



“Time Technoplast Limited
Q1 FY 2019 Results Conference Call”

August 03, 2018



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Time Technoplast Limited
August 03, 2018

Moderator: Ladies and Gentlemen good day and welcome to the Time Technoplast Limited Q1 FY2019 Earnings Conference Call hosted by Emkay Global Financial Services. We have with us today Mr. Anil Jain, Managing Director and Chief Executive Officer; Mr. Raghupathy Thyagarajan, Director (Marketing), Mr. Naveen Jain, Director (Technical), 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 the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nitesh Dhoot of Emkay Global. Thank you and over to you, Sir!

Nitesh Dhoot: Good evening to all of you. In addition to Sandip and Niklank, we have today, Raghupathy and Mr. Naveen Jain, not related to me of course I would like to welcome the management and thank them for giving us this opportunity. I would now hand over the call to Mr. Anil Jain for opening remarks. Over to you Sir!

Anil Jain: Good evening to all of you. In addition to Sandip and also Niklank, we have today Raghupathy and Mr. Naveen Jain not related to me of course. They are co-founders of the director of the company so they happened to be now present and come and talk to the investors if you ask them questions. We are here basically to talk about the results of Q1 FY2019 and outlook for the rest of the year. The results were already announced, but I will just walk you through some of the key financial and operational highlights.

During the Q1 FY2019, net sales stood at Rs.782 Crores as against Rs.681 Crores in the corresponding period last year. EBITDA is at Rs.121 Crores as against Rs.102 Crores and PAT at Rs.43 Crores as against Rs.36 Crores. Compared to the corresponding previous year quarter, the net sales grew by 15%, breakup was India grew at 16% and overseas 12%, volume grew by 14%, India was 15% and overseas at 11%. EBITDA grew by 19% and PAT also grew at 19%.

EBITDA margins are at 15.46% as against 14.95% so there is an improvement in EBITDA was 50-basis points, net profit margin is grew by 21-basis points that is at 5.43% as compared to 5.33% of the sales. As regards to share of revenue, the value-added products grew at 31% in Q1 FY2019 as compared to the previous year, share of value-added products has been 19% of the total sales in Q1 FY2019 as against 17% so that would mean the value added products are going faster than the normal one and share of business is increasing.



Time Technoplast Limited
August 03, 2018

In regard to the operation in India overseas, we find with EBITDA margin overseas in Indian business are at about 15.31% and 15.52% respectively and improvement on both fronts. Indian business stands at 69% of our total revenue and overseas business is at 31%, these numbers are 68% and 32% in the previous year.

Giving of the breakup polymer and composite product, the polymer product contributed 70% and grew by 14% in Q1. The composite product contributed 29% and grew at 17%. Polymer products, which includes drums, Jerry Cans, Pails, beams etc., and composite products, IBC composite cylinder, batteries and steel drums, which are evenly balanced. E-business, I would like to highlight because that was a bit of a disappointment last year despite of strong order book it degrew because of GST complications has started by very well in this year.

We have launched new generation material pipes for power and communication cable nets with silicon in lining. The pipe ducts has substantially potential especially in development of smart cities. I think we circulated a note on this account earlier. Currently order book position of solid pipe and DWC pipes is about 17000 tonnes and 1500 metric tonnes respectively and total value of order is about Rs.250 Crores after having supplied material in Q1. Before we can say that our order book and what we have done in Q1 is already far ahead of what we did in the whole of last financial year. The total debt stands at Rs.759 Crores more or less the same as it was in at end of 2018. ROCE has improved by 86 basis point, but 14.38% as against 13.52% in Q1 but let us appreciate that there is substantial improvement in ROCE in the rest of the year as the sale grows in Q1, Q3 and Q4.

Historically, the Q1 represents about 21% - 22% for annual revenues. I am also pleased to share with our investors that CRISIL has improved the rating of the company, considering more than anticipated improvement in operational performance and in terms of revenue margins and ROCE and therefore today the long-term rating stands at CRISIL AA- at stable, which used to be CRISIL A+ so we believe moved one step up likewise with the short-term rating, we are at CRISIL A1+, which used to be CRISIL A1 so where we have been acknowledgement by the rating agencies on the performance of the company. With these remarks I like to open the floor for the question and my colleagues I would be very pleased to answer questions. Thank you.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Sangeeta Purushottam:

Good afternoon and congratulations for good set of numbers. Actually my question really relates to the ROCE that we are seeing right now and also the stated goal of continuing to



Time Technoplast Limited
August 03, 2018

improve the ROCE. Now in order to improve the ROCE basically there is an interplay between three main factors, one is improvement in margin, which we have seen happen at the pace of about 40-50 basis point a year without the product mix changes. The second is sweating 6 tonnes more and the third is improvement in working capital because that itself can help to lower the amount of capital employed in the business. I would actually like you to comment on the last two factors basically on working capital improvement as well as on sweating the assets more how focused are we as a company on improving working capital what is the scope there, what is the effect we can hope to see and also as far as fixed assets are concerned, are we seeing asset turns improve, what steps are we taking in order to be that and my question why I am focusing on working capital is because when I look at it, it looks to be high on the face of it should be scope for reducing it and I particularly do not understand given that we have very good products, we have leadership in many segments, many of the products have innovative that should actually give us the platform to be able to ask clients to pay with shorter credit cycle and also may be reduced the level of inventory that way carrying so I just likely to spend little bit of time on talking about this?

Anil Jain:

I think you have asked very, very important and pertinent questions. Let me answer about ROCE and how we see it happening, if you look at the end of the last year we have ROCE of 15.71% that is FY2018, Q1 it was 13.52% as against 13.52% we have today in the Q1 an ROCE of 14.38%. If we move in the same proportion going forward in the year, we should really see an improvement in ROCE in excess of 1.5% or so and you probably have heard me in the past, we have to set target for ourselves that we will be improving our ROCE by about 1.5% to 1.8% every year going up to 2021 and at that point in time, we want to be other side of 20% in respect of ROCE. So I think and we have seen in the similar improvement in the previous year as well. So we are fully committed to improvement of the ROCE. Let me answer your second most important question and that is about our market leadership in the pricing power. You are absolutely right that we have pricing power and we can push the prices up. Please see our track record. We have set out target for ourselves that we will be operating EBITDA of about 15% or so. We have a bit much of profit EBITDA margin in the business ahead of competition so the question is whether you actually made more profit today or we would like to have your business to stay with you for the longer period of time. I think we are in stated policy also that we will have 15% EBITDA margin, we have followed that and we see that the results that are actually helped us grow and further strengthen our market leadership. Now to the working capital, I can tell you a day did not go by when we do not sit and evaluate us where we can do bring improvements. Let me tell you a little handicap that we have in our business. We are polymer based product company and the polymer prices are pretty volatile and when we have almost 70% of our raw material coming in from overseas where there lead time and you have lot of fluctuations etc., and our product is such that our customers would expect us to give fixed price for a period of one quarter at least and they would prefer it to be sit for a longer period

of time, but we normally give them fixed price for quarter. We have an option actually that we give them fixed price, but we do not carry the inventory of the raw material. There is a raw material prices change every 15 days or a month. So what we are doing is we take up this risk by carrying physical inventory of those materials, so that we do not get caught nothing and we are compared to take a long-term contract if we do not carry inventory when the prices of the raw material go up, and the supply will go down the supply will be the order as well. We have done that in the past, we do not it anymore. If you see we have in overall managing our working capital of course there could be some variation from quarter-to-quarter depending upon what the prices of raw material or we will take informed view whether we shift the inventory to higher levels because the prices are more stable, but I would say that we work on our working capital very closely. You are right actually if we continue to work this way, we expect our ROCE to be around 20% is going in the next two years' time and I guess if we reach there, there should not be many reasons to complain.

Sangeeta Purushottam: Right so where we are right now do you think there is any scope to actually reduce our working capital days for example another way to reduce working capital days or is to push the clients to pay earlier we keep the same margins, but we just reduce credit period little bit is that possibility at all?

Anil Jain: Sangeeta, I answered to your question is yes, there is certainly possible to do that and we keep working in that direction. I will tell you what I can reduce some working capital buying raw material that a longer credit, but then I will have to pay the price for it. I had discount by even paying the material up front, I would rather do that, but eventually either way it reflects upon the bottomline.

Sangeeta Purushottam: Right so actually what I am trying to understand is that are we at optimal level of working capital right now and if not then where do we think that we are likely to improve or where is the scope for us to improve so if roughly I think we are operating it 103, 104 days of net working capital just inventory plus receivable minus creditors is what I have taken is that what it is likely to stay or if there is scope for reduction how much do we think we would reach in over the period of two to three years?

Anil Jain: Sangeetha, I think in the span of five minutes, I have already improved my working capital cycle, it is 85 days as against 103 days that has been worked out so I will be happy to send you calculations separately, but answering your question and I am think you are truly well wisher for yes there is scope. Now let me explain it to you, we have these value add business is which are constituting something like 19% of our total revenue and that is going to grow, now that business has been designed in the way let we do not know have a credit so we do not have to give on credit actually so we get. Now I am assured of business in that



Time Technoplast Limited
August 03, 2018

segment grow and your overall working capital will get reduced and gradually will be closer to your expectation.

Sangeeta Purushottam: All right thank you.

Andre Purushottam: Just one more question I had on composite cylinders just wanted to get an idea as to what is the dialogue that is happening with the composite cylinders as far as the Indian market is concerned. Could you give us some flavors is to what is the stages of testing or market acceptance etc., and when do we see some significant traction on this happening in the market?

Anil Jain: Glad you asked me this question. Actually let me just take it to the background. What actually happening is that we had supply composite that I am talking specifically for the Indian market. We have one private sector gas distribution company who introduced composite cylinders about three years ago, but as you know there was no level playing field throughout the private players and OMCs at the time so they could not grow their business and therefore they could not buy the composite cylinders, they admittedly gave and customers are extremely happy with the performance of those cylinders but opportunity for us at the GST has now come in the playing field is getting leveled. So we have two friends here, OMC as you know we did a pilot project with for one of the OMCs they bought 15000 some cylinders, we have put up in the market place and they are selling it, I am sure it could have been done differently and better, but you obviously we do not have say on that one. We now know that other two OMCs are also doing a pilot project and they would be offering it better terms and conditions if that happens I am sure that we will gradually have the growth of composite cylinder in the Indian market, but most important thing that is another private player of LPG distribution had launched their brand of LPG in 12 cities in the country and has been received extremely well. They have plant to explain further. We have order in hand for almost half a million cylinders from them and they have taken these cylinders on a regular basis. I think once they take these cylinders out to be different places, I am sure either we will also follow them so we are in discussion with two other private players out of Bengaluru and they have also placed some orders, which will be executing in the next days so I am very optimistic about the future of composite cylinder in India, but let me honest with you that we are focused on the overseas market where we are seeing very good demand for the composite cylinder, we are currently exporting it to 28 countries and we get repeat order from them, so answering your question, India is a huge market actually I believe the total population of cylinder in India is about 320 million and today they are buying something like 55 to 60 million cylinders every year that are the steel cylinders, so we make a little penetration with market and I think that entire capacity would be sold. The question is not whether we will be able to do it or not, the question is when we will be able to do it, yes?



Time Technoplast Limited
August 03, 2018

Andre Purushottam: FY2020 look like a reasonable timeframe where we can expect significant volume or it could be longer?

Anil Jain: We are sure we will be able to do it much faster than that, through these private players that we are talking about.

Andre Purushottam: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.

Dhananjay Mishra: Congrats on good performance. Sir my question is regarding this composite cylinder only, Sir what is the current order book we used to give 1.8 million unit order book earlier and in current press release it is not mentioned, so what is the current order book and what kind of revenue we are looking from composite cylinder, based on whatever outlook you have in overseas market or some domestic market for 2019 and 2020?

Anil Jain: Let me just put it this way that normally for the composite cylinders we have the contract which go up to two or three years, so therefore, the numbers are still in excess of 1.5 million, but the deliveries are spread out because the companies who change from metal to composite cylinder they do not change from one day to another, they do it progressively, so our order book remains pretty strong even today, you see the composite cylinders form the part of our value add business that we talked about in the current quarter our value ad business has grown by 31%, which also should truly represent the growth for composite cylinders as well. We now have the capacity as we expanded our capacity at the end of last financial year or in the fact the beginning of this year, so we are now gearing up to take more orders and grow this business. Like I said we are very optimistic about the Indian market growing rapidly and we continue to support our customers in 28 countries that I just mentioned about. In between we had also had circulated a note saying that we have tied up with a company in South America who are already making composite cylinders, but they had a very limited range and probably the quality had to be improved upon, so we have tied up with them that they would be start buying from the next year quarter itself, they will start buying the cylinders from India for market in South America and Caribbean and as we go by the numbers that they have indicated that should really give more to our order booking and supplies.

Dhananjay Mishra: Sir we did about Rs.130 Crores kind of revenue in FY2018, I mean, I just wanted to ask based on whatever order you have, what kind of growth we are looking at for next two years?



Time Technoplast Limited
August 03, 2018

- Anil Jain:** We should expect the composite cylinder to grow at least by 20% a year.
- Dhananjay Mishra:** 20%?
- Anil Jain:** That is right.
- Dhananjay Mishra:** Okay and Sir could you also provide product wise sales data like the PE and Mox films for FY2018 as well as Q1?
- Anil Jain:** I think we are now started segregating our business into two parts that is the polymer products and composite products, we have provided the breakup of that one, so our polymer products are...
- Dhananjay Mishra:** That is given Sir. That is given in the presentation because we used to provide this data?
- Anil Jain:** I will tell you frankly until two or three quarters ago we used to give breakup for each product, which was also cylinders and Mox film etc., but we have intense competition from another Indian company, so we follow the same practice as they do that we can give you these numbers on one on one, but it is not the appropriate for us to give out the numbers in a open platform.
- Dhananjay Mishra:** Lastly the PE business, what kind of growth we are looking at? I guess Rs.340 Crores we did last year, sorry Rs.210 Crores we did last year, so we expect 300 plus kind of growth?
- Anil Jain:** I will surprise you, it will better than that, let me just give you the history, the last year we were supposed to be doing something like Rs.350 Crores because the previous year we did about 250, but last year it did not happen because of the GST, so if I reach 350, I will only doing what I should have done last year.
- Dhananjay Mishra:** So GST usually it is getting resolved or already rewards?
- Anil Jain:** All done. In fact it has worked out very well for our customers and the government also has made amendments to the contract, so everything has been cleared, no problems at all and I mentioned in my opening remarks that we have a very strong order book for the pipes and also for the new product that we have introduced, so I remain upbeat on the business prospects for the pipes, ducts and DWC pipes.
- Dhananjay Mishra:** Okay Sir. Thanks that is all from my side.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.



*Time Technoplast Limited
August 03, 2018*

Pritesh Chheda: Sir my first question is on Mox film side. In the market when we checked there is some amount of pricing competition, so your comments on it and your comments on the incremental growth of Mox films?

Anil Jain: Yes you are right actually. The competition is there, but not very intense. I mean you know that we actually entered the market last year and we were very clear that we were coming out with a product, which is better than the one those are available in the market place, so we are very clear that we do not offer our product at a price less than what the competition is offering, but we offer it at the same price we offer a better product with longer life and also with much better strength, but yes we are also prepared in case the competition would like to bring the prices down then we should be able to follow them. Fortunately for us it has not really happened and if my understanding is correct, Mr. Raghupathy, my Director in Marketing sitting next to me, I think he will be able to tell you whether there is a truly a intense competition. Raghu.

Raghupathy T: Apart from the product that was already prevailing in the market there have been a couple of attempts that has been done by some new comers in terms of a look alike product, admittedly we came to know through our finding that the process of manufacture as a technology that was available to them where nowhere closed to what it has been used to manufacture a cross laminated film, so this product normally comes out with this actual feedback from the market in span period of about four, five months and the product performance starts coming back after the season done, so we have already gone through this for about a year and a half now, the users have already validated their response on to the quality, our feedback confirms that the look alike products are not really performing up to the mark, so it is a just a question of one season and then we would be able to separate the boy from the men.

Anil Jain: That is right and I think what Raghu said is right, amongst the technology based product companies, I think there is a proper and decent level of prices and I do not think really we go after each other.

Pritesh Chheda: My second question is on the working capital side, we have a business where we have a like-to-like comparable in the same market with a similar product line and with a similar margin profile, but when it comes to working capital we are 2x the working capital needs that the relative competitor has, so first of all your comments on why is this structure where the working capital needs for our business is 2x the needs that the competitor has and what efforts are we taking if any to address this high working capital?

Anil Jain: With due respect, I do not comment upon our competitors and I do not exactly know which competitor are you talking about, but I am very positive that they are operating their ways



Time Technoplast Limited
August 03, 2018

of operating in the market place for their products or the market they are servicing may be entirely different and considering the fact that industrial packaging is almost 71% of our total business and we are by far the market leaders actually in that space, so I am not too sure whom are we trying to compare ourselves with.

Pritesh Chheda: I am trying to compare us with Supreme.

Anil Jain: Their products are very, very different. My product with Supreme only overlaps to the extent of 13% of my total revenue, so I think that would not be a proper comparison.

Pritesh Chheda: Okay, so is it that the industrial nature of our business is higher vis-à-vis theirs which explains the working capital difference?

Anil Jain: You are absolutely right. Without naming the competitor that you just mentioned about, most of their business is through the distributors and the distributors actually put in their own money, so the competitors is not happy with the working capital. Most of our business is B2B and therefore we provide the credit to our customers and therefore the nature of their business is very, very different from that of ours.

Pritesh Chheda: In your target to achieve 150 basis point improvement on ROCE every year, which part of the business operation should improve other than the EBITDA margins?

Anil Jain: Like we said that we will have the value added business, which will be growing faster than our regular business and that will actually be able to through working capital because we do not provide any credit for those businesses that it is cash and carry, so as the share of business grows with the overall improvement in the working capital will come beside the value added business also have a higher EBITDA margin, but otherwise also as the total revenue grows and we do not increase our expenditure in same proportion that will get reflected on our margins and in turn of the ROCE. Just to answer your question when we made a projection for our ROCEs to be in the excess of 20% in 2021 we have factored in the working capital realistically based on what we are doing today, so it is not that we have factored something which we not be able to achieve, yes, we improve on working capital further and obviously that will be a added advantage.

Pritesh Chheda: Assumption is 100 plus days in your target of plus 20% ROCE with 100 days?

Anil Jain: I am talking about 100 plus days. Our net working capital cycle is 85 days.

Pritesh Chheda: Okay, so until last year that we see it was 100 days plus, so that assumption is 85?

Anil Jain: Last year it was 86 days.



Time Technoplast Limited
August 03, 2018

- Pritesh Chheda:** A year before last year I see 121, year before last I see 114, so?
- Anil Jain:** Can I send you a separate note on this one please comparison between the net working capital cycle in the last three years, it is more or less remain the same range.
- Pritesh Chheda:** Just to understand here when you are assuming 20% plus ROCE three years down the line you are assuming 85 days of working capital, is that right?
- Anil Jain:** I say yes to that question.
- Pritesh Chheda:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.
- Baidik Sarkar:** Thanks for taking my question. Could you help me understand the extent of raw material inflation that was passed onto customers this quarter and by when do we plan to normalize that?
- Anil Jain:** Historically, we have always been able to pass on the increase or decrease of the raw material prices to our customers with a lag of three months because we give a fixed price to our customers for a three months period, so if we take it to overall we are able to pass it on completely, but yes there could be some aberration from one quarter to another, so we have a complete pass through till now considering that most of our business is B2B, our customers also appreciate the prices of raw material going up or down and they either give us the increase or the demand the decrease in the raw material prices will come down, so we have been able to maintain certain transparency.
- Baidik Sarkar:** Thanks for that and secondly I notice in your presentation you have maintained your order book, but could you help us to understand what is your executable order book for FY2019 across all your segments?
- Anil Jain:** The industry packaging, which is our main business, does not have different order book, you have an ongoing contracts and then there are collapses from one month to another, so therefore it is very difficult for us to predict. The only area where we have order book is probably a cylinder and PE pipes and I just mentioned that our order book on book front is pretty strong. In pipes we have an order book in excess of Rs.250 Crores and in cylinders in excess of 1.5 million, but rest other thing is we have a contracts and we have customer keep asking for supplies and we do that and the price keep adjusted every quarter based on some formula.



Baidik Sarkar: As your revenue mix changes over the quarters, over the years, do we have operating levers within a system to inch our operating margins forward or we still look on EBITDA per tonne basis on a fixed conversion cost basis?

Anil Jain: No, it is not entirely the fixed conversion rate, of course it is, we adjust our prices to the other input cost going up, but our internal target is that if we have EBITDA margin of 15% or thereabout we are not complaining and I mentioned earlier in this conversation where we have seen a lot of companies who push their position in the market place by maximizing their EBITDA margins then they invited the competition to come in aggressively and probably if the market share drops or the total business drops down, we do not want to go that path, so we stay around 15%, yes we do know that we have a leverage, but that we used that leverage to expand the business rather than maximizing the operating margins.

Baidik Sarkar: Just to close the loop on leverage, any guidance on incremental borrowings for rest of the year?

Anil Jain: I think one of the things that we had said two or three years ago and we have been able to maintain up till now that we expect our business to grow at about 15% every year then up to 20%, 21%, but we expect our total borrowings to remain the same, so we are not allowing them to grow. The internal accruals are being used for the capex and also for the incremental working capital that may be required for the higher revenue, so we are able to maintain the overall borrowings around the same level, of course, there could be some fluctuation from them, but overall then I think we are in safe place.

Baidik Sarkar: So with the increase in your credit rating can we expect a reduction in your borrowing cost?

Anil Jain: I expect it too really. I do hope it happens because we now operate also in the commercial papers etc., and I am told by my finance people that if your rating is higher then you can take the commercial papers at a low rate, so I am sure that will be the effort that we make and hopefully we will be successful in reducing overall interest cost.

Baidik Sarkar: So any ballpark estimates on what our marginal savings might be?

Anil Jain: It will be marginal actually, we are very competitive, I mean, we fight for lower interest rate with all our bankers and partners, so we would still be able to make some progress in that, but not very significant because we are at very decent levels already.

Baidik Sarkar: Last question before I get back to the queue, a bookkeeping what I notice in Q4 your console tax rates of about 32% that significantly higher than your band of mid 20s, just help us recollect the causes of that please?



Time Technoplast Limited
August 03, 2018

- Anil Jain:** Sorry I somehow missed because of the blip, can you please repeat your question.
- Baidik Sarkar:** Sure, a bookkeeping question on the taxation front, I notice from Q4 your consolidated tax rates of about 32.3%, just wanted to understand what caused that blip and what could be a fair assumption going forward?
- Niklank Jain:** Our effective tax rate will be in the range of 27%.
- Anil Jain:** Standard tax rate to be about 27%, I think in the Q4 it was high because of the year-end effect actually.
- Baidik Sarkar:** Thank you Sir, all the best.
- Moderator:** Thank you. The next question is from the line of Hitesh Taunk from ICICI Direct. Please go ahead.
- Hitesh Taunk:** Good evening Sir, my question is pertained to value added product category and just you mentioned that you have a good traction from that segment, so you are gaining momentum from the composite cylinder category as well as the piping segment, so would it be fair to assume that contribution of this segment will grow by around – will contribute around 20% to 25% by the end of 2021?
- Anil Jain:** You got it right, absolutely I think you are a magician, 25% is what we are looking at in 2021 that will be coming in from that value add business of course because of other legacy business is also growing fairly well. Therefore it will be improving marginally they have used last year it contributed 18% of our revenue I think in Q1 we are looking at about 19% there about at the end of the year probably it will be 20% and therefore we see no problem in 2021 this will rise up to 25%.
- Hitesh Taunk:** And which segment do you think would contribute higher in the value added category is it Composite Cylinder, will it be Mox Films or will it be IBC?
- Anil Jain:** To be fair to you to all the products and all will grow but if you are asking which will grow the fastest I would like to main Mox Films that will grow much faster that we are projecting growth of about 35% to 40% for the value added businesses, so there is nothing much choose from all of them will grow rapidly here.
- Hitesh Taunk:** Okay, my next question pertain to PE pipe segment, we had faced some issue due to GST from the government order etc., in Q4 because of that we had minimal you can say revenue in the DWC segment so has that problem being solved or is there is some problem in the segment?

Anil Jain: Much of the issues have been solved. We do not supply directly to the government, we only supply to the EPC company, so the problem was essentially between the government, customers and EPC contractors, right but I must say that those I worked diligently and this problem is now over and reflected in with order booking and also the clearances were dispatched, so answer your question I think this problem is all resolved now.

Hitesh Taunk: Okay, my next question is how much capex have we planned for FY2019?

Anil Jain: Like I said at the end of last year we were looking at the total capex for the current year to be around Rs.200 Crores or thereabouts and we have done about Rs.35 Crores already in the first quarter, we certainly would be within Rs.200 Crores at the end of the year.

Hitesh Taunk: Can you clear one thing, the rest of Rs.165 Crores where are going to put each segment?

Anil Jain: Let me give you a total if we are having a capex of Rs.200 Crores almost Rs.90 Crores of that actually goes into maintenance and the Brownfield expansions and automation and lot of these other internal processes and about Rs.100 Crores goes into marginal expansion and capacities and the new projects etc., so it will be say that Rs.90 Crores when it gets committed because that happens every year, which also includes R&D, we spent almost 1% of our total revenue and that keeps ahead of everybody else. I think one of the 100 Crores we will be for the projects normally the gestation period for project is not more than six or eight months, so we take a call as we get closer to the quarter which products will have to be accelerated. So we are looking at about Rs.200 Crores.

Hitesh Taunk: Okay and most of the capex would be in India am I right?

Anil Jain: I would not say that, but yes right now our revenue are 70% and 30% I think the capex on the new projects will also be in the same proportion.

Hitesh Taunk: Okay, that is all from my side Sir. If I have any question I will come on to the queue. Thank you.

Moderator: Thank you. The next question is from the line of Ayush Sharma from Investec Capital. Please go ahead.

Ayush Sharma: Thank you for the opportunity. Sir, my question would be on DWC market. What is your sense of the market right now as in the potential going forward and on the pricing front of the segment?

Anil Jain: I think this is a very important question that you have asked. DWC pipes mostly go into switch then also water supplies. These are stage because there are no pressure pipes,

because the effluent actually is closed by the gravity. Now what has happened is especially for the Ganga cleaning projects at north, now there are lots of pressure where there are effluent treatment plants and effluent treatment plants etc., which are coming up and they require whole lot of DWC pipes. Number two, it is the replacement for the cement pipes just I will give you the background and you see in the cement pipes, which takes the sewage, but these pipes give away very easily and then sewage of the dirty water, cease to the ground and contaminate the subsoil water. So lots of government agencies or government departments have taken a decision in principle that henceforth this sewage lines will be with the help of DWC pipes and not by the cement ones. So these projects have started now coming up under Swachh Bharat program as well. There are a lot of cities, which are putting up sewage treatment plant etc. Not to forget that the smart cities, which either are coming up new or some of these existing cities, are being converted into smart cities they have a very elaborate sewage treatment system and these pipes are required there. We expect this business to grow very rapidly if I may say almost about 30% a year because right now the base is more or less zero and there is definite replacement from cement or concrete pipes to the DWC pipes. So I remain optimistic and of course most of these projects are either supported or rated by IMF or World Bank and other hand the Government of India sponsors them, but most of the EPC contractors were operating in this field whenever there is an opportunity they come to buy the DWC pipes so much. But we should expect it to grow at about 30%.

Ayush Sharma:

Is it possible to give a number for the potential size of this market and on the second part how does the pricing work as and do we keep the prices fixed with these EPC contractors or is there a tender system for which you need to place a bit?

Anil Jain:

Let me put it this way. When the EPC contractor bids for a project, which is the government PWD, this EPC contractor ties up with us at the time when he is making a bid that would mean that he would identify the quantity that is required for the DWC pipe and he enters in an MoU with us that if they get a contract, we will be able to supply these many pipes at this price, but that price is based on the prevailing polymer prices right, so to that extent EPC contractor also puts in their contract to the government, the basis and the price escalation formula, but the advantage is when government department is evaluating the tender of EPC contractor, they want to verify whether these pipes are coming from reliable source or not and having got approval for products from the rest of the government department, our EPC contractors or partners tie up with us for this project. Interestingly for us if there are five bidders for the project more or less as and MoU for all the five that would mean if and when they get a contract we in turn end of getting the contract from them.



Time Technoplast Limited
August 03, 2018

Ayush Sharma: Sir on Mox Film side, what do you expect in the pricing? Are we at a discount to Supreme or are we at par with them?

Anil Jain: No, we would like to believe that we have product that is available in the market place. I think it would be stupid on the part than to sell at a cheaper price than what our competitors are offering. I think if you see from our customers point of view, if they are getting the better product at the same price, they are complaining, but let me give you an underlying philosophy that we had because of the technology and the quality of our products, it is possible for customers to downgrade, so for example if Mox Film have competitors of 120 GSM, that is gram per square meter they can get the same performance from our product at 90 GSM, so one might look at it and say you are operating at a lower price, but my 90 GSM price is the same as that of my competitor.

Ayush Sharma: Sure Sir and Supreme has started selling cross bonded films in place of cross laminated, is there any comment on that what do you feel about that?

Anil Jain: They are great guys and I am sure they invented in a new name. I do not know I think we call that as an old wine in new bottle or the other way round, but I tell you in terms of performance it is more or less the same as the product was available in the market place and we maintain that the produce that we have is better than the previous product and also the new product that they have talked about, so it might be a good marketing strategy to give a new different name to the product to say we are done something new but the customers are very clever they know exactly what they are buying.

Ayush Sharma: That is not going to affect our business in anyway?

Anil Jain: No, quite in fact, this is a feeler. Friendly we would like the business to grow, so we can also grow our business, but let me tell you a little difference that we have with huge respect that we have for this company. We are equally focused on export of our product into the market as you know that we are present in 10 countries in Asia and ask a simple question if Mox Film does very well in India why should it not work very well in Indonesia or Malaysia or Vietnam for that matter and we have operations in those countries, we are marketing teams so we are exploring those markets and have started exporting our product to establishment there, through internal marketing in those countries. So we do not think out coming to the business in any case affect the business of our competitors and the vice versa.

Ayush Sharma: Thanks a lot.

Moderator: Thank you. The next question is from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.



Time Technoplast Limited
August 03, 2018

Pragya Vishwakarma: Sir my question is on pipe business. I understand that you have mentioned that you will not be able to disclose the absolute numbers, but can you let us know what was the growth in your pipes business for first quarter?

Anil Jain: Of course we can disclose the number to you. We have already told you that we had order book was Rs.250 Crores. We have done until in the first quarter, our pipes business has grown about 24.38%.

Pragya Vishwakarma: I think it mixed it up with the Mox will remain CC number so that is the reason I said that, so you will not be able to disclose the absolute number for Mox Film and CC?

Anil Jain: So that we will have to come for a cup of coffee here.

Pragya Vishwakarma: Surely I will do that, but any ballpark percentage growth you can?

Anil Jain: I had just mentioned Pragya that this form to part of our value add business and the value add business has grown at about 31% in Q1. So I think it will be fair to estimate that all the three segments have grown around the same.

Pragya Vishwakarma: Okay and my next question was any big product launch you will be doing because you have been discussing about the CNG cylinder replacement market?

Anil Jain: Do you want me to talk about it is on the open line? The answer to that question is yes, we have the plan, we have the CNG cylinder already, we have got a very good response from the prospective customers. For the first time in the country we have been able to prepare type 4 composite cylinders for CNG which is based on carbon fiber and it has many applications within my limitations, I will try and share a bit if I can, so we have got two variant, one is for automobile, so we are in touch with OEMs who would like to have the composite CNG cylinder instead of the metal one, because there is a huge reduction of weight just to give an example is a 65 liter steel cylinder per CNG would be varying something like 68 kg as against 17 kg for the carbon fiber cylinder, so you can imagine the OMCs who are struggling to reduce the weight of the vehicle, they would really like to use these or welcome these composite cylinder with both their arms. So we have got the orders. Second one, which we are working on, is the gaskets. As you see today at the CNG stations, you find that the gasket of the cylinder which bring CNG for the distribution at the gas station, they are steel cylinders. Normally a gasket would bring something like 2000 liters of CNG as against if they were to use a composite cylinder carbon fiber base it will be able to bring about 5000 liters of CNG, so almost 2.5 times. We find that using composite gasket they would be able to reduce the capital cost by about 17% and reduction in operating cost by about 60%. I see no reason why this business will not grow we are fully focused on that

one. I think one of the things that will be doing or there could be some more within the area of our operation. We also talked about the special power cable ducts for the pipes, which we created for the first time in the country, it looks like that will also have huge business potential going forward and we are fully equipped to go on and we have got the first order anyway in the country, so trust us, we will be coming and implementing products all the time.

Pragya Vishwakarma: Okay, just if you can quantify anything on these new segments, which you will be entering into in FY2019 or 2020? What kind of a number do you expect?

Anil Jain: That is what I was worried about. We are talking about the product that we are coming out with it is very difficult to predict as to when we would be able to launch because there are several approvals that are required for example in this case type 4 will have to approve the type 4 cylinder for CNG then ARIA will have to approve it to, I think it will not be right for us to have that the gas is to when we will be able to get the approval but I am sure once we get the approval in place, so that the time when we can talk about the business in particular year. But for the moment, I just wanted to like you know that we are working in this direction and they have a huge business potential going forward.

Pragya Vishwakarma: Okay, Sir any update on your UAE plant, the one which we did last year for steel drums?

Anil Jain: Steel drum plant no, it is still at a planning stage, but right now we are very successful in converting some key customers from metal drums to the plastic drums and we have expanded our capacity for the plastic drum in Sharjah, so we are asking ourselves the question, but there will be such a great idea to go for the metal drums or we remain within the plastic and keep converting people from metal to plastic, so it will still in the planning stage but we have not moved ahead significantly in the direction.

Pragya Vishwakarma: Okay Sir, my last question on the pipes business again, any ballpark number you have on the order book side for the full year?

Anil Jain: As we just mentioned that we have only in the fifth month of the current financial year. We have order book in excess of Rs.250 Crores and based on what we have done in the first quarter itself put together that adds up to more than Rs.300 Crores. In comparison you will find that we did only Rs.235 Crores last year, so add to that already in just about four to five months period. I think you and I will say that this business grows very rapidly by the end of this year. I am sure we will be in for a pleasant surprise.

Pragya Vishwakarma: Thank you Sir. That is it from me.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.

Kunal Mehta: Thank you for the opportunity and congratulations for a very strong result this quarter. Sir I have a few questions. The first question being that our battery business has been struggling a bit since the last few years because of the slowdown in the telecom sector and I do appreciate that we have tried to switch the volumes towards the other applications like solar so just wanted an updated on the battery business and do you plan to divest that at any time in the future?

Anil Jain: I think you are right, Kunal. Battery business is something, which is dear to us, but I must admit that it has not really done as well as the rest of the group and I guess it is not their internal problem as it is the problem of the customers. Telecom sector for a variety of reasons has not really grown. I am sure you see it today too many call drops on your way home so the battery is not on the priority list for them and that business remains pretty stagnant of growing. Yes the solar battery is doing well, but I can only say that it slowly will grow 5% to 10%, but nothing significant, but will remain stable. I think that segment answering your question whether we would be willing to hive off this business we have had had some discussions in the last few years and we continue to have those discussions, but subject to the right valuation I am sure we will be looking at that option.

Kunal Mehta: Sir second question I wanted to understand that certain set of our products is somewhat branded in nature like the Duomat, which we have and certain bins, which we try to sell which are more B2C kind of products, which have been growing at a much slower space as compared to the base business, so do you think we require a certain boost of may be more advertising spend to do this business to just ramp up their growth rates?

Anil Jain: Kunal can I borrow about two months from you and then you will see some new launches in the branded business. Just to excite you a little bit on this one we are launching a product called DuroGel, which is the antique fatigue bat for the first time in the country. Of course these are very, very popular in North America, so we are bringing a wonderful product and there is another product called Durocomfort, which is the soft mat for the commercial use. We are also bringing some industrial mats, so all of these is being launched. We will start launching them on August 15, 2018 onwards and you will see these products will not only excite our customers, but will also help us grow this business, which have been growing, but there is nothing to write about.

Kunal Mehta: Sir if possible can you share this present revenue contribution of the matting business in FY2018?

- Anil Jain:** It is about Rs.130 Crores to Rs.150 Crores last year.
- Kunal Mehta:** Just final question from my side. Sir I wanted to understand the outlook on the cylinder business for this year, so it is possible in term of the utilization this year so if would have heard correctly are we trying to obtain 100% utilization this year through both domestic revenues and exports?
- Anil Jain:** 100% is not possible again because we have 17 different sizes of **Cylinders** and we have only just two lines, so we use a lot of time in changeover from one size to another and normally the product run is small because they are specific to the particular customer or the region, so though the nameplate capacity may look very attractive, but the actual capacity available is much lower that, so if you are saying whether we will be able to do 100% of the nameplate capacity the answer is no. That will not be possible, but yes we will north of 70% on the available capacity.
- Kunal Mehta:** Just a followup on this one so are we seeing any traction the OMCs or may be their order just resembles to the pilot, which you had supplied to them?
- Anil Jain:** The interesting thing is that one other OMC has started this project about two years ago they launched about three months ago, and now other two OMCs are also in discussion for buying cylinders and launching them in the market place, so I would like think internally they are committed to bringing composite cylinder in the market irrespective of what and how the first OMC did, so they do it slightly differently than what the first OMC did. I have no doubt in my mind that it will be a huge success. If you compare their performance vis-à-vis the other private sector player who is into LPG distribution and if you look at the growth the way they are taking into diffident places, I will tell you OMCs can actually do wonders for themselves and also for us.
- Kunal Mehta:** Sure. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Nikhil Gada from Asian Market Securities. Please go ahead.
- Nikhil Gada:** Sir my first question is on actually the current quarter can you give an actual reason as to why we have seen this increase in margins EBITDA margins by around 50 BPS any specific reason?
- Anil Jain:** One of the reasons is actually the overflow from the last year. As you would know that the raw material prices were lower in the last quarter of the last year and we carried the inventory into this quarter when the prices started going up, so we had some advantage

there. Secondly let us not forget that we have our value add business growing, which are historically with higher EBITDA margins, so as the share of the value add business grows you would see an expansion in the EBITDA margins in the future as well, but this quarter the 5.5% growth in the EBITDA growth margins is a combination of the cost of inventory that we carried into this year and also the extension of value add business.

Nikhil Gada: If I can extrapolate this question because as you know many capacities are coming into the PE raw materials and based on that we understand that the prices might start to stabilize or even go further lower from here, so we can expect this kind of inventory gains or a benefit due to the inventory to percolate in over FY2019 over the remaining three quarters and so in that case we can see a little bit more higher improvement in margins than what we had actually predicted previously?

Anil Jain: You are so right about it. The capacities are increasing in the neighborhood. Even in India we have seen in expansion in capacity by OPaL that is ONGCs joint venture and they are now becoming a significant player in polyethylene space, so that will probably have a staggering effect on the prices of raw material. We also know that there has been a capacity expansion in the Middle East, but I think the most interesting thing is happening in this world is that the North America who has a low cost of feedstock because of the Shale gas are able to produce their polymers at a much lower cost and if you look at the freight cost on US, it used to be pretty high. It has moderated after the fuel prices have been stable or come down to 130 and 140 so they are able to reach out the markets as far as away as India from let us say a place called Houston so they are also putting in an extra bit of pressure of the buying. I would like to think that the prices of polymers will remain stable barring quarterly fluctuations because of some breakdowns or some plants shutting down, but the polymer will remain stable with a negative bias and that would be and we should really see the polymer prices reducing a little bit, but definitely not going up from here.

Nikhil Gada: Because if we see your numbers historically whenever the prices have actually gone down by 5% to 10% we have at least seen around 20 BPS to 30 BPS expansion in gross margins, so would that be a fair assumption to make that that can continue because we have this contracts, which are reset every quarter, so we might continue?

Anil Jain: That effect does continue beyond the quarter, so we have seen a little bit in this first quarter and probably the second quarter when it gets stabilized around there because we do not carry inventories for more than three months anyways.

Nikhil Gada: Go it. Sir my second question would be on PE pipes business so now we are seeing for the past three to four quarters we are carrying this healthy order book and if I look at your capacity and based on that if I assume we can at least make around Rs.400 Crores to Rs.450

Crores of business in a year so what would be our capacity utilization and would we say that this particular order book, which is pending can be executed in the next nine months?

Anil Jain: You missed out my statement before. I had explained in great detail what happened last year because the last year we had the order book, but we could not supply it because our customers. The point is that is all over and the business the order book is now executed if that is what you are asking, but that would not get reflected in the first quarter because most pipe business come to a grinding halt in Q1 because of the monsoon and partly in Q2 because our EPC contractor are not able to lay the pipelines because of the rains and the whole area is getting flooded, but from August and September it picks up. We have order book and I remain equally optimistic that business will show remarkable results in the current financial year.

Nikhil Gada: Sir in that context can we say that we are currently operating at around 50% to 60% utilization levels for our capacity?

Anil Jain: About 60%.

Nikhil Gada: 60% right and Sir on the DWC pipes I see that we continue to maintain the same order book so I am still believing that we have not supplied those orders or is it that we have supplied and we have got?

Anil Jain: That number will be confusing, but yes supply we have got new contracts.

Nikhil Gada: Thank you. On IBC we have seen that we have not been able to achieve that level of penetration in the overseas market? Where do we see this going? Can we see this business continuing to growth 15% both domestic as well as overseas if you can give some idea on that?

Anil Jain: Nikhil we are going at that pace already, so there is no problem at all actually.

Nikhil Gada: But then it is more domestic than overseas, so because our penetration?

Anil Jain: It is about 15% a year and including IBC, but you have to remember that out of 10 locations that we have overseas, we only had IBCs in six locations and last year we added four more locations so we have now IBCs in all the 10 locations and therefore there is a whole lot of new areas that has opened up for them to grow, so I am optimistic that business will also grow.

Nikhil Gada: You are saying 15% plus sort of growth can be continued?



*Time Technoplast Limited
August 03, 2018*

- Anil Jain:** Absolutely. There is no question about that.
- Nikhil Gada:** Sir similarly largely on MOX Film if you can give any numbers for FY2019 what we can expect to grow at?
- Anil Jain:** I just mentioned.
- Nikhil Gada:** You said 35% to 40%, but because I guess there was?
- Anil Jain:** I think we have all the three segments, which are growing in the value added business. It will be safe to assume that individually also they will grow around the same pace in fact it will be a little slow because IBCs is also part of it will not grow at 35% so therefore Mox and Film business should grow at about 35% or even more.
- Nikhil Gada:** The reason I am asking is we have already doubled our capacity from 6000 metric tonnes to 12000 metric tonnes so we would expect that will grow by 50% plus if I am not wrong? Is that not we would not like to lower down our prices in that context to achieve the higher growth and maintain margins or it is just right now because it is new you are not able to give a proper number to it?
- Anil Jain:** I will answer your question. We are very vigilant about the prices. It is very clear that we do not lower the prices in the market place because we are convinced that we have a better product than what is available in the market place, but yet if the competition and I am not talking about non-technology based competition because they come and go, but if the market leader wants us to add to get out of the market if they are reducing the prices obviously we will then follow, but right now I must say everybody is behaving very responsibly and we are expanding the market. India is such a huge country. Can you imagine we are now into Northeast? It is not only the Prime Minister who has recognized the potential of the Northeast in terms of growth potential and the business opportunities, we did the same; J&K is an area, which were completely left out earlier so we have gone into those locations and we are expanding the market. We are getting new applications. You can be rest assured that we will find a way to absorb our capacity both in India and with a surplus capacity rather than pushing the prices down, we would rather export it to overseas location we already have our operations.
- Nikhil Gada:** Sir thank you so much.
- Moderator:** Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.



Time Technoplast Limited
August 03, 2018

Kunal Mehta: Thank you. I think I had a question on polymer prices, but that has been answered in the previous question so thank you.

Anil Jain: I look forward to seeing you sometime.

Moderator: Thank you. The next question is from the line of Ayush Sharma from Investec Capital. Please go ahead.

Ayush Sharma: Thank you again. It is possible to share the capacity utilization level of the Mox plant after the expansion that was done?

Anil Jain: Yes. I will just work it out for you. Normally we do not discuss that. I think it will be somewhere between 50% and 60%, but just do not forget that we actually expanding the capacity only in the month of April this year, so it is about 50% to 60%.

Ayush Sharma: It is close to 60%.

Anil Jain: That is right.

Ayush Sharma: Sir what would be the sales volumes of this if it is possible to share?

Anil Jain: That I will give. We can talk offline.

Ayush Sharma: Sure Sir. Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you!

Anil Jain: Thank you very much. It has been very interesting discussion. I hope I have been able to answer most of the questions satisfactorily. Just to sum up, I think we have a wonderful year ahead of us. We see the growth in all almost all our segments all through India and overseas. Q1 is always the smallest of our quarters and the Q4 is the largest. I am sure as we come close to the year, we will have far better growth that what we have in today. Thank you very much for being part of this conference. Thank you for your interest in the company. Thank you.

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