"Time Technoplast Limited Q1 FY20 Results Conference Call"

August 14, 2019

MANAGEMENT:	**MR. ANIL JAIN – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, TIME TECHNOPLAST LIMITED** **MR. BHARAT VAGERIA – DIRECTOR FINANCE** **MR. SANDIP MODI – SENIOR VICE PRESIDENT, ACCOUNTS AND CORPORATE PLANNING** **MR. RAGHUPATHY THYAGARAJAN – DIRECTOR MARKETING** **MR. HEMANT SONI – HEAD LEGAL & COMPANY SECRETARY**
MODERATOR:	**MR. VIKRAM SURYAVANSHI – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good afternoon. And welcome to the Time Technoplast Limited Q1 FY20 Earnings Conference Call, hosted by PhillipCapital (India) Private 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. I would now like to hand the conference over to Mr. Vikram Suryavanshi from PhillipCapital (India) Private Limited. Thank you and over to you, sir.

Vikram Suryavanshi: Thank you, Stanford. Good afternoon, and a very warm welcome to everyone. Thank you for being on the call of Time Technoplast Limited. We are happy to have management here with us today for Q&A and session with the investment community. Management is represented by Mr. Anil Jain - Managing Director & CEO, Mr. Bharat Vageria – Director Finance, Mr. Raghupathy Thyagarajan – Director Marketing, Mr. Sandip Modi – Senior Vice President, Accounts and Corporate Planning; Mr. Hemant Soni – Head, Legal and Company Secretary of Time Group.

Before we get started with the Q&A session, we will have some opening remarks from the management. Thank you and over to you, sir.

Anil Jain: Good afternoon, friends. My name is Anil Jain. I have got with me Mr. Bharat Vageria, Mr. Sandip Modi and Mr. Hemant Soni. It's a pleasure to be with you this afternoon. We are here simply to talk about the results of Q1 FY20. The results are already announced, but I will just walk you through some of the key financial and operational highlights.

During Q1 FY20, and I will give you the corresponding number of the same quarter last year, the net sales on a consolidated level stood at Rs. 868 crores as against Rs. 782 crores with corresponding period last year. EBITDA at Rs. 127 crores as against Rs. 121 crores, and PAT at Rs. 44 crores, more or less the same as last year, Rs. 43 crores. Compared to the corresponding period of the same quarter last year, the net sales grew about 11%, of course, the volume growth had been about 14%, the breakup of the net sales growth in India 12%, overseas 10%. And the volume growth also in India is 14%, overseas about 13%. EBITDA grew at about 5%, and of course PAT remained more or less the same, just grew by 1%. The EBITDA margins were 14.58% as against 15.46%, so there is a drop of 86 basis points in the EBITDA margin. Net profit margins dropped by 50 basis points, that's about 5.54% as against 5.04% of the last year.

The established businesses and the value-added products, the value added product grew by 15% in Q1 FY20 as compared to the previous quarter this year. Value added products have gone up to 20% of the total sale, it was 19% of the corresponding period last year. India and overseas business have remained more or less in the same range, 70% is coming from India, 30% from overseas. It used to be 69% and 31% last year. EBITDA margin for overseas and India businesses are at 14.69% and 14.34% respectively.

The polymer products, so we give the division, polymer products and the composite. So, the polymer products contribution is 71% and that grew at about 11%. The component product contribution to 29% with the growth of about 12%. As you know, polymer products include drums, jerry cans, pipes, tops and mattings, boxes; and composite products include IBC, composite cylinder, batteries, auto products, and steel pipes. The PE pipe business has shown a great growth. I am highlighting it because it clearly did the best performance in the current year and provided a lot of growth. We seem to have a very strong order book already. So, our order book is already Rs. 350 crores, after executing orders that we did in Q1. So, last year we did I think Rs. 340 crores in the pipe business, this year we should really see a significant growth in this space.

We have supplied the new generation multi-layer PE pipes for power and communication cables, we have a strong order book. Of course, as you know, April to July is not the best period because of the monsoon, the laying of pipelines and ducts is actually suspended, so there much of the sales doesn't take place. So, we actually will see that coming up from this month forward.

With these remarks, I will be happy to take questions please. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ramesh Jai from Way2Wealt. Please go ahead

As there's no response, we take the next question from the line of Hitesh Tonk from ICICI Direct. Please go ahead.

Hitesh Tonk: Sir, as you mentioned in your opening remarks that the pipe business, you are going to see a very good growth traction in the pipe business. And the last year you mentioned around Rs. 340 crores of revenue you have booked in the pipe business. So, my question is, what kind of growth do you expect from the pipe business? Since the industrial activities have been kind of slowed down, the industrial activity witnessed a bit slowdown in the first quarter. So, for the next nine months how much of a growth are you expecting from this segment?

Anil Jain: Pipe business is essentially infrastructure related. And as we have seen around, there is a lot of allocation and emphasis that the government on setting pipeline for the water, that's where pipes are normally used. So, there are lots of tenders which have already been floated and there is a much larger allocation. As you know that we do not apply anything directly to the government, but most of the EPC contractors they seem to be pretty busy grabbing orders, and they are currently talking to us for supply of pipes. But my confidence comes from the fact that we open the year with a very strong order book, and as the monsoon activities subdue, we will be able to go ahead and start the dispatches. As far as the growth is concerned, of course, I have a feeling, everybody who is in the PE pipe business this year is going to be fully, fully busy, because if you go by the quantity of pipe requirements for which the tenders are either floated or are in the final stage of award of contract, I think there is going to be a very strong demand. We from Rs. 340 crores should look at about Rs. 430 crores is what we are anticipating, but I guess we will be able to go beyond that.

Hitesh Tonk: Good sir. Sir, my next question pertains to the composite cylinder. Since we have a good client attraction in the last one year, do you think that growth momentum should continue in the composite cylinder? And what kind of growth do you expect in FY20?

Anil Jain: We have done a pretty good business in the first quarter, so far as cylinders are concerned, we have a strong order book for that, and the export will continue. Of course, it was also a little bit hampered because of the its not coming on, in the form of shipments getting delayed because of monsoon, etc. But we don't foresee any problem in target. We are expecting, last year we did about Rs. 182 crores in cylinders, this year we are looking at about Rs. 236 crores.

Hitesh Tonk: Sir, my next question pertains to over raw material prices. So, can you please elaborate how the moment is at present vis-à-vis Q4 FY19? I mean, how much the SDP or LDP prices have increased or declined, rather I think it would have been declined. So, can you please elaborate a bit how was the trend and how are we placed to take the benefit of this?

Anil Jain: Prices of polymer are pretty stable actually, with a negative bias. I think we will have to wait until this embargo comes into effect for the export of goods from China. Because right now the supply and the demand is fairly well balanced out, but the American companies are not allowed to export their polymers over to China, and they would be willing to sell in India. Ocean freight from USA having moderated to India, I expect the prices would remain stable or purely go down. But like I said the last time around, the raw material prices will fluctuate, it will be range bound, +/-5% of the base. We don't see any remarkable change as far as raw material is concerned.

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

Harsh Shah: Sir, considering the weak environment scenario, I think you have delivered a decent result, especially 14% volume growth was a positive thing. Just wanted to know, which are the industries that are doing well for you and where are you seeing stress? And what is the outlook for you in terms of the industries which you serve?

Anil Jain: If you ask market personally, we are not happy with the situation that is there around. I mean, we are one of those few who that have not been so very much affected. But in so far as the growth areas are concerned, MOX has continued to do well; of course, this year we expect the season for the MOX films or Techpaulin as we call it, will be extended because the monsoon came a bit late. So, there is a continuous demand even today, normally it used to taper off by this time. So, that will continue, and cylinders will do well because we have a good opening order book. Pipes, I mentioned to you, they seem to be doing well. Industrial packaging is more or less stable, growing at about 8%, 10%, because there is no GDP driven business. But yes, auto component, which is of course only 5% of our total revenue, will see a little bit of a decline. We have seen that already in Q1, I think in Q2, it is looking even worse, because the offtake or the fuel tank and anti-spray flaps is a bit low because customers are only running part of their capacity. So, this clip area could probably be only auto component. But like I said, that is only 5% of our total business. That is the advantage that we have that we don't have over dependence upon one particular product or a product segment. So, therefore, we are fairly well de-risked.

Harsh Shah: And sir, I am seeing that you have generated net operating cash flows of around Rs. 38 crores. But your debt has more or less remained stagnant. So, have you incurred any CAPEX this quarter?

Anil Jain: Yes, we have CAPEX of about Rs. 30 crores that we had to do in anticipation, this is down for both the value-add products and also for automation, etc. And of course, it also includes maintenance and upgrade CAPEX. But we have slowed down the CAPEX this quarter, not knowing exactly how the economy is going to pan out. So, yes, there's been a little bit of CAPEX.

Harsh Shah: And sir what will be your guidance for the entire year taken as a whole?

Anil Jain: I mean, we have been growing at about 12% to 15% in the previous years. We still are hoping that we will be around that. But probably I would be able to answer it a lot better on the next call three months from now, because there are too many moving pieces right now, of course, fortunately for us we have a better visibility in our overseas business, which is almost 30%. Indian business, of course, everything is going to depend upon how the GDP growth takes place. But if we see the GDP going down, and especially our industrial packaging business somehow gets related to the GDP. On the other end, there are some impressions that if China's export to North America reduces, then they will be depending upon material coming in from India. So, therefore some of this packaging product requirement in India might grow up. So, like I said, we are getting conflicting signals right now. Allow me to answer this question more specifically in the next conference when we have three months from now.

Harsh Shah: Yes, sure, absolutely. And just last question, if you can share volume details for pipes, industrial packaging, MOX and cylinders.

Anil Jain: Our share of because, packaging is about 69%...

Harsh Shah: I would like the volume number.

Anil Jain: Volume numbers we will not be able to provide.

Management: All different kind of products are there in polymer, packaging also we have a large container, small containers, IBC, so many, medical things.

Anil Jain: I will ask my colleagues to tabulate it and probably have it sent you offline, would that be okay?

Harsh Shah: Absolutely. Thank you.

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

Mahindra Jain: Sir, can you bifurcate overseas business, net worth of overseas business, can you say? Its 70:30 ratio.

Anil Jain: In terms of revenue?

Mahindra Jain: Yes, revenue, but what is your net worth, what is the capital employed in overseas business?

Anil Jain: Approximately Rs. 600 crores.

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

Hitesh Tonk: Sir, my question pertains to our debt level, it is current at Rs. 38 crores as you mentioned. Sir, do we have foreign debt I there or is it completely Indian currency?

Anil Jain: We have Indian currency only, and overseas is borrowing in the local country currency, because we have a presence in nine countries overseas. So, they have a local borrowing in their local currency. As far as India is concerned, we have Indian currency loan only. Even if we have a foreign exchange loan that is hedged to Indian rupees, we don't keep it open.

Hitesh Tonk: Okay. And sir, is it including our working capital or do we have other working capital loan?

Anil Jain: It includes the working capitals.

Hitesh Tonk: Okay. So, since you mentioned it and it is too early for me also…

Anil Jain: Firm based working capital.

Hitesh Tonk: Okay, this included working capital? Okay. Sir, since you mentioned that you will get more visibility in the coming months, I understand it's too early to ask. But do you have any kind of visibility or say thought like we are going to reduce any debt level? Since you talk like you are going to be very, the CAPEX level will be very low in the coming year since the lower utilization also. So, do you think reduction of debt level from here on?

Anil Jain: No, I think we are fairly well placed if you look at our debts and EBITDA, it is about 1.5. So, we are not overly debted company. Not only we have to be watchful about the working capital cycle getting difficult if the liquidity situation continuous in the market, because we have the customers paying time. We are not anticipating any reduction in loans. But yes, you are right that we are watchful about the CAPEX in the current situation.

Hitesh Tonk: Okay. And if you can elaborate in a few points like just bookkeeping question, why the interest cost have increased around 20%, 21% for this period?

Anil Jain: Our debt has been the same more or less, and the turnover being what it is. So, therefore we find that has gone up a little bit.

Hitesh Tonk: Sorry sir, there is a disturbance in the line, could not hear you. Can you repeat it once?

Bharat Vageria: I think this as far as you would like to know about the interest cost of the current financial year, right?

Hitesh Tonk: Right effect No, I am talking…Bharat sir, during this quarter the cost have gone up significantly whereas the debt level remains more or less same on a YoY basis. So, why that cost has gone up significantly?

Bharat Vageria: You know, in whole of the year when we get 100% business in first quarter we will find business of 20% level in it. Overall, in a year it will utilize cost whatever previously was there, the interest cost will be the same annualized, quarter business is 20% therefore it is on higher side.

Anil Jain: It was the same amount in April figure, it was in the last quarter also. So, in whole of the year the cost will be the same as was the previous year.

Hitesh Tonk: And sir, what was the tax rate going forward?

Anil Jain: 26% average consolidated tax rate.

Moderator: Thank you. The next question is from the line of Amruta Daherkar from Trivikram Consultants. Please go ahead

Amruta Daherkar: Sir, in the previous call you had mentioned about 3 lakh cylinder purchase order of the composite cylinders which was received by the company. What is the progress on that? And also regarding the CNG cylinders you had mentioned there is some testing going on, so if you could turn the light on that.

Anil Jain: Great you asked me this question. The composite cylinder we have done in the first quarter about 181,000, so that's the quantity we have done. We of course had got the order of 300,000 cylinders at that time, we already had 1-million-cylinder order from another one. So, the order book is there. We have scheduled the dispatches they are going accordingly. So, we expect that business will continue to grow. And your second question was about CNG cylinders, you are right we had put them on the test. I am very happy to tell you now that in CNG cylinders we have two varieties, one is for on-board application and the other one is for the casket. So, for the onboarding for the vehicles etc., that is 30 liters, 60 liters, 65 liters, 75 liters and 156 liter cylinders. I am very happy to tell you that all of these cylinders have been produced successfully and tested as per international standards. So, they have passed all the tests.

In addition to that, we have done 75 liter and 156 liter in CNG for the casket application, which is far, far more difficult in terms of the pressure test that has to be conducted. I am happy to tell you again, that only two weeks ago both cylinders have been fully tested and withstood international standards. So, that is a prerequisite before we make a formal application to the third party, and also in the meantime we have made an application to PESO and we are expecting that PESO will ask the third party to conduct formally those tests and trials and globally we should really have PESO for all those lenders, both on onboard and also the casket by end of this year.

Amruta Daherkar: Sir, we could expect revenues to come from FY21?

Anil Jain: That is correct.

Amruta Daherkar: And what could be the capacity that we have or we plan to build up for these cylinders?

Anil Jain: Right now we have not added additional capacity for this one, so part of our existing capacity for LPG cylinders will be dedicated for trial and initial orders. But as the business builds up, which is very likely to happen, at that time we will be required to create the capacity. But right now, we are not planning for that CAPEX as it will all depend, frankly, we will be watchful with the automotive industry whether they would be in a hurry to change over from their existing ones to the new types. So, we are we are keeping our fingers crossed. In any case, if the need arises, we will debottleneck our LPG cylinder capacity and earmark part of it for the CNG cylinder. In any case, the demand is not going to pick up vertically, it will be gradual, so we will have enough time to build the capacity if the need arises.

Amruta Daherkar: So, like existing LPG cylinders capacity that we have, like our what is the utilization levels? And what amount if we need to expand that capacity and convert it to the CNG cylinder, then what kind of CAPEX will be required just that conversion?

Anil Jain: See, we are to earmark part of our capacity for CNG and put up the testing equipment, etc. We are already talking about the CAPEX inside of Rs. 10 crores. But we have to set up completely new capacity for CNG cylinders, so that will be pretty expensive, for 200,000 we will be required to invest something like Rs. 80 crores.

Amruta Daherkar: And like what are the utilization levels at the current LPG plant that we have?

Anil Jain: We are at about 70% of nameplate capacity, but in reality, it is high because we have about 18 different type of cylinders, so we have to keep switching from one cylinder to another and therefore we have a loss of productivity.

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

Kunal Mehta: Sir, first question is that, can you just give us your aspirations for the IBC business this year, how much you expect to do in financial year 2020?

Anil Jain: IBC business is doing pretty well; we are expecting total turnover to be about Rs. 120 crores in the IBC business. Right now, we are the third largest for IBC worldwide. But we are mostly in Asia and North Africa, which is not the main markets for IBC, its mostly USA, etc. So, this business has a huge potential, we will be reaching there gradually.

Kunal Mehta: And this plant which you have started in the US, would that help you in doing IBCs in the US, or the US remains the competitive market because of the top three players being there?

Anil Jain: On the contrary, US market is very, very good, because there are only three players and obviously, they seem to have a problem with the capacity, they are not able to meet the customer requirements. It is reflected by the fact that we started two operations, one in Huston and Chicago, and we are more or less at about 80% of the capacity there in less than a year's time.

Kunal Mehta: Sure. Sir, the second question is on the chemical volumes, sir you supply cylinder to the whole of chemical industry in this country, so in terms of your reading the, what the situation is, do you see the volumes in the next few quarters meaningfully slowing down or remaining stagnant? How do you see the volumes of your customers in this month previous last month?

Anil Jain: Very interesting question you have asked and we have been watching it very carefully. We haven't seen that kind of a bonhomie that we used to see in the chemical industry. But frankly, Q1 is probably not the best time to make an assessment because most of these companies go for their annual shutdown and maintenance. But we know for sure that none of our customers are already talking about expanding their capacity or setting up new projects, that is not happening right now. So, it is a little subdued, if I may say, but I think a lot of people are waiting for the Chinese situation to emerge. We have a feeling that if the trade war between China and America actually accelerates, Indian chemical industry will be a natural beneficiary, because then they will be able to bring those chemicals at relatively low tariffs in North America. Insofar as the demand in North America for the chemical is concerned, that is still continuing pretty strong, essentially because of the activity of the shale gas that is driving the demand for the chemicals. So, answering your questions, there is no major bonhomie right now, Q1 is not the best quarter to make an assessment, but yes there are some segments where we see a good demand growth. That is for example, construction chemicals, we are seeing good demand improving, in food, pharmaceuticals we are seeing a good demand also a little bit of increase in textile auxiliaries. But the basic chemicals and petrochemicals etc., they have remained more or less stagnant.

Kunal Mehta: Sure. And sir we have been trying hard to sell the battery businesses, any progress on that side?

Anil Jain: Not yet, we are getting a lot of interest lately again, because now we have also set up a unit within there for assembly of lithium ion batteries. And with this electrical vehicle thrust, it looks like there might be some people interested in that. But I mean, there are people who want to buy it, but we are not a desperate seller, the company is doing well for us, it's just that we are not totally focused on the project. So, as and when we get a buyer who can give us the value, we will let it go. But otherwise we are very happy to run it. In the meantime, we have changed the CEO there who has able to bring in a lot of cost efficiency, and has improved productivity. And we in any case are moving out of the telecom sector, where we are finding that the prices are not the best and the payment terms are also getting a bit difficult. So, we are gradually shifting over from telecom batteries to solar and really the demand is getting strong.

Kunal Mehta: Sure. So, just a follow up, so the ultimate objective and I would say in the near to medium-term remains to divest this business and not be a participant in the whole EV journey, right? Would that be a right way of mentioning it?

Anil Jain: We will keep it going as if we are going to run this way. But if you find a suitable buyer, it is purely because for lack of focus, otherwise business by itself is very good. So, if we find someone on the way who might be interested in the business and can give value, we will let it go. Like I said, we realized that anybody who wants to go into the battery business would also like to have assembly facility for lithium ion batteries, so that's what we have set up, its getting finalized now.

Kunal Mehta: Sure. Sir, just a final question from my end. This is just an observation on the goals which we had set for ourselves, since the last two years of achieving return on capital employed in the range of 20%, so this is just an observation and I would just like to know your views on it. So, fir given the way our business is structured, we have a we have a large packaging business which is generally a 15% to 16% return on capital business and now we are trying to grow where we are working hard to grow the value added part of the business, and that is including the return on capital employed. But considering the way our business model is structured because of the working capital requirements that we have, it would be very difficult for us to actually take it to 20%, because given our volumes within the chemical packaging business of 8%, 10%, we would still remain in the range of 15% to 17% solely because of the way the business model is. So, would that be the rise of observation or you think there is a scope for 20%?

Kunal Mehta: See, our optimism of improving ROC is coming from two angles, one is that we grow value add business which gives us more EBITDA. So, we collect 20% of the total business coming from value add businesses. Number two, the value of business is not very working capital intensive. And let me tell you, and that is something which we are anticipating to happen anytime, that this raw material suppliers who used to give us a fixed price for two or three months earlier on and we didn't have to carry physical inventory of those quantities, therefore our total working capital cycle could possibly improve. So, all of those factors have been taken in. I guess it will largely depend upon how we are able to grow our business and slightly the growth of our value add businesses where we have seen growth but clearly it was not entirely to our liking.

Kunal Mehta: And sir, do we have an opportunity to discount our receivables ahead of something like channel financing or bill discounting, is an option available to us to do something like that to improve our working capital?

Anil Jain: We do it sometimes but not really because we stay with our bankers who are providers of the working capital. So, we try and manage it, if there LC or something or there is a major bill. For example, now some of the customers also had the discounting done to their own resources and give it to us, so we availed that facility. But nothing in particular.

Kunal Mehta: And this year the objective would be to deleverage the balance sheet or we would still continue with the present level of debt that we have?

Anil Jain: I don't see a reduction in the debt. On the contrary, we are very watchful of how the working capital cycle works from now on. Let's be honest about it, there is a liquidity crunch in the marketplace which also gets reflected in a customer being able to pay on time, which before us is either that let that business go or we try and accommodate to the extent possible. So, right now we are not anticipating any reduction in the debt, I think it will remain more or less at the same level.

Moderator: Thank you. The next question is from the line of Chintan Shah from Investec. Please go ahead.

Chintan Shah: Sir, my question is on MOX films, could you give any about the industry size and current market share that we have?

Anil Jain: This is very difficult to say the market size because it is basically called turbulence factor, in the top lane there are huge varieties, namely the **(Inaudible) 39.03**, there is a woven and laminated, the woven fabric and the laminated one, also the plane piece. So, it is very difficult for us to make an assessment about the total turbulent market. But yes, if we are talking about MOX or its equivalent, we have major two players, Supreme and us. Supreme of course is the market leader, they have been there for a very long time. We did the last year about Rs. 111 crores business.

Chintan Shah: Could you please repeat that, couldn't hear you.

Anil Jain: So, last year we did about Rs. 111 crores in this business. And clear this business, it has an equivalent product is Supreme, I believe there still worth about Rs. 550 crores. So, in fact our market share is still…..

Chintan Shah: Okay. And sir how is the pricing environment in this market?

Anil Jain: The pricing is good, I mean, since there are two players and we do not try to undercut each other. We are both working towards spending the market and finding newer application. We have found the prices have remained more or less stable. Good thing is that the margins might improve a little bit because the polymer prices for that one is stable-to-moderate. Therefore, the EBITDA margin of 23%-22% as anticipated should be maintained.

Chintan Shah: Okay. What would be the capacity utilization for this segment?

Anil Jain: We are utilizing about 70% of the nameplate capacity, but again we have different thicknesses, different sizes. So, if you look at the available capacity utilization, it is closer to about 80% or so, but from the nameplate capacity it is about 70%.

Chintan Shah: Okay. And what the total capacity would be?

Anil Jain: Capacity is about 12,000 tonnes.

Moderator: Thank you.

Anil Jain: Okay, I guess we can close it now.

Moderator: As there are no further questions from the participants, I would not like to hand the conference over to Mr. Vikram Suryavanshi for closing comments.

Vikram Suryavanshi: We thank the management of Time Technoplast Limited for giving us an opportunity to host the call and taking time out for interacting with the stakeholders. Thank you all for being on the call.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.