

JBF Industry Limited



Conference Call

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 MR. RAKESH GOTHI

Moderator: Ladies and gentlemen, good day and welcome to the JBF Industries Limited Q2 FY'13 Earnings Conference Call, hosted by Nirmal Bang Institutional Equities. As a reminder, for the duration of this conference, all participant 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 telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Jignesh Kamani, of Nirmal Bang thank you and over to Sir.

Jignesh Kamani: Thank you. Good afternoon everyone. On behalf of Nirmal Bang Equities I welcome you all to the conference call of JBF Industries. I welcome Mr. Rakesh Gothi, who is the MD and CEO of JBF Industries and Mr P N Thakore, Director Finance and CFO of the Industry. I request management to make initial comment on the second quarter and some highlight about current business environment. Over to you Sir.

P N Thakore: Thank you Jignesh. We have Mr Rakesh Gothi, and I will request him to just brief on the operations.

Rakesh Gothi: Thank you Thakore. I welcome all of you. I would just initially brief you on the second quarter highlights and I will give you some information on the ongoing projects that are with the company. To begin with for the Q2 FY'13 performance, the total income the total revenue was in the range of about 1811.9 Crores with an EBITDA of 173.1 Crores, which is equivalent to 9.6% as a margin. The profit after tax stood at 49.4 Crores, which is 2.7% of the sales and this gives the diluted EPS earnings per share of Rs.6.71 for equity share.

As a cumulative number, the total income of the company was at 3611 Crores with an EBIDTA of 363.1 Crores and an EBITDA margin of 10.1% the total income as we would have seen has gone up on a six month period by a number of 4.8%. On a cumulative basis the PAT, profit after tax stood at 83.1 Crores with the profit after tax margin of 2.3%. On a cumulative basis that is for the six months period under consideration the diluted EPS stands at Rs.11.27 per equity share.

Just a brief on the scenario, which was behind our results for or just to giving you the feedback on the scenario which was prevailing during the second quarter under question; our capacity utilization in chips as well as polyesters yarns, in India was affected due to the shortage of PTA, which was triggered more by unexpected downturn in the various plants in operation within India. Well there were periods during the three months where one or the other plant there are three plants in India for manufacturing PTA. So, one or the other plant always used to be under shutdown or unplanned shutdown and there was even one stage when all the three plants were under difficulties are had an unplanned shutdowns for a certain period of time. Consequently, our production and therefore the sales were affected. Had it not been for this we would have shown much better results than what we have shown?

At the same time what has happened in the world over what is happening is that rather in terms of the world business the exports of the industry have been affected largely because the polyester products used to flow mostly into countries such as Syria or Egypt etc., and with the kind of a political situation which prevailed in Syria lot of the material was diverted in the other countries and consequently there was clogging of the material all the material going into various countries and hence the subsequent exports to these countries have been affected. So, the export from

India has been considerably affected in various polyester yarns POY yarns, textured yarns as well as fully drawn yarns.

That is slight as a brief on what has happened in India. In case of our RAK facility where we manufactured the polyester bottle grade chips as well as polyester film, I am please to inform you that the volumes were up were much higher than before; however, the realizations continued to be what they were are were slightly lower in the case of chips but by and large if we look at what is happening all over the world, I think our RAK plant has done considerably well.

I would just now give a quick brief on the ongoing projects, which are with the company. To begin with the PTA project at Mangalore, I think as you may already be aware we have already tied-up with BP as the technology licensor. So, we are basically on schedule with them and the financial closure is already done so that is also out of the way the land has been procured. We have already finalized the engineering company and I think we are on stream as far as this project goes. This is for 1.25 million tonnes for production of PTA. We expect that the construction will begin by early 2013 and our internal target is as before that by end 2014, the plant should get commissioned and hopefully the production should be on with in the first quarter of 2015.

As regards with the next plant, which is at Belgium, I would like to just inform you that the environmental clearance should be coming through to us by the end of December normally in Europe such environmental clearances take quite a long time, so we expect that environmental clearance would be coming towards by end of December. Nevertheless, we are allowed to do certain underground or sub-ground activities so we have already pursued with those sub-ground activities construction activities at Belgium and the technology has already been finalized as you might be aware and we have already started on the ordering of the equipment.

On the third plant, which is at Bahrain, as you are aware this is for manufacturing of polyester film. Again, here the construction activity are already on and we have already ordered the equipment and the first part of the equipment that is one line we expect would be commissioned by middle of 2013, and the remaining other two lines should be commissioned by middle of 2014. So, we are on stream on that one as well.

Of course now I will just briefly on the latest event, which is on the Brazil plant, which is for manufacturing of Green MEG. This is a project, which is produced of course from ethylene, MEG is produced from ethylene but the starting point is ethanol and this ethanol would be procured via sugarcane which is amply available in Brazil, and we have tied-up with Coca Cola as a company, who would be procuring a substantial quantity, which is going to be produced there. The project is for manufacturing 5,00,000 tonnes of Green MEG and or it is also called bio-glycol in our industry and the estimated investment is of the order of USD \$450 million and it is located in the place called Araraquara near Sao Paulo in Brazil. Now the construction on this facility is expected to begin at the end of this year and will be lasting for about two years. As said that the most interesting part of this project is that Coca Cola would be lifting a substantial part of the output from this plant and it is a prestigious project for us. I think, I have by and large briefed you on the performance and on the ongoing projects. We can now throw the floor open for questions from your side.

- Moderator:** Ladies and gentlemen, we will now begin with the questions and answer session. Our first question is from Vinay Agarwal of CRISIL. Please go ahead
- Vinay Agarwal:** Sir, my question is broadly on the financials. How much is the derivative loss that we are expecting. I know that 80% of the loan has been covered by July. How much is more we are expecting in these H2 cumulative losses?
- Rakesh Gothi:** The losses roughly are now between 3 and 4 Crores a month. It will take maximum is Rs.20 Crores for remaining period. Of course, we cannot, based on the foreign exchange losses because of variation in the Dollar. That is very difficult to predict.
- Vinay Agarwal:** Sir, given the core project I think the total investment going for all the four projects will be close to 1.8 billion Dollars?
- Rakesh Gothi:** It will be roughly 1.4 Million.
- Vinay Agarwal:** Sorry 1.4 Million so how are we planning to finance?
- Rakesh Gothi:** We already have financial closure as far as PTA and Belgium is almost done this financial closure has been achieved. Only financial closure is pending to Brazil which is at initial stage right now. We have just signed with the Coca Cola with various options and time will firm up as planned.
- Vinay Agarwal:** So for the first three projects how much is the debt equity ratio equity is around 30%?
- Rakesh Gothi:** It is 30% equity 70%. That is the ratio.
- Vinay Agarwal:** Okay and you will be able to finance for the next three years?
- Rakesh Gothi:** No, we don't foresee any problem in funding those projects.
- Vinay Agarwal:** Any particular reason why all the expansion which are being done apart from PTA are done not in India but in other countries?
- Rakesh Gothi:** Your question is easy and difficult both. Basically, we find that there are good opportunities which are available in these countries like for example in Belgium there was an opportunity that we would get PTA next store and its again a sort of understanding with BP so its an opportunity which we have grabbed. Second again we got an opportunity in Brazil where there is ethanol available from Sugarcane and I mean that opportunity would not be generally be available elsewhere. So, hence we could capitalize on that and since Coca Cola is very strong in that region, they were in talks with us whether we could supply them Green MEG. So, that is an opportunity we grabbed once again. Other one is a Bahrain of course its being very close to our Ras Al Khaimah project and there was not enough scope for expanding within Ras Al Khaimah and we need to expand so we said okay next to Bahrain there is an opportunity here and of course there are certain incentives which are being given by the Bahrain Authority. We have grabbed that as well.
- Vinay Agarwal:** Bahrain is a completely Polyester film plant, nothing else is there?

- Rakesh Gothi:** Absolutely yes.
- Vinay Agarwal:** Sir, for the MEG plant which is coming in Brazil for the remainder of MEG, which will not be taken by Coca Cola so what will be the use of that in Brazil?
- Rakesh Gothi:** We would be selling it to the local region there is a substantial demand for that kind of MEG sold within South America, America as well as Europe.
- Vinay Agarwal:** So, it will be not exported to UAE for the MEG?
- Rakesh Gothi:** We do not believe we would be doing that because of the distance, which should be involved and because it will be involved in substantial amount of rate in terms of rate expenses. Nevertheless we believe that there is huge market in the region where it is being produced so we should be able to knock of the entire quantity there itself.
- Vinay Agarwal:** Sir, my last question is regarding the domestic Polyester market and the Polyester bottle grade chips market. How is it shaping there because lot of new capacities have come in, the utilization levels are low for some of the player now recently Dhamtari also started with the PTE plant of 2 lakhs tonnes?
- Rakesh Gothi:** I agree with you these expansions are there within the industry. Nevertheless, there is a growth in PET chips is concerned the growth still continues to be somewhere in the range of 16% to 17%. So at the same time the exports also and the world market being 17 million tonnes whatever we are able to produce we do not foresee any issue in the quantity that we would be having. Whereas the textile grade chips as well as the textile yarns yes, the growth is not as big as we much as the PEG chips, may be it is in the range of 8% to 9%. I can share with you that we have branched out into a number of specialty kind of product in these areas such as colored yarns and the micro yarns as well as also increase the downstream processing capacity and so if PTA would be available to us we hope we should be able to sell substantial part of our capacity without much difficulty. Yes there is an overcapacity no doubt about it.
- Vinay Agarwal:** Sir have we transferred the portion of textile grade chips to bottle grade chips?
- Rakesh Gothi:** There is a minor shift, which is there by about approximately 200 tonnes or so per day approximately 200 tonnes, but the overall volume will remains the same. The overall tonnage will remain the same the textile grade chips would become slightly lesser and the bottle will become slightly better.
- Vinay Agarwal:** That is all from me. Thank you.
- Moderator:** Thank you very much. Our next question is from HP Bindra of Sushil Finance. Please go ahead.
- H P Bindra:** Good afternoon. Just wanted to understand other expense are the percentage of sales in this quarter has increased substantially so what is the content in it which has increased?
- Rakesh Gothi:** The increases in other expenses have largely been due to the increase in the power and fuel costs, which we have incurred in the course of our operation. Just quickly share with you certain numbers are the cost of gas, which is one of

our main fuel that is being used has increased. I mean you must know the numbers by almost 40% to 50%. So, it is mostly due to increase in power and fuel during the period under question. This quarter has compared to the same quarter last year in comparison to that that is the main reason its there. It is an increase of almost I think 15 Crores growth going up to 110 Crores.

H P Bindra: Also wanted the guidance on the capex front for FY'13 and FY'14?

Rakesh Gothi: Those things are not worked out but during 2012-2013, in terms of actual cash outflow it will not be very significant because initially we will be opening letter of credit and bulk borrowing will be in 2012-2013 and 2013-2014. So, we expect that our peak debt will be March 2014 and March 2015 where as a group it may go as high as perhaps may be one Million Dollar.

H P Bindra: If you could again give your guidance post reviewing the first half numbers for FY'13, your earlier guidance was around 8500 Crores with the PAT margin of around 3½% including the forex losses so is it still the same or is there any change?

Rakesh Gothi: Markets are so volatile. It is really very difficult to give any guidance because the way currency market moves these days and the way international market is behaving I am afraid better not to have any guidance and let us try and perform and we will show you results whatever best possible results. And of course consideration PTA plants operating properly or not properly which has generally affected our performance over the last one year had that factor not been there, definitely would have performed much better than what we have done so far.

H P Bindra: The PTA shortage is still there at those levels or has it reduced?

Rakesh Gothi: I am glad to inform you that as of last few weeks, the PTA perform plant performance has definitely improved and would be hope that this continues in the next six months of the current financial year well so all going well we should be able to have a better capacity utilization.

H P Bindra: If we could get what is the current capacity utilization level in India?

Rakesh Gothi: The current capacity utilization level in India would be of the order of 70% approximately and it is marginally increasing as we can see it.

H P Bindra: 70% for both Chips and POI?

Rakesh Gothi: At the Chips level because from Chips you did not transfer the quantities into the POI division so I am talking this numbers at the Chips level. POI capacity utilization will be better than this,

H P Bindra: Thank you so much.

Moderator: Thank you very much. Our next question is from Saiprasad Prabhu of Nirmal Bang Equities. Please go ahead.

- Saiprasad Prabhu:** The sales of film, the utilization has dropped from 79 to 71. Can you explain why is that film was the main product in RAK?
- Rakesh Gothi:** If you look at the absolute numbers, there as we were on the same quarter last year we were at 16500 tonnes and today we are at I mean in this current quarter we have done 18183 tonnes so there is an increase of 10.5% and if you look at the first half numbers. We have gone up from 32,000 tonne to 39,350 tonne, which is an increase of 22.8%. So, those are the numbers then I we are clearly satisfactory.
- Saiprasad Prabhu:** Sir my question is actually a quartet specific like a last quarter we had done quite well around Rs.20000 now we are down to 18000 why is there a sequential degrowth because of slow down or there is some other factor?
- Rakesh Gothi:** These are all temporary slowdown and depending on orders that all that we get but by and large, we should be able to maintain that this number which is anywhere bit in the range of 18 to 20,000 tons we should be able to maintain that.
- Saiprasad Prabhu:** And there is no issue with the plant as such right?
- Rakesh Gothi:** No there is no such.
- Saiprasad Prabhu:** Sir and with RAK chips utilization it's a command able job it has gone up from 59 to 80% but the dealt margins has reduced quite significantly?
- Rakesh Gothi:** The market is very competitive right now at this point of time.
- Saiprasad Prabhu:** Sir but from 6.9 to 9.7 it is 600 BIPS decline in margins so are you like concentrating on a mass market?
- Rakesh Gothi:** It is nothing like that this is a worldwide phenomenon. It is nothing peculiar to our company but it say worldwide phenomenon. I think with the whatever is happening world wide in the case of PET chips these are sort of commodity kind of an item and we select the world market prices and whatever is happening and as in relation to world market we have been selling accordingly.
- Saiprasad Prabhu:** Sir but you have any view on like where it can go because if you increase the prices the volumes might come down what is your strategy?
- Rakesh Gothi:** Generally what happens is that this quarter, I mean again it is not always the case but generally in this current quarter under question it is slightly of an off season because neither summer season, the summer season has just ended and the bottle grade chips normally pick up in advance of the summer season. So, the actual season should be coming where there sales would pick up that is around November, December, January in advance of the summer season the PET chips should be picking up but generally that happens we hope that this year also the prices should be better as we coming to November, December and January.
- Saiprasad Prabhu:** So we expect that in second half at least the prices will come down to say about 12-13 levels is what our fair assumption might be?

- Rakesh Gothi:** We are hoping the prices should improve.
- Saiprasad Prabhu:** Sir, regarding the capex we have done a capex around 167 Crores in standalone and about 280 Crores in consol level so exactly can you explain where this money is utilized?
- P N Thakore:** In a domestic bulk of expenses has gone in setting up some texturing facility as Mr. Gothi explained that we are going to value addition product so we can have better utilization of POY and so this money has gone for testing up texturing facility and as far as international operation is concerned some funds have been committed for Belgium and Bahrain project.
- Saiprasad Prabhu:** Can you quantify in terms of numbers like how much went into that texturing facility?
- P N Thakore:** I think bulk of 160 has gone in texturing facility maybe about 100 Crores.
- Saiprasad Prabhu:** Sir, now your receivables have increased by 47% to 921 Crores consol level?
- P N Thakore:** Basically, I think it is the reflection of the market conditions where we have to give some extra credit at this point of time. So as market improves we expect it to come back to a normal.
- Saiprasad Prabhu:** Sir this is an international scenario?
- Rakesh Gothi:** Yes, just the international scenario reflection of whatever is happening as where everywhere.
- Saiprasad Prabhu:** Can you quantify just how much is the equity outgo for FY'13-14-15?
- Rakesh Gothi:** See, we have right now put almost I would say 200 Crores by way of towards equity under this capex and the balance will go in 2013 and 2014. Exact number I am not supposed to tell you right now, but current year we have spent about 200 to 250.
- Saiprasad Prabhu:** Thank you sir.
- Moderator:** As there are no questions from the participants, I would now like to hand the floor back to Mr. Jignesh Kamani for closing comments.
- Jignesh Kamani:** Sir, I have two more questions. Sir how much percent of our fixed assets include the work-in-progress towards new ventures also?
- Rakesh Gothi:** See other than texturing machine everything has gone for work-in-progress.
- Jignesh Kamani:** I am saying in consolidated work fixed assets it includes any work-in-progress for the new innovation, PTA, Belgium or Bahrain or it is more towards loan and advance?

- Rakesh Gothi:** I don't know what you are looking for?
- Jignesh Kamani:** Because our fixed asset has increased by almost 207 Crores from FY'12?
- Rakesh Gothi:** Some money is going for PPA will be as a part of capex
- Jignesh Kamani:** So that figures had include the money which even for capex of the new venture.
- Rakesh Gothi:** Yeah like we have paid for land so it will naturally reflect in papers.
- Jignesh Kamani:** It will effect in the loan and advance or work-in-progress?
- Rakesh Gothi:** Like land will be part of fixed assets.
- P N Thakore:** It is not loans and advances its primarily fixed assets to answer your question.
- Jignesh Kamani:** If you take out right now since the profitability is subdued I will be saying that near term there may be mismatch between the cash flow and our liabilities for new ventures?
- Rakesh Gothi:** Not really for the way we has structured it that initially will not be needing much cash for projects. As you know the entire financial closure has been done initially will be opening letter of credit and then it is only subsequently may be six months down the line or one year down the line significant cash flow will start. Of course some amount will be spent, which we can take care off. Today, like we have almost 300 Crores cash sitting on the balance sheet, which can be used in short notice for this capex.
- Jignesh Kamani:** Sir Brazil it will be only you can say we are doing entirely Capex of USD \$450 million or there we can say some equity from Coca Cola also?
- Rakesh Gothi:** Those details being worked out. There will be definitely some participation but right now I am not in a position to pinpoint. Once it worked out may be we can share. It is at initial stage right now and unless we have complete financial closure I do not even start committing fund for that will achieve financial closure and then commit.
- Jignesh Kamani:** But this MEG will be not sued for our requirement mainly?
- Rakesh Gothi:** No not for our requirement.
- Jignesh Kamani:** Thank you very much and I would like to thanks participants for joining the conference call. Thank you very much.
- Moderator:** Thank you very much. Ladies and gentleman on behalf o Nirmal Bang Institutional Equities that concludes his conference call. Thank you for joining us. You may now disconnect you lines.