"Time Technoplast Ltd Q3 FY21 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY'21 Earnings Conference Call of Time Technoplast Limited 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. Thank you. And over to you, sir.

Jigar Shah: Thank you, Rituja. On behalf of ICICI Securities I welcome all to the conference call of Time Technoplast to discuss Q3 FY'21 Results.

From the management, we have with us today. Mr. Anil Jain -- Managing Director; Mr. Bharat Vageria – Director, Finance; Mr. Sandip Modi -- Senior VP Accounts and Corporate Planning; and Mr. Hemant Soni – Head, Legal and Group Company Secretary of Time Technoplast.

I would now request Mr. Anil Jain to start the call with his opening remarks and then we can proceed with the Q&A session. Over to you sir.

Anil Jain: Thank you very much. Good afternoon to you all. I first apologize for not being present in the last conference, being unwell, but I'm happy to be here together. I have with me, Mr. Bharat Vageria, as has been announced already. In addition to Mr. Vageria we also have our Director, Marketing – Mr. Raghupathy Thyagarajan, and rest you have heard, Mr. Sandip and Mr. Hemant Soni.

We are here essentially to talk about our results for Q3 and Nine Months FY'21 and Outlook for the Rest of the Year. Results are already announced, but I will just walk you through quickly some of the "Key Financial and Operational Highlights." We are pleased to report quarter-on-quarter improvement in the performance. This is in line with our stated outlook of an improved performance in the second half of the current financial year. The reason for this is that probably comparison with the same quarter last year is not much relevant due to COVID and its impact on the company's performance all across. So, during Q1 FY'21 net sales was Rs.475 crores which increased to Rs.744 crores in Q2 FY'21. So, therefore, there was a substantial increase from Q1 to Q2. It has further increased to Rs.835 crores in Q3. EBITDA stood at Rs.54 crores in Q1 FY'21 which increased to Rs.93 crores in Q2 and in Q3 increased to 113 crores. EBITDA in percentage terms improved from 11.4% in Q1 to 12.4% in Q2 and 13.5% in Q3. Profit after tax was Rs.25 crores in Q2 FY'21 against a net loss of Rs.12 crores in Q1, in Q3 it increased to Rs.38 crores. Cash profit was Rs.26 crores in Q1 and Rs.63 crores in Q2 and it further increased to Rs.78 crores in Q3. So, as you see here, there have been improved performance from Q1 to Q2 to Q3, probably it will be reflected in nine months period which are though not comparable with the corresponding period last year, but still the performance numbers are given here. During 9M FY'21 corresponding to 9M FY'20 net sales stood at Rs. 2,055 crores as against Rs.2,663 crores. EBITDA for nine months this year is Rs.260 crores as Rs.382 crores in the nine months of last year. PAT at Rs.51 crores; it was

Rs.131 crores in the last year and cash profit of Rs.167 crores as against Rs.254 crores in the last year. Nine months include Q1 and Q2 where the performance was far behind. We find that net sales in the first nine months have seen a de-growth of 23%, in India, it was 26% and in overseas it was lesser i.e. 16%. Volume degrowth was 23% in nine months, India it was 26% and overseas it was 16%. EBITDA degrew by 32% and cash profit by 34%. In nine months FY'21 EBITDA margin is 12.6% as against 14.4% in the corresponding period last year and down by 180 basis points. Net margin decreased by 240 basis points i.e. 2.5% as compared to 4.9% due to low volume and fixed overhead costs i.e. salaries and wages. Turnover being less, the fixed costs went up in percentage terms.

In terms of established and value added products, the value added products degrew by 19% in nine months FY'21 as compared to nine months FY'20 on account of lockdown due to COVID-19. The share of value added products was 21% of the total sales in nine months FY'21 as against 20% in nine months FY’20.

Share of Indian and overseas business in the nine months FY'21 was 67% and 33% overseas as against 70% and 30% in FY'20 due to lower effect of COVID in our overseas operations. EBITDA margin in India and overseas are 12.7% and 12.5% respectively. The total debt in nine months reduced by Rs.23 crores and stood at Rs.809 crores. This has been the outline of our performance, I would be happy to take questions.

Moderator: Thank you very much. We will now begin the question-answer-session. First question is from the line of Ashi Anand from IME Capital. Please go ahead.

Ashi Anand: Sir just wanted to understand firstly, when we are speaking of the COVID impact, is this a supply side issue or is it a demand side issue that we're facing because on the demand side, a lot of our end user industries have actually been growing quite well and they actually are growing year-on-year post COVID?

Anil Jain: I think it was bit of a both actually because it took us time to stabilize our operations, considering that we are labor-intensive, and suddenly we didn't have enough people available to be able to meet out the orders for the customer. But on the other end, you would find that even our customers had the same problem, they didn't have enough labor, there was logistic problems or even the distributors had enough stock, so delayed in receiving new consignments. So it was the entire chain which was clogged and chopped down. But we now can see it opening up, and the demand is getting back to normal. Of course, in some products, for example, auto components we have a situation, as you know that we service commercial vehicles who are still coming back to normal. PE pipes was our worst affected business because the contractors did not take the delivery of the pipe, so we had enough order, reason being that they didn't have enough labor at site to be able to lay down the pipelines. So we had the order, in many cases, we also kept the stock ready, but they would not give us the clearance. And secondly, I think the state governments diverted all their funds for fighting COVID. So they were not able to pay to their contractors, as a result of which they would not supply anything at site until the old payments are cleared. So, it was a combination of a lot of things actually. But I'm glad to tell you that things are coming back to normal, as you can see in Q3, we have been able to recover significantly, and I do believe in Q4, we should at least come to pre-COVID period.

Ashi Anand: Based on the explanation that you've given is it safe to say that there's a certain amount of pent up demand that could actually be there in the system so that as things kind of normalize, you may see a couple of quarters kind of even higher than normal growth because of the pent up demand or is that not really what you're seeing?

Anil Jain: Absolutely. Though many people have not recognized it but there was a pent up demand, suddenly the demand went up, and therefore there was a gap between demand and supply, and as the supply has grown now in the meantime, we're finding that customers are still waiting for things to clear up to their customers and in turn the actual user. So, in certain areas, we would see the demand slowing down as the pent up demand gets cleared up. But in our segment, I would like to think that it should really grow further, reason being that a lot of countries have now started buying and I'm talking about overseas customers, they now prefer to buy their chemicals or inputs from India rather than going back to China. And again, a lot of multinational companies, they have diverted some of their products from China over to India and they are servicing their International or Asian customers from India. So that should actually increase the demand for packaging.

Ashi Anand: Secondly, just wanted to understand on a core kind of business of plastic drums where we have a dominant kind of market position 65%-70% plus market share, has anything changed in terms of the domestic market dynamics, any new player has come in, has anyone been able to gain market share or are we still as dominant as we used to be?

Anil Jain: We are absolutely as dominant as we were, we haven't lost any customer. In the former time, everything was being done in drums, there has been a change especially for exports, where they use intermediate bulk containers. So, you would find that the demand that could have increased in terms of the drums probably is being diverted over to intermediate bulk containers. We have seen significant growth in the demand for intermediate bulk containers. And if these International companies, they come to India and try and export their products to Europe or Middle East or even Asia, that would again be in IBCs. Therefore, the growth will be captured by the IBCs and drums will continue to have their regular growth of 4% to 6%.

Ashi Anand: Just to understand a competitor positioning in IBC, is that similar to drums or is there low market share in that segment?

Anil Jain: More or less the same actually, we have a dominant situation in IBC; it's a highly technical product. Some people tried it with varying degrees of success. But I would like to think that our market share will be well over 65% - 70%.

Ashi Anand: So that trend actually is positive for us because our margins will be high on IBC?

Anil Jain: Right, IBC is a value-added product for us and we see ourselves getting better EBITDA margins in this business.

Moderator: Thank you. The next question is from the line of Deepesh from Maanya Finance. Please go ahead.

Deepesh: Just wanted to know what is the sales contribution of the Type-IV Composite Cylinders in this quarter?

Anil Jain: Total value was about Rs.54 crores.

Deepesh: What are the margins we work out?

Anil Jain: Well, we do about 19% to 20%.

Deepesh: Also, I couldn't see in the investor presentation the major OMCs as a client list. So, are we still in talks with them, have you received any orders from the OMCs like IOC, HPCL, BPCL?

Anil Jain: Our talk with them is exactly the same way as Ministry of Agriculture and the farmers. We have been in discussions with them uninterrupted, but Oil marketing companies for some strange reason stuck to steel cylinder, we don't want to attach any motives to that, but it is highly unlikely that they will change over from metal to composite. However, we are very happy to supply our cylinders to overseas, we are supplying right now in more than 38 countries and our product is approved in about 58 countries world over. So, I'm sure as the demand for composite cylinders grows further across the world, we should really be benefited by that. We hope and pray one day the good sense will prevail upon oil marketing companies and I guess it will come from the pressure that they will see from people. We just made a calculation from 2011 to 2019, total number of people killed because of the cylinder explosion was 50,000 and 92% of them were ladies and children. And I can tell you in UAE, there was only one accident in the last three years and one person died. They are now planning to change over entire steel cylinders to composite.

Deepesh: This data of 50,000 people has been in 2020 and in India?

Anil Jain: 2019, in India is what I am talking about.

Deepesh: Are we planning to give any presentation to the Ministry of Petroleum because I think this government listens to the industry?

Anil Jain: We have reasons to believe that there is a PIL which is being filed in Delhi High Court saying that if there is a better alternative available. In the former time, steel cylinders were only available. It was a balance between convenience with the LPG and the risk of the steel cylinder. They did it for many, many years because there was no other alternative available. Composite cylinders are there for several years. They've been tried of course in India as well and overseas in many countries. Can you imagine Bangladesh, Nepal, Maldives, they have accepted composite cylinders. In Sri Lanka they are coming out with a major, major tender for composite cylinders. India is the only country in between which has not adopted to composite cylinders yet.

Deepesh: But will it make sense to even approach the intermediaries like MGL, IGL, the ones who are actually supplying the gases?

Anil Jain: We actually are talking about LPG cylinders right now. OMCs are the biggest buyer and they between them have 97% of the market share, we have gone and talked to them. Hindustan Petroleum bought some 15,000 cylinders to seed market and get the response. But unfortunately, they did not pursue it. I believe the cylinders are still lying in their stockyards, and not gone to the marketplace. We have heard that Indian Oil Corporation is now coming out with a tender. We don't know exact quantity. And they would be taking out this trial for all the Oil marketing companies, and if this trial becomes successful, then probably other Oil marketing companies will also follow them. But you can imagine if they all come together, and even if they divert 50% of their requirement to us, then we will have to multiply our capacity three times or even more.

Deepesh: When is this tender expected?

Anil Jain: We have helped them prepare the specification. We are expecting the tender to be in this quarter.

Deepesh: What is the current order book for the CNG composite cylinders?

Anil Jain: It is around Rs. 10-12 crore.

Deepesh: Can you quantify it in numbers?

Anil Jain: For 20 cascades, approximately 1200 cylinders.

Deepesh: Also, does any of our products come in to the current PLI scheme which the government has launched, the finance ministry?

Anil Jain: No, not we are aware of.

Deepesh: Just one last question about the smart cans. What industry are we targeting this product?

Raghupathy Thyagarajan: This is a packaging which will replace many of the plastic containers ranging from 1 litre to about 5-10 litres capacity. The case being that these containers that are being used are fairly heavy in weight and consumes a lot of plastics which end up probably as waste and using the these smart concept that we are talking about, the consumption of plastic will get reduced by almost two-thirds. So that's the kind of a case we have. Customers who are using like for example cleaning chemicals, we have companies like Diversey Chemicals or Hindustan Lever or there are products like additives which includes companies like Pidilite, etc., So, most of them are consumer products and in addition to of course the lube oil also which are dispensed by most of the oil companies.

Deepesh: Are we even targeting paint companies?

Raghupathy Thyagarajan: It's a very widely usable product and most of the companies have shown interest, but we have basically looked at some of those companies where the benefits are very great and the performance are very straightforward advantageous. So, the rest of them will also fall in line, paint is of course, they are talking about big numbers that will also come through.

Anil Jain: There is a lot of emphasis on these multinational companies that they should reduce the consumption of plastic and therefore they would like to look for something which is as good as the jerry cans and other packaging, but at the same time use less of plastic. As Raghu told you that the reduction in weight is about 66%. So therefore, the use of plastic getting reduced. So they have shown a lot of interest, because they have certain obligations which they will be able to fulfill.

Deepesh: What I understand is a reduction of weight is around 6% but the use of plastic is huge?

Anil Jain: 66%.

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

Mahendra Jain: I just want to understand again CNG or LNG what we are planning around 2024 or like it, how are we approaching towards that thing and also preparing any orders regarding there. Second question is regarding, are we really thinking about any demerger in value added business or something at what point we can think of that because it can really enhance the value of this market and everything?

Anil Jain: Absolutely, I really appreciate your query about this. Let me split into two ways; there is LPG, the one that you get at home for cooking, it comes in cylinder and mostly those are steel cylinders and then there is CNG. Now, normally LPG is a low pressure because it operates at 20 bar and it can burst at 66 bar, but when it comes to CNG, the CNG operates at 200 bar and it has to withstand the pressure of about 470 bar for onboard application. In the cascade, the pressure is 750 bar. What we have done is, we have prepared the cylinder which has also been approved from PESO for cascades. Cascades are very much in demand and the government has decided to increase the number of gas stations from where CNG would be available. As a result of that, there will be a lot of cascade required to bring CNG from the mother station to the distribution point. We are able to now give a cascade which is made from type-IV cylinder with no metal as it can withstand very high pressure right. And because the weight being less, again the same thing is, the weight is reduced by almost 80%. So, what it does that with the same weight they are able to carry a lot more CNG than what they were doing in steel cylinder.

Mahendra Jain: I understood this thing. What is the situation of order or anything like got clearance? Secondly, on LNG products I am talking about, not LPG?

Anil Jain: CNG we have just got the approval and we have started getting the orders. We have orders for about 20 cascades and then some loose cylinders. We have not started looking at LNG because LNG requires a different kind of cylinder. Gradually government is talking about LNG as a fuel, but they still are not geared up fully for that. So I'm sure as they come closer to using LNG, we will be having the cylinder for that as well.

Mahendra Jain: Any thought about demerging at some point of time, once CNG business pickup or something like that?

Anil Jain: Not quite actually, but yes, we have decided that certain businesses we will exit and we are preparing in this direction, but demerger is not really on cards just yet. Probably at some stage we might carve out our high-pressure business and then see if we have to look for someone to take the business or partner with us.

Mahendra Jain: Regarding MOX film, any new products, how is it doing like?

Anil Jain: MOX film is as usual and because of COVID the distributors etc. have been lying low, but things are now limping back to normal, I guess Q4 included we should still be about Rs.100 crores in terms of revenue.

Mahendra Jain: Any CAPEX idea next year or a year or two like?

Anil Jain: This year we curtailed our CAPEX to around Rs.100 crores, till Q3 we have done only Rs.62 crores. Next year, we will first watch how things are panning out and then we'll take a call probably by next conference as to how much should be the CAPEX.

Moderator: Thank you. Next question is from the line of Rusmik Oza from Kotak Securities Limited.

Rusmik Oza: My question is on the EBITDA margins. If I'm looking at your quarterly presentation last year nine months and this year nine months, there is a difference between the EBITDA margins of polymer products and composite products and as per earlier conversation, you said that IBC generate higher margins, composite cylinders generate higher margins. So, what is the reason for value added or composite products not generating higher margins for the company and going forward how do you see this changing?

Bharat Vageria: As far as I think this current year nine months is concerned, the EBITDA margin is 12.63%, in Q3 it was 13.51%. You see it is little down compared to previous year nine months because of fixed expenses, as initially in Q1 there was a two-month lockdown period the business was not there. As we have seen that business was Rs.175 crores only. But as a standard, we can say EBITDA margins are in the range of 14% to 15%, last whole of the year it was around 14%. So definitely this year as a whole of the year we are expecting to achieve in the business of around 13%, but we should come back with the original margin in the next year, especially value added products margins are concerned, yes, EBITDA margin for value added products are in the range of 18% to 20%.

Rusmik Oza: But as per presentation, the composite product EBITDA margins are like for example last year nine months polymer product margins are 14.3%.

Bharat Vageria: If you see polymer and composite products, composite products are not value-added product only. I'm clarifying, composite product is inclusive of the steel drum, where the EBITDA margins are in the range of 6% to 7%, battery segments comes under the composite where the EBITDA margin is 11%, then there is auto components where business is not there because of COVID in the first nine months, these are the reasons, otherwise yes, margins are higher only.

Rusmik Oza: General request is maybe from next time onwards if you can give us a little breakup of what constitutes value added products?

Bharat Vageria: We noted your suggestion. We'll provide you. Composite products we mentioned that composite product inclusive of the IBC, steels drums, batteries, composite cylinders, auto products, but major contribution which comes from the steel drums and these batteries which is little down in EBITDA margins, therefore the composite product EBITDA is lower, but definitely we will mention separately for the composite product revenue separately.

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

Jigar Shah: Sir, I wanted to ask a question on the growth in the month of January. So how are things right now as compared to last quarter?

Bharat Vageria: I cannot provide you January figure month-on-month. We used to go at quarterly figures. As Mr. Jain has mentioned, and I am also mentioning you that quarter-on-quarter, there is an improvement in the business and as the overall guidelines we have given that this current year we should do 75% to 80% business revenue of the previous year and we are working in that line. Of course, this quarter is better than the previous quarter, that's only I can say.

Jigar Shah: Also, whether domestic business is doing better or overseas is doing better, what is the capacity utilization of both?

Bharat Vageria: Overseas business is already over because there is always one quarter lag between the India business and overseas business. In my Q4, you will find the revenue of October, November December of overseas business and January, February March of India business. Our Q3 is their Q4. So I think last quarter is always better than the previous quarter. Of course, business in India and overseas both is picking up now and as far as packaging business we have seen, chemical business is growing in India, most of the business is expanding, chemical industry is also having good growth, because the packaging used in food products, FMCG, oil companies, specialty chemicals, variety of the chemicals are used under this packaging and that is growing in India. You must have seen this is visible from all the chemical companies which are getting a growth of more than 10%. On the chemicals thing, we will also grow along with them.

Jigar Shah: Also, in US, last year you opened new plants for IBCs. So, how are they doing currently? What is the outlook for FY'22 on IBCs? As Mr. Anil Jain said that more and more people are shifting from drums to IBCs and what would be the Q3 growth in IBCs?

Bharat Vageria: I think as far as US business is concerned, you are right that we have put up the plant, initially we had a plant in Chicago and Houston, now another plant which we started in August/ September somewhere in Iowa. Now, if you ask me the specific, US region is concerned, the growth will be higher there, maybe 30-50% growth will be there, but overall overseas growth we are also expecting around 15% volume as well as revenue in the year 2021. In India, yes, IBC business is definitely picking up. Many people prefer IBC for the export packing because the handling is reduced if you compare 200 litres drum and 1,000 litres IBC. People who were exporting in drums instead will handle one IBC. IBC is becoming more popular, and in fact I just would like to tell you that we manufacture only packaging products overseas that include plastic jerry cans, drums, conical pails and IBC. In India also these products are manufactured. So definitely IBC growth will be higher than the drums group. Drums growth maybe we can expect 10%, 12% but IBC growth we can expect around 15% in India and overseas put together.

Jigar Shah: Any outlook on pipe segment? This year pipe segment did not do too much because of government.

Bharat Vageria: As Mr. Jain mentioned to you that pipe business definitely chances are very good in 2021-22. As in 2021 February budget government is also putting more expenditure on infra which means the road and all other activities, Smart Cities development. So, the pipe is mainly used for water, sewer, drainage and power supply. I have heard the commentary from L&T, you see what business they are expecting. We are also expecting very good business in the period ahead especially in 2021-22. Next three years must be very good as far as infra business is concerned. This year, Pipe business has not done well because of the governments delay in payment, clearance in the project is also delayed by the government intentionally and further on account of the COVID-19. Execution of the project was also difficult as the site people were not available, but now the situation is improving and definitely we are expecting good level of business in the period ahead as far as pipes are concerned. We can do business of Rs. 400 - 450 crore in pipe itself next year, of course, because currently we are doing business 40% - 50%. So, definitely we have good headroom available for the pipe business in the period ahead.

Jigar Shah: So, this year, we are expected to do how much in pipes business?

Bharat Vageria: All put together maybe around 160 to 170 crores.

Jigar Shah: So from 160, 170 crores you are expecting it to go back to 400 crores?

Bharat Vageria: Of course, it is possible because capacity is available. Today, you have seen suddenly, the polymer prices have also jumped up. So every EPC contractor is going to government for revision in the prices because every EPC contractor submitted request to government because of the steel and polymer prices increase. So there have to be revision in the overall cost, which the EPC contractors expect. They are under discussion with government. Even you heard the statement of Mr. Nitin Gadkari, how he will do the infrastructure projects when the steel is increased from Rs.50 a Kg to Rs.70 a Kg, 40% - 45% jump in the steel prices. So every infra project is affected because of the sudden price increase, but we know that it's temporary and I think it's pandemic, this demand has come off and it should be regularized in the period ahead.

Jigar Shah: Lastly on CNG cascade business, Mr. Anil Jain mentioned that you have got order of 20 cascades. How does that get converted into value?

Bharat Vageria: One cascade value is around Rs.60 lakhs. 20 cascade is equivalent to around Rs.10-12 crores.

Jigar Shah: Going forward, how much order are you expecting considering the recent government plan to increase CNG stations?

Bharat Vageria: The government has given the two directions; one is 7,200 mobile stations by 2024 and another, Mr. Narendra Modi has also announced 10,000 CNG filling stations. And one thing just ballpark figure I'm telling you, 10,000 filling stations, every station needs three cascades, one always should be made available at the station, one in the transit, one at the production level of the gas. So, it's a very large market. If you work out in terms of the figures taking this cascade of Rs.60 lakhs, it is worth more than Rs. 10,000 crore business in the next six to eight years time.

Jigar Shah: You are the only player in composite cylinder?

Bharat Vageria: In composite product, world over, there are two companies; Ragasco and we are in India. In India we are the only one who got this approval, but the other products of CNG cascade available is a metal cylinder. But advantage of composite cylinder is more because of running expenses, per liter gas is very less in this and in this Mr. Raghupathy will also clarify more because he look directly under this project and the new product ongoing there.

Jigar Shah: So, how many players are there involved in CNG steel metal cylinders apart from you as a composite cylinder?

Raghupathy Thyagarajan: On the metal cylinder, you have barely about three to four players, the likes of EKC, Rama Cylinders, etc., they are the ones who are making traditionally metal cylinders for CNG which are called as a type-I cylinders. But because of the fact that they are extremely heavy and the fluctuation in the steel prices that they have taken, they are going through a difficult situation in terms of being able to meet the demand as well. There are technological developments that have taking place in terms of offering lighter weight cylinders, there are type-III and type-IV; type-IV consists of a metal liner and type-IV is the one which we make. So type-III are imported into India from Europe. And type-IV also there have been one or two cases of import of such cascades into India. We have been able to get the PESO approval for type-IV cylinder and we have got initial order for 20-odd cascades, it's a very simple straightforward case for the CGD companies to adopt this CNG cylinders because they are able to transport two times more gas and get a faster payback etc. So, as Bharat said, the upside there is very large and the manner in which the CGD contracts have been given out by the government, the latest being 9th and the 10th round has also been given out, the 11th round is under preparation. So, we are able to see a good upside as well on that.

Jigar Shah: So, can you just throw a number approximately what kind of orders are we looking at from the government on this front over next one year and in the mix metal and composite cylinder how much will be given to composite and how much will be metal cylinders?

Bharat Vageria: As I mentioned to you, market is very big. Next five years plan we can say, definitely this business can reach in the level of Rs. 1,000 to 1,500 crores in the next five years time considering the market demand is there. And this market demand will be fulfilled by the CNG cascade made from the steel and CNG cascade from the composite cylinder. The whole market is there, now we also will see how this shape up and definitely internally we are targeting to achieve a good share of the business from this new product.

Jigar Shah: So how much debt reduction you mentioned in the quarter?

Bharat Vageria: It is already done Rs. 23 crore in nine months, but debt reduction is not an agenda for this thing. Our major agenda is to improve the ROCE in the next three years' time, we should reach the ROCE of 20% and that is possible by way of increase in the sale of the value-added products, increase in the margin expansion, increase in the capacity expansion, decrease in the working capital cycle time, these are the three, four areas where we are very closely working and definitely we are trying to achieve that, we kept the internal target of ROCE in the next three years’ time.

Moderator: Thank you. Next question is from the line of Sahil from KIFS Trade Capital. Please go ahead.

Sahil: What is the current working capital days?

Bharat Vageria: Normally working capital cycle was in the range of around 90 days, but during this COVID period it has increased by 15-days. Again, we are expecting to come back on the original level in 2021-22, because currently, our working capital cycle time is not comparable because of COVID-19, some of the EPC contracts also we have to take money, and in some of the products also for example, we are targeting to reduce. Because of this COVID I can say the average credit period to the customer which is normally 65 to 70 days, but again it has increased by 25 to 30 days because of COVID. I think government is also liberalizing, banker is also liberalizing to give some kind of more comfort to some of the customers who have been affected by COVID-19. I think working capital cycle time should improve in the year 2021-22.

Sahil: By when, in first half or?

Bharat Vageria: In first half we can expect something, but entire year we will come back on the original level of 85 to 90 days.

Sahil: Any update on EY restructuring report?

Bharat Vageria: Yes, time-to-time it is coming and we are also updating you because number of the assignment is given to them, and as last time also we had mentioned that they have studied. One thing I am clarifying you that they are not able to go physically inspect the units because of this COVID. Even they are required to go to my overseas location also, which is not currently practicable, but by work from home they are doing a study and based on our data they are suggesting us. They had suggested long back to exit from this battery business. In any case, in that direction we have already taken the step; we have merged one of the step down subsidiaries, Power Build Batteries in NED energy, so one direction already we have taken. Another one of my subsidiary, TPL Plastech had one step down subsidiary, Ecotech Green Lifecycle, that also we have merged with TPL to take advantage of the consolidation and to use the same kind of infrastructure. And further they have suggested to exit from the business of medical, a small business we had, that also we have decided. And we can use the machines available for my injection molding packaging products which is conical pails where we manufacture already. Another they have suggested to exit from the molded furniture business. We are working on that line. In any case, you know the current prices of the polymer is also increased, especially PV prices increase much higher, so furniture business itself is not viable in the current scenario. And we're also not very interested because we are also reducing now and we are in the business of B2B. These two three suggestion we accepted and we are working on that. And further, when they will study further and we will update to our valued investors.

Sahil: Any timeline for unpledging the shares because I think it's a long pending issue?

Bharat Vageria: I have provided in the last week also. If you remember, the total share pledge was around 17%, the loan was 70 crores which is reduced to 35 crores and pledge has also reduced to 10.5%. Again, yes, management has kept target, as pledge of the shares will go out, as we are able to dispose off the property and that is we are under discussion. We are also waiting and you will also agree that in the last two months real estate market is improving especially commercial and residential, I think this market should improve in the second half of this current financial year. I think we are also keeping ourselves a target even though internally target we had kept earlier to release by March '21. But I think it is delayed because of this COVID-19 but next year definitely I'm expecting to get it free.

Sahil: Any update on this property sale, how much money you can get?

Bharat Vageria: People are showing interest, but again they have to work out their economic viability. You have seen that government has reduced the premium from 1st of January, so again everything they are revising now. So every time every change they make it more interesting. Also, in January, the Municipal Corporation of Mumbai has also reduced the premium. We are also waiting because the percentage is already reduced, loan amount is already one half and we are also internally targeting that if the property goes whole, otherwise by way of dividend or earning from these other companies, we will be able to pay off. My internal target is to be free by March '22.

Sahil: What is it the total expected value of that property? And if we are able to realize that money, then we'll be able to like fully unpledge our shares?

Bharat Vageria: Yes, the property value is around Rs.70 to 80 crores, even some surplus should be there. Already valuation report is available. You can have a construction of around 200,000 square feet on that plot. It's a prime land on the main area.

Sahil: What is the current cost of capital like borrowing cost, interest rates?

Bharat Vageria: Around 9.25% combined together, it has come down by around 50 basis points this year because bankers are also passing on after completion of the year, the reduction by RBI. So, we are also looking there is some benefit coming of around 50 basis points in the lending rate.

Sahil: By when you are expecting that reduction in rate of interest?

Bharat Vageria: Last year our total finance cost was around Rs.110 crores somewhere, definitely this year it will be lower than Rs.100 crores and next year in spite of business increase, it will be within that limit only. Of course, banks have not given any particular timeline, every bank during renewal is passing on benefit of 25 to 50 basis points.

Sahil: And finally, any guidance for next year in terms of revenue, margin and CAPEX?

Bharat Vageria: As I mentioned in the beginning itself, this year we are going to achieve revenue of 75% to 80% of the previous level. Previous levels means you have seen the net revenue was 3600 crores, we expect to witness the same in 2021-22, EBITDA level should come back to original level which is around 14% - 14.5% next year.

Sahil: What about CAPEX?

Bharat Vageria: As Mr. Jain has mentioned, normally CAPEX earlier apart from current year was Rs. 200 crore on an average, but definitely next year only the Brownfield expansion and the value-added product need based CAPEX will be done and I think it will be in the range of 125 to 150 crores.

Moderator: Thank you. Next question is from the line of Deepesh from Maanya Finance. Please go ahead.

Deepesh: Just a follow up question. Since we are not getting current orders from the Indian OMCs, are we looking at directly tying up with companies like Maruti for CNG fittings in the cars or maybe Tata Motors for buses?

Raghupathy Thyagarajan: There is mixing of topic if I may say. First of all you talked about OMC not coming forward to buy cylinders, they are LPG cylinders. Whereas, the one that you are talking about Maruti and others they are basically the one that is used for CNG. You are very right, as I said very clearly, having obtained the approval from PESO for CNG cylinders, the first range of orders have started coming in from some of the government OMCs themselves, who are the beneficiaries and are also playing the role of a CGD operator and they have placed the order for CNG cascades etc. And obviously, for the CNG cylinder for onboard application, the tests have been completed and the approval is also around the corner. And that would mean that it would open the door for applications for the CNG cylinders in the automotive companies where they will replace steel cylinders for CNG use as well. Already talks are there in an advanced stage by most of the OEMs who would want to use CNG because they are able to see a large benefit. And some of these bus manufacturers who are currently not in a position to use CNG very effectively because of the very heavy weight of the CNG cylinders. They're all strongly in the pipeline and going forward, we should be able to see those orders coming in very easily.

Deepesh: Are we expecting orders from also Indian OMCs for CNG cylinders?

Bharat Vageria: LPG is used by the gas distribution company and by government OMCs like IOCL and BPCL, private gas company like Go Gas, Reliance, which is for LPG cylinder. Mr. Raghupathy has clarified you that CNG cylinder is of two types; CNG for gas, CNG gas packing, i.e. the CNG cascade complete and CNG onboard in the automotive sector which will supply directly to OEM and in the secondary market also.

Raghupathy Thyagarajan: You're also right, there are CGD companies run by the OMCs. Indian Oil has a joint venture with Adani Gas. So, Indian Oil Adani is into Transportation, they would be the buyers of CNG cascades. There are companies like BPCL has floated a couple of joint ventures such as Bhagyanagar Gas, and a couple of them that are there. So in fact OEMs also, and they are the ones who are placing orders for this CNG cascade.

Deepesh: Are we getting orders from MGL and IGL also?

Raghupathy Thyagarajan: Yes, talks are there in an advanced stage, we are in a position to really confirm to you that they are very much in the pipeline.

Moderator: Thank you. The next question is from the line of Ashi Anand from IME Capital. Please go ahead.

Ashi Anand: I want to understand the CNG opportunity a bit better. So first of all, on the CNG cascade part. So there were certain kind of reasons why it's difficult to kind of break into the OMC market on the LPG cylinders. Given the fact that there are more private players in the CNG distribution side, and also some of the public run companies are relatively newer, would it be fair to say that kind of getting a higher penetration in CNG cascade versus metal cascade should be a lot easier than what we see, so, OMC and therefore, this large opportunity that you're talking of, we should be able to capitalize quite well on that?

Bharat Vageria: Yes, you are right actually, in LPG, the government distribution has a major share having here, but as far as CNG is concerned, the private gas companies are there. This gas distribution done by the private company and some private logistic companies are also providing services to CNG manufacturing companies for example, Gujarat Gas and Indraprastha Gas.

Raghupathy Thyagarajan: As you said very rightly, it is easier for us to get breakthroughs with the government companies as well, because the range of companies operating are both private and government and they are able to obviously move faster to keep pace with what's happening in the industry. And that is easily reflected by the fact that within a couple of months of getting the PESO approval, orders for CNG cascade have already been taken.

Ashi Anand: Just to understand the major benefits of the CNG cascade over the metal cascade is, one safety and secondly it's lighter to transport, right, those will be the primary benefits?

Raghupathy Thyagarajan: Yes, I'll tell you traditionally, as said, it's been used in type-I or steel cylinder, and a truck can carry about 4,500 liters only, whereas when they use type-IV or the composite gas cylinders, they can do close to about 9,000-odd litres of gas. So you can carry two times more at almost the same or reduce costs. So obviously your operating cost comes down by half. That's a phenomenal advantage that we see. And secondly, because of the fact that the cylinders are much lighter, you will be able to travel a longer distance, so the reach out to CNG gas becomes much farther and you can reach larger destination. If you really look around in Indian scenario today, you will have the maximum CNG distribution in and around Delhi because that was made mandatory. Subsequent growth of the CNG stations in other parts of the country were limited because overall usage and availability was also limited. But now with the new pipelines, etc., that are being rolled out by the current government and the government also having taken a very aggressive stand of growing the CGD stations to about 10,000 of them in the next 8 to 10 years, the availability of CNG will multiply and that would mean that the CNG stations that are required to dispense them, will also be required to multiply and for these stations to operate they would need these cylinders very much.

Ashi Anand: How much more expensive the composite in terms of the CAPEX costs for the gas station, how does the composite cascade compare to the metal cascade?

Bharat Vageria: This composite cylinder will be costlier by 30% to 40%, but the pay back is faster because of operations.

Ashi Anand: I just also wanted to understand the automotive kind of CNG opportunity. Do we already have all technical approvals in place, as in how far are we from being able to roll out automotive CNG cylinders, and how large is that opportunity?

Raghupathy Thyagarajan: Well, all the tests for the automotive CNG cylinders have been completed, the third-party tests have been done, officially the tests have given a very clear green go ahead signal, the documentation works have been done. I guess probably it would not be out of place to say that we would be able to get this approval anytime this quarter. So, as I mentioned earlier, talks are also in advanced stages with some of these automotive companies for use of CNG composite cylinders.

Ashi Anand: And how large would this market be?

Bharat Vageria: Maybe in the next 5 year time, around 400 to 500 crore worth of the business.

Ashi Anand: Mr. Vageria, you mentioned that ROCE improvement is one of the core focus areas. Just wondering now that we've reduced debt to a reasonable extent, can we consider a buyback given the fact that valuations have been kind of low for a long period? So is that kind of up for consideration?

Bharat Vageria: As I mentioned to you, because of this margin expansion, which especially current year is affected because of COVID, but again in the period ahead as we are adding the value added product like CNG for automotive, CNG for cascade is improving, other value added product like MOX film will come back to the original business level, LPG cylinder come back to the original level. Earlier in fact, that my ROCE was in the range of 14.5% to 15% except this COVID period, but in the next years' time definitely these three factors will help us. Some kind of the disposable of some unused assets or which assets which we have decided to exit in the next two years' time like for battery business, reduction in the working cycle time, value addition, margin, all will contribute in increasing the ROCE in the next three years' time.

Ashi Anand: At least at this point, we're not considering a buyback?

Bharat Vageria: Buyback we can see in the later part, not now, let the normal period come back. First we should achieve the business growth whatever is there, because promoters are currently having almost 51.1% equity and we are not worried about the equity part, but we would like to capture the business which is available in the market and increase the value of the investor.

Moderator: Thank you. Next question is from the line of Rusmik Oza from Kotak Securities Limited. Please go ahead.

Rusmik Oza: Today, what is the utilization levels of the key products of the company? And as of today, if we had to run this business at optimum utilization, what could be the revenue of the company? And going forward, after Brownfield extension if you're running the capacities at optimum levels, then what could be the potential revenue?

Bharat Vageria: Utilization for the current period, we can say around 60%. Product-to-product is different, for example, pipe business utilization is 50% because of COVID, packaging maybe 70% but if you want to understand what my existing investment can give me in terms of revenue, of course, it can give me the revenue of around 4,000 crores, all the products put together and all utilization at 90%. But Brownfield expansion at the different locations required to be done. And we are not considering the new product which we have discussed like the CNG, we are not talking about automotive and CNG for the cascade, that we are not considering in our business revenue. But, yes, as you know that last year my utilization was around 80%, 82% in India and in overseas 75%. But of course, yes, we can do the business of 4,000 crores with the existing investment what we have.

Rusmik Oza: My second question was this year we have revenue of Rs.631 crores in the composite product segment, and out of the Rs.631 crores, how much is the steel drums as absolute amount in terms of rupees crores?

Bharat Vageria: Since two months business was not there, around 45 to 50 crore is from the steel drums.

Rusmik Oza: Earlier in the question you mentioned because steel drums contribution is very less in terms of EBITDA margin that pulls down the entire EBITDA margin.

Bharat Vageria: Margin in the product is in the range of 6% to 7% and that is a joint venture company where Time Techno owns 49%. So we take revenue in the joint venture business of only 49%, which is in the range of around Rs.70 crores.

Rusmik Oza: If you can help us in terms of stacking if you can just tell us which is the highest contribution of product in terms of EBITDA margins and the top three products what is their EBITDA margins?

Bharat Vageria: Packaging business is almost 70% of total revenue, which is 30% overseas and 40% in India, and there I can say the EBITDA margin is in the range of 13% to 14.5%. Then other businesses for example, auto sector and other value-added products like IBC; IBC is almost 10% of total revenue, which is included in the packaging products, there EBITDA margin is in the range of 15% to 16% I can say. But value-added product, higher margin is there, which the company has developed like composite cylinders, MOX film. Whatever value added product we have, their margins are in the range of 18% to 20%. Cylinder, of course, will come under the value added product because it is highly technical product and company has developed by hardworking of last three years, R&D for last three years for CNG cylinders and finally succeeded now.

Moderator: Thank you. The next question is from the line of Manish Manchanda, an individual investor. Please go ahead.

Manish Manchanda: Are there any steps taken by the company for decreasing the debt levels right now? We are having Rs.809 crores.

Bharat Vageria: As I mentioned, management has given the guidelines that debt should not be more than two times than EBITDA. We are working out to get the ROCE in the three years' time of 20%. I'm not worried for debt servicing, debt we are getting at 9% and we internally keeping target of 10% which more than the rate of the interest cost. My ROCE when I am keeping 10% which more than the debt cost, then I think we should keep the target on ROCE not on the debt.

Manish Manchanda: Is there any kind of a CAPEX needed for the composite cylinders in the CNG segment? Do we have the existing facilities available to cater the market?

Bharat Vageria: There are two separate lines. CNG composite cylinder and LPG composite cylinder are completely different lines. LPG has a small capacity where cylinders are from 2-26 liters capacity, and talking about CNG cylinders, they have large capacity of 156 liters, very big cylinder, you need very big machines for that. So, there is no comparison between these LPG and CNG, both are different. We have done our investment, we are manufacturing CNG currently and trying to execute initial orders. As Mr. Jain mentioned, already we have received order and we are executing those orders. Definitely, in CNG when more business will come, when the large market will come and demand will come, we will definitely require the investment and that the company will be able to do.

Manish Manchanda: Is there any thought on the market of the healthcare industry also because right now we are catering CNG cylinders, composite cylinders, there is a huge demand for oxygen cylinders also and the propane cylinders also in the composite segment as some of our competitors in the North American market are doing this, is there any plan?

Bharat Vageria: A lot of things we have to do in India only for CNG, definitely some CNG line which we will set up, we will be able to manufacture oxygen cylinders also. But we don't see the need to develop the product looking at the current positions, because, for example, CNG automation and CNG cascade that we are working since last three years and oxygen cylinder shortages have come because of COVID. But you will know that that things will be over in the next one year time. The demand for oxygen cylinder has already reduced. But this CNG cylinder of course, when demand will come, we will see. Let's satisfy the automotive sector and the cascade user.

Manish Manchanda: My next question is right now in the pipe segment, we are in a B2B business. Is there any plan to get into B2C business with more products on offering?

Bharat Vageria: We don't want to go in PVC pipe. In fact, we are in the polyethylene (PE) pipe which is a special grade material and we manufacture pipe of the larger dia, I can say 100 mm to 1,400 mm dia pipe we can manufacture which is used for the water, sewage, drainage and the power duct line. It is not for the residential use. Yes, for the water management, you know that Ganga Clean Yojana, Water Supply Yojana, everywhere this pipe will be used and every home that pipe will be used underground. But in-house residential complex, there is the smaller PVC pipe, that we do not manufacture and we have no intention to go in that small pipe. So many players are already there in that business.

Moderator: Thank you. Ladies and gentlemen, as this was the last question for today, I would now like to hand the conference over to the management for closing comments.

Bharat Vageria: Yes, thank you very much to ICICI Securities team, and all my valued investors, present and future and taking your time out of your busy schedule and understand the company's Q3 results. Definitely a lot of things in the period ahead for the future growth and we all are working in that line. And as we mentioned, pre-COVID level business will come in the next year itself. Thank you very much to all.

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.