"JBF Industries Limited Q4 FY 2013 Results Conference Call"

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MANAGEMENT:	**MR. RAKESH GOTHI – MD & CEO, JBF INDUSTRIES.**
	MR. PN THAKORE – CFO, JBF INDUSTRIES.
	MR. ANUJ SONPAL – INVESTOR RELATION OFFICER, JBF INDUSTRIES LIMITED
MODERATOR:	**MR. DHAVAL JOSHI- EMKAY GLOBAL FINANCIAL SERVICES**

Moderator Ladies and gentlemen good day and welcome to the JBF Industries' Q4 FY13 Results Conference Call hosted by Emkay Global Financial Services Limited. As a reminder for the duration of the conference all participants' lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this Conference Call please signal an operator by pressing * and then 0 on your Touchtone phone. Please note that this conference is being recorded.

At this time I would like to hand the conference over to Mr. Dhaval Joshi. Thank you and over to you, sir.

Dhaval Joshi Good afternoon everyone. Thank you for joining us today. We would like to welcome management of JBF Industries Limited and thank them for giving us the opportunity to host this call. Today we have with us Mr. Rakesh Gothi-Managing Director & CEO, Mr. P. N. Thakore-Chief Financial Officer and Mr. Anuj Sonpal-Investor Relation Officer. I would now like to handover the call to Mr. Gothi. Over to you, sir.

Rakesh Gothi Thank you very much and I welcome all of you for this investor's conference call. To begin with I will just give some key financial highlights of the Q4 ended for FY13 and also I will talk a little bit on the business scenario that we are in India as well as outside India just to give you an impression of where we are placed. So to begin with let me talk of the FY13 consolidated performance. Some of these numbers you would have already gone through but nevertheless I would like to just recap it or repeat these numbers. The total income for the period FY13 was Rs. 7,455 crores this is a consolidate performance and this resulted in to the EBITDA of Rs. 690 crores giving an EBITDA margin of almost 9.3%. The profit after tax we had Rs. 113.5 crores which was as good as a margin of 1.5% and the diluted earnings per share were Rs. 15.24 on every equity share.

In terms of the standalone performance for India we did Rs. 4,504 crores giving an EBITDA of about Rs. 410 crores with a EBITDA margin being 9.1%. For standalone the profit after tax stood at Rs. 51.5 crores with a PAT margin of 1.1%. The diluted EPS was Rs. 6.72 per equity share. Looking at the Q4 only performance the Q4 consolidated performance we had a total income of Rs. 2,105 crores with an EBITDA of Rs. 151.7 crores giving an EBITDA margin of 7.2%. So on a year round basis the consolidated was 9.3% and Q4 we have 7.2%. For standalone the EBITDA again was 7.5% with a total income being Rs. 1,213 crores with an EBITDA of Rs. 90.5 crores.

For standalone the profit after tax was Rs. 13.8 crores with a PAT margin of 1.1%. The diluted earnings per share Rs. 1.80 per equity share on Q4 standalone basis. Couple of things which I would like to highlight for as far as the Q4 performance goes as you would have already observed that we had provided for in the accounts for market-to-market losses aggregating to Rs. 25.2 crores as on 31 March 2013. This was just to resolve the audit qualification and again there was one another item that is an amount of Rs. 23.6 crores were charged to the statement of profit & loss and this pertains to the Greenfield projects being implemented by our Step Down subsidiaries. This expense being a part of the groups' ongoing CAPEX has been included in other expense and this has been then in order to comply with international accounting standards which are prevailing as of now. So in totality the total amount of about Rs. 49 crores has been charged to the profit & loss account for the period Q4 FY13 on a consolidated basis. So that is an important observation to be taken.

I would now like to discuss certain things on the auto to give you a little bit of the business scenario or what the path forward looks like. So far as the Indian operations are concerned just like to brief all of you that as it stands today expansions are taking place in PET Chips and POY domestic industry and of course there could be some pressure on margins no doubt but we expect that this scenario should stabilize by the next year when after next year we do not expect to see any more of such expansions because we are at that part of the cycle where people would stop expanding and they would like to consolidate it as the year passes by.

So to brief you we have already shifted our product mix from the normal from where we are focusing more on textile grade chips we have now shifted our product mix towards the bottle grade chips. As you may be aware that the growth in the case of bottle grade chips is around 20% anywhere between 16% to 20% and this forms the substantial portion of our chips production as of now. We have also shifted our product mix in yarns to certain specialty yarns such as Cationic Dyeable Yarns and colored yarns and micro yarns which would give us additional value additions. I would like to also to inform you that since we have virtually stayed away from the commodity textile grade chips we have virtually now become a buyer of polyester chips we currently buy almost about 3,000 tonnes of chips to maintain our yarn operations as well as we would be increasing the purchase of the chips to about 5,000 metric tonnes.

On the raw material front we believe that as time goes by may be after about 6 to 7 months rather by the end of the year it is expected that there will be additions in capacities of PTA's domestically and the frequent problems which we have faced in the past in terms of disruption and supplies of PTA due to certain malfunctioning of plants in India that problem is expected to be alleviated and with additional supplies of PTA during the coming year we hope that the margins would also tend to improve. We do expect that this PTA problem should get alleviated totally when we come in to production of PTA by 2015 more on that a bit later.

As far as the international business outlook is concerned I am pleased to inform you that in case of PET Chips we feel there is a recovery in demand all over certain regions especially in the MENA regions that is the Middle East and the North Africa region and we see that the demand is more than 10% that there is almost at more 10% demand growth. Our internal statistics indicate that our market share in Saudi region has also increased substantially over the last few years at the same time I think in the case of Film also we find that there is a new demand in Asia for clear films. The exports of films to Central and South America region continued to grow. The European solar market recovery is likely to provide further impetus for our volume growth for industrial film segment. I think a number of you would also be aware that as of now there is an antidumping duty on Chinese originated films in the markets in Europe. So that is also helping us out in our marketing efforts to Europe for film.

So in summary the business outlook on the international business is quite optimistic and we expect to perform better on the international front as compared to the year gone by. A few notes on the projects which are under implementation. The first and the foremost the PTA plant projects at Mangalore I am pleased to inform you that the project is proceeding as expected as you are already aware that we have already tied up on the financials have already been tied up and the land has already been taken the environmental clearances through we have also awarded the engineering contracts to **(Inaudible) 12:00** technique for execution of the project and as it stands the construction facilities have already been put up and substantial headway has been made in to floating tenders for various equipments and machinery. We believe that we should be able to commission this project by mid 2015 and with the commissioning of this project we would be fairly self sufficient in our requirements especially in UAE as well as in India and I think a minor portion of this output can also be sold to certain buyers of PTA in this region

In this context I would also like to inform you that by the time we come in to production of PTA I think there will be ample Paraxylene supplies also available. There is quite a bit of capacity coming up in the Middle East and also in India there should be additional production of Paraxylene. So on the Paraxylene front also that mental comfort that we should be able to get enough Paraxylene either from our neighbors OMPL or we can import also from near by countries especially from the Middle East and we see a very easy situation on that availability of raw material for producing PTA.

On the next project which is the PET plant at Belgium we are fairly confident that we should be able to commission the plant somewhere by March, April 2014. Lot of construction activities are already going on and all the orders for equipments have already been placed. Some equipment installations are already through, the construction work there is in full swing. So we are hopeful that by March 2014 we should be able to move ahead substantially and with the improvements in the PET market this project should also add to our top-line and the bottom-line.

The third project which is at Bahrain basically there will be three lines and the first line is likely to be commissioned before July 2013 that is within about two months from now and two other lines would be commissioned in early next year so before middle of next year we expect to commission all the three lines. The first line of course the output would be available for market by as early as July 2013 or August 2013 and I am glad to inform you that these lines are of flexible product mix capable lines we can produce varieties of films within these lines and we should be able to compete very well in the international market as a result of production from Bahrain. And the last project is the Brazil project for production of green energy we are going slightly slow on this project but nevertheless as planned earlier we should be in production by middle of 2015 the initial work in terms of the environmental clearance and other clearances are virtually finishing and we are in the process of having discussions with various engineering contractors for taking up this project on our behalf. Hopefully by mid 2015 we will be able to shell results from here though it is slightly slow on this project. The first three projects are going quite fast as scheduled and this should add substantially to both our top-lines and bottom-lines.

So with this introduction and with this scenario I hand it back to you and I think we can take up questions and try to answer these to the best of our ability. Certain numbers which should be we may not have ready with us will you please give us permission that we come back to you through Mr. Anuj and he will be able to take notes and supply some of these numbers in case we are not able to answer them right away. We will give to you in due course of time.

So thank you for this patience listening and now we can take questions from your side.

Moderator Thank you very much. We will now begin the Question Answer Session. First question is from the line of Jignesh Kamani from Nirmal Bang. Please go ahead.

Jignesh Kamani Sir, I want to know about how much money do you spent on the new venture in last year and till now and if possible can you break up between all the four new ventures?

P. N. Thakore See as of April 2013 we have spent about $210 million on all these projects. We have spent about $75 million on Mangalore project, about $105 million on Bahrain project, around $35 million on Belgium project and around $4 million to $5 million on the Brazil project. Mangalore we have also over and above this fund based limit we have also fund LC's worth about $145 million and also some LC's have been opened for Bahrain and Belgium. So overall you can say that we spent about $210 million and also opened LC's worth may be about $250 million to $300 million.

Jignesh Kamani The second thing in PTA either we want to plan you can say import the PX I think or we want to we can say buy from….

P. N. Thakore We have got options opened for us.

Jignesh Kamani So as per minority OMP has already invited a bid which was suppose to close on 29 April, so have you submitted the bid for long term procurement of PX?

P. N. Thakore No, it is likely this I will explain that to you. OMPL is going to produce 900,000 tonnes of Paraxylene so they have invited two sets of this one is for up to 250,000 tonnes to be sold to short term buyers it could be traders or anybody who can buy for 250,000 tonnes. We have reserved the balance 650,000 tonnes for a unit who sets up a PTA plant within India. Now that is a separate bid that bid has been submitted just on 20 May, 2013, which is about 7 or 8 days back that bid technically has been opened and we have qualified technically for that bid. The price bid is yet to be opened and that I believe would be opened in about one month to one-and-half months' time after they have cleared up with the board on the technical bid qualifications. So this bidding process will for long term buyers who are going to set up PTA plants is going to be opened about one-and-half months from now. Does it answer your question?

Jignesh Kamani Yeah, I just adding to that if you go to the fine print of the bidding document if a new plant which you are setting up PTA and they need a PX they need to offer a 26% stake to ONGC or its subsidiary?

P. N. Thakore Yes.

Jignesh Kamani So if I believe our experience with the BP and everything we are a little bit afraid you can say to provide a stake to any of the new venture because PTA generally provides high delta and high ROC to us so just want to check management….

P. N. Thakore Jignesh, all these points will come at later stage and that point of time we will negotiate and see what that.

Jignesh Kamani As of now we are open exploring what….

P. N. Thakore We will look at it because we always have alternate option available for buying from international markets where we expect prices to go down significantly in view of what is happening to Paraxylene. So there are many ifs and buts and I think the clarity will emerge as it goes along.

Rakesh Gothi And also I mean project people they will have to do a lot of due diligence they can offer and what premium actually we want to exercise though they have mentioned it but it looks like it is going to be a difficult for them to implement this clause. We are open and but we will take a call on it as and when it arises.

Jignesh Kamani And sir, as you mentioned that in India in Chips and POY there is some capacity addition and which will you can say impact the margin, so if I believe Reliance is already increasing the capacity by almost 65% adding almost 5 lakh tonne POY and similarly also adding the Chips capacity and generally you can say after 5 or 6 years Reliance is increasing the capacity, do you think for may be 6 months or 12 months you will see margin may be better so actually you can say it is long time may recover?

P. N. Thakore Yes, I would agree with you that the margins could be slightly under pressure over the next 5 to 6 months but let me say that the demand growth in India is around 9% to 10% for polyester, yarns, and chips. In that 9% to 10% growth everybody has to take their shares. Our market share in this industry is around 5% to 6%. We are heading for problems on selling our products. There could be some impact on the margins but then we believe that after one year the margin should be on the improvement. There could be some fall outs on the way by some producers not able to cope up in this market and they could be falling on the side but after one year things should be improving and we believe that the next year should be as good or better margins than what they are now.

Jignesh Kamani In guidance when Reliance is supposed to come out with any capacity addition?

P. N. Thakore I think it is not for us to comment I think you can check up with Reliance.

Rakesh Gothi They would be the best people to inform you on that.

Jignesh Kamani Okay, no issue. And in the third question to Mr. Thakore, last two or three months we have received two down grades one by the CARE and one by the India Rating Agency by one notch.

P. N. Thakore We are not too separate down grade from two different agencies and considering the current market scenario and our expansion and I think they have revised the rating to (-A).

Jignesh Kamani So when I am coming to right now we have almost Rs. 350 crores kind of debt repayment in FY14 and Rs. 450 crores debt repayment in FY15, so because of our rating down do you think when it come for refinancing we may face a problem or either rate of interest may go up?

P. N. Thakore No, let me just clarify Jignesh this. The revision in rating from A to (-A) has nothing to do with our repaying capacity. If you read the rational of rating the revised rating I think it will be very clear to you that the ratings has been revised considering the massive expansion plan our company has and they would like to see how we implement the project. And then we are quite sure that it will be upgraded the moment we complete our projects because though we have taken care of most of the risk which are associated with the project particularly if you look at the project like PTA where we do not have to worry about either raw material or we do not have to worry about where to sell our products or we do not have to worry about the efficiency of the technology or logistics and other things. In spite of that rating agency sees that there are always risk associated with the projects and considering that and considering our existing asset base they had thought it perhaps to revise the rating to (-A) it has nothing to do with our repayment capacity.

Jignesh Kamani But it has not related to increase in the rate of interest?

P. N. Thakore No.

Moderator Thank you. Next question is from the line of Dhvani Modi from ICICI Direct. Please go ahead.

Dhvani Modi I just wanted couple of clarifications. If I look at the balance sheet that has been provided along with the results, the consolidated balance sheet if you see the debtors has increased by 45% YoY whereas our sales have gone up only by 4% YoY, so if you can please explain that?

P. N. Thakore Just two reasons one, last year we have increased our capacities at film level. One film line has gone in to operation which was not there in the corresponding period. Secondly the exports from India has improved towards the end of this year where the typically the credit period is 90 days against the local credit it is much lower and third is overall market was also not very conducive and that has also resulted in to slight increase in receivables. So it is a mix of all these three things.

Dhvani Modi And sir another thing even if I look at the standalone other income that has been significantly higher than what our normal run rate has been. So it was $90.75 crores versus if we give the range of Rs. 1 crores to Rs. 2 crores that we have been doing each quarter. So if you could give a break up of this other income please?

P. N. Thakore I think Anuj will get back to you. Basically it includes whatever surplus we have kept aside for contingencies in projects we have deployed it outside and we earn income on that but we will try and provide you with that.

Moderator Thank you. Next question is from the line of Gaurav Samota from CRISIL. Please go ahead.

Gaurav Samota Sir, I wanted to know the fund that is there any fund raising plan at SPV level for your Bahrain and all that fundraising plans?

P. N. Thakore No, we have already tied up the loan for the projects and there is no further fundraising plan at this point of time.

Gaurav Samota And regarding your FOREX losses so going forward when rupee depreciating so how do you manage? Going forward how you are going to manage that FOREX losses?

P. N. Thakore You see the volatility in the dollar-rupee or something I think we have to learn to live with. So the positive side is we are now almost coming to the end of that derivative deal what we had the remaining 20% we are paying off in 3 July, 2013 that **toxin 28.28** will go away. But we consider it is a part of the cost. ECB loans are cheaper as compared to rupee risk is the associated with that yes.

Moderator Thank you. Next question is from the line of Jignesh Kamani from Nirmal Bang. Please go ahead.

Jignesh Kamani Sir, a question related to our fourth quarter number. If you take our **(Inaudible)** 28.54 and fix prices increased by almost 6% to 7% on the Q-o-Q basis. So is there any inventory gain on the fourth quarter?

P. N. Thakore No, I do not think there is any inventory gain as such. See as such we keep very low inventory either the finished goods or raw material so we do not have any significant gain.

Jignesh Kamani And second thing as you mentioned that this time from India our export is very high and that is why the receivable is high?

P. N. Thakore This quarter particularly. You see initially the exports were very low. Last quarter it has improved significantly.

Jignesh Kamani So should I consider this kind of receivable days as a benchmark?

P. N. Thakore No, it should improve slightly because the domestic market was also there but we will slightly higher then yes because export receivables are 90 days against may be maximum 30 days for local.

Jignesh Kamani And I just want to have your view you are able to get a better result in credit terms so our greater days has increased so is there any change in the raw materials sourcing?

P. N. Thakore No number, it has to do with the market only just like we had to give additional credit to customers we also got little additional credit.

Jignesh Kamani And sir, can you throw some light in terms of what kind of production or the revenue we are planning to do in Bahrain this year since this is the first year of operation?

P. N. Thakore Bahrain the first line will start somewhere by 15 July, 2013 or so, so you can take the production from July onwards or may be August onwards. Second line we hope that by December end it should start or January it should start so may be 15 January onwards you can take second line so current year only two lines will contribute and by March 2014 it should get completed.

Jignesh Kamani So what kind of the utilization level we can work out for the first year?

P. N. Thakore 80% utilization for the duration when it is running, yeah.

Jignesh Kamani And EBITDA margin will be similar to what we are enjoying in RAK in the Film?

P. N. Thakore It should be slightly better because it will be going to US for specific markets. We already have very encouraging…..

Rakesh Gothi We also proposed to sell good quantities from here to South America, primarily in South America these are lot of anti-dumping duties on film of various parts of the world. So I think that territory should give us better margins and I think it should be easy for us.

Jignesh Kamani And sir, if you talk about our inventory from compared to first half of FY13, inventories increase are almost 30% plus. So any reason why inventories has build although YoY it is not that high but I think it is compared to first half inventory has build up a lot?

P. N. Thakore Well, these are sometimes what happens we believe that the prices are going to go off. We tend to purchase a little bit more material so these are normal way in the operations?

Jignesh Kamani Because it is mainly linked with our raw material inventory or more….?

P. N. Thakore No, it could be both though I do not have the exact numbers in front of me but it could be both.

Moderator Next question is from the line of Nilesh Karani from Magnum Equity Broking. Please go ahead.

Nilesh Karani Sir, just wanted to understand domestic and international business this year and looking forward in 2014 you just give us a guideline how will they pan out and what type of business?

P. N. Thakore No, we cannot put any number to profitability, etc., that depends on market but overall I think I will request Mr. Gothi to give how he looks at the markets and to what extent we can capture or how it will help us going I think may be you can put some light on that.

Nilesh Karani Basically Bahrain just a follow up question what Jignesh asked. Just to understand like Bahrain this will start by I think July or August, correct?

Nilesh Karani 15 July 2013.

P. N. Thakore So this will like the reflect in our balance sheet like in this particular quarter or after two quarters?

Nilesh Karani September quarter is taking for about one, one-and-half months and after that it will be for full quarter.

Moderator Next question is from the line of Ispreet Batra from Sushil Finance. Please go ahead.

Ispreet Batra Sir, any kind of a guidance that you can provide for FY14 in terms of revenue and margins?

P. N. Thakore No, we do not provide guidance on margins but revenue you can I think take about 80% capacity utilization. Between 80% and 90% capacity utilization.

Nilesh Karani For domestic and international both?

P. N. Thakore Both yeah.

Nilesh Karani And what are the current life is currently?

P. N. Thakore Around Rs. 2,400 average price. The current prevailing film prices would be of the order of around $2,300 per metric tonne.

Nilesh Karani So they are again flattish only, no improvement in the last 6 months?

P. N. Thakore Minor improvement in margins because the raw material like these as of today it is slightly on the lower side. So there would be minor improvement on the margin at least. The price factor is the same but as it stands today if you will see the Paraxylene price it has gone down below $1,400, PTA is also around $1050, so there are some improvement in the margin that we are seeing as of now.

Nilesh Karani And that is in relation because the crude oil prices has come down?

P. N. Thakore This is one thing which I have always maintained that it does not have an absolute direct bearing with the crude oil it is more depended on demand supply situation. There is a huge capacity built up in China for PTA as of today and as a result of which lot of details are available in the international market though in India because of plant problems there are certain issues because of that the international prices of PTA are not rising and they are slightly subdued hence the margins are better because raw material is on the lower side, still March prices are the same so the margins are slightly better.

Nilesh Karani If you could give any guidance in terms of what are the PTA prices domestically and what if we import it?

P. N. Thakore As of today the I think as you are aware the local PTA producers price their product on international parity basis which means whatever the international prices prevailing are on they will multiplied by the prevailing exchange rate add the custom duty and some expenses from there you give some discounts. So they are matching it on a parity as of today of the order of $1040 or $1050 per metric tonne so you can work out the local price whatever it would be. Similarly in case of MEG the international prices are prevailing at around $990 to $1,000 per metric tonne so the local producer would also price their products on this parity basis after taking in to account the exchange rates as well as the customs duty rates.

Moderator Thank you. As there are no further questions I would now like to hand the conference over to Mr. Dhaval Joshi from Emkay Global Financial Services for closing comments.

Dhaval Joshi Just a one question sir, regarding the tax outflow that in Q4 we have seen tax outflow that has increased substantially and the same we have seen for the FY13 as well, can you throw some colour on that?

P. N. Thakore One of the reason why the tax outflow has gone up is the one the surcharge on income tax has gone up so whatever even defer taxation we had provided in past I think on entire amount the correction has to take place for the change of rates of around Rs. 6 crores to Rs. 7 crores additional liability has been provided for that and rest is depending on the investment level in particular quarter it varies.

Dhaval Joshi And sir the next question pertains to we have seen in your presentations and the financial number over there we have seen in other expenditure you have mentioned Rs. 237 million CAPEX for your Greenfield project?

Rakesh Gothi: That is in Belgium and Bahrain.

Dhaval Joshi So just wanted to know that whether this will continue in P&L or it will go to balance sheet in the coming quarter?

P. N. Thakore I think the auditor's view was that though it is a project expenses as per international accounting then it has to be charged to P&L so it will continue in P&L and it will get adjusted in reserve in future. I think this is how but as far as if you look at project financing angle then it is very much part and parcel of the project for funding. Not only that I think may be about Rs. 18 crores of other salaries and other general administration, etc., which are in incurred in these companies and which are very much part and parcel of project cost and has been charged P&L. So I think till all projects get completed we had to live with the adjustments.

Dhaval Joshi Thanks a lot and sir on behalf of Emkay I would once again like to thank you all for joining the call today. Have a great day.

Moderator Thank you. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us you may now disconnect your lines.