



“JBF Industries Limited Conference Call”

August 10, 2012



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JBF Industries Limited
August 10, 2012

Moderator: Ladies and gentlemen good day and welcome to the JBF Industries Limited Q1 FY'13 earning conference call hosted by Elara Capital. As a remainder for the duration of this conference, 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. Should you need assistance during the 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. Alok Deshpande. Thank you and over to you Sir.

Alok Deshpande: I welcome all participants to the Q1 FY'13 concall for JBF Industries. On behalf of the management for JBF, we have Mr. Rakesh Gothi, the MD and CEO, and Mr. P.N. Thakore, Director-Finance. I would now like to hand over the floor to the management. Over to you Sir.

Rakesh Gothi: I welcome all the participants to this concall. I will give a brief on the company's performance for the period Q1 2013 and after I have given the brief information, we will throw the floor open for questions. To begin with, as you might have received the numbers already, nevertheless I will try to summarize the performance for the Q1. The total income increased by 13% to 1799 Crores in the Q1 from 1598 Crores in the corresponding previous period. EBITDA number was also higher by 18% to 190 Crores in Q1 FY'13 as compared to 162 Crores in the corresponding period that is Q1 FY'12. On a consolidated basis again, the profit after tax was lower at 35% at 33.7 Crores as compared to 52.2 Crores in Q1 FY'12. The diluted EPS stands at 4.57 in the current period as compared to 7.20 in the corresponding period last year. As you had seen that the EBITDA number has been higher by about 18% and the consolidated PAT was lower by 35%, the important issue to be noted in the current numbers is that as has been happening in the prevailing industrial climate, we also incurred an exchange loss of 59 Crores for the period Q1 FY'13 which includes losses on the derivative contracts as well as foreign exchange losses. At the same time, we had a slight setback in the production of chips in the RAK facility at UAE. There was a planned shutdown of three weeks. It was preplanned in any case, and this happens every once in five years, so this was preplanned for April, we had a planned shutdown in RAK as a result of which the chip production at RAK suffered slightly, otherwise we would have got still higher income from the sales volume and in terms of the EBITDA numbers. For the brief on the results, in terms of the future plans, etc. I would like to brief you that the company's expansion plan of our production of PTA to be capacity of 1.25 million tonnes if proceeding well ahead and this project as you are already aware is in Mangalore. The recent development in this case was that we could sign the technology agreement with BP and I would like to inform you that before this BP has not given their technology outside to any other company, rather we have already had the policy of giving our technology to their own company on only in cases they had joint ventures. So this is the first third party understanding or agreement that they have entered into, and probabilities for them, the first in the world that they have given a third party license to JBF for the technology to be given for production of PTA and the capacity will be 1.25 million tonnes. The plans are proceeding well ahead. As you may be well aware, we have already completed the



JBF Industries Limited
August 10, 2012

financial closure. The environmental clearances are already through. In the previous conference, I did tell you that the land was already acquired and we should be completing various engineering activities now and start ordering the equipment in the fourth quarter of the current calendar year or the third quarter of the current financial year. Other two projects are also going ahead on stream. That is one at Geel in Belgium that is for production of the PET bottle grade chips to the extent of 390,000 tonnes per annum which has an investment level of 200 million USD and other at Bahrain for producing polyester film also to the extent of 200 million USD, and this is for capacity of 90,000 tonnes per annum. In terms of business outlook, all I can say at this stage is that there is weak rupee and the volatility in forex is causing some concern on the pricing of raw material prices. Nevertheless, in terms of the actual business performance in the market, we seem to be so far able to sell whatever we have able to produce and at the right prices, nevertheless there is a concern and this concern is throughout the industry that there is a weak rupee and there is a volatility on the forex account. Yet another concern, which is also within the industry is the availability of PTA. As you may be knowing or I think it was the first time in India that all the plants supplying PTA to the entire industry was under a shutdown for varying periods and that happened in July. It did affect the productivity as well as the other companies within the industry as well. We expect that these glitches should be ending by the end of the current month and we should be back to normal capacity utilization levels starting by the end of the month or very early September. So much would be for the brief and I think we can leave the floor open for questions. Please go ahead.

Moderator: Thank you Sir. We will now begin with the question and answer session. We have the first question from the line of Sudarshan Narasimahan from Systematix. Please go ahead.

Sudarshan Narasimahan: On the forex loss, I just wanted to know if this is in connection with the DOY loan that you had an arrangement with Bank of India and I believe that there was supposed to be some kind of bullet repayment to be done in the month of July. Has it been done? Question #2 is on the note #8 of your results, which essentially talks about optionally converted loan of 58 Crores. Would it be possible for you to throw some more details on that?

P.N. Thakore: The total loss is around 59 Crores for this quarter, out of which around 40 Crores is on account of the derivative loss which we had with Bank of India, and the second part of the question, whether we had repaid loan amount in July? Yes we have repaid 60% of loan and therefore the derivative had also gone down by 60% in July. Going forward, the derivative losses will go down significantly. The second question is regarding the convertible loan, this is part of the Bank of India funding, where 20% of the loan gets accumulated in the separate account and on July 13, the company has option to either repay it or convert it into equity share based on the sale formula.

Sudarshan Narasimahan: Okay, basically through optionally convertible loan is the convertible position of Bank of India loan.



JBF Industries Limited
August 10, 2012

Rakesh Gothi: Just to complete what Mr. Thakore said, the second tranche of 12 million USD of the total derivative contract was paid in July, now whatever is left is only 4 million USD, so the pain what we had seen in the previous period should not be there in the forthcoming quarters to that extent.

Sudarshan Narasimahan: Just some outlook on the film prices, if you could throw some light on that?

Rakesh Gothi: The film prices so far we have been subdued, but we believe that there is no possibility for the film prices to be going down from whatever the current levels that are there. For examples, the numbers are, our average realization was in the range of around 2400 USD and we expect that the prices should go up marginally, but definitely at this stage there is no reason that the prices would go down any further because below this, the people will not find it economical to produce and market films anywhere. This average of 2400 USD is our average based on variety of films that we are producing, and for us this would be slightly better than the industry average.

Sudarshan Narasimahan: What is the outlook on capacities? Are there any more lines coming up in Asia?

Rakesh Gothi: All these lines have come up in the world and they have come up in the Middle East. There has been certain expansion in Egypt. There has been a certain expansion in Mexico, of course our lines are also coming in Bahrain as I have said. Yes, there would be increase in capacity, but at the same time we now believe that the prices will not go down. Either they would remain the same or they should definitely go beyond the higher side.

Moderator: Thank you. The next question is from the line of Neel Gupta from JP Morgan. Please go ahead.

Neel Gupta: I just wanted to check to what extent has the supplies of PTA been affected this month?

Rakesh Gothi: The country produces in totality is a number which is equivalent to around 3.8 million tonnes, let us say on a per month basis it could be about 300,000 tonnes roughly. In my opinion, these shutdowns were unplanned shutdowns. In one case, there was a planned shutdown, but at the point of time of restarting the plant, the supplier found that there was some more problem so they had to extend the shutdown by another 10 to 12 days. In other case, there was an unplanned shutdown absolutely, just we were told overnight that there will be no supplies over the next four or five weeks. So if you take all those numbers, the absent numbers of PTA, I believe supplies would be about 50% to 60% of the normal supplies as compared to what the industry should have got in the normal course.

Neel Gupta: What has been the impact on the prices of PTA with all these shutdowns?

Rakesh Gothi: On account of shutdowns there is no impact. The PTA pricing is done all on import parity basis. So generally what happens is that there is certain price announcements coming out of China and these are taken as benchmarks and on these benchmarks the industry prices the PTA on an import parity basis after considering the exchange rate as well as the customs duty numbers. All I can



JBF Industries Limited
August 10, 2012

say is as of now, the prices are on the rise, not because of the shutdowns in India, but it is a worldwide phenomena and (a) because the pyroxylin is currently on the higher side which is round \$1450 as of today. Since this is a raw material to PTA, the PTA prices are on the rise and just to another information, MEG prices are also in the rise because of some suspected shutdowns in the Middle East of couple of the MEG plants, but these are some things which keep on happening every now and then. The prices of PTA were fairly low about three months back, but they have gone up in the last couple of months.

- Neel Gupta:** There has been a significant amount of capacity addition on the PTA side globally?
- Rakesh Gothi:** More in China, not globally. It is significantly in China. China used to import 6 million tonnes of PTA, I am sharing some numbers with you, but we understand that China is going to come up with additional capacity of 10 million tonnes, which means they could become by the next year a net exporter of PTA to the extent of 3 to 4 million tonnes. The only issue in this is that there enough pyroxylin to feed all those PTA plants. The PX capacity should come up in a couple of years' time, and I think by 2015 and luckily of course that is the time when we will also becoming in, there should be adequate PX, as new capacities are being built up, including capacities coming up in India as well.
- Moderator:** Thank you. The next question is from the line of Tina Banerjee from Sumedha Fiscal. Please go ahead.
- Tina Banerjee:** What was the average PAT price kg and MEG price per kg for this quarter as well as the corresponding previous quarter?
- Rakesh Gothi:** In the current quarter, the PTA prices averaged at around Rs.65 per kg. In the corresponding previous quarter it was Rs.67. For MEG in the current quarter, it averaged 57.13 as compared to 56.97 in the corresponding quarter last year.
- Tina Banerjee:** What is the CapEx plan and tax guidance for FY'13?
- P.N. Thakore:** As far as India is concerned, we just have a small CapEx of some 40 to 50 Crores, but overseas we are implementing the projects in Bahrain and Belgium as well as Mangalore, so that CapEx will be there.
- Tina Banerjee:** Your tax guidance?
- Rakesh Gothi:** Tax will be only on Indian operation at the current rate of 30%.
- Moderator:** Thank you. The next question is from the line of Ishpreet Bindra from Sushil Finance. Please go ahead.



JBF Industries Limited
August 10, 2012

- Ishpreet Bindra:** Out of the total exchange losses of 59 Crores, 19.4 Crores are forex loss. This forex loss is pertaining to a loan or is it related to her raw materials and your end product?
- Rakesh Gothi:** This is pertaining to imports, exports, and short-term funding.
- Ishpreet Bindra:** So it is related to your debt?
- Rakesh Gothi:** Short-term debt as well as import and exports?
- Ishpreet Bindra:** Also I wanted to understand what would be the percentage of foreign currency loan in our total loan that is outstanding?
- Rakesh Gothi:** It is may be around 30% to 35%
- Ishpreet Bindra:** The kind of ECBs that could be outstanding, in terms of ECB loans out of the total?
- Rakesh Gothi:** ECG loan will be around 50 million dollars.
- Ishpreet Bindra:** We have seen good increase in PET chips India sales of around 48%. If we could get the production numbers to get what is the current capacity utilization?
- Rakesh Gothi:** Capacity utilization for the last quarter is over 80%, but the capacity utilization in the Q1 would be on the order of around 85% at the chips level, and ultimately these chips partly are sold and captively we consume the balance quantity for our POY production. In case of POY, we have had virtually over 95% capacity utilization.
- Ishpreet Bindra:** Could we get the PET chips India production number?
- Rakesh Gothi:** We are not providing production number. I am requesting to send across the production numbers to you.
- Moderator:** Thank you. The next question is from the line of Vinay Agarwal from CRISIL. Please go ahead.
- Vinay Agarwal:** My first question is regarding the 104 Crores interim losses that had not been provided, can you guide me if the payment had been done on July 2, so most of the losses have been realized by now?
- Rakesh Gothi:** On July 15 we have paid money. For July, the loss was around 15 Crores, Bank of India derivatives. As far as other losses are concerned, on June 30 roughly 40 Crores were on account of derivatives and 65 Crores other loan transactions and ECBs and buyers credits.



JBF Industries Limited
August 10, 2012

- Vinay Agarwal:** Regarding the domestic chips market, we are seeing that there is a kind of slowdown in the textile market, if you see the apparels market, if you see the results of some of the retailers, some of the garment manufactures, there is a clear slowdown in the apparel off-take. Last time we have discussed that you are planning to switch some of your fiber grade capacity to bottle grade capacity, what is the progress on that and how are you seeing the chips market and the POY market shaping up because you just now mentioned that the POY is operating at a healthy rate of 90% to 95%?
- Rakesh Gothi:** Whatever the POY capacity is there, is there. As of today, we are not adding up any lines in case of POY. We are doing some switching within the existing total capacity from the textile grade chips to the bottle grade chips, so that activity is going on. That activity should fortify by end of September.
- Vinay Agarwal:** How much of the quantity would be shifted?
- Rakesh Gothi:** Approximately this would be about 5000 tonnes per month on the average.
- Vinay Agarwal:** So 60,000 tonnes capacity and currently it is 110,000.
- Rakesh Gothi:** Yes, that is right.
- Vinay Agarwal:** How is the demand for PET bottle grade chip segment?
- Rakesh Gothi:** The demand is quite good. Basically India exports 50% of its production and the balance 50% is sold within the country, rough numbers. But as of today, whatever we are able to produce in PET chips we are able to sell and we see that overall growth in this market is on the order of around 20% as compared to the textile grade chips where it may be 9% to 10%.
- Vinay Agarwal:** My worry comes from the fact that one of largest player would be adding 2 lakh tonnes in a couple of weeks, it is due for starting production. Is the domestic market ready for such kind of expansion?
- Rakesh Gothi:** We would also have to export substantial quantities into the world market. The world market is on the order of around 16 million or 17 million tonnes. So we will have to export, nevertheless it always happens that once a new player comes for sometime there is some jerk in the market, but then later on things improve and come back to a normal situation. Since the growth is 20% then we feel that in the first few days they might want to come up with some strategy on market penetration, but ultimately they would be returning back to the fact that they also will have to make a minimum return on their investment, these investments of late are quite on the higher side, they will have to come back to existing levels of margins which are there.



JBF Industries Limited
August 10, 2012

- Vinay Agarwal:** Regarding the PTA, you just now mentioned to someone that China is expecting to add some 10 million tonnes, and basically I suppose that that will end the shortage of PTA in the global market?
- Rakesh Gothi:** Provided there is adequate pyroxylin also available to support this kind of growth.
- Vinay Agarwal:** If that does not come in then their plants would be having lower utilization.
- Rakesh Gothi:** Yes, they would be having lower utilization.
- Moderator:** Thank you. The next question is from the line of Alok Deshpande from Elara Capital. Please go ahead.
- Alok Deshpande:** Regarding the forex derivative liability, the mark-to-market that liability is close to 104 Crores. Does that mean going forward even after the payment, if you want to close this exposure, we will have to pay off 104 Crores?
- P.N. Thakore:** The 104 Crores comprises of two elements, one is mark-to-market on derivatives which is 40 Crores and balance 65 Crores is another borrowing, whatever LCs we have opened or buyers credits that sort of transactions.
- Alok Deshpande:** Essentially that means for the remaining \$4 million if you want to close it off it is about 40 Crores, right?
- P.N. Thakore:** Out of that in July we have booked about 15 Crores loss, so balance will depend on actually Yen and dollar level, but it can be anything. We expect in worse scenario it may go up to 40 Crores for a year as a whole.
- Alok Deshpande:** The 15 Crores in July was mainly because of the outflow or the mark-to-market loss that is booked?
- P.N. Thakore:** Part of mark-to-market got booked, because we repaid and it was needed for repayment, that number would go down from July onwards.
- Moderator:** Thank you. The next question is from the line of Kartik Mehta from Sushil Finance. Please go ahead.
- Kartik Mehta:** My question is pertaining to PTA short supply in the domestic market in the month of July and August. How much shortage of the production would be there in our case for Indian facility?
- Rakesh Gothi:** In India, normally we always produce 95% to 100%. Because of this PTA shortage, we have to bring down the capacity to around 70%.



JBF Industries Limited
August 10, 2012

Kartik Mehta: So there will not be any make up of the same in the next corresponding quarters, so for full year there will be some production dip in this year?

Rakesh Gothi: In the first quarter last year, we had a similar production dip and similar problems were faced in the last year also.

Kartik Mehta: In which quarter it happened last year?

Rakesh Gothi: First quarter last year.

Kartik Mehta: That is why we are seeing sharp jump in the volumes in couple of segments.

Rakesh Gothi: That is right.

Kartik Mehta: On full-year basis, according to you, you will not be having that much volume impact, because last year also we had the same sort of problem?

Rakesh Gothi: Last year the problem was a bit more acute if the numbers are right, the problem was more acute in last year, but this year there is a problem, this problem has occurred only in July and August. It occurred partly in the month of June. But if July and August is giving only 30% less, we hope September would be full capacity and the remaining period should be full capacity, so overall there should be an increase as compared to the corresponding previous year. We believe it should be like that.

Kartik Mehta: Okay, minor volume growth could be seen. At company level, are we seeing the delta improving over last year average, because of late we have stopped supplying the company level delta, can you just talk broadly how the delta at company level has been moving compared to last full year average?

Rakesh Gothi: The answer to that is affirmative. The deltas have improved over the corresponding previous years.

Kartik Mehta: What could be the magnitude of the up movement in the delta in terms of percentage?

Rakesh Gothi: Year as a whole you can take at least 0.5% to 1% in that range.

Kartik Mehta: On the POY specialty line capacity in the presentation it is showing 2,79,000 metric tonnes. The earlier number was 2,58,000, so we have done some debottlenecking or I am missing something?

Rakesh Gothi: Some debottlenecking is being done for POY in this quarter.

Kartik Mehta: The similar sort of thing is likely to happen in chips?



JBF Industries Limited
August 10, 2012

- Rakesh Gothi:** In chips, the overall capacity would remain to whatever the number is. It could be a shift from one variety of chips, which is the textile grade chips to the other variety which is the bottle grade chips with some minor investment that is by way of increasing the solid stage polymerization, wherein you raise the viscosity and create more kind of bottle grade chips. It remains the same.
- Kartik Mehta:** What could be the input/output ratio of pyroxylin to PTA?
- Rakesh Gothi:** It depends from technology to technology, but on the average it is 0.658. Again, technology to technology there is a minor difference.
- Kartik Mehta:** Out of mark-to-market forex loss of 108 Crores, 40 Crores pertain to derivatives. Out of that 40 Crores, already you have paid 15 Crores in the current quarter. So effectively, for the rest of the full year it will be 25 Crores, will it be in the same rate?
- Rakesh Gothi:** That is right, because the Yen forces move in different direction, dollar forces move in different direction.
- Kartik Mehta:** Essentially foreign exchange loss has been the big dampener on the bottom line off late, be it a derivative or be it other liability, so predicability beyond a point is becoming difficult, if you can just guide us how exactly we can factor it this, at the company level if you have some strategies to control it, otherwise we will have every year this kind of volatility?
- Rakesh Gothi:** We are trying to curtail imports of raw materials and try and have more of local raw materials. Now we have more of local MEGs compared to last year when we were importing entire quantity, so we are trying to mitigate that. Otherwise it is very difficult. Even bankers have stopped giving estimates about the currency, it is really very difficult to say.
- Kartik Mehta:** On a full-year basis, you are looking at minor volume growth in this year compared to last year, even though there will be dip in the production in July and August?
- Rakesh Gothi:** Yes, overall definitely there will be a growth. There are two ways of growth. #1. Film has gone up by almost 36,000 tonnes, so you should see that difference from FY'12 to FY'13, also the yarn capacity as we have just mentioned has gone up from 260,000 to 279,000 tonnes, so that has also gone up, so you should see a decent growth.
- Kartik Mehta:** Okay. In the films we have seen 30% volume growth this year, 20,251 tonnes in this quarter, out of this 1,02,000 metric tonnes what could be the optimum utilization you would have at RAK, will you be able to produce 90% to 95% sales?
- Rakesh Gothi:** In case of films, we have done that. Our utilization has been on the order of 90%.
- Kartik Mehta:** Because the annualization is turning out to be around 81,000.



JBF Industries Limited
August 10, 2012

- Rakesh Gothi:** But the new line which has come, was commissioned in January and full impact of that would now come this year, and only the partial impact of that has come in the previous year.
- Kartik Mehta:** What I am saying is the current quarter's sales volume of 20,000 metric tonnes, if you annualize it, it will be 80,000 and your capacity is 1,02,000.
- Rakesh Gothi:** There is some difference in the sense that there are a variety of films which are being produced. Some are depending on the micro levels of the films, so depending on the thickness of the film, the productivity slightly varies.
- Kartik Mehta:** So you wish to say that 95,000 to 100,000 metric tonnes would be achievable in this year.
- Rakesh Gothi:** We believe so.
- Moderator:** Thank you. We have a followup question from the line of Alok Deshpande from Elara Capital. Please go ahead.
- Alok Deshpande:** Can you just give a broad deadline or a timeline on the Bahrain film plant, just a broad breakup of say between thin films and thick films. Second question was regarding the PTA plants. Any timeline on when will be the Mangalore PX plant completed and what sort of quantity are we looking to source from the PX plant?
- Rakesh Gothi:** I will take the PTA plant first. The PTA plant is expected to be commissioned, our internal target is in 2014, but we believe it should be done by March 2015, commissioned and be ready for production. The PX sources, there are two alternatives. Our neighbor is OMPL, they are going to be producing 900,000 tonnes of pyroxylin, so one source would be or could be from there. We are about 8 km from the port, so we are also having the alternative of a dedicated pipeline for pyroxylin from our plant to the port and we would also be banking on imports. So not to put all the EXIM on back step, either import or alternative of taking from our neighbors that is OMPL. These would be our two sources for pyroxylin. The other question was on Bahrain. The Bahrain plant, one of the lines should get commissioned within about 12 months from now and the other two lines should get commissioned by middle of 2014.
- Alok Deshpande:** Just a broad breakup whether it will be thick films or thin films?
- Rakesh Gothi:** It is a mix of thin and thick, you can roughly take 50:50.
- Alok Deshpande:** Last quarter you had given a broad guidance about FY'13 on the revenue side, percentage EBITDA margin, also if I recollect correctly you had guided around 300 Crores of PAT. So after the Q1 results, any changes to that or any updates to that?
- Rakesh Gothi:** I do not think I would like to change that. We would like to keep it same.



JBF Industries Limited
August 10, 2012

Moderator: Thank you. As there are no further questions, I would like to hand the conference over to Mr. Alok Deshpande for closing comments.

Alok Deshpande: Thank you everybody. We would like to thank the management of JBF for discussing the results in such great details. Thank you and good day to all.

Moderator: Thank you. On behalf of Elara Capital, that concludes this conference.