA as against 1.93 times of EBITDA in FY2016 and the most important is ROCE, which improved by 136 basis points year-on-year, so we are at 14.29% as against 12.93%. To get on for debt and effective finance cost reduction by using lower cost of production and financing. After 2007, when we had gone public, we raised capital by Rs.150 Crores by way of preferential issue of 16 million shares to a specific investor in January 2017, which has been since been concluded successfully. EBITDA margin in overseas and Indian businesses are now almost the same; however, net profit margins are higher in overseas businesses due to lower tax rate.

The operational highlights are that currently our capacity utilization stands at 87% in India and 67% overseas. In nine months, India and overseas are operations grew in value by 11% and 19% year-on-year. We are now market leaders in packaging products in eight out of nine countries where we started operations. All our eight overseas operations are now profitable, looking at healthy order book; we have enhanced production capacity for composite cylinder from 700,000 cylinders to 1.4 million cylinders that will become operational in Q1 of the next financial year. We successfully completed our project for multilayer multiaxial oriented cross-laminated film, we call that as a MOX Film and this unit has now gone into operation. The product has already been approved as per BIS in fact we exceed their specification and we are on way to get the BIS and we have also completed Brownfield expansion in Egypt for manufacturing of IBCs that is 1,000 liter intermediate bulk containers. These have been some of those achievements in this quarter. I would be happy to answer specific questions. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We will wait for the question queue to assemble. We have our first question from the line of Zeeshan Bagwan from Investec. Please go ahead.

Zeeshan Bagwan: Thank you for the opportunity. Sir my first question is regarding the MOX Film, Sir can you quantify like what are the revenues that you are generating from this films and what are the expected margins out of this particular business?

Anil Jain: Well the MOX Film operations have started only last week. We have got the product approved already. We have not factored in any revenue in the current financial year, but with the capacity of 6,000 tonnes that we have put up, we can expect a total turnover of about Rs.200 Crores from these operations. The EBITDA margin in this product is expected to be in excess of 20%.

Zeeshan Bagwan: Okay and Sir this Rs.200 Crores revenues by when do you expect that to flow?

Anil Jain: I would like to think that this will happen in the year 2018-2019, so the 2017-2018 will be a period in which we will tap the market. I expect that early next year thereafter we should be able to utilize sizeable part of this capacity.

Zeeshan Bagwan: Okay and Sir how will your pricing be versus **(inaudible) 9:34** who is your competitor?

Anil Jain: Well we will offer it almost at the same price, but our product is considered to be better than the product that are available in the market place, so we are offering a better product at the same price. So we are not looking at lowering the prices at all.

Zeeshan Bagwan: And Sir secondly in regards to this LPG composite cylinder you are expanding your capacity, so what is your current capacity utilization?

Anil Jain: We have a capacity of 700,000 cylinders currently, this year we will end up doing 350,000 cylinders at the end of the year, but if you look at the capacity utilization in H2 that was close to about 65% to 70% since the capacity build up takes times, so we undertook that, I think the important part is that we have an order book in excess of 1.8 million cylinders, of course with staggered deliveries which is incumbent upon us to increase our capacity and that is what we have done.

Zeeshan Bagwan: This order book visibility like by when do you expect to cater that like over two years?

Anil Jain: Well, yes, we should be executing it in the two years, but there are lot of orders in the pipeline normally, we get contract to be executed over a period of two or three years depending upon the customer's requirement, but if you look at the long-term contracts, the numbers would be in excess of 1.8 million cylinders.

Zeeshan Bagwan: Okay and Sir lastly on margin, how were your margins in this composite cylinder?

Anil Jain: Well the capacity utilization last year was not really as much as we would have liked it to be; therefore the margins were about 17%, 18%.

Zeeshan Bagwan: Okay and going forward with increasing capacity utilization, how much can these margins improve?

Anil Jain: We are projecting in excess of 20%.

Zeeshan Bagwan: One last question regarding the MOX Film, like since you will be offering it at same prices will you be giving higher credit because you are launching a new production into the market?

Anil Jain: We have no intensions to offer this product on credit because this market operates on payment against supply or probably even the advance payment, I think the payment terms will continue, we can offer the loyalty discount or the bonus for long-term contracts, to that extent we maybe a bit lower in terms of the prices, but like I mentioned in the beginning the product that we are offering is much, much better than what is available in the market place, so we do not foresee that the customers would actually be respecting a lower price from us.

Zeeshan Bagwan: Okay Sir. Thanks for taking my question, I will join the queue.

Moderator: Thank you Sir. We have the next question from the line of Natasha Agarwal from CRISIL Research. Please go ahead.

Natasha Agarwal: Hello Sir. My first question is regarding the composite cylinders, Sir can you give us a sense how the demand has been in overseas as well as Indian market?

Anil Jain: I think my comment about the domestic market continues to be the same. We have supplied cylinders to Reliance gas, which are in operation for more than three years successfully. We could persuade all marketing companies to go for composite cylinders, they came up with a trial order, we have made the supplies almost about six months ago, but they have not launched it just yet. Last week I was in Delhi and met the minister as well. He had come for opening the conference Asia LPG Summit and I was told that we are going to be launching those composite cylinders very soon, but in addition to that Reliance Gas is now wanting to roll out LPG distribution in the entire country, they have chosen a few cities in Maharashtra and Gujarat and in some other places they are planning to launch LPG in composite cylinders. We therefore received a repeat order from them, but from the discussion that we had with them we are expecting sizeable orders from Reliance Gas going forward. Right now we have approval for our composite cylinders in 48 countries, we are exporting it to 25 countries. The demand in these countries is strong and we expect even if nothing happens in India, we should be able to fill our capacity from the overseas orders.

Natasha Agarwal: Okay, all right and Sir next question I have in the financial side we have seen a sharp increase in your tax rate, so is it because of the tax holiday that we are no longer availing?

Anil Jain: That is partly because of that and of course, the overseas business is now profitable, so they will also be taxed and therefore that will also be factoring.

Natasha Agarwal: Sir going forward what is the tax rate that we can work with?

Bharat Vageria: The tax rate will be in the range of 25%.

Natasha Agarwal: 25% okay and Sir one last question in the last con call the management indicated that rather than manufacturing the automotive batteries you would be go for assembly with the company in Thailand and Indonesia, so Sir can you give us any update on this?

Anil Jain: We have tied up with the company in Indonesia; we have a long-term contract with them. The containers have arrived at our factory in Hyderabad and the assembly is going on right now. We have appointed our distributors in the state of Andhra Pradesh and Telangana, they have projected a very good demand, so this product would be going in the market by end of this year and as we will wait for the response and the business can then continue from their onwards.

Natasha Agarwal: Sir you said it would go into the market end of this year?

Anil Jain: Yes.

Bharat Vageria: Yes, this financial year.

Natasha Agarwal: Alright, okay. Thank you Sir. I will get back to the queue for further questions.

Moderator: Thank you. We have a next question from the line of Abhishek Maheswari from Volfort Financial Management Services. Please go ahead.

Abhishek Maheswari: My question is regarding the stake sale, you had indicated in news that you sold your stake because of constructing some land.

Anil Jain: Are you talking about preferential?

Abhishek Maheswari: No, the promoter stake?

Anil Jain: So you are talking about, yes please go ahead.

Abhishek Maheswari: So I wanted to know what is the status on that and you indicated that you are planning to buyback those shares after 28 to 30 months, so could you shed some light on that?

Anil Jain: The project is on, it will take time, I think it will take about 36 months and when we monetize that, we will have sufficient funds available, we do not have, personally the promoters does not have much use for the money, they will use it for buyback the shares from the market.

Abhishek Maheswari: The proceeds will also be used to repay some loan that you have taken on the property?

Anil Jain: Sure, we will have net gain even after paying during the project.

Abhishek Maheswari: Post the repayment and sale of asset how much holding would you have like from 52% currently to probably 65%, 70%?

Anil Jain: Not quite actually, we will not be allowed to buy so many shares from the market place, but if creeping acquisition will be allowed, so I think we will be pitching for that.

Abhishek Maheswari: Okay. Thank you Sir.

Moderator: Thank you Sir. We have a next question from the line of Manish Bhandari from Vallum Capital. Please go ahead.

Manish Bhandari: Good evening Mr. Jain and nice to see the improvement in the results. Thanks a lot. As a shareholder, I wanted to understand as to presentation what you have circulated can be much more in detail, which could have individual business lines, so we could have the breakup for the individual business lines wherein troubling you on the Q&A sessions in the conference call.

Anil Jain: I will bear it mind that we will give you segment wise numbers as well. Sure.

Manish Bhandari: Yes, most of the – all the good corporate governance company would do that, so more time could be saved answering these questions.

Anil Jain: That we maybe able to give you the sales number of individual…

Manish Bhandari: That is okay, whatever it is in your control Sir. My question was one, couple of them, so one was on the battery business, I was under impression that to make the business capital light, you would be hiving off the battery business, what is the future of the battery business and would that requires more capital commitment from you and if you could share something that what will be the long-term top line from this business and what is the scope of engagement and this Indonesian partner in the battery business where people want to tie-up with Tesla. What kind of Indonesian partner would bring to you on the table?

Anil Jain: Like I mentioned, our tie-up with Indonesian company is pretty strong. We are doing the test marketing of their product and eventually we should expect that this Indonesian company would be actually coming into India together with us to bring their automative batteries for the Indian market. We have to bear it in mind that this Indonesian company is a joint venture with a Japanese company, which is a technology leader worldwide, so we would be able to bring the best technology, automative batteries in India. Answering your question whether we will hive off this business, let me take a pause and tell you that we had until now 70% holding in that company after we got the proceeds on preferential allotment, I have bought 100% of that company now for Time Technoplast. My third answer to question is that we shall not be divesting in this company anymore and we will not be divesting.

Manish Bhandari: So that the business would require you to setup the franchise, I mean to say focal centre or you need to find the partner across India to setup something like Exide and Amara Raja and you would do in an automotive battery business?

Anil Jain: We will be happy to tie up with partner whom we are getting the automative batteries already, our arrangement with them is in the direction that at some point in time when we would like to go for automotive batteries, we will be supported by them, so it might turn from 100% to a joint venture together with this company, but we do not feel the need now to set this company because it has very bright prospects and probably start it from the next year. I think the interesting thing to note there is that we have been able to… earlier we were entirely dependent upon telecom batteries and we were rattled by the fact that the battery demand was going down and we were not able to fill in our capacity. That was the time telecom batteries were 90% of our total business, I just came back from Hyderabad yesterday after the review and I am pleased to tell you that this year our share of business for telecom battery is 50% and the balance 50% is other batteries namely solar batteries and we are seeing huge growth in the demand for the solar battery in which space we have developed a battery, which is specially suited and second major development that is happening there is that we have developed a very specific battery for e-rickshaws, it is public knowledge now that the e-rickshaws are growing very rapidly all over the country and they are currently buying batteries from the market place, which do not last for more than six months. The battery that we have developed will easily last one year, if not more; therefore, we are seeing a good demand for e-rickshaw batteries and therefore the telecom battery share of business will keep going down whereas overall growth will happen in this business, so with all these factors in place we have no intention to sell our stakes in this company.

Manish Bhandari: So what kind of capital commitment you need to make, how much capital you need?

Anil Jain: There is no capital commitment right now because we are using our current capacity for the solar batteries, just a change of product and likewise for e-rickshaw also I do not need to make any additional capital investment. The capital investment would be required when I go for automotive batteries but that will be coming from my partner with whom I will have a joint venture for automotive batteries.

Manish Bhandari: So the joint venture will not contribute any significantly to your solar and telecom batteries at this point time of time or would they?

Anil Jain: While they do not have a specialization in that area, but they would be very happy to come with automotive batteries and probably for solar and other applications, they will take our battery back to Indonesia.

Manish Bhandari: What is the top line this business could contribute by 2018 or 2019 maybe 2019 or so?

Anil Jain: I am expecting something like 20% growth in the next year from this year and this will continue.

Manish Bhandari: My second question is regarding your overseas business, I am not sure whether you would be happy with the performance, but looking at the operating utilization level there is a lot more room to do and to grow, some point of time I think you cross the idea of hiving off that business and doing a joint venture with any of the bigger set of companies. What is your thought process now, where do we go from here maybe sometime or a year back, these were some thoughts which crossed you, what is the situation now and what we can expect from the overseas business and which is maybe a significant now but still a significant part of your capital employed?

Anil Jain: Manish honestly do you really want me to do that, okay, I will tell you though at the safer bit we might look at the capacity utilization to be low, but I have still the EBITDA of 15% or thereabout. Secondly 30% of my business is coming from overseas. I have absolutely nothing to complain about my overseas business, not a month goes by without somebody asking me whether I would want to divest my business overseas together all the three major international industrial packaging companies there very little presence in Asia, but I have absolutely no intention, 30% of my business is getting me 15% EBITDA margin, I have not much to complain about, but yes if you were to understand the valuation let me tell you in 2017-2018, I am looking at EBITDA of about 18 or 20 million US dollars and only recently now that has been sold, which is number two industrial packing company worldwide at EBITDA multiple of 10. So if you look at this 20 million that 200 million minus 30 million of debt, so I will have something like 170 million valuation for this business in 2017-2018 and that makes me debt free India and few hundred Crores in hand to do my business, but I am not going to do that because in the year 2018-2019 the valuation will be much more and in 2019-2020 it will be far more than that. I am looking at a growth overseas like you saw 19% this year, next year it will be in excess of 19%.

Manish Bhandari: Sir is it possible for us to – who audits the overseas business, is it possible for you to get us the audited balance sheets of the overseas business because what I was trying to do was – I was not able to justice to my analysis, so if that could be possible that will be great?

Anil Jain: We can provide you that, that is not a problem at all.

Manish Bhandari: Another question I have is on the, you mentioned in your briefing about the lowering the interest cost and I am sure the NCD would be on your mind, so after the last downgrade from the CRISIL, is there a possibility of getting an upgrade and would you be going for the NCD issues, which could bring down your cost of capital, is that something what you have been trying on, so which will bring your interest rate down and interest cost down?

Anil Jain: Manish I appreciate you have been critical about the company and its downgrade, but we have explained it very clearly that they downgraded us because we could not come out with QIP right. That was reason for that. I will come out with the QIP and I could not say less actually whether they would now like to improve upon my rating or not, I am still at A+, which is a very decent rating and I am sure they will be compelled to look at it, now that the QIP has been done. Now as far as the NCD is concerned, it is part of our plan to reduce our interest cost and I am sure in due course we would be looking at other alternatives as well, which include NCD, but right now we do not have anything on the table.

Manish Bhandari: My last question is regarding your auditor, Raman S. Shah, so I do not find them doing an audit of any of the larger set of peer group companies, not peer group maybe from other listed companies, so is there any plan to get big four auditors, is that a part of thought process within the company?

Anil Jain: Let me first comment upon Raman S. Shah, they have been my auditors from the time that we started business and I would not be in a hurry to say that they are not good just because they are not on any – doing the audit for any listed company, we interact with them, we have multiple units, they are doing an excellent job going to all of the units and prepare reports for us to look at, so therefore, Mr Raman Shah in this company being my auditor is not really a cause of concern, but yes we will have to undergo a change for the auditor as per the new policy, because they have been more than three years into the company and we will be looking at various alternatives whether they are going to be those big four or somebody else, well we will know it because there are still time for the appointment to take place.

Manish Bhandari: Wonderful. Thanks a lot Sir. If there is any other question, I will join the queue again.

Moderator: Thank you Mr. Bhandari. We have a next question from Nitin Barmavat, individual investor. Please go ahead.

Nitin Barmavat: Thank you for giving the opportunity. My question is already answered. Thank you so much.

Moderator: Thank you. We have a follow on question from Natasha Agarwal from CRISIL Research. Please go ahead.

Natasha Agarwal: Sir I wanted to know what is the total debt repayment in nine month FY2017 and also in this quarter?

Bharat Vageria: In the beginning of the month our total debt is Rs.746 Crores and currently nine month it is in the range of Rs.725 Crores, so we have paid nearly Rs.20 Crores in the nine months.

Natasha Agarwal: The next thing I wanted to know is what is the maintenance capex that will be you looking forward for FY2018?

Anil Jain: We are looking maintenance and the research and development all put together we would be looking at Rs.75 to Rs.85 Crores.

Natasha Agarwal: Rs.75 to Rs.85 Crores and one last question can you give us any outlook on your topline growth for the next year as well as your margins?

Anil Jain: We have very clearly said this year we have plan going up to 2020-2021 and as per the plan we are looking at a growth of 15% every year going up to 2020-2021 like I said and the EBITDA would be in the range of 15%. We already have reached that level. We will be between 15% and 15.5% and this will be consolidated growth, so probably the growth overseas would be larger than the growth that we have in India, but right now those numbers are tentative because we have to see how our new businesses take off from there on, I would like to assume that they will increase our growth expectation going forward.

Natasha Agarwal: Thank you Sir.

Moderator: Thank you. We have a next question from Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: If I remember correctly we were earlier talking about bringing 0.5 million cylinders this year so we have revised on our guidance a bit marginally, our working was 3.5 lakhs this year?

Anil Jain: We are looking at a turnover in this year, if you see from the beginning at about Rs.80 Crores and that is what we are going to be achieving.

Giriraj Daga: Okay, but the number was higher earlier if I am not wrong, right?

Anil Jain: Sometimes what happens is you can get this number by smaller cylinders of door value, but we got up the orders a higher size of the cylinders, the number may be less, but overall turnover would still be achieved.

Giriraj Daga: Okay, what kind of volume we are looking for this cylinder next year?

Anil Jain: We are expecting the turnover to grow up to Rs.150 Crores next year.

Giriraj Daga: From Rs.80 Crores to Rs.150 Crores.

Anil Jain: Yes.

Giriraj Daga: Okay and we were also thinking to put up a 1.4 million tonne additional cylinder capacity, so will that happen in FY2018?

Anil Jain: No, we have put up additional capacity of 700,000 cylinders, which is underway and that will be operational from H1 of the next financial year, I think for the timing that will work, but if the need be then we will look at another expansion maybe at the end of next financial year depending upon how the order book builds up.

Giriraj Daga: This 1.8 million order book is spread across how many years?

Anil Jain: Some of the orders will be going up to three years, but some can actually be in two years time, but, there is a number that we are looking at – we see no problem actually because we did not take orders since we were not sure about the capacity expansion. So we now foresee our capacity coming on stream in H1, so we can take more orders, so orders is not a problem, quite honestly there are plenty of orders available worldwide, it is just a question how quickly we can bring a capacity.

Giriraj Daga: Sir like core business, if I look at this quarter volume, it was descent 19% volume growth, which for the segment which saw that any in this particular industry specific so would you throw some light there and what kind of volume growth should we estimate in next few quarters?

Anil Jain: We have said that, the value growth will be about 15% and maybe the volume growth could be a little more than the value growth, but talking about this quarter I think the growth has been from composite cylinders on one side then we have PE pipes, which have grown quite rapidly as you would know, we have increased our capacity for PE pipes from 18000 tonnes to 30000 tonnes and you know this capacity has already kicked in, we are doing wonderfully well in that segment.

Giriraj Daga: But this time this last quarter of 19% volume growth was primarily industrial packaging right or which segment?

Anil Jain: All put together.

Bharat Vageria: All put together.

Anil Jain: This is a consolidated level.

Bharat Vageria: More than 19%.

Giriraj Daga: Any particular segment where you can highlight that these segments are significant?

Anil Jain: Infrastructure, the pipes business, growth of almost about 30%.

Giriraj Daga: Okay, understood Sir. Thanks a lot.

Moderator: Thank you Sir. We have a follow on question from the line of Manish Bhandari from Vallum Capital.

Manish Bhandari: Sir there was one issue, which was touch upon was pipe business, so does this quarter has some orders from the pipe business, which has been capitalized in this business, captured in this topline?

Anil Jain: You mean to say the pipe business?

Manish Bhandari: Yes.

Anil Jain: The pipe business has grown at about 30% in this quarter and we have invested a substantial amount of money in capacity expansion, which has gone up from 18000 tonnes to 30000 tonnes and most of it is in place except for one or two lines, which are the on the ship and for the next year we are fully poised for 30000 tonne capacity and we have the order booking of 18000 tonnes actually for the next year. Order booking is not a problem again in pipes.

Manish Bhandari: So are these mostly the state government contracts, World Bank funded types contracts?

Anil Jain: No we do not expose ourselves to the Government, Manish we work with EPC contractors who take the water projects, for example L&T.

Manish Bhandari: Yes L&T, you would be supplying to L&T and your recourse agreement will be to L&T, I got your point.

Anil Jain: That is right, so therefore we do not exposure ourselves directly to the Government.

Manish Bhandari: My interest was that I see you guys replacing DI pipes over a period of time, is that can be the case or maybe the steel pipes even in some segments or in some form or state is that possible?

Anil Jain: You are absolutely right, we are actually replacing DI pipe, as you would know that in most states now we have been able to persuade the local authorities to specify PE pipes for water supply instead of DI pipes, so that market has gone for them, in addition to that we now have launched our corrugated pipes for sewerage that was not the product available here in India, so we got corrugated pipes going up to 1600 mm in diameter, it is especially for sewerage schemes, these pipes are to be buried deep inside the ground so they should be able to withstand the load in top of it, this is a new technology and we have got two lines already in place and two more are in its way to, so the pipe is going to be one of our major focus areas going forward.

Manish Bhandari: Thanks. One thing I was very excited about in some conference I saw your IBC, which is the material handling, which is very specialized to you, so I understand that you do some Rs.150 Crores worth of product sales there, looking at the competitive advantage you have is a possibility of you making it a significantly larger size because what all of innovation what you have done in that and why it has not got up to the extent I thought of maybe I maybe in my assessment even?

Anil Jain: Manish obviously we are doing pretty good for us. We now reached in all the countries that we have gone in we are doing in excess of half a million IBC, which makes us the third largest producer in the whole world, but we are confined to only into Asia, major market for the IBC is Europe and North America, but we have introduced this product in Asian market and this is doing pretty well for us. The margins are also very good, there is a standard size of 1000 liters in this one, so you cannot change the size because there is a standard size for export of production in a shipping container, but we are seeing substantial growth in that phase. One of the reason you asked about the capacity utilization being low overseas, my capacity overseas includes the capacity of IBCs and in most countries where I have got IBC I go for the minimum economic size of 100000 IBCs a year, but that market is not more than 35000. Even if I take order for every single IBC in that country I cannot have a capacity utilization more than 35% or 40% whereas in drums my capacity utilization could be as high as 80% or 85%. When you combined it together this comes down to 65%. So we had headroom available, the demand is picking up and we are fully poised. In addition to that we did not have IBC manufacturing in some of our overseas operations, for example, Malaysia, Vietnam, Egypt and Sharjah they did not have IBCs. In Egypt we have started manufacturing IBCs already, in Malaysia we will do it in next two months' time and in Vietnam and Thailand, we will be doing it in H1 next financial year and with the presence in those countries you will see this business growing quite rapidly.

Manish Bhandari: Does that categorize into a material handling business or maybe you have something else also as a material handling solution, which one of your competitor does in terms of crates and rack systems and setting up the whole material handling solution for a factory or is that what something you are getting into because I saw one line in presentation about material handling solution, which I was not able to see whether you are referring to IBC or something new what you are doing now because you are an innovative company?

Anil Jain: No we are not really looking at. When we talk about material handling it is not about IBC, it is just about crates and bins and foldable crates, etc., as you probably know, we have a joint venture with a company called Schoeller Allibert. Schoeller Allibert is number one company worldwide for material handing products, so we have a joint venture with them in India and that is the business that we talk about when it comes to material handling. In that space we are doing very specialized products namely foldable crates and the idea is that on the return trade these crates can be folded and can reduce the volume by 80%, so that that is the innovative product, you are right that we are focus on that one, but the market for that business is very limited and we are catering to the foldable crates wherever it is required.

Manish Bhandari: Have you got into what you have, I do not know why it is in my mind that you get into a reverse logistic business also, is that what you would do because you would be transporting lot of products maybe on behalf of your customers, is there any chance you can get into reverse logistic business?

Anil Jain: Well, we have got a contractor who does transportation for us and they have been indulging in reverse logistic, which would mean actually when they are able to do that they can reduce my trade cost to the customer, so we encourage them or help them to get the material on the way back, so that they can pass on the benefit of the reduction in freight charges to us. But directly we are not involved in any reverse logistic operation.

Manish Bhandari: You would not do it yourself. Sir is there a possibility from the, maybe, Mr. Bharat can give this answer much better, is there a possibility for us to reduce the receivables and the inventory or maybe get some efficiencies on, we are already in much more, is there any possible to get some more capital freeze from the inventory and the receivable side of our business?

Bharat Vageria: Mr. Manish what happens now as we have a witness of the pipe is increasing and where we are taking the order in advance at the fixed price, so to – we have to take the material also in advance to confirm because we do not want to speculating the material cost because the fixed price is supplied in different timing, so I do not think the net working capital cycle days, which are ongoing 82 to 85 days, there is no any much gap is available as far in the current scenario.

Anil Jain: Manish just to add to what Bharat has told, in the pipe business L&T will take a contract for six months because they have to lay the pipe, etc., so their contract is for six or eight months, but they will tie up the pipes, but they will give us a order for the pipes to be supplied in six or eight months at a fixed price, now it will be quite risky, if I give a fixed price to my customers and I am not covered for the raw material.

Manish Bhandari: Yes, I appreciate because I have seen DI and everyone so you have to lock in yourself also with a longer duration of the raw material side.

Anil Jain: Understood.

Manish Bhandari: Yes. Thanks a lot. Thank you Sir.

Moderator: Thank you Sir. Now we have a next question from the line of Shanmughandan, Individual Investor. Please go ahead.

Shanmughandan: Congratulations on a good set of numbers. I had a few questions, on this composite cylinders operating at full capacity, which is 1,400, how much is the revenue you can expect on an annualized basis Sir?

Anil Jain: Well, when comes to the composite cylinder 700,000 cylinder capacity that we have we can go up to Rs.150 Crores. So that is the maximum we can achieve, but like I said we are expanding the capacity to ensure that we are able to grow this business.

Shanmughandan: For 700,000 cylinders it is Rs.150 Crores is it?

Anil Jain: Yes.

Shanmughandan: Okay, so 1400 should be approximately double that is what you say?

Anil Jain: Because the size is from 2kg to 22kg LPG capacity.

Shanmughandan: Sir the other question I had was on your margin you generally seem to have very differentiated products, very unique products, but your net margins is much on the lower side compared to your competitors who do not have as good product as you have, how do you explain that Sir?

Anil Jain: They maybe very candid about it, if you look at the growth of this company, we started in 1992 and we are right now at about Rs.2800 Crores or thereabouts. Now there is a clear trade off actually. We are a unique product and you are replacing the metal products with the plastic one. You can increase the price because some customers will have to buy the plastic one, but then you cannot actually have the volumes if you take higher margin. Our objective had been to make the product very affordable where it starts can replacing metal products, for example, in packaging. I maybe the largest producer of plastics of the whole world, but my competition also is with metals. We have been able to change 55% of the drum from metal to plastic, but if I increase the price of the plastic drums you always have a risk of these customers going back to metal one saying these guys are trying to freeze us. On the other hand, I believe 15% EBITDA margin is not so bad that you actually would compromise on your volume growth going forward.

Shanmughandan: Ultimately, as a business minimum return on equity you would expect is about 20%, given that the fact that they have got largely differentiated products and your competitors like Supreme have those numbers in excess of it, so like is there some point in the future where we can look at a return on equity of upwards of 20% maybe over the next two, three years?

Anil Jain: Let me answer this question, I think if you look at the EBITDA margins of some of these companies that you are talking about it would not be very different from what we have overall basis, so therefore it is about our ROCE is concerned we have very clearly said that we will be increasing our ROCE 2% every year and in 2020-2021 we are looking at ROCE in excess of 21%, 22%, now our internal target is that our ROCE should be minimum 10% higher than the lending weight in the market place and I can assure you that as you come along this path we certainly would be there. This year we will end up at 15% and will go from here onwards.

Shanmughandan: That would be all from it. Congratulations and continue on this path.

Moderator: Thank you very much Sir. We have a next question from Natasha Agarwal from CRISIL Research. Please go ahead.

Natasha Agarwal: Sir one of your competitors they had huge impact in the demand because of the demonetization especially in the piping segment, so Sir can you tell us how was your – how were you affected by that?

Anil Jain: Well we are affected to the extent that the demand for our pipes grew.

Natasha Agarwal: It grew.

Anil Jain: We have seen the best growth in the pipe business in Q3, which is the demonetization time. To be honest with you demonetization has nothing to do with the demand of pipes, because we are not in consumer pipes, but what you talking about is those companies who are into the construction making pipes for household or for the buildings, etc., etc., most of them have got impacted, we are into industrial pipes or water supply, etc.

Natasha Agarwal: Okay, so that does not have an impact.

Anil Jain: Does not have an impact.

Natasha Agarwal: Thank you so much Sir.

Moderator: Thank you. We have a next follow on question from the line of Manish Bhandari from Vallum Capital. Please go ahead.

Manish Bhandari: I assure you that this would be the last one because you do not get to hear from you a lot, so I thought let me use this opportunity since you are around, Sir you mentioned that you want to be a return on capital employed of 20% to 22% or maybe the 10% over cost of capital, which is the best way to look at it, because the cost of capital would fall and the thing to remember when I met you in Emkay conference sometime back a year, year-and a half back – year back, you sounded the same wish list and when I go back and look at my excel sheet and my analysis of the way I would analyze your business you have some high product margin or the businesses which are going to kick in and which your MOX film is one of them which should lift your ROCE and not withstanding the fact that it is not an apple to apple comparison to the Supreme, Nilkamal's or anyone else because this business is very different, but I see that and then there is size of the business, which will get into the composite cylinders, should I have a limited understanding on these apart from these issues, would you have something else to share that how the ROCE would get lifted over a period of time because that is an ultimate delight for the shareholder to see a company whose ROCE had moved from 15% and with your kind of management bandwidth with what you guys are running much more professional way, usually a lot of the small moment of companies are rendered?

Anil Jain: Manish you are right, I will explain you some of the developments that will help to achieve that one. First you said it is correct that we have gone this new products namely MOX Film and composite cylinders, which will have relatively higher, margin that is one area. Number one my overseas units they are in the market, now I become market leaders in eight or nine countries that I have a presence. I think in Malaysia where I am still not the market leader, in next three months we will become the market leaders, now the growth from there on will be pretty quick and then I probably would not be required to make very large investment because I have the land, building utilities everything, even if I have to add machine or two, my investment will be much less, but the returns will be much, much better. Thirdly with this cash accruals that will be taking place I think our cost of interest will also come down and we are expecting the interest rate to stabilize or probably go down, so there are many factors, which will help us in improvement of our ROCE that few of this will come from our internal efficiencies where the net asset turnover ratio will improve dramatically. So that all put in together, we have no doubt that we will actually be closer to 22% and not 20 in terms of ROCE in 2021.

Manish Bhandari: You sold your personal stake and as a promoter, is this land where you are going to build the corporate office because I am always confused or is it for the personal use. if you could clarify that was it for the office use. What is the reason you said that you want to buyback. if that is the case then I would have thought that you would have use the company resources, you have a balance sheet, which someone can lend you on the balance sheet, so if you could clarify on that issue that would risk. This has been in my mind for a while.

Anil Jain: My holding company, which has a shareholding in Time Technoplast has got this property and for that they have to borrow some money because this property we thought was good one for them to buy, of course one possibility was that if they were to make a commercial building Time Technoplast would have also bought some space in that building. They were expecting the new development regulations to come in whereby the floorspace was to go up from 1 to 3.5 or 4 because that has been going on for quite a while, I think more or less the policy is clear and they have decided to go ahead with construction of the building. So far as Time Technoplast is concerned we are not in that business, that is not our core competence at all and we are not in a hurry to move out of the office that we are in, we are reasonably comfortable in the place that we are in because we do not want to disturb a business, so they will be doing this commercial building on their own, they would sell it off, pay the loans that they have and will have money, that is my holding company and therefore I am sure they would then be likely to use the proceeds from the sale of that real estate or buying back equity from the market place, but that will be happening in a space of 24 to 36 months, not anytime soon.

Manish Bhandari: Thanks a lot Sir and I think you have displayed the commitment, which is much more like a warranty. Thank you. Thanks a lot.

Moderator: Thank you Mr. Bhandari. We have a next question from the line of Mr. Nitesh Dhoot from Emkay Global. Please go ahead Sir.

Nitesh Dhoot: Sir you had announced the completion of capex at Jambusar, Gujarat and your HDPE pipes and MOX Films, so what was the capex on for industrial packaging at Jambusar and for the other two and what would be the incremental revenue addition in FY2018?

Anil Jain: The total capex that we have done in Q3 is about Jambusar is Rs.52 Crores, MOX Film is Rs.45 Crores and others is 10 and we have done in 2016-2017 we will end up doing Rs.107 Crores. And then we have done in nine months we have already done something like Rs.94 Crores and the balance is Rs.13 Crores. Normally whenever we do a capex you can take 2.5 times of the capex as incremental turnover that will come in.

Nitesh Dhoot: One more followup question I just saw that your volume growth has been 19%, but overall revenue growth has been a little lower, so how do I read this, is there a decline in realization, so how do I read this?

Bharat Vageria: You should take in other way, raw material prices down by 2% therefore self-utilization also down by 2% because we have a system of popping the price increase or decrease to the customers.

Anil Jain: The raw material prices as you know in polymer have been seeing up and down, so in the last quarter we have seen that the polymer prices have gone down, we have a pass through arrangement whereby actually we pass on the increase or decrease, but if you look at our EBITDA margins have seen improvement by 0.44%, so it is not that we have been forced to reduce the price, it is just that we are passed on the decrease in the raw material cost of the customers.

Nitesh Dhoot: Right, so that answers my question. Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the floor to Mr. Nitesh Dhoot of Emkay Global for closing comments. Over to you Sir!

Nitesh Dhoot: I would like to thank the management once again and all the participants for their time. Thank you so much.

Anil Jain: Thank you.

Bharat Vageria: Thank you very much.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes this conference. Thanks for joining us. You may now disconnect your lines.