"Time Technoplast Q3FY24 Earnings Conference Call"

February 13, 2024

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MODERATOR:	**MR. VIKRAM SURYAVANSHI – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Time Technoplast Limited Q3 FY'24 Earnings Conference Call, hosted by PhillipCapital (India) Private Limited.

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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.

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I now hand the conference over to Mr. Vikram Suryavanshi from PhillipCapital (India) Private Limited. Thank you and over to you sir.

Vikram Suryavanshi: Thank you, Manuja. 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 the management with us here today for a question-and-answer session with investment community.

Management is represented by Mr. Bharat Kumar Vageria, Managing Director; Mr. Raghupathy Thyagarajan – Whole-Time Director; Mr. Sandip Modi – Senior Vice President (Accounts & Corporate Planning); Mr. Hemant Soni – Vice President (Legal & Corporate Affairs).

Before we start with the question-and-answer session, we will have "Opening Comments from the Management." Now, I hand over the call to Mr. Bharat Vageria sir, for Opening Comments. Over to you, sir.

Bharat Kumar Vageria: Thank you for the introduction, Vikram. Good afternoon to all of you. We are here to talk about our Results for the Q3 and Nine Months FY'2024 and Outlook for the rest of the Year.

We are pleased to announce a robust performance for Q3 FY'2024 with a YoY volume growth of 20%, revenue growth of 17%, value-added products segment witnessed a growth of 25% YoY, driven by good demand of intermediate bulk containers and the composite cylinder. While the established product grew by 15%, backed by improved performance of polyethylene pipe businesses.

EBITDA and PAT margins also witnessed a significant growth of 26% and 50% YoY respectively, driven by increased share of value-added products with the good order book positions for CNG products and PE Pipe coupled with the stable demand for core industrial packaging business, including IBC, we are confident to achieving our target set for the full year.

Coming to the "Financial Number":

The Results are already announced. I would just walk you through some of the Key Financial and Operational Highlights. On a consolidated basis, Q3 FY'24 revenue grew by 17% as compared to the corresponding quarter last year. Q3 FY'23 was even 11% up as compared to the previous quarter of Q2 FY'24. During Q3 FY'24 on a consolidated basis, net sales is 1,327 crores as against 1,131 crores last year. EBITDA was 192 crores as against 153 crores last year. Profit after tax was 92 crores against 61 crores last year, which I have mentioned to you 50% up compared to last year.

The highlights for the quarter compared with the corresponding period, net sales increased by 17%, India 19%, overseas 14% volume increased by 20%, India 22%, overseas 16%, EBITDA increased by 26% and PAT increased by 50%. EBITDA margin was 100 basis points higher, which we got was 14.5% as against 13.5%, increase by 100 basis points margin improvement due to increase in revenue shares of the value-added products, cost control and increase in the capacity utilization.

During nine months FY'24, on a consolidated basis, we achieved turnover of 3,601 crores as against 3,100 crores last year. EBITDA was 508 crores as against 411 crores last year.

And I am pleased to tell you that profit after tax is 218 crores as against 155 crores last year. I am pleased to inform you that last year our whole year profit was 219 crores which is achieved in the first nine months itself. So, the remaining three months is the bonus for this current financial year.

Key highlights for the nine months compared with the corresponding period previous year. Net sales increased by 16%, India 18%, overseas 13% volume increased by 18%, India 20%, overseas 15%, EBITDA increased by 24% and in the nine months also consolidated basis PAT has increased by 40%. In nine months, the EBITDA margin was 14.1% as against 13.3% during the corresponding period last year.

Now, "Share of the Business":

Value added products grew by 27% in the nine months as compared to nine months of the previous year, while established products grew 13%. The results of the value-added products is 26% of the total sales as against 24%.

As you have seen because of the increase in the percentage of value-added products EBITDA and EBITDA margin both are improving.

Share of the India and Overseas business which is 65%, 35% as against previous year also it was in 66%, 34%, little percentage wise India has increased because India growth is higher compared with the overseas.

Then total debt is reduced in the nine months, which stood at 745 crores as against 810 crores of net debt as on 31st March 2023. So, nine months debt reduced by 65 crores and as initially planned it will be reduced by more than 100 crores before the end of this current financial year. The same targets will continue in the further period also.

But another thing, I'm pleased to inform you that ROC is because when your margin has increased, rate has increased. ROC will increase by 1.5% to 2% every year. So, as against last year ROC, which was 13.5%, in nine months 15.6% there's a 2% increase in the ROC. So, compared to last year, it has increased 13.5%, in the nine months it is 15.6%, it's a 2% increase over the previous year.

CAPEX for the nine months, was 144 crores which includes Rs.63 crores toward the capacity expansion, reengineering, automation for the established products which are always required on account of the maintenance, cost reductions and to maintain the capacity, and Rs.81 crores towards the value-added product expansion mainly for composite products and the IBC. Total CAPEX for the full year will be in the range of… I am just reducing the target for the CAPEX full year will be in the range of 175 crores as against the original target of 200 crores.

Continuous focus on improving working in the cycle time and targeting to reach 90-days in the next six months' time is as against 112 days was in 2023.

"Consolidation of the Overseas Business":

The board has approved and authorized subject to due diligence for the acceptance of the disinvestment of the 50% business in Middle East on and cash free basis for an evaluation of around USD25 million. I think you people can calculate; 100% valuation is USD50 million. The geographical agreed for the disinvestment contributes only 7.5% to the consolidated revenue. We estimate to complete this disinvestment transaction within a period of 90-days, including the due diligence period. The process as per the direction of the board and already shareholders approvals that are there, for use of Debt reduction and benefit the shareholders. The company has adequate resources available for expansion of value-added products from the internal accruals.

Now, in the last quarter, I have reported that management has identified certain non-core assets for valuation of Rs.125 crores which we are keeping ourselves target to become zero by March 2025. And therefore, to initiate that first transaction of 26.5 crores have been agreed and the transaction will be completed, and for sale of the land and building is the reason and completed in the 90-days' time with the compliance of the local authorities. And profit from this sale of the entire assets will be used for the debt reduction.

Our product is under development towards the green energy for use in the city gas distribution, compressed biogas (CBG) and the automotive industry. Products from the development towards the green energy include composite hydrogen cylinder for larger capacity of 250 and 350 liters to make product more complicating and other composite products also under development for use in the automotive industries like composite air tanks, hydraulic fuel tanks, etc.,

I would now like to open the floor to answer specific questions. Thank you to all.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Jatin Damania from Swan Investment. Please go ahead.

Jatin Damania: So, just wanted to understand sir, this 7% contribution to overall revenue, is it fair to assume that margin in the middle is in the range of 13%, 14% or is it lower, because to understand the overall valuation on the EBITDA number?

Bharat Kumar Vageria: Yes, yes, you are right. I think the margin is in the range of 13% to 14% EBITDA right. I think you want to understand at what valuation it is done. It is very clear that it is in the range of 13% and 14%. And I mentioned to you earlier also my overseas revenue distributed in the USA, we do 20%, Southeast Asia is around 50% and Middle East is around 30%, MENA region, where the Middle East is around 23%, 7% is North America. We have a one plant in Egypt also. So, we are talking about the consideration, which is now only for the Middle East, that is in units in Dubai, units in Bahrain, and units in Saudi, Egypt has been kept apart. That's the valuation considered is 7.5% of the total consolidated revenue means 5,000 crores revenue if you take it all through the year, so 350 crores approximate revenue. But please note that we are agreeing for only 50%, so balance 50% our management will continue.

Jatin Damania: The company will be operated as a joint venture and we will be managing the entire operation, right?

Bharat Kumar Vageria: Operating will be done because it's in the initial stage. Yes, definitely, whatever way, joint venture agreement will be there in that country and accordingly, the operation of three countries will be looked after, that would be done as per the advice of the bankers.

Jatin Damania: Now, since 300 crores goes off the system and for FY'24, we will be achieving a target of 5,000 crores which we have guided with an improvement in the margin. But if I want to look from the FY'25, FY'26 perspective excluding the Middle East, so what is the revenue growth which we are anticipating and the growth that we can see in value-added product as well?

Bharat Kumar Vageria: Jatin, you know very well, I think we are growing around 15%, so our target is 5,000 crores, out of that, if we reduce only Rs.175 crores, because the 50%, so 5,000 crores -175 crores that is working out to 4,125 crores. So, again next year also, we achieve more than that. 15% growth is there.

Jatin Damania: And the overall contribution from these value-added products?

Bharat Kumar Vageria: That will be a very marginal factor. Value added products is going to continue as it is increasing. The value-added products is 26%. So, that percentage is going to be continued because that has a very marginal impact. 7.5% divided by 3.75% minus in the revenue will not affect much in the 100%.

Jatin Damania: But just wanted to understand the overall increase in the percentage of the value-added in the overall basket for the improvement in the margin that we can see in the coming years?

Bharat Kumar Vageria: Coming year target will be achieved and that's what we are estimating 50% growth across the revenue, EBITDA and PAT will continue, and even some basis point improvement in the net margin will be there. As we have seen whole of the last year the EBITDA margin was 13.5%, which currently we are targeting to reach across the 14% and we may estimate yearly internally we are estimating 14%, but I think we crossed that also.

Jatin Damania: In the last con call we were discussing that we will be targeting the auto segment from the composite. So, any update on the same?

Bharat Kumar Vageria: It will be, but I'll tell you as current capacity we will catch up the automotive industry when the expansion plan will be completed. Currently, I have already order book at least for the next six months is in hand. So, when next expansion which are expecting to do it in 2024-25, from that expansion, we will supply to the automotive industry. But as far as other composite small products like tank, that is going to continue.

Jatin Damania: On the update on the LPG orders excluding IOCL?

Bharat Kumar Vageria: Last order will continue and still some tenders are on the pipeline, so we'll also participate in the new tenders which we are expecting before March. So, that will take care of the next year business.

Moderator: The next question is from the line of Saurabh from Scientific Investing. Please go ahead.

Saurabh: My question is around the second part. And if we look the initiative you have taken so that we can go to balance sheet in terms of debt-free, we can invest that capital into high growth, high margin businesses. My question is, if we look at the return on capital, if we look at the free cash flow, once we finish this exercise, how do you see the free cash flows growing, at what rate free cash flow will grow? Also, I understand our assets are little higher depreciating assets because I believe we spend a lot of money on the maintenance CAPEX. So, freeing up those assets, will it lead to improvement in our depreciation leading to better free cash flow, that means leading to better reinvestment at a higher ROE, ROC, what is your view how it will look like next two years, three years down the line?

Bharat Kumar Vageria: I think in the last two con calls also we were talking; the ROC was 14%, which ourselves kept the target to reach 20% in the next three years' time. So, you have seen as I mentioned in my call also that ROC which was 14% has increased to 16%. So, we ourselves targeting to increase ROC by 2% every year and that is possible by way of increase in the margins, reduction in the working of the cycle time and increase the productivity. Now, you are talking about the maintenance

CAPEX. You know that CAPEX for the last 5-6 years even more than seven years in the range of 200 crores which have been reduced, and now I am targeting almost around 60 to 70 crores CAPEX goes for the maintenance because we are a more than 35-years old company. So, to maintain the cost under control, to get the productivity, we have to upgrade the equipment, automation, reengineering, it's time-to-time required because otherwise labor cost will go up. The depreciation amount which earlier was around I think 160 crores which is now a reducing trend you will see in the period ahead because most of the equipments which are expiring within the period of the life of the assets, so we are replacing by the new assets if required. Otherwise out of the depreciation, you see my maintenance expense is 50% of the depreciation amount only, and the balance is for the value-added expansion, which in the last two calls also I mentioned for the expansion, major CAPEX will go in the value-added products, which includes the CNG and the hydrogen, where the value addition margins are high, and the cycle time is less. So, we will able to increase our ROCE, this is our main target and focus. In addition to that, we are focusing continuously improving margins, at the same time, we would like also to have a debt-free company and that's our internal target in the next two and a half to three years.

Saurabh: For this 15% growth rate like what are the things which can go wrong if we talk in terms of risk like, if it can go wrong for one or two big reasons what it could be?

Bharat Kumar Vageria: If you ask me, percentage wise I will give the nine out of ten, chances are very 10% less because the product which is selection is a high productivity and government also have to meet their target because we are following the government policy, and all are very well aware that this BJP sarkar is going to come in May and that policy for the next five years going to continue. We are doing our expenditure for the investments as per the market size. You know that composite product market itself is a 28,000 crores. Hydrogen regional market is yet to take under our working which we have not yet considered because it is ion the development stage. And now other products, packaging which are there, we are considering growth in the range of 10% to 12% only. But we are expecting more growth in the product where the government initiative is also there in the green energy.

Moderator: The next question is from the line of Varun Arora from Safe Enterprise. Please go ahead.

Varun Arora: So, my questions are around the CNG type-4 cylinders. So, if you could let us know your expectation of growth from CNG type-4 cylinders next year given the capacity expansion that we are undertaking?

Bharat Kumar Vageria: I think I have mentioned in my CNG composites, we are incurring the CAPEX of 125 crores to increase the capacity from 480 to 1,080 where we can generate revenue in the range of 850 crores. As per this current year is concerned, CY'23-24, we will be achieving Rs.350 crores. We have a current capacity limitation. So, composite product, LPG change to put together, we are achieving this year in the range of around Rs.500 crores. But definitely next year it's around 800 crores we are projecting because we will get some contributions from the expansion of the activity in these cascades business and by way of expansion at the new locations. But if you ask me two years down the line, definitely composite products which is currently Rs.300 crores, we are targeting in the next three years' time which will reach to 1,500 crores.

Varun Arora: In the composite cascade opportunity, are we seeing competitive intensity picking up? We have noticed that there has been entry of some new players. So, if you could give some color if you are seeing competitive intensity picking up whether in the order where you're bidding, are you still kind of winning 100% of orders where you're actually bidding? So, if you can comment on the competitive intensity? And in that light, sir, does the competitive intensity will pick up? Do we expect to keep our margins which are around 20% in this business?

Raghupathy Thyagarajan: Thank you, Arun, for your question. Admittedly, I must tell you that the level of technology that we are into on composite cascade has been on the type-IV technology which has been the latest that is available globally. Whatever we have seen a little amount of competition has been on the basis of some imported cylinders which have been one run lower that is on type-III. The local manufacture is mostly around the type-I, which is about fourth generation behind as far as the technology is concerned. So, whatever competition is building up, is mostly in the type-1 cascade where they are fighting for the steel cylinder part of the pipe. When it comes to the type-IV cascade, they are far, far more economical in terms of the model, in terms of the application, they are far more rigorous, in terms of the pressure applications they are at a different level. So, we are in a position to justify these investments and be head and shoulders above the rest of the players in the field.

Varun Arora: Sir, is it fair to say that wherever you are bidding, you are winning 100% of those tenders?

Raghupathy Thyagarajan: I would say to a large extent you're right, but in some cases maybe there is a split that takes place between us and these small, imported components might be, but that is very, very small. We are in a position to say that we are able to garner a good share.

Varun Arora: In the previous calls, you have spoken about the addressable market for type-IV CNG cylinders. And in those calculations, you have assumed that whatever would be the incremental CNG cylinders cascades, 50% incremental share would be for type-IV. So, this 50% number assumption that we have, have we seen that in the last six months? So, for example like, I mean whatever CNG cascade requirement that could have come in the last six months, would type-IV cylinders be kind of meeting 50% of that demand?

Raghupathy Thyagarajan: Yes, I think we are more or less in that time gap because slowly and steadily, the influence of the type-IV cylinders is also improving, and especially with the new expansions that are coming up with the CGD players, mostly they are settling for the higher level of technology and that gives us a better share as well.

Moderator: The next question is from the line of Ankur Savaria from Savaria Foods. Please go ahead.

Ankur Savaria: My question is regarding the disinvestment. I'm still not clear. In the last con call, you said that out of three regions, two of the regions are in advanced phase of disinvestment and that should be done by the month of January and third, you were hopeful that it will take place in the month of March. But what you have said right now is that 50% is being disinvested from the MENA region. So, what is the complete picture out of the disinvestment that we were looking out for, sir?

Bharat Kumar Vageria: Ankur, you are right from your view. I mentioned that we have three continents; US where we do 20% business, Southeast Asia, we do 50% business, Middle East we have 30%, that is also in two-part, Middle East 27% and South Africa 7%, Egypt 30% in this region. But now what happens with the grace of the God, third happen first. So, balance three, we are not closing, but as per the guidance of the management if we get our price, we get our expected this thing valuation, we will think on that, and we will take the approval from the board. You know the international and global situation whatever is going on and disturbance is there all over cost of the funds have increased in the US market and everything. But I am pleased to tell you all the units is earnings. There is no any compulsion for me. You have also seen for the debt reduction, which is again management target is there. So, we have identified Rs.125 crores value of the assets which disposal positions have already been started and we are completing that also in the next financial year. So, at the right opportunity if we get our valuation, we will consider that. Otherwise, we do not have any desperation for setting up any of the business, but this we got it, a good partner. With the 50% only you see, we were talking about 80% but we are now agreeing for 50%.

Ankur Savaria: I am also on the point of view that it is not necessary that since we are doing so great, it shouldn't be a desperation for us to sell the business at a lower –

Bharat Kumar Vageria: No, Ankur, we are not going to do it. We know very well what the valuation I'm getting here and what is the valuation I'm going to get from overseas because of the six months or 12 months or 18 months incident and geopolitical situation arising in the country, we are not able to sell our business desperately or any kind of this thing. We will see our right price, then only we will see, because as the promoter we have also 51.6% partner.

Ankur Savaria: So, as of now, the thing is that we are right now selling 50% of the Middle East business and rest of us, we are still in the advanced stage as you said earlier, right?

Bharat Kumar Vageria: Don't take as this is the advantage stage because we have already closed calendar year '23. We will again talk on the new chapter. Old chapter is closed. We will take the new chapter based on our earning estimation of 2024 because when we are going 10% to 12% and we do not sell for the '21 or '22 EBITDA basis. The new chapter will open now. Syllabus have been changed. In exams, new papers.

Ankur Savaria: The second question is regarding one of the company's name is Confidence Petroleum. They have recently said that they have also ventured into type-4 cylinders. So, the technology something privy to us or anyone can open the same business that we are in, sir?

Raghupathy Thyagarajan: With due respects to the company's name that you mentioned, the technology for type-4 cylinders is not available very easily. You know the background that we've been in type-4 cylinders for almost more than about 15 to 20 years now, since the time we acquired the company for manufacturing LPG cylinders, we've been doing this business for that long. Over a period of time we have kind of graduated from LPG cylinders to CNG and then we are looking at hydrogen very confidently. We've been able to tie up a lot of technology partners as well. I am personally of the opinion it's not that easy, but anybody who wants to attempt it, we do not wish any ill will.

Ankur Savaria: My last question is regarding the oxygen cylinders. Have we able to get any concrete say from defense or any other company in India?

Bharat Kumar Vageria: Ankur, you are talking about the oxygen cylinder, right?

Ankur Savaria: Yes, sir.

Bharat Kumar Vageria: I think in last call also I mentioned order book for the LPG cylinder itself is full. I have used the oxygen cylinder supply when I have a capacity remaining is there. So, we have got the approval looking into the future but in fact we have started our registering process with the army and navy authorities, the process is on. We have appointed consultant who is completing the formalities. Any government authorities, the formality of the vendor registration itself is six to 12 months and the approvals takes time.

Ankur Savaria: Last week I saw the LPG cylinder manufactured by Time Technoplast in Lucknow and I was really, really happy to see it, sir, as if it was from my company.

Bharat Kumar Vageria: Nowadays, the wide distribution channel IOC is also now encouraging and giving a good understanding, good education to the every society. So, use of that composite cylinder, lightweight cylinder increases, uses will increase.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: So, first up, I think you mentioned this overseas entity of disinvestment, revenue is Rs.350 crores at 13%, 14% margin, right?

Bharat Kumar Vageria: Yes.

Deepak Poddar: And when we say we're looking at 15% CAGR in terms of topline, so how much growth we have factored in that in terms of value-added and how much growth we have factored in established product?

Bharat Kumar Vageria: In composite product, value-based products, we are considering growth projection 30% CAGR especially in composite products more and the established product we are taking into consideration 10% to 12% growth. But in that also in established product, if you ask me the packaging products, it's around I can say 10% to 11%. But especially PE pipe product government initiative in infra businesses, so we are considering growth of 25% in our PE pipe business because you know very well last year, the pipe business was hardly Rs. 200 crores because the COVID effect was there. But now this year we are taking on the projection of Rs. 260 crores. And definitely at least for next two years we will grow around 25%.

Deepak Poddar: So, 25%-30% CAA growth in your value-added product and 10%-12% growth in your established product.

Bharat Kumar Vageria: Yes. Combination you can take it around, it will be around 15%-17%.

Deepak Poddar: So, coming at 15%-17% CAGR that one can assume for next 2-3 years, right?

Bharat Kumar Vageria: Visibility is there only. As per the order book positions, government initiative, and everybody is hoping that the same government will continue at least for next 5 years.

Deepak Poddar: And given our value-added product has much higher margins as compared to your established product, so it's share which is currently at 27%, so ideally it per year based on what you are saying per year it should increase by 3%-4% per year for next 2-3 years. Like it can go from 27% right now to 35%-36%.

Bharat Kumar Vageria: You are right. If you ask me the 3 years down the line it will be around 64% established product and 36% valued products.

Deepak Poddar: 36% valued, that is also coming as per my understanding.

Bharat Kumar Vageria: And that will give the substantial EBITDA margin increase which is currently 14% to 16% going up.

Deepak Poddar: So, 14% to 16% EBITDA margin in next three years, right?

Bharat Kumar Vageria: Yes, you're right.

Deepak Poddar: That is by FY27 we are targeting?

Bharat Kumar Vageria: Yes.

Deepak Poddar: 14% to 16% EBITDA margin.

Bharat Kumar Vageria: Yes. You will see this year also there is a EBITDA expansion of around 70 basis point.

Deepak Poddar: This year you are talking about which year?

Bharat Kumar Vageria: FY24.

Deepak Poddar: Yes of course. We are already seeing a better margin expansion of 70 basis.

Bharat Kumar Vageria: Yes, the same thing will continue as the percentage of value of this product will increase, it will come.

Deepak Poddar: And now coming on to the debt side, when we say that we are going to receive this $25 million, so that is that value we are saying for the 50% we are disinvesting, right?

Bharat Kumar Vageria: Yes. 50%, $25 million, it is roughly we can say around Rs. 200 crores and maybe the net of this everything tax rate and everything may be around Rs. 175 crores, but that entire thing will be used for the as I mentioned to you for the debt reduction and benefit to the shareholders that we will decide on receipt of the consideration. And otherwise, the expansion of value-added product is ongoing as the company has adequate internal accruals available to take the expansion which is already finalized.

Deepak Poddar: So, this Rs. 175 crores net on a net basis and plus Rs. 125 crores also you expect to realize over the next six months on non-core assets?

Bharat Kumar Vageria: No, it will take, I can say because it just identified the last quarter only. Out of that, one transaction is already agreed. Balance internally we are keeping target to make it zero by March '25.

Deepak Poddar: So, by March '25, what should be our debt target?

Bharat Kumar Vageria: If you ask me, we don't do anything disinvestment further. And I will do the realization of this plant for this thing. At least we can reduce from 800 crores to around 450 crores.

Deepak Poddar: So, that's a significant debt improvement.

Bharat Kumar Vageria: Of course, of course. That will give the benefit of the interest cost which is in the range of Rs. 100 crores will go down to around Rs. 50 crores - Rs. 60 crores.

Deepak Poddar: That's what I was trying to understand.

Bharat Kumar Vageria: Yes, you are right.

Deepak Poddar: We can expect Rs. 50 crores - Rs. 60 crores interest cost for FY 25 as a whole?

Bharat Kumar Vageria: I don't say the interest cost because it's inclusive of the non-fund facility cost also because we are in the government tendering business, especially in composite products and multinational companies where we need to provide these performance guarantees for a certain period of 2-3-5 years. So, we considered around $15 to $20 crores expenses on the accounts of the import, export documentation, and the bank guarantee commissions, LC commission, etc. So, even when we were debt free, at least Rs 25 crores to Rs. 30 crores expenses will continue considering the size of the revenue of the companies.

Deepak Poddar: So, Rs. 50 crores, Rs. 60 crores plus Rs. 20 crores. So, ideally Rs. 70 crores to Rs. 80 crores.

Bharat Kumar Vageria: Overall I told you if it's Rs. 800 crores debt, the cost of the funds around Rs. 100 crores are there. Rs. 100 crores will go down to 50 or 45 something. So, around Rs. 60 crores - Rs. 70 crores cost we can expect for next year.

Moderator: Thank you. The next question is from the line of Rikesh Parikh from Rockstud Capital LLP. Please go ahead.

Rikesh Parikh: Sir, first question is with respect to the divestment of this 50% stake. So, does the contract entail that in 18 months or 24 months we will be selling the residual 50% by any chance?

Bharat Kumar Vageria: No. It is at least because the investor has come out, at least we will see because it is a 50% we are selling, balance 50%, the management will continue. We'll see in the next at least we will continue to run at least for three years. We don't require at all because you know very well India and the Middle East relationship is increasing. You see how many times Narendra Modi has seen the Saudi and Middle East countries where the good expansion opportunity is there. We are taking the partners locally because we can grow faster. Even presently we are growing 10 to 12 percent, but we want to grow faster, 18%-20% percent. That is possible to do the faster expansion in the Saudi especially, where the good demands are coming, new chemical companies are coming.

Rikesh Parikh: And just an extension to that. So, our current revenue mix between established and value-added is 73:27. So, this traditionally being an established product, so it will change to that 70-30 kind of a thing if I exclude the Saudi 50% stake assets. Is that understanding right?

Bharat Kumar Vageria: It's a very small, I tell you. As a Rs. 350 crores revenue for three countries, which almost is a 50% selling point means 3.5% of the total revenue. 3.5% of total revenue is Rs. 200 crores only. It's very negligible in terms of the overall total turnover of the company. So, it is not giving the much effect in the revenue part is concerned, the profit part is concerned. But I again tell you, I think in the last call, somebody has asked me about this regarding the value of the products and the established product business. I mentioned in the previous time, we are estimating 64% establishment business, establishment product and 36% value-added product in the next three years' time.

Rikesh Parikh: Definitely. Secondly, just wanted to understand that we have a multiple registration or regarding the you answered a part about the oxygen cylinder for CNG we were doing in a time when we are working with some auto company. So, any progress on that whether it is approved or some change?

Bharat Kumar Vageria: I think approval is already there as far as the automotive industry is concerned. Currently we are not capturing because we have already some value-added products been available which is the cylinder plus entire set. So, we are selling currently as a complete casket. Definitely, automotive industry, a lot of things we have to be done, because presently, the entire industry is using the metal cylinder for the CNG applications. So, we have approached. Our process is on, because process and approval time, approval is already there for 60-liter cylinders. We have a capacity limitation. Therefore, we are not capturing that market currently. But definitely, after the completion of this expansion, which is going to be completed this financial year itself, will definitely explore the possibility and we get the business from automobile industry.

Rikesh Parikh: And sir my last question, so we were exploring some negotiation in MENA region, so right now we are not dropped, is the understanding right?

Bharat Kumar Vageria: No, MENA region is in the Middle Eastern South Africa, so in fact…

Rikesh Parikh: Sorry, Southeast Asia

Bharat Kumar Vageria: As I mentioned to you now, the syllabus has been changed because we have already closed Calendar Year 2023 with the good result. So, we will see, we will talk again. if we get our expected price, we are not desperate to sell that business.

Moderator: The next question is from the line of Dolly Choudhary from Niveshaay Investment Advisors. Please go ahead.

Dolly Choudhary: I had a question specifically regarding the IBC segment. So, I just wanted to know after the whole restructuring happens, what will be our capacity by that time? Because I believe that some part of IBC also do overseas. So, what will be the capacity after restructuring?

Bharat Kumar Vageria: Restructuring means what? It is not negligible. Because currently if you ask me, I have a complete IBC and IBC bottle manufacturing. I have a capacity all put together 1.9 million pieces, which includes overseas 1.4 million, India 0.5 million. Overseas 1.5 million which we are talking in the Middle East, we are manufacturing in the Middle East only. And that is a very negligible 50%. Capacity is 100,000. So, it is affecting hardly 50,000 IBC. Which that is also not affecting. I'm telling you; we are selling only 50%. It will come 100% revenue. And 50% we will include in our revenue. So, it is negligible because the major business of IBC in US and the South Asian countries where their business are continuing.

Dolly Choudhary: So, this is like 0.5 million is in domestic business.

Bharat Kumar Vageria: Instead of 1.9 million, it will be 1.85. Nothing, negligible impact. 500,000 only.

Dolly Choudhary: And are we planning to expand in some two, three years the IPC business?

Bharat Kumar Vageria: Yes, that's of course there. Already we have expanded. My subsidiary company, TPL Plastic, last quarter, they have completed one expansion project for 1.5 million 180,000 manufacturing capacity increased in Dahej. Another also expansion plan is there, looking to the requirement of the regions.

Dolly Choudhary: How much growth are we projecting for the coming 2-3 years let say?

Bharat Kumar Vageria: In fact, IBC projections we are taking in the range of around 15% we are taking being the export from India is increasing and bulk packaging is increasing compared to the... because it is very clear IBC is replacing some kind of the metal drum business and the plastic drum business. Because instead of 5 drums they can handle the one IBC. One drum 200 liters, 5 drums 1 tonne is equal to the one IBC. It's a 1 tonne material. So, if you ask me, packaging plastic drums and jerry cans are growing 8%-10%, but if you ask me with IBC, it is growing around 15%.

Dolly Choudhary: And India we have majority of market share, right?

Bharat Kumar Vageria: Of course.. Even wherever we are manufacturing IBC, out of 10 countries in 7 we are leader. US we are not leader because very big manufacturers are there in the US.

Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Harshad H. Gandhi Securities. Please go ahead.

Jayesh Gandhi: So, I heard you talking about your intention to take ROCE to 20% in next three years.

Bharat Kumar Vageria: Yes.

Jayesh Gandhi: And then that one of the parameters which you said is reducing the working capital cycle. So, if I was just looking at your last five, seven years of data, it looks to me like we were closer to 100 or below 100 in the working cycle. Currently we are closer to 140 or something. Are we thinking of moving down to 100 or we will not be able to do that?

Bharat Kumar Vageria: No, it is there. In fact, I think you were there or not when I have given my brief about the presentation, I have mentioned very clearly, the working capital cycle time which was in 2023, last year it was 112 days, which I am targeting to 90 days. If you ask me, even though I do not require nine months, but if you ask me for the quarter, it is in the range of around 102 days,, even though it is reducing more. But again, ROCE is not only increased by way of working with the cycle time. ROCE will increase by increasing the percentage in total business of the value-added products and increase in the overall EBITDA margin percentage basis. That only will increase the ROCE.

Jayesh Gandhi: Since I am new the company, I actually wanted to understand the opportunity size in composite cylinders, LPG, CMG and oxygen if you can spare 2 minutes on that?

Bharat Kumar Vageria: I think if you want to understand more, you are welcome to my office. But in short, I can say we are in composite products. We have LPG cylinder capacity 1.4 million, saleable capacity 1 million cylinder where my utilization is around 90% is ongoing and we are doing export as well as local supply with the company. Now as far as CMG is concerned, we have a current capacity of 480 casket manufacturing. I'm considering 60 cylinders in one casket. If you ask me the number of the cylinders, that is around 30,000 cylinders. Now my expansion for 680 caskets with around 40,000, another cylinder is going to come this year itself, so my casket business will be expanded in terms of the casket would 1080 where we can generate the revenue of around Rs. 800 crores around. So, Rs. 800 crores plus Rs. 200 crores, Rs. 250 crores from LPG, thousand crores from composite product we can do now the oxygen cylinder. there is no any separate capacity. It is within the capacity of LPG we have manufactured and developed these products and we got the approvals but other process for the army navy Government process is on. So, whenever in the future we got ourselves ready, if the future demands come from the oxygen cylinder, we can supply that. I think somebody has asked me previously why we are not expanding in the LPG. Because currently we are supplying to the government and some private gas distribution company. You must have seen the ad nowadays, GoGas, this is the confidential petroleum company. They are putting the edge, GoGas is the lightweight, explosion proof cylinders that is coming on every day. I have also watched the same TV. You must have seen the red color cylinder that is manufactured by us, we are supplying to team, supplying to them, as in demand comes. Now the LPG, some private gas distribution companies are using, in government company, IOC is using. Now we are expecting some kind of the good business from the other gas distribution company, that is BPC and NSPCL. Then only we will think about the expansion plan. But currently in our expansion plan. We have CNG for the gas distribution industry plus CNG cylinders for the automotive industries. And another thing, for the CNG cylinders for the automotive industry, which is a very large market currently, as the infrastructure of the new gas stations are developing and expansion is there, then the availability of the gas will be easy. Then the further sale, you must have seen, sale of CNG gas cylinders is increasing day-by-day and every gas-using company is increasing the gas station. If you go through the policy of October 2020, the business potential is around Rs. 12,000 crores for 8,000 new gas stations allotted by the government.

Jayesh Gandhi: And one last question is, can you define our market share in LPG or CMG currently?

Bharat Kumar Vageria: You ask me LPG, if you ask me market share, who are the suppliers? We are the suppliers and other part of supreme industries where we are the two only in the LPG. But I just give you the data. LPG cylinder for number of the years, you and we are all aware that the metal cylinders are in popular. 40 crore cylinders are in population 40 crores. Average considering the life of the 15 years, every year Rs. 2 crore cylinders are required by the government companies and private gas distribution companies. Against that, ours and Supreme capacity is hardly, we can say, 2 million cylinders, which is 10% of total capacity. So, the market is very big. Only dust replacement takes place. I tell you our experience in polymer drums, if you go back to 30 years back or 35 years back, 100% metal drums in population. Today 60% drums convert from metal to polymer drums. It took 30 years. Similarly, whenever this, yes, apart, we are considering apart from gas line, government is also planning to give the gas connections, but it is gas connection pipeline is possible economically in the high-rise building. It is not economical in the villages. It is not economical in the small towns because cost of the laying is very high.

Jayesh Gandhi: And how about CNG?

Bharat Kumar Vageria: So, CNG, still I am trying to collect the data. How many metal caskets are already in the market that I could not get. I am asking every company who is getting it online. But just I have seen some of the paper cuttings where somebody is telling, we will grow by CNG caskets by 15%. Because every automotive sector is growing by 15% because we tried ourselves to collect the data, how many CNG caskets of the metals are available in the present market in the condition we could not get it. If anybody is hearing on the call, if he has, it will be a good use for us. They can share with us because you must be attending call of many companies.

Moderator: Thank you. The next question is from the line of Priyank Parekh from Abakkus Asset Managers LLP. Please go ahead.

Priyank Parekh: During this quarter, we have seen very good growth in the packaging product and the IBC business. So, my question is around like due to the geopolitical issues and dumping of Chinese product in India, the chemical sector is facing a headwind. So, in that context just wanted to know how we are able to grow this well during this quarter?

Raghupathy Thyagarajan: Sir, as we know that China is facing headwinds, we are also in a position to experience a good amount of buoyancy overall. Multiple reasons can be attributed. Overall, we are also in a position to see that there are enough people who are looking at options to China in terms of an optional buyer. And that is where the chemical industry is also be in a position to really experience that kind of shifting of the demand that could really be seen. Secondly, overall, the growth in the Indian industry is also for everybody to experience. As the infrastructure industry is also growing very fast, there are lots of other couple of industries also which are investing and growing. The overall growth for the packaging industry also is keeping pace with these. So, we are also in a position to experience this buoyancy not only in India but in even the geographies that we are in whether it is the MENA region or whether it is the East Asian region both these geographies are also doing extremely well.

Priyank Parekh: Okay, so rather than the headwinds, it is tailwind for us. That's what you are trying to convey.

Raghupathy Thyagarajan: Yes, that's right.

Priyank Parekh: So, on the CAPEX side, you said that initially we were targeting some Rs. 200 Cr of CAPEX during the year, but now that has been revised to 175 for this year. So, just wanted, are we postponing some CAPEX to next year or is this we can achieve the targeted capacity with a lower amount of CAPEX? So, how would I interpret it?

Bharat Kumar Vageria: I think you can consider yearly CAPEX because once this year it is estimated more because of the value-added product expansion of CNG and hydrogen was ongoing, which in fact we had anticipated it will come in this current year itself. But looking in the progress of the machine and progress of the equipment, we expect it will go to the next year. But it does not mean that next year it will increase to Rs. 200 crores. We ourselves, I think, as I mentioned to you, we can take around the Rs. 70 crores to Rs. 75 crores on account of the maintenance, automation, re-engineering to maintain the capacity, to maintain the cost under controls for molds and everything. And balance expenditure, we'll see time to time, value-added products. If you ask me the next year, if net of the CAPEX will be I think less than Rs. 100 crores because we will get the sale of the assets also which is there around Rs. 125 crores, Rs. 25 crores already completed, Rs. 100 crores which our self-keeping the target for next year. So, net asset increase will be less than 100 crores.

Priyank Parekh: Net of the receipt we are going to get.

Bharat Kumar Vageria: Yes.

Priyank Parekh: And so on the conservative side, I got your guidance about 15% to 17% increase for next 2 to 3 years. But if everything goes right, are we aspiring for higher amount of growth considering the good growth in this quarter?

Bharat Kumar Vageria: No, I think growth 17% and 18% we got it. As I mentioned, you are aware that we got first quarter 22% business, second quarter 24%, third quarter 26%, fourth quarter 28%. This is our business normal scenario for the last 10, 15 years. Like that, everybody has to target, and government companies, Indian companies, like that we achieve that business. Especially this year, quarter-on-quarter is also high. But as I mentioned to you, overall growth, combination of the composite products and other products, if you have heard in my last, somebody has asked me about the growth plan, I told very clearly, packaging product and other products we are considering growth in the range of 10% to 12%. Composite products we are considering growth of around 30%. So, combined growth, at least 15% to 70%, we can take, looking at the current scenario, at least for the next three years. Thereafter hydrogen cylinder, which we have not considered, only the trial testing approval part we have taken for the expenses part is concerned. But we will estimate the demand only on the after approval of the products, and after we will come back when we do the revision in the next year, the growth plan, then we will be able to tell you. At least visibility currently, for the next two years is there.

Priyank Parekh: And sir if I can squeeze in, I missed the IBC bifurcation between the domestic and the outside of India side. So, can you just repeat it once sir?

Bharat Kumar Vageria: The IBC means intermediate bulk containers, complete IBC. Then there is the second, third part, IBC completes when we have an intermediate bulk containers bottle that is called the bottle IBC which is required the part of the product. So, we considered the first product is the IBC bottle manufacturing capacity. We have a 1.9 million, means 19 lakh capacity is there, in India and overseas combined. In which overseas capacity is 14 lakh and 5 lakh in India. If you ask utilization, I am telling you, still lot of rooms are available, my utilization overseas across the geographies I take together, it's around 60%. Still there is too much cap is available to achieve the target. And in India, it is around 75%.

Priyank Parekh: So, in terms of the sales amount, that also holds true for the same amount as well. Is it correct to assume, sir?

Bharat Kumar Vageria: Yes, sales will also grow, because I tell you, IBC is the various components from there.

Priyank Parekh: The bi-percussion part, sir. So, we are doing some 566 in the last 12 months in the IBC business. So, the business coming from the outside India part and India part is the same proportion that you mentioned for the volume, right sir?

Bharat Kumar Vageria: No, retail percentage of the overseas is more because capacity is more there. If you ask me the realization point of view it is 60% or 40%. 60% overseas IBC business, 40% in India.

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

Bharat Kumar Vageria: First of all, thank you very much to all for listening carefully and understanding and asking about the Company. in fact, we get more strength from you when you ask people so many questions. We keep ourselves ready and we always valued our investor because you meet so many people and we are looking after our business in the surrounding area. Thank you very much once again. Thank you.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Phillip Capital India Private Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.