"Time Technoplast Limited Q1 FY2021 Earnings Conference Call"

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ANALYST: **MR. JIGAR SHAH – RESEARCH ANALYST - ICICI SECURITIES LIMITED**

MANAGEMENT: **MR. ANIL JAIN - MANAGING DIRECTOR & CEO - 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. HEMANT SONI – HEAD LEGAL AND COMPANY SECRETARY OF TIME GROUP TIME TECHNOPLAST LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Time Technoplast Limited Q1 FY2021 Earnings Conference Call, hosted by ICICI Securities Limited. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jigar Shah from ICICI Securities Limited. Thank you and over to you, Sir.

Jigar Shah: Thanks Faizan. On behalf of ICICI Securities, I welcome all to the conference call of Time Technoplast to discuss the Q1 FY2021 results. From the management, we have with us today Mr. Anil Jain - MD & CEO, Mr. Bharat Vageria - Director Finance, Mr. Sandip Modi - Senior VP - Accounts and Corporate Planning, and Mr. Hemant Soni – Head - Legal and Company Secretary of Time Group. I would now request Mr. Anil Jain to start the call with his opening remarks and then we can proceed with Q&A session. Over to you Sir.

Anil Jain: Thank you very much. Good evening to all of you, my team has already been introduced. We are here essentially to talk about our results for Q1 FY2021 and outlook for the rest of the year.

The results have already been announced, but I would still like to walk you through quickly on some of the financials. I may say that these are by far the worst results we have ever declared, but then of course you know the reason why it was so, but I would just put in a word of caution here that these numbers are not comparable with the corresponding period last year as we only could work part of Q1 and therefore there are steep decline in overall turnover.

So during Q1 FY2021 that the net sale on a consolidated level was 475 Crores as against 868 Cores, EBITDA was at 54 Crores as against 127 Crore, PAT was minus 12 Crores as against plus 44 Crores, and cash profit was Rs.26 Crores as against Rs.84 Crores.

Of course, you know the reason it was essentially because of COVID-19 pandemic during the quarter the results of Q1 like I said 2021 are not quite comparable. So, we saw overall degrowth, the turnover at about 45%, the volume decreases by 43%, balance is just comprised of raw material, EBITDA decreased by 57%. The EBITDA margins was at 11.4% as against 14.58%, so there was a double whammy that we had a lesser turnover and lesser percentage of EBITDA, and due to low volume and fixed overhead cost i.e. salary and wages, rent, insurance etc., the performance got affected.

We would say that the performance both our established products and value added product were affected, the value added product value decreased by 42% as compared to the previous quarter this is lower than degrowth in established product which was at 46%. The share of value added product has been 21% of the total sales in Q1 2021 as against 20% in Q1 FY2020.

India and overseas business, well we have 59% India, and 41% overseas against 70% and 30%, essentially the overseas business we have consolidated for the month of January through March, so that was relatively in the COVID period, it was only one month, but in India we had longer COVID period effect. EBITDA margins of course have been more or less the same both for domestic and overseas business.

Segment wise of course, we will answer, as we have the questions, but well the work affected is our PE pipe business which any case was not the best year for it, because we have affected by the monsoon, and on top of it we have the government, state governments would finance this pipes, that whatever projects they have virtually no funds available with them therefore we have to be very careful about whom do we supply these pipes to.

The total debt of the company was about 816 Crores as against 832 Crores and with this I would like to answer the questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Keshav Garg from Counter Cyclical Investments. Please go ahead.

Keshav Garg: Sir our share price is lower than what it was in 2007. So, 13 years back whereas our networth has increased multifold during this period and so have our profit, and our debt to equity is totally under control. Sir, so on the other hand our return on equity, Sir this I am talking about FY2020, I am not even talking about first quarter our return on equity is like just about 10% Sir. So basically, Sir if we do a share buyback, if the company does the share buyback then Sir it would be the best option for shareholders and the return on equity will also increase, so what do you think about that.

Anil Jain: We are aware that ROCE is at around 13.5% which is considered low but we are now increasing share of revenue from value added products where margin is good and in the range of 18-22%. Further we are making efforts for reduction in working capital cycle. We expect ROCE will have good improvement in FY 2021-22 onwards when all operations normalize and country will be COVID free. We are in the process of developing new products where margin is high and working cycle is low.

Keshav Garg: No Sir, what I am saying Sir, I am talking about return on equity Sir, which is basically profit divided by networth multiplied by 100 Sir. So, for example our networth is over 1800 Crores and in FY2020 our profit was 170 Crores. Sir, so basically what is the return that shareholders are getting on the networth, basically the networth belongs to the shareholder and the profit belongs to the shareholder, so profit by networth. Sir, so you will see that it is less than 10%, and Sir so I mean, what is the cost of running such a big company putting so much effort when we are barely earning the cost of capital, I mean, if shareholders would put this money in some fixed income also they can generate around 10% return. So that is the basic point.

Anil Jain: Okay, noted and we will try to improve.

Bharat Vageria: Yes, because the company has done the expansion in last three to four years which will lead to generation of the revenue in the period ahead except in the year of COVID i.e. 2020-21.

Keshav Garg: Sir and so what is the capacity utilization overall right now as we speak.

Anil Jain: It is around 60%, in India, overseas is around 65-70% levels.

Keshav Garg: Sir so and how much can we go provided demand is that can we operate at full capacity or it is like lower than that.

Anil Jain: We did about 3600 Crores last year we are planning to see a growth of about 10%-12%, but we were not really looking for any major capacity expansion. So, I would like to bring this we can grow up to 4500 Crores or there about.

Keshav Garg: With our present capacity.

Anil Jain: With our present capacity there could be some automation/ reengineering for plant and machinery required but otherwise with this capacity we can go to that level.

Keshav Garg: And Sir are we also Sir exiting some of the old products where margin has decreased, or we are carrying on with them also because of this ROE has fallen.

Anil Jain: We have now been recommended that some of the businesses will be exiting of course we have been trying it for a while, one is our battery business that is the business we will exit, also we have some business of medical products, syringes and masks, etc., fortunately there is a good demand for such product. So, we will exit that business also, and then you have a legacy business that is molded furniture we have been, we have decided to exit from that business also. These are of course small businesses not a great deal. So, these are the businesses that we will be exiting that we had identified already.

Keshav Garg: And Sir on the working capital side also Sir can something be done to reduce working capital. So, I can see that our debtor days in FY2015 was 69 days and now it has increased to 84 days and the similarly inventory turnover which used to be 4 times is now nearest to 3 times. Sir, so I think on multiple fronts we need to work including increasing utilization, increasing high value products, and decreasing working capital. Sir, so do you see that happening.

Anil Jain: Yes we do see that happening as a matter of that if you look at the old period than the new ones, one thing that has happened is that we have added a business of PE pipes, now that is the business which has a long working capital cycle. Secondly in the former time, we were getting the fixed price for polymers from our suppliers, right for 3 months period. So we did not have to carry physical inventory at that point in time, but now these people change the price on a weekly or a fortnightly basis and consider the fact that we give a fixed price to our customers for a 3 month period it becomes imperative for us to carry the physical inventory, if we do not want to get surprised for the raw materials. So that is the reason why we would find that the working capital that has basically gone up.

Bharat Vageria: Yes, in fact I would say that further as far as working capital is concerned, you are aware that in 2018 RBI has stopped Buyer's credit facility, so creditors levels has reduced. In fact we were trying our best to decrease the working capital cycle, but apart from this current year it will improve from the next year onwards because this year you all are aware that as far as the margin is concerned we are trying was that to recover as far as considering our products are essentials we are assuring that there will not be any provision on account of bad debt because our all customers have the sound and healthy relationship for about more than 20 years.

Anil Jain: Your question is how we can reduce the working capital and one point that we need to underline is that our value add products which we are working on are all with shorter working capital mostly they are cash and carry. So therefore, and the percentage of this value add products goes up you will find proportionately the working capital will not increase.

Keshav Garg: And Sir for this year what kind of Capex are we looking at and also for the near future, I mean, maybe next year also.

Anil Jain: I think you know that we have planned a fairly large Capex this year, but after this COVID has come in, we have sliced it down and I can say that we will not exceed the capital expenditure more than 100 Crores. So, it will be within that as you know almost 85 Crores or so is our maintenance Capex etc., so virtually we have put complete break on capital expenditures.

Keshav Garg: Sir and since you are exiting the low margin products and you are increasing value-added products so the proportion of value-added products, which is around the fifth of our turnover. Sir, if I, when do you foresee this exceeding 50% or even exceeding a third of our turnover.

Anil Jain: Interesting question, now probably you saw our declaration or announcement with regards to the composite cylinders for CNG right, now that is the business and that was basically for cascades and here we are also getting the approval for CNG cylinders for vehicles onboard application by Dec 2020. Now those two businesses are not only a large business potential, but also have a good margin to upgrade on and I m sure they should ramp up quickly enough, let us say for example cascades which we already have got the approval, even today there are few tenders for mobile refueling station there is a policy which underneath Government of India policy whereby they would be seen for cascade close to about 600,000 cylinders in the next 3 years time, and the value of that is almost 3,000 Crores. So we are now to see even if we get 30% of that, that we should really be in a sweet spot, but I would like to think that , the cylinders on onboard application which is buses, clocks, certain cars, especially Maruti Suzuki they have several cars which run on CNG, let me remind you that the cascade type 4 cylinder we are the only company who has been given approval for locally made cylinders and when it comes to onboard application where we have cleared almost about 85% of the test only one testing is remaining so which we are waiting for a rate to come in. So by end of this year even on board cylinders will be available and I did not tell you that the demand for the cylinders is going to be fairly large, if you remember the statement that Chairman of Maruti has given, that between 2023-2024 they would be making some 4 million vehicles and at least 25% of them are going to be on CNG so which we have already talked about a million cylinders at that time. So, I think, and this has been done with the three or four years of hard work that has been put in without any technical support from outside. So, it has been done within the company and we are not only having met the standards, the international standards that we have exceeded them. So, if these businesses take off it will provide us the growth at one end and of course the margins on the other one and most of these businesses are on cash and carry basis.

Keshav Garg: Sir I understand that Supreme Industries is also manufacturing the same kind of composite cylinders that we are manufacturing. Sir, so, I mean, Sir so how is the competition over there.

Anil Jain: No we are right now making composite cylinders for LPG and the new one that we are trying is CNG, just to give an idea to you that the LPG cylinder can burst at a pressure of 67 bar when it comes to the cascade cylinder it has to withstand pressure of 750 bar. It is a different product all together, but I do not know really even in LPG cylinder we do not see Supreme in many places. So, I have no idea, what is happening, but we are right now doing

LPG cylinders and doing pretty well on that one, but LPG and CNG are two different product modes.

Keshav Garg: Also Sir with OEMs like Maruti etc., I mean, are you sure that we can maintain this cash and carry format and also some arrangements because auto OEM, are known to squeeze their suppliers.

Anil Jain: Yes, they do squeeze the suppliers, when they have the other suppliers available to them. So there is nobody else who manufactures it in India and if they have to import these cylinders from outside the approval itself will take quite long and probably it will cost them about 1.5 times of what we would be offering them.

Keshav Garg: And also, Sir in your most of your products Sir is there some import based competition.

Anil Jain: For CNG cylinders we have two people that we know one is Ragasco in Norway and other is in South Korea, but in LPG cylinders there are about three or four manufacturers worldwide that looks like from the data that we have, we are number two already worldwide and that market is being extended just to give an idea we are now exporting our cylinders to more than 33 countries of course India is still an exception, where we did small business, but we are expanding the market and every time our customers are coming back with the bigger requirements so they start with one container load then they go to two, three and then this is how numbers increase.

Keshav Garg: Okay Sir. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Jigar Shah from ICICI Securities. Please go ahead.

Jigar Shah: Hello Sir, I wanted to know what is the ground situation currently in July and I mean what was the situation in July and August and how it is going to be in September, October in India specifically and another question would be on MOX film how did you do it in MOX film in Q1 in India.

Anil Jain: I will answer first question first. You see in the first quarter we had almost one month of complete lockdown and then we gradually started moving up in some places or we could have production in some other places we still had a local lockdown etc. So it was pretty uncertain and that situation continued partly for the month of July and from August we started seeing things improving fortunately now the local lockdowns have been prohibited, but then we are faced with another problem that is availability of labor we have virtually lost out entire migrant labor and they have still not returned, so we had to recruit fresh people and then engage in training them up, I would expect that in Q2 we should see vis-à-vis Q1 though that should not be the basis, vis-à-vis Q1 we should see a improvement of about 25% to 30%, you see there our customers are decided to opening, but they also have the same problem that we have that do not have enough labor so they are not running with the full capacity and there is a supply line situation where we are not getting some of our inputs. So I think things are settling down I would expect that from September onwards things should improve if you ask me Q3 we should come close to our last year but subject to the condition the we have COVID vaccine and we get our customers coming back in full force, but we certainly are, we are certain about Q4 because by that time things would get settled and probably the vaccine would also be there because right now our workers are hesitant to come over for the reason that the numbers for COVID patients are increasing by the day even internally we also have situation sometimes that we have workers coming into factory and then it is found that they were COVID despite we all were taking full precaution and the local authorities to get lock down for two or three days depending upon where we are so right now things are still moving towards normal but Q3 parts and Q4 we expect things to come back, interestingly however and something that we have been reading in the newspaper and watching into the TV there are lots of companies who want to move out of China and not because they have any problem in China, but it is because their customers are not willing to buy things from China especially in chemical industry and we are now finding that these chemical companies are moving out of china to some of these Asian countries of course India the multinationals are increasing their capacity or bringing in some products which otherwise were being manufactured in china, but the new companies in India are still help them to come I believe they still are not able to get over these processes and formalities that need to be completed despite of ease of doing business, but we are seeing a good number of companies coming into Indonesia also we are seeing some in Thailand, Malaysia, and Vietnam. So these are the countries where we are seeing that the companies from China are moving in of course the owners are the Chinese, but they have a local name and the local partner and they think this way they would be able to export their products as was being done. In India we expect the growth especially in chemicals, automotive also should come back to normal in Q4. So right now, it is a bit about this fact, but this problem will in the long run support us because if companies migrate out of China to some of these Asian countries, they are present in all the places. So, we will benefit it, because of our presence in market leadership in those geographies.

Jigar Shah: And Sir MOX film since in India how did you will be doing.

Bharat Vageria: Yes, last year in fact MOX film we did, we have done the business of around 120 Crores and this year in the Q1 we did around 25 Crores. I think this is because of COVID otherwise it would have much better than this.

Jigar Shah: So, have you seen recovery in July, August, September or something like we have been…

Anil Jain: Yes, MOX film we did some, because the rains have been prolonged, so mercifully what we lost in Q1 probably partly will be recovered in Q2.

Jigar Shah: And Sir in terms of composite cylinder, are you seeing Bangladesh again opening up and our movement happening.

Anil Jain: I think they are open up. The land border was closed and so we have started supplying in fact I am pleased to tell you that in Q1 itself we have supplied 100000 cylinders to Bangladesh. We have a good order book position for composite cylinders and I guess, it may not be possible to have the same numbers as last year because of three months gone on account of covid-19.

Jigar Shah: And Sir in composite cylinder you mentioned last quarter that you have got some new customers from Europe so what is the situation over there.

Anil Jain: We are supplying them like I said they start with a small quantity a container or two containers, in fact we have now got a new order which is for yachts with the CNG cylinders, but let us say that then change from one day to another they take their own time and gradually, but the fact that they are present in 33 countries that is itself is quite remarkable that our products is available in these so many markets and then therefore even we supply to one customer and he launches that in the market so everybody in that country becomes aware of the composite cylinders and then we start getting inquiries from there as well, so that is something which helps us to great deal.

Jigar Shah: Sir my next question would be on CNG cascade for which you got approval recently you said that there is a potential of 600000 cylinders in next three years and the market size would be 3000 Crores and you can do almost 30% of the same, so currently what would be the capacity of and with you and how much of the revenue you expecting from this segment in next two, three years or something.

Anil Jain: Let me tell you we right now have the capacity to build cylinders for LPG. So, what we have done is we have improvised a couple of our machine so that we could make CNG cylinder. So, idea was very simple, we make the cylinder from our existing machines and get the approval because the approval took almost about two years or more. So, we did not want to make investment at that stage and make it keep it ideal until the approval was to come in. So right now you can say we have a combined capacity which is LPG and CNG all put together I guess in the next year we will, I know it is not something that we would have liked to do but we will have to curtail some of our LPG business and allow the CNG business to grow and come to a state where we are ready to set up a exclusive facility for making CNG cylinders and that we expect to do in two stages so we will start with about 80,000 cylinders so first stage we will do about 40000 and then we do another 40,000 cylinders and this the total Capex on that the project will be close to about 80 Crores completion will be about six months and we should be able to generate we will bring about more than 300 Crores from that capacity.

Jigar Shah: From 40,000 cylinders or 80,000 cylinders.

Anil Jain: 80,000 cylinders.

Jigar Shah: Okay, and that will be completed by end of FY2022 or mid FY2022.

Anil Jain: So, we expect the full potential we will be able to tap it in 2023/2024. So that is the conservative number, I mean, even if I hold it back there would be a very strong pressure from the customer as we already have started seeing it you know right now Mahanagar CNG that is, I do not know what is the name, Mahanagar they have got a tender out in the market which is for mobile refueling stations and in that they have specified type 3 and type 4 cylinder because they are safer and maybe now they want to increase the reach of CNG, so they are making mobile refueling stations where the cascade could be put onto the trucks and the trucks would move around for fueling the vehicle. So, they would require the cascade and then like I said they said type three or type four so the type 4 of course is the best in terms of fuel economy and all so they are very keen that we should participate in that tender.

Jigar Shah: So, Sir do you expect this segment to score higher EBITDA margin than LPG and that is why you are ready to curtail the LPG cylinder or something like that.

Anil Jain: There is no consideration of margin to curtail the LPG cylinder business but for time being to do seed marketing of CNG cylinder, it will be carried out from existing LPG cylinder manufacturing facility. When the demand increases, we will have separate exclusive facility for CNG cylinder and the business of LPG cylinder will resume back.

Jigar Shah: And lastly on IBCs you recently started the USA facility so how is the response over there.

Anil Jain: Oh! That is very good we just started in August at Iowa we already had two facilities in Chicago and Houston and both are doing very well, but this is in Iowa and we just started it for that market we developed a very special product in consultation with the potential user there and we made a first few supplies and looks like the customer are liked it quite a lot so we just started I think it should be in a position to say as to how quickly we can build up the volume probably by end of this year we would know but after initial response has been pretty good.

Jigar Shah: Thanks a lot Sir, thanks for the answer.

Moderator: Thank you. The next question is from the line of Rhia from Kitara Capital. Please go ahead.

Rhia: I have a follow-up question on the facility in US that you just started. One is that if you will be able to quantify what is the kind of market size you are looking at in the United States, and what is the kind of turnover that you would expect from these Greenfield capacities you just started. Thanks.

Anil Jain: Yes, you see I will just give you the background, worldwide there are four large industrial packaging companies namely Greif, Mauser and Schutz and Time Technoplast comes the fourth, so these three big companies are in USA already and we are the fourth one who has come in, there are not very many other companies so there are total of four companies the market size is I mean I have not converted that into value, but it should be in excess of about $2.5 billion. So we go as the fourth company, some of the other these big players they had a different way of treating their customers the deliveries were not on time as well as there were many quality issues etc., which were not being addressed because they are virtually I would not say monopoly that between the three of them they have divided the customer and we come in our customers have recognized that we can offer them better products and can be more responsive. Now I would like to again underline the point that when we are in Asia we are serving almost all the multinational companies let us say for example BASF, Clariant, DOW and the whole lot of companies who have experienced our product and services in Asia not only in India but in Thailand, Malaysia, Indonesia, etc., so when we went into USA it was that much easier for us because we took the reference from Asia to their counterpart in USA and has started getting some business from them, so that really helped in…

Bharat Vageria: It is basically an extension of relationship.

Anil Jain: Yes, but this is basically an extension of our relationship right now with the total capacity that we have put up we can get revenue of $30-$35 million at 85-90% capacity.

Rhia: And Sir what is the capacity that you have mentioned.

Anil Jain: The capacity is in numbers will be a little bit complicated but at the full capacity we should be able to do close to about $40 million we can do with the full capacity utilization.

Rhia: Okay. Thank you, that is all.

Moderator: Thank you. The next question is from the line of Mahendra Jain from Way2Wealth. Please go ahead.

Mahendra Jain: Sir my question is regarding Agility, Sir they have launch a bus in around December 2019, so how they are doing any report regarding that Sir, what is the response of that or any order to them because they are having a international parts as well as even the Mahindra & Mahindra with them like and they are trying to create the industrial gas and so many like a gas distribution company also. So, we are on that same path and as last time you said that we are at least doing a 40%, 30% cost less than that how there is possible it is like.

Anil Jain: You are right Agility is minting money right and they are completely unchecked so all these companies are importing CNG cylinders for buses etc. and I can tell you by comparison the agility cylinder is landing up in India with all costs included at about Rs. 120,000 and we are targeting at about Rs. 80,000 to Rs. 85,000. So there will be a substantial saving and in terms of quality we have as good or even better so they have come out of type 4 but there also is a company Indoruss, they have been importing cylinders from South Korea which are type 3 cylinders where you have inliner of aluminium and they also are pretty expensive. So we will be actually coming in with tight force, when I talked agility actually that was the one that I said Norway because the headquarter is in Norway, hexagon is the company's name so hexagon has got agility and they are offering type 4 cylinders and we will be doing it in India and if you go by what our Prime Minister says, Atma Nirbhar Bharat, I see no reason why we should not get accepted by them.

Mahendra Jain: So, they are having a huge order book over there, do you have any idea about that.

Anil Jain: Well they have requirements the potential demand is fairly high as you know Supreme Court has given instructions that all public transports have to be CNG operated now what they did was they had taken the steel cylinders the problem is that, that you have six or seven cylinders on a cascade of that on top of the bus the weight is so high that the central gravity of bus goes up. So, when the bus takes the sharp turn it can actually upturn when they did it in the bottom with the worst conditions in India the cylinders use to get hit by the road as they were start leaking. So the only solution is that you put the cylinders on the top and minimize the weight so for the same capacity cylinders as we are giving in steel our weight is only 22% to 23% so that is the kind of a weight same we are able to get up on. So as well I am not very optimistic that for buses, school buses, etc., they would like to use type 4 CNG cylinders because another aspect of this is that it is completely explosion proof so you would not see any explosion so they are much, much safer.

Mahendra Jain: So, Sir when we are looking for, I mean in this field I mean in big order or something we are planning to tie up with some gas company or something like that.

Anil Jain: We will explain only after COVID is over, that was a pre-requisite so we have now started participating like I said right now we are very much engaged with the Mahanagar gas, it wants to have a lot of cascades and we have sent out messages to all the companies that we have got cylinder for CNG Cascades, incidentally the cylinder which goes on the top of the bus or automobile that is a cylinder which we call as onboard application and we have put for application approval, we are expecting it by the end of this year. So right now, the cylinder we have is for cascade.

Mahendra Jain: Second question is regarding Sir this drum in international market how we are competing with the steel drums and all this like cost wise like minimum comparability are we are having advantage or something like niche advantage and how we are overcoming that.

Anil Jain: You see price wise steel drum and plastic drum, are sold in market for more or less at the same price but the difference is that in plastic drum there is no corrosion, no rusting, no paint peeling off or no damage and light weight and long shelf life for the product. In overseas, still there is use of steel drums more as compared to plastic because of lower prices of steel. In India, our government has levied anti-dumping duty on steel. We are increasing market share of polymer drums by offering products at competitive prices by lowering cost of production and reducing weight of plastic by using technology.

Mahendra Jain: Okay Sir, all the best. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Hitesh Taunk from ICICI Direct. Please go ahead.

Hitesh Taunk: Sir my question pertains to the earlier participant's question on a recovery phase. So, as I understood is it mean like we are seeing a Q-on-Q improvement in the demand and by the end of the year FY2021 we will be closing almost flat of last year's revenue is it a right understanding.

Anil Jain: This is not what I am saying in Q4 we will be able to compare well with the last year's Q4. But there is a negative impact in Q1 and partly in Q2 that will still be there as a hangover. Let us see how quickly we can recover, so it is very difficult for us to say as to how the whole year would look, but I would like to think that we should be closer to about at least 75% to 80% of last year.

Hitesh Taunk: Now my second question pertains to the PE piping business Sir. As you mentioned like around it is a, we have order book of around 325 Crores for this business, so what is your best assessment for the current year revenue from this segment.

Anil Jain: Can you imagine in the first quarter we have done virtually nothing, I mean Q2 also the rains are persisting so the pipelines cannot be laid, but I would like to think that we should touch about 200 Crores because we have the order book and as the situation improves we will start supplying it only question would be about the ability of EPC contractors to make payments because they have to get the payment from the state government and I have reasons to believe that state governments are not flushed money so some of these projects they might only postponed, that is the reason why I said 200 Crores as against our other book of 325 Crores.

Hitesh Taunk: And now my question pertains to our, the gross margin front. During the quarter our gross margin has improved on a YoY also on a Q-on-Q also. So obviously that is a change of mix also and a bit of benefit of a lower raw metal price also. So just wanted to know your assessment for the year on the gross margin front do you think with the recovery in the piping business or say low margin business our gross margin would a bit consolidate or do you think this kind of gross margin would remain sustained for the year as a whole.

Anil Jain: You are right in saying that if our value-addition business is having lesser share that our gross margins will appear to be high. So but I am afraid that the pipe business will have to catch up at some point in time, but we do not have to worry too much about that because the pipe business is lower in EBITDA margin, but you would find that our effective turnover in pipe business is very, very favorable. So in terms of the overall return pipe business is not too bad, yes practically it looks a little challenging but I would like to think that gross margins will be maintained or around maintained because we will have the value-added businesses also kicking in who should really be able to make up for what pipe business will bring down.

Hitesh Taunk: And Sir my other questions on our other expenditure front. Now we have seen a significant saving in the cost front from the other expenditure which was down by around 40% on a YoY basis, so how much of this saving would remain with us for the rest of the year Sir, as a percentage of sales if we could throw some light in terms of saving where we are planning to save which heads are you planning to save like…

Bharat Vageria: Hitesh as I think I have discussed on our telephone also that we have a 80% variable cost and 20% is fixed cost and fixed as in reference to the salary wages, insurance, rent etc. put together. So I think on the gross margin as Mr. Jain has told to you last year in 2020 it was around 14% considering fixed expenses and utilization of percentage is lower. In FY2021 on account of covid the business revenue will be around 70% to 80% therefore EBITDA will be lower by 1.5% to 2% .

Hitesh Taunk: Mean, you mean to say like around the 2% points of saving in the other expenditure, is it the right estimate.

Bharat Vageria: Yes.

Hitesh Taunk: And Sir the other thing pertains to our Capex you mentioned around 100 Crores of Capex for the rest of the year. So, it is a kind of a Greenfield anything in capacity addition or it is a largely maintenance.

Anil Jain: Yes, this is largely maintenance and some debottlenecking at some place right, so for example we might have to add a component equipment etc., just to have to optimize the capacity or doing some automation because that has been something that we have been doing over the years that we try and automate the processes so that the labor requirement is not as high, but no new product Capex has been taken into the account.

Hitesh Taunk: So, you mentioned earlier like for 80 Crores for CNG cylinder, CNG cascade, it is not for the current year right.

Anil Jain: So, it is not in the current year, no. Like I said, we will build up the business of CNG cylinders by diverting some of our LPG cylinder capacity and establish the business once we see the demand coming in there is a time when we will quickly move into this business, but if for some reasons the demand comes in and the way we have the gestation period is about six months so we do not have to start investing purely in anticipation of the demand we can do it around the same time and we see the demand coming in.

Hitesh Taunk: Also Sir, one more thing for that cascade, CNG cascades only, is that 600 Crores of industry size what you have mentioned in your place note, Sir is it a kind of largely imported business and or anybody, anyone is manufacturing that kind of cylinder in India.

Anil Jain: I do not know if you had a chance to see the truck moving in the city and which has a steel frame and lots of cylinder on top of it, it is a metal cylinder actually that is the cascades because when you go to the gas station for getting CNG there is always that truck standing by the side from where the CNG is filled into your vehicle. So right now, they are made out of steel there are companies in India who are making steel cylinders for the cascade application.

Hitesh Taunk: So, the 600 Crores is for that steel cylinder size right.

Anil Jain: That is right, that is the total demand, but as a matter of fact that we are now intellecting the demand actually looks to be higher, I mean, like I said the total demand in by next four years is about 3000 Crores, so that is the market size that we can participate in and let us see how much we can tap, but that demand continues in fact I wonder if you had chance look at the Government of India is just take it get and send it to them.

Bharat Vageria: Yes in fact we will arrange to send to you because we have one government reporting available on account of the cascade uses and just the advantage of this composite CNG cylinder is the light weight all advantage are there which are available in the LPG composite cylinder.

Anil Jain: Just to give an idea actually then you have a cascade made out of composite cylinder and compare it with steel cylinder cascade you can take almost 2.2 times CNG in our cascade with the same truck so that will mean your transportation cost reduces dramatically and then the life is very long and safe it and whatever and that is the reason why you find that these gas CNG distribution company have in their tenders preferred type 3 and type 4 cylinders.

Hitesh Taunk: Okay Sir that is all from my side Sir. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Anurag Patil from Roha Asset Managers. Please go ahead.

Anurag Patil: Sir when you said 35 to 40 million revenue potential from this greenfield expansion in US does it mean all three greenfield Capex included including this Iowa.

Anil Jain: Yes, that is included.

Anurag Patil: And would be the total Capex we have done for all these three facilities.

Anil Jain: In USA our total investment is about 15 million.

Anurag Patil: And the margin profile would it be similar to current or will be high.

Anil Jain: Usually better than this one actually we will be talking about the EBITDA margins about 16%, 17% there.

Anurag Patil: Okay Sir that is it from my side. Thank you.

Moderator: Thank you. Ladies and gentlemen due to time constraint, we will take that as or last question. I would now like to hand the conference over to the management for closing comments.

Anil Jain: Thank you very much, I think it is a very interesting discussions and quite clearly value add businesses are getting our investors excited. I am sure these composite cylinders for cascade and onboard application will be something to watch and I am very proud that we are amongst the two or three companies worldwide who have been able to develop this product and it has a great future. I thank all our investors for their continued support. Thank you.

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