



“JBF Industries Limited Conference Call”

August 10, 2011



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**Moderator:** Ladies and gentlemen good day and welcome to the Q1 FY'12 Earnings Conference Call of JBF Industries Limited hosted by Fortune Equity Broker India Limited. As a remainder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should you need assistance during this conference please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Mahantesh Sabarad from Fortune Equity.

**Mahantesh Sabarad:** Good afternoon everyone. Thank you for joining to the conference call of JBF Industries. We are discussing the Q1 FY'12 results of the company. We have the management with us over to you Mr. Thakore.

**Purshottam Thakore:** I request Mr. Gothi to just give brief note on what has happened in the Q1 and what is the market scenario and how it looks and then we can take question and answers.

**Rakesh Gothi:** I will summarize the financial performance for Q1 FY'12 and then give a little bit of information on what has happened by way of the business or what the business scenario was like and then also appraise you of how we see the situation going forward from here.

In terms of the financial performance for Q1 FY'12 the consolidated turnover has gone up to 1,579 Crores from 1,415 Crores, which reflects an increase of around 12.9%. The EBITDA has gone up to 161 Crores from 155 Crores, which is an increase of around 14%. The PAT is slightly lower at 52.25 Crores lower from the higher number of 66.17 Crores, which is a decline of around 21%. As all of you have analyzed and has gone through the lower PAT was a result of higher forex/derivative loss to the tune of 45.45 Crores as compared to the previous corresponding period whereas the loss of only tune of 13 Crores.

As a percentage of sales the EBITDA stands at around 10.0% as compared to 11% last year as a minor decline. The PAT is 3.27% as compared to 4.68% over last year period. These earnings or these numbers appear to be slightly lower again largely due to higher Forex derivative loss, which was in the current year.

The earnings per share still maintained in the region of Rs.7 to Rs.8 more like 7.29 as compared to 8.81 over the last year. If you objectively look at these numbers and look at the background of what the business scenario was in the Q1 I feel that the performance and by and large has been fairly satisfactory.

If you look at the business scenario during the Q1 FY'12 April, May, June period the prices of all the textile raw materials starting from cotton had started declining. Now what happens in such a



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scenario the situation is that on the back of declining cotton prices competing textile product would be polyester. This also witnessed a decline in prices and as a result there is chain effect starting from the raw materials of polyester, which is PPA, MEG then chips and POY. So we were in that situation whereas all of you would be already aware that the period between December to March was a period of ascending prices throughout the chain but the period April, May, June was a period where just after March the prices of all the textile items and more so also polyester were in the declining mode. Now what happens in the situation, during this period in general the industry ends up with stock losses because you have purchased at a certain price and by the time the material comes to you and you have sold in the subsequent period will be at lower prices. However there has been some stability of late in July 2011 as well as current month. Again I would also like to inform you that during this period because I go the July-August period during the period of April, May, June I am not talking of JBF alone but industry in general it was a period when as happens every year the migrant workers go back to their hometown. So the industry operates at lower operating rate because of a lesser manpower. Again there are situations where there are power cuts in various parts of the country because of very hot season. Also there are issues related to very high working capital requirement because as the prices had gone up we found that during in the chain people were faced to the situations such as our customers who had to go in procuring metal from us they were in a situation where we were facing working capital constraint because of a very high prices. So all these things got compounded during the April, May, June period; however, as of July and hence as of August we seem to be an uptrend or rather the trend seems to be reversing and we are seeing that the things are either stable. The raw material prices are either stable or the finished good prices are either stable or slightly on the ascending mode. So in general we feel that the margins are going to be better in the prevailing quarters of course the quarter is still another 1.5 months away but we feel that things should be much better than what they were in the Q1.

Information on the films also I would like to brief all of you that since January 2011 or after the Q1 January February March 2011 we expect the demand of sections had been a softening globally. It has had any other polyester product. The film price from a higher somewhere around \$5 per kg that is \$5,000 from per metric tonne to somewhere in the range of between \$2,500 and \$3000 per metric tonne we also found that most customers in world over that is US largely in US and UAE where we sell substantial quantities from UAE who are very carrying high inventory, which was bought at higher prices in Q3 and Q4 of 2010 yet another issue which has impacted the markets to worldwide also is that the ban on Gutka packaging in India as lot of quantities flowing out of India to other world markets and has had some sort of negative impact on the pricing.

All said and done we have seen all these issues and as a strategy we are now focusing on value added products not only in POY but also in chips and more specifically in films we are now



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having capacities with metalizers etc., which would give a better margin and we are also adding film with fine silica for specialized control etc. So we would be we are not duly worried yes we are very cautious and we will try to see that we continue to face this competition effectively.

At the same time we are also trying to work out some long-term arrangements with large buyers in USA, Europe, Japan in the Far East so we hope to overcome on these market related negative situations and we are very positive that we will be able to face the competition and try to improve on the profitability. So by and these are the phenomenon's what we have seen in the Q1 and what we would be facing as we go along. I would now just like to brief you upon the expansions plans of the company. I think most of you would be eager to know on that.

The expansions are that the latest or rather the nearest expansion, which is going to be coming up will be for the polyester film as we had informed you in the last con call that we would be adding another 30,000 metric tonnes of film capacity by end of December. So we are on stream on that and I think there should not be any overruns on the time wise or in terms of even the CapEx fund wise so we are fairly on the dot on that.

Other two major projects in the offering are one is the PTA project at Mangalore as you are aware we are going to put up a PTA project in Mangalore SEZ. Just to recapitulate that what our capacities of PTA consumption would be considering about 3 to 4 years from now this project would help us to meet PTA for our captive consumption. We have already gone through the land allotment process and land has been allotted to us by Mangalore SEZ so that part is over. The bankable feasibility report is at the end of finalization and we should be able to complete that very shortly. Technology and the engineering aspects are being tied up so we should be able to complete that activity also within a month's time or one month to 1.5 months time and the financial tie-ups discussions are continuing. This project is likely to be completed by mid 2014 before mid 2014. Our target internal is Q1 2014 and as you are might be aware that is being set up to be the aromatics complex of OMPL that is ONGC Mangalore refinery joint venture project in Mangalore SEZ who will be producing paraxylene and we expect to get our paraxylene from then as our neighbors their facility just about 2 kilometers from our place.

So that is one project, which we are constantly working on. The other projects which was announced and which is also we are continuing to work with BP that is BP JBF Project for PET production and this is being set up as a co location next to BPs PPA plant and I think very proud of this after a very stringent filtering of various contenders for this kind of a project JBF has been selected by reputed organization such as BP to be we co-location partner. They will be supplying as a PTA and we will be producing PET just within their complex next to the PTA plant. That is an agreement that has been entered into and we are working on this and this project should also this was about 39,00,00 tonnes of PET and should be on. We hope by mid of 2014 hopefully our



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internal target is Q2 2014. I believe I have covered a quite of few things and now we may be able to take up questions so please go ahead on that.

**Moderator:** Thank you. We will now begin with the question and answer session. The first question is from the line of Jignesh Kamani from Nirmal Bang Securities. Please go ahead.

**Jignesh Kamani:** This question is particularly to Mr. Gothi. If you take about current crude oil prices you can see a fair decline globally. The PTFC price not 100% with the crude oil price but affected to come down on account of that. So you will still lower a price of PTFC so have you running rate state of many of our client may run the inventory loss in the high cost inventory because of the stocking?

**Rakesh Gothi:** If you look at numbers when we were earlier in January or February the PTA prices were in the range of \$1500 now as of they have some down and during the April May June face to the situation and the prices were down around 12-50 or something like that and they came down by first week of July to around \$1200 or so. As of today specifically today and over the last week the prices were in the range of \$1250 or \$1260 per metric tonne we have be fluctuating around \$1230 12 40 1250 per metric tonne. We believe that in lieu of certain happenings within China some issues related to paraxylene availability, there was some problem for us to move our plant also and also there is high requirement of paraxylene, as a result of paraxylene prices are likely to go up. So being that the PPA prices might be going up or normal otherwise. So we believe that it cannot go down significantly from here but the more chances are that they would be going up from this level.

**Jignesh Kamani:** Okay then in that case we do not see any chance of inventory losses?

**Rakesh Gothi:** There is lesser chance of stock losses from now onwards assuming everything being normal otherwise. There is no other international or any kind otherwise.

**Jignesh Kamani:** In Q1 we are operating around 67% utilization in India so when do you see this utilization will go back to close to around 85%-90%?

**Rakesh Gothi:** You are talking about the overall industrial?

**Jignesh Kamani:** JBF India Power plant. When you expect utilization level will go back to 80%-90%?

**Rakesh Gothi:** We have already come to a level of around 85%. We are working 85%, if you see my numbers it shifts capacity was only reduced, but the POY capacity was by and large at full capacity 90%-100% range. These numbers would vary because of tenure variations. Even today we are running POY at full capacity it has been brought up in the range on 85 and should be going up to 90% with the next few days.



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- Jignesh Kamani:** One question on the PTA plant as you mentioned mainly allocated in the SEZ Mangalore and hence you will get all the various place of SEZ like excise and tax and everything, but if we supply to an Indian plant will we able to get the benefit because in that case we want comply with SEZ tool?
- Rakesh Gothi:** It is a situation that when you set up plant in SEZ we have show a net foreign exchange in your numbers. Now what our intension is that the UAE plant which is just across the sea may be one or two day shipment from Mangalore port. They would be consuming almost 50% of the consumption. We also believe that in India you would be getting PTA from other suppliers and if we will be taking a call at that point basically the option open, in case we able to get our better net back by giving to other units whether in Oman or in Saudi or somewhere than giving it to my own unit we will be exporting the entire quantity from SEZ. We are back to the whole in India and we feel that getting from SEZ would be giving us a better netback to procuring year. If we procure from SEZ we have to pay the local custom duties as if SEZ is an export zone.
- Moderator:** Thank you. The next question is from Bajrang Bafna from Sunidhi Securities. Please go ahead.
- Bajrang Bafna:** What was the realization in polyester film?
- Rakesh Gothi:** As of which period you are talking about?
- Bajrang Bafna:** For this quarter?
- Rakesh Gothi:** Average is around almost 2,900-3,000 the commodity film is about 2,500-2,600, but specialty film is higher.
- Bajrang Bafna:** So an average it was 2,900-3,000?
- Rakesh Gothi:** Yes.
- Bajrang Bafna:** What was the raw material cost per kg?
- Rakesh Gothi:** I think it's given in the presentation forwarded it to you.
- Bajrang Bafna:** The margin is also given?
- Rakesh Gothi:** The margins are definitely shrunk as compared to last year.
- Bajrang Bafna:** What was the per kg margin?



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- Rakesh Gothi:** The delta for film was \$1,338 almost \$1,400 per metric tonne, which was higher than last year in the corresponding same period.
- Bajrang Bafna:** Y-O-Y basis?
- Rakesh Gothi:** Yes and the delta for chips was more or less same around Rs.8.9 or something as which was more or less same on a Y-O-Y basis, but in the case of PET the deltas are declined bottle get chips as from \$207 last year to \$179 in the current year. Only things has happened the volumes are slightly lower therefore that has affected profitability otherwise the chips delta was maintained, the POY delta was also maintained, film delta was better, PET delta was lower, but overall volume being lower it has affected the overall EBITDA numbers if we had operated it at full capacity the EBITDA numbers would have been much, much higher.
- Bajrang Bafna:** What was the per kg margin yarn?
- Rakesh Gothi:** In the yarn it was around Rs. 24 for the delta I am saying difference between raw material and finished goods.
- Bajrang Bafna:** The realization as already been given in the presentation?
- Rakesh Gothi:** Yes that is given.
- Bajrang Bafna:** Could you give us the volume guidance for this polyester film and polyester yarn in this financial year?
- Rakesh Gothi:** In this financial year as the normal existing capacity is of the 66,000 tonnes for film so that should continue. The expansion of another 30,000 tonnes which is likely to come by December ending we hope that at least around 60%-70% should be operable in the Q1 that is January February March. So you can add those numbers and that will be the volumes for this financial year for film. PET we should be able to operate at full capacity level and the POY we should be able to operate at full capacity levels barring the Q1 we should be operate it let me say not less than 90% baring the Q1 where the capacity levels were lower side.
- Bajrang Bafna:** Could you give us the EBITDA margins guidance for both these operations yarn and film?
- Rakesh Gothi:** We cannot give the breakup but overall we can say that I think here as the whole we should able to have about 10%-11% on an overall basis.
- Moderator:** Thank you. The next question is from Amelie Thevenet from Jupiter. Please go ahead.



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**Amelie Thevenet:** My question is about the 44 Crores of extent debt you quarter can you comment on that with more details and do you expect a report that you provide for any of this?

**Rakesh Gothi:** This loss was around 45 Crores for this quarter if you compare with the corresponding quarter of last year which was 13 Crores. Last year there was no derivative losses in those 13 Crores because the observation period had started from August onwards. So these two figures are not comparable strictly not comparable. Having said that the derivative losses for the quarter was around 35 Crores and rest is other losses year as a whole losses can be anywhere between 120 Crores to 140 Crores depending on the Yen level.

**Amelie Thevenet:** What is the level of hedging that you have got for Yen at what level of exchange rate did you have this contract?

**Rakesh Gothi:** If the Yen is stronger than 92.5 then the incur losses. We expect that the losses may be in range of about 120 Crores for current year.

**Moderator:** Thank you. The next question is from Saurav Ginodia from Smifs Securities. Please go ahead.

**Saurav Ginodia:** My question is pertaining to your RAK division we have sold around 20,80,00 metric tonnes of film in Q4 FY'11 that is last quarter and this quarter the volume is much lower at 15,5,90 can you throw some light on why is the utilization levels are lower?

**Rakesh Gothi:** These numbers also depend on thickness of film that we are producing. If you look at operating level the capacity of the plant is 66,000 tonnes per annum. On the average issue we should be able to produce 16,000 tonnes per month of normal film variety. If we produce a various varieties if more of certain variety it is the capacity numbers can come down, but what I can tell you is that we have been able to operate all the lines at capacity levels and average we have got a total production of 16,000 tonne per the current quarter, which reflects the normal capacity level of that plant it is not that we have shut down any line or reduced any capacity baring some power outage at a certain period, but apart from that we have been able to run all the lines at full capacity levels. We could find a certain variety of film where if you could run and we could get a better production but the plant would give you that capacity only.

**Saurav Ginodia:** Tax rate on a standalone bases was at around 24% reason for lower tax rate in this quarter?

**Rakesh Gothi:** I do not have exact working right now but it is as per as India is concerned it takes full tax the only adjustment can be carried forward with deductible announces etc.

**Saurav Ginodia:** Tax rate?





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- Rakesh Gothi:** We have paid around 3 Crores of tax on a PBT of 13 Crores. We will have to get back to you.
- Saurav Ginodia:** My last question us regarding the top line and profitability guidance for this year?
- Rakesh Gothi:** I think year as the whole we should have EBITDA of anything around 800 Crores or so that is what we are targeting internally.
- Saurav Ginodia:** In terms of topline?
- Rakesh Gothi:** Topline may be around 7,500-8,000 Crores in that range. It depends on the prices, prices are fluctuating so widely I give some figures and that is something different.
- Saurav Ginodia:** Can you help me out with that debt numbers on consolidated bases?
- Rakesh Gothi:** Consolidated bases March 31 we had core debt of 18,000 Crores and net debt of 15,000 Crores June 30 the figure may be higher by about 150-200 Crores.
- Moderator:** Thank you. The next question is from Mittul Kalawadia from ICICI Prudential. Please go ahead.
- Sanjay Parekh:** I just went through your presentation and over here and overseas the production has far exceeded sales so we did some calculations and you would have inventory, which was significantly higher in June for the chips, just to understand just in case the July prices get weaker then you would have an inventory with a high cost and that would mean this time would it mean this time that some inventory losses on the finished product side by lower spirits, correct?
- Rakesh Gothi:** What has happened by end of June the prices had come to more or less stabilized, in middle of July and now the prices seem to on the upward trend, between June and July there is not such a significant difference in the prices and I do not believe there will be any stop losses on that account.
- Sanjay Parekh:** Secondly if you take the EBITDA in Q4 and EBITDA this Q1 clearly there were some losses on the PTA side, which I believe were significantly large and hence may be nonrecurring so you can help us and guide us from last quarter EBITDA to this quarter EBITDA, what lead to the fall and how much of that was recurring and how much of that nonrecurring?
- Rakesh Gothi:** The main component or rather the main reason was the film pricing if you see the average film price January, February, March quarter was 4,080. In the current quarter it is in the range of about \$3,000 or something per metric tonnes so that itself shows you that a big decline on a similar volume that would contribute substantially to the EBITDA number and of course this is one of the main factors apart from the other factors as I said stock losses were there, but the main



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factor was that and of course the overall margin declines in chips also in general, but main decline was in the film due to film prices coming down.

**Sanjay Parekh:** What could be the CapEx schedule over next three years how would you fund it? How much of money has been spent already on PTA project, may be Belgium is too early so essentially what was the funding for this?

**Rakesh Gothi:** The major CapEx for this PTA project is domestically these CapEx it would not be more than 40 or 50 Crores, PTA project as you known the local project cost is around Rs.700 million out of which around Rs.500 million is with the debt component and about 200 million is the equity component and it is to be funded over period of next three years and we expect that our cash accrual should be good enough to fund equity portion. As far as cash outflow is concerned the bulk of it will be in the second and third year, first year we do not expect more than 50 million or so. So far we have spent about may be Rs.15 Crores, Rs.20 Crores not very significant and bulk of that will come next quarter only.

**Mittul Kalawadia:** What about the PET plant, CapEx?

**Rakesh Gothi:** The Belgium plant we expect it to complete by mid 2014, so it will be starting it in 2012 or so, right now it is just an MoU signed and activity would be starting on that because when we set up a PET plant you do not need lead time more than around 18 months or maximum 2 years, so by early 2012 we should be starting all our activities on that of course we will be completing all the paper work and agreements etc., we have to get the environmental clearance also, which is fairly rigid in that part of the world, Europe is very strict on certain environmental issues so that activity we have started and that takes about 7 to 8 months for getting those permissions. As soon as we receive that the bulk of the other work in terms of financial closures and placement of order for machinery, the work will start at that point of time.

**Mittul Kalawadia:** This falling film price also affecting our cash flows, could that lead to some delay in execution of some of the CapEx plans is there a PET or PTA?

**Rakesh Gothi:** No I do not believe that would affect. If you see from the overall profitability I do not think that would affect any of the plants that we are having in future.

**Mittul Kalawadia:** What kind of peak debt you are looking at on the balance sheet?

**Rakesh Gothi:** We expect that our debt equity should not exceed 2 at any point of time; it will be well within equity to debt in the order of 2.

**Mittul Kalawadia:** What is the average cost of debt for these new projects?



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**Rakesh Gothi:** That is yet to be firmed up but will be going for EPC alone because it is in SEZ so it will not be comparable with rupee fund it will be cheaper than that.

**Mittul Kalawadia:** Just on the film prices what is the current film price?

**Rakesh Gothi:** The commodity is around Rs.2,500, Rs.2,600, specialty is depending on there are very specialties there will be another 400, 500, 700 beyond the commodity film price of 2,500.

**Mittul Kalawadia:** How do you see the overall demand shaping up in this film sector right now?

**Rakesh Gothi:** The demand is reviving now, last evening I had a chat with one of my people and the thing seem to be now changing back and again as I said the people are now having exhausted their high price inventories people are now again coming to buy so we feel that demand should improve and of course I do not expect the prices to be of the order \$5,000 per metric tonnes, but definitely I do not expect the prices to go down any further they should be only improvement; the overall worldwide growth in this segment of polyester of service in the range of around 8% to 9%.

**Mittul Kalawadia:** Any new capacity coming up in the near future apart from the 30,000 tonne?

**Rakesh Gothi:** Yes there are people setting capacity such as Polyplex putting up some capacities, Jindal Export is putting up in India, so there are some capacities even in the units some Japanese units are also putting up some capacities, but these are normal phenomenal and all in relation to that there is going to be a worldwide growth of around 8% to 10% at any point of time. So these capacities would get observed.

**Mittul Kalawadia:** These capacities are coming up within what time? Which is the nearest one coming up?

**Rakesh Gothi:** The nearest capacity is may be Polyplex we should be putting up capacity as well as Estar should be some of the capacities coming up very, very soon.

**Mittul Kalawadia:** That is within three months period?

**Rakesh Gothi:** Yes.

**Mittul Kalawadia:** You said about the falling cotton prices, could have led to some weakness in the demands also is it more or less stable for the other?

**Rakesh Gothi:** As we see even cotton prices seem to have stabilized now and I do not believe they will be going down further beyond this whatever we have seen and there should be either stable or going up. So hopefully that will have the same effect on the other completing products in the yarn.



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- Moderator:** Thank you. The next question is from Avinash Vazirani from Jupiter. Please go ahead.
- Avinash Vazirani:** What is the actual rupee or dollar amount of peak debt? How will it compare to EBITDA levels at that point in time, both in rupees or dollars rather than the percentage?
- Rakesh Gothi:** The absolute peak rate will depend on the draw down on the PTA project, where the agreements are yet to be finalized so I cannot give in absolute terms, but as I mentioned as far as the debt equity is concerned it will be well within two and debt EBITDA also I do not think it will ever exceed three.
- Avinash Vazirani:** Does that mean if the debt levels are higher then we might need to raise more equity?
- Rakesh Gothi:** It looks unlikely because we expect a reasonable profits both JBF RAK as well as India, which should take care of equity component for the project and the equity component is also required over a period of three years because initially we will be just opening LCs, etc, and actual case it will happen in second and third year so it may not be required.
- Avinash Vazirani:** In your loan agreements do you have governance on EV levels and equity levels relative to debt?
- Rakesh Gothi:** Normally debt EBITDA governance are there.
- Avinash Vazirani:** What is the unprovided portion of derivatives and/or exchange losses at June 30 it is the way it was as of June 30 how much more losses will you need to provide for which is not reflected in the balance sheet or P&L?
- Rakesh Gothi:** As on June 30 M2M is around Rs.145 Crores, which is disclosed by the notes. The actual loss will depend on the market conditions and it is very difficult to pinpoint that this will be the loss.
- Avinash Vazirani:** These relative contracts come to an end within the next nine months by March 31, so how far do they actually go out?
- Rakesh Gothi:** Year as a whole the total losses may be anything between around Rs.130 and Rs.140 Crores.
- Avinash Vazirani:** Assuming Yen dollar level of what?
- Rakesh Gothi:** There were three years of observation for this derivative, one year is over on August 2011, the second year will get over by August 2012, where you would have repaid 80% of the loan and the derivative amount will go down to 20%, so last year we do not expect any significant assistance so next 9, 10 months are crucial. I think this fee now whatever it is only for a period of another 8



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to 9 months and next year this number would go down substantially because only 20% of the loan will be pending for repayment.

**Mahantesh Sabarad:** I think we can close the conference call now we have no more questions.

**Moderator:** Would you like to add a few closing comments.

**Mahantesh Sabarad:** I would like to thank all the participants for joining in this conference call. On behalf of Fortune Equity Brokers also thank the management for taking their time out to patiently answer the questions from investors.

**Moderator:** Thank you. On behalf of Fortune Equity Broker India Limited that concludes this conference call. Thank you for joining us.