



“Supreme Industries Limited Audited Results  
2011 – 12 Conference Call”

on  
July 20, 2012



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*Supreme Industries Limited*  
*July 20, 2012*

**Moderator:** Ladies and gentlemen good day and welcome to the Supreme Industries Q4 & FY'12 earnings conference call hosted by Enam Securities Private Limited. As a remainder for the duration of this conference all participant lines will be 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 the conference call please signal an operator by pressing "\*" followed by "0" on your touchtone phone. I would like to hand the conference over to Mr. Kashyap Pujara. Thank you and over to you Sir.

**Kashyap Pujara:** Good evening everyone thank you for standing by. It is a pleasure to have with us the management of Supreme Industries Limited. Mr. M.P. Taparia, who is the Managing Director and Mr. P.C. Somani, who is the Executive Vice President, represent the company. We will begin the conference call with some opening remarks and this will be followed by a Q & A session. I would like to hand over the call to Taparia Ji. Over to you Sir.

M. P. Taparia Thank you very much Mr. Pujara. I am M. P. Taparia, Managing Director of The Supreme Industries Limited. I welcome all the participants who are participating in the discussion of the audited financial results of our company for the year ended 30<sup>th</sup> June, 2012.

First, I will give you the highlights. The net revenue of the company for the year under review was Rs. 2965 crores as against Rs. 2470 crores of the previous year. The company has processed 245700 tonnes of polymer as against 223751 tonnes of polymer (excluding discontinued business) in the previous year, witnessing a growth of 9.81% in polymer processing. Net profit before Interest, depreciation and taxes during the year under review have gone up by 32% to Rs. 472 crores from Rs. 357 crores in the previous year. The consolidated

net profit after tax has gone up to Rs. 242 crores as against Rs. 195 crores in the previous year. The consolidated earning per share during the year under review has gone up to Rs. 19.03 as against Rs. 15.42 on equity face value of Rs. 2/- per share.

The growth in the Product segments of the Company has been as under :-

(i) Plastic piping system business grew by 14% in volume and 28% in value terms.

(ii) Packaging Product Segment grew by 9% in volume and 19% in value terms

(iii) Industrial Products segment grew by 8% in volume and 14% in value terms.

(iv) Consumer Product segment (excluding discontinued business of PP Mats) grew by 6% in value and degrowth of 10% in volume terms.

The overall Sales in the Value added products has gone up to 31.50% of the Total Sales as against 29.30% in the last year.

The Company has committed Capital Expenditure of Rs.280 Crores during the year for augmenting certain capacities, new moulds and balancing equipments at its several existing sites apart from putting up three new manufacturing facilities. However, actual Capex put to ground during the year was only Rs.73.40 crores.

The significant events in the last year are as under :-

- (i) Major capacity expansion undertaken in Cross Laminated Film Products capacity. 3 new extrusion lines ordered for an aggregate capacity of 12,000 MT against existing capacity of 18,000 MT p.a.
- (ii) “Composites” identified as new area for growth. Composite LPG cylinders and pipes project already in progress. Focus on hunting for new products and opportunities in this sector.
- (iii) Commercial Corporate Park “Supreme Chambers” ranked 2<sup>nd</sup> in All India Survey of Top 200 Green Buildings by the prestigious “Construction Week” magazine.

- (iv) Puducherry Unit of the Company awarded “TPM Excellence Award” from Japan Institute of Plant Maintenance (JIPM), Japan.
- (v) Major Expansion/ Diversification/ Setting of new Units in progress.
  - Protective Packaging Unit at Hosur (TN) – To commence production by September 2012.
  - Cross Laminated Film Products Unit at Halol (Guj.) – Part of the capacity to be operational by October 2012.
  - Composite LPG Cylinder & Composite Pipe Unit at Halol (Guj.)
    - Pipes to be operational by November 2012.
    - LPG Cylinder to be operational by March 2013
  - Plastic Piping System at Malanpur (MP) – Part capacity to be operational by October 2012.

The overall growth prospects are as under :-

(i) The . Indian economy GDP may cross \$ 5 Trillion annually by 2020 from the current level of \$ 1.5 Trillion. The Company is seeing adequate opportunities to go on growing in its business. The Company’s focus is thus to give further impetus to it’s growth plan by giving additional drive to grow.

(ii) In the current year 2012-13, the Company sees volume growth of Plastics in the country between 10% - 12%. However, the Company is aiming to grow its business by 16% in volume in the current year. The Company expects to grow by around 25% in value. The increased percentage of turnover growth compared to volume will be due to increased share of value added products and normal inflation prevalent in the country’s economy.

The Company is seeing increasing potential to participate in export markets. The Company is taking steps to boost the export of Plastics Pipe System, Cross Laminated Film products and Performance Packaging Film, during the current year. The Company may add other products also in this year to boost export quantum growth in the current year.

The Company envisages a total capital investment outlay in excess of about Rs.1,100 Crores over a period of 5 years from 2011-12 to 2015-16 in addition to Capex for new products in Composites. During the

current year, Company envisages Capital Investment and Commitments of about Rs.400 Crores, inclusive of existing commitments and commitments for 2013-14. In view of Company's potential to generate healthy cash flows from its operations together with better management of Working Capital, the Company is reasonably confident to fund its future expansions from Internal Accruals and Supplier's Credit. Moreover the sale proceeds from "Supreme Chambers" will provide additional funds to meet its future Capex requirements.

This is a brief and overall summary. Thank you for your patience. Now, I and my colleague, Mr. P. C. Somani are available to reply to your various queries going to be raised by all of you. Thank you very much for your understanding.

**Moderator:** Thank you very much. We have the first question from the line of Sachin Kasera from Lucky Securities. Please go ahead.

**Sachin Kasera:** Good afternoon Sir. Congratulations for a good set of numbers for the quarter. I had few queries; one, the overall volume growth for the year is close to be around 10% which is lower than I think 15% - 20% that we have been envisaging at the beginning of the year. So one what is the key reason for the same and secondly how confident are we that we will be able to meet the 15% volume guidance that you have given for FY'13?

**M.P. Taparia:** In the last year some capacity expansion was delayed and if you are seeing up to first three quarters the volume growth was only 6%. In the last quarter the volume growth was around 20% and we are seeing now increasing better business conditions, so we are reasonably confident that our volume growth will be 16% in the current year.



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**Sachin Kasera:** So this lower volumes were mainly because of capacity constraints or also because for certain segments demand was little slow?

**M.P. Taparia:** The demand contraction was principally only in furniture segment otherwise there was no problem on demand but as we told you because of capacity constraints the growth was earlier lower but in the current year now with the new investment whatever we have committed are now taking place month-after-month and we are very confident that these all things will go on production starting from September up to March 2013. All the investments are now taking shape, the equipments have started arriving, they are under erection so we are quite confident to attain 16% growth in volume.

**Sachin Kasera:** Secondly Sir you mentioned that next year you are looking at 25% revenue growth, which will be a mixture of value addition and general inflation so where do you envisage this 31% value added going in FY'13?

**M.P. Taparia:** 31.5% may go to around 33%.

**Sachin Kasera:** You also mentioned on exports so if you could just highlight the reason you mentioned that you are going to do extra, so where do we stand currently on exports and what is the type of growth that we can look in exports and volumes and revenues in the next one to two years?

**M.P. Taparia:** In Plastic Piping System, our principle growth was in the Middle East area. We are getting better business from several countries even in the month of June, the export business was of half a Million Dollar for Plastic Piping System. We are expecting much bigger

growth on our Cross-Laminated Film Product where there are capacity constraints and as our capacity expansion in the first phase will start operating from October 2012, we will be getting increasing orders for our ready to use products in European market, from Brazilian Market and from the Central Asia. We are confident that our export of Cross Laminated Products of around 1800 tonne will go up to 3300 tonnes in the current year. *In Performance Packaging Film also our export will grow with the principal export it will grow up due to our increasing acceptance of our quality.* We also expect to participate in the furniture business in export for our premium product and also in our Composite cylinder. Because of the Rupee value now today exports have become more profitable in certain segments compared to domestic market.

**Sachin Kasera:** Sir one question on your consumer business you mentioned that that had a 6% volume degrowth, are we taking any corrective actions there and how do we see the scenario in FY'13 for this business?

**M.P. Taparia:** Actually consumer segment is at 10% volume degrowth last year. Because we have by design decided not to participate in some commodity furniture where they have negative margins. Seeing the trend as the polymer prices continue to remain at a high level, we have now moved to more increased share of value added product. Last year our value added product in furniture segment grew by 4.5%, in the current year we anticipate our sale will go up by 8% higher due to our adding several new value added products in the current year. So we are reducing the burden of this business on commodity furniture and moving more and more to premium item and increasing its share.



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**Sachin Kasera:** My just last question is regarding your associate company Supreme Petro we had seen some improvement in the December quarter and you were little optimistic on the growth going forward. I believe from last quarter again we have seen some subdued numbers so what is your outlook on that company for FY'13?

**M.P. Taparia:** Now we are positive about this company outlook in the current year. The plants where we made new investments now are all fully stabilized. The Company's products have been well accepted in South East Asian Market and Middle East market. The product is well accepted in Indian market. Our new plant capacity is 20400 tonnes. We expect the plant will be sold out by January 2013 and there is a reasonable delta between Raw material cost & product selling price. We are seeing increasing demand of EPS in construction business.

**Sachin Kasera:** Can you if give the volume number for Supreme Petro for 2012 and guidance for 2013?

**M.P. Taparia:** We expect our volume will grow by around 40%.

**Moderator:** Thank you. We have the next question from the line of Chirag Setalvad from HDFC Mutual Fund. Please go ahead.

**Chirag Setalvad:** Good afternoon Sir. Would it be possible to give the breakup segmental wise for volume, value and margins for the fourth quarter?

**P.C. Somani:** Chirag I will give you the figures for the year?

**Chirag Setalvad:** For the Q4 and for the year if you could have?

**P.C. Somani:** I am just giving the volume first. For Plastic Piping systems was 43959 MT vis-à-vis 35462 MT last year, Packaging Products 9360 MT vis-à-vis 8148 MT last year. Industrial Products 9917 MT vis-à-vis 8375 MT last year and Consumer Products 5025 MT vis-à-vis 5008 MT last year. For the year Plastic Piping System 151264 MT last year it was 133143 MT , Packaging Product 37377 MT vis-à-vis last year of 34424 MT , Industrial Product 38325 MT , last year 35351 MT . Consumer Product 18734 MT and the last year was 21755 Mt .

**Chirag Setalvad:** Sir could you also provide the value breakup both for the quarter as well as for the full year?

**P.C. Somani:** Value breakup Plastic Piping System for the current quarter Rs.475 Crores vis-à-vis last year of Rs.357 Crores, Packaging Product Rs.198 Crores, and last year was Rs.155 Crores, Industrial Product Rs.151 Crores last year Rs.137 Crores, in Consumer Product Rs.82 Crores, last year was Rs.75 Crores. For the full year Plastic Piping Rs.1320 Crores last year was Rs.1036 Crores, Packaging Product Rs.687 Crores last year Rs.580 Crores, Industrial Product Rs.560 Crores last year was Rs.491Crores and Consumer products Rs.258 Crores this was last year around Rs.252 Crores.

**Chirag Setalvad:** Lastly sir margins?

**P.C. Somani:** Margin for the full year you can have Plastic Piping system of 13%, Packaging Product 20%, Industrial Product 13% and Consumer Product 14%.

**Chirag Setalvad:** For the quarter Sir?

**P.C. Somani:** For the quarter I do not think it will be relevant because you see the last quarter is not the exact barometer. That is why I have given the full year number.

**Chirag Setalvad:** Would it be possible to share it because at least we can look at it and compare to the fourth quarter of the previous year?

**P.C. Somani:** In Plastic Piping System it was 17%, Packaging products 24%, Industrial Products 17% and Consumer product 20%.

**Chirag Setalvad:** Sir my other question was on the subsidy. What the subsidy element for the full year and do you pay a tax on the subsidy?

**P.C. Somani:** Since we are showing as an income. We are paying tax on the same. For the full year the subsidy was Rs. 32.03 Crores against last year of Rs. 28.11 crores.

**Chirag Setalvad:** Sir you will be paying a full tax on this?

**P.C. Somani:** Yeah we will be paying full tax on this.

**Chirag Setalvad:** Great I will come back in the queue for further questions if any.

**Moderator:** Thank you. We have the next question from the line of Nehal Shah from Dolat Capital. Please go ahead.

**Nehal Shah:** Congratulations Sir for very good set of numbers. Sir basically first thing margins have gone up considerably. I am looking at the core margins of plastic segment margins that has gone up from 15.5% to 19.2% so that is a big jump so just wanted to know where the jump has actually come. In which of the segments the margin were actually gone up? Basically for the quarter.

**M.P. Taparia:** For the quarter it was essentially three reasons, first one was we have had a much higher production, we reduced our cost of production in the quarter. Secondly we have been carrying a large inventory of finished goods by the end of March. April, May, June are a good demand months so we reduced our stock and finished goods substantially which resulted in the reduction and borrowings also reduced substantially. They could be carried at the historical cost so those when we liquidated them also added to our margins and also improved business of value added product in the fourth quarter. Some benefit came due to inventory gain and if you combine together they gave in a better margin in last quarter.

**Nehal Shah:** Sir for the full year also the margins are around 15% what is the kind of sustainable margins we can expect over the next couple of years or say for FY'13?

**M.P. Taparia:** I can talk only for FY'13. We anticipate our margins between 14 % and 15% because the conditions in the whole economies are so volatile that it is difficult to give a precise number but we can talk in a range only.

**Nehal Shah:** So 14% to 15% is what we guide for?

**M.P. Taparia:** We anticipate between 14% and 15% on a turnover of around Rs.3500 Crores for Plastic Product in the current year.

**Nehal Shah:** Sir with respect to debt what is the reconciled debt we have for the full year for FY'12 at the end of the year?

**M.P. Taparia:** End of the year it was Rs.348 Crores.

**Nehal Shah:** Sir basically looking at the CapEx our committed CapEx of around Rs.250 Crores and we have eventually land up doing around Rs.73-75 Crores so what has actually delayed in terms of CapEx?

**M.P. Taparia:** There is a delay in bringing the equipment when we place order .The period required to build the building for a construction structure 200000 square feet also takes time. We have made a commitment of Rs.17-18 Crores, but it takes time to build the building and it takes time for the equipment to arrive so these all heavy investments what we have committed to Rs.280 Crores last year, the remaining Rs.206 Crores all will be operational by March 2013 and new investment also some investments which takes place in the current year and as we told earlier we will be committing further investment for 2013 – 2014 to lead the increased requirement of product for 2013-2014.

**Nehal Shah:** Thanks a lot. I will be back with any followup questions.

**Moderator:** Thank you. We have the next follow up question from the line of Chirag Setalvad from HDFC Mutual fund. Please go ahead.

**Chirag Setalvad:** Sir could you tell us the breakup of the CapEx that you have mentioned if it is possible how much could go in the various divisions?

**M.P. Taparia:** Breakup CapEx is around Rs.120 Crores will be in the Plastic Piping division, around Rs.90 Crores has been committed in the Cross-Laminated Film Product, around Rs.75 Crores will be Composite line both together and Product Packaging of around Rs.30 Crores. These are the four areas and may be around Rs.10 Crores in furniture for financing the value added moulds .



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- Chirag Setalvad:** The balance Sir this would add up to about...?
- M.P. Taparia:** Roughly we told you some money will be invested in our Material Handling System also and some in automation equipment.
- Chirag Setalvad:** Sir on the composite cylinder business what is the status in terms of domestic approvals and how do you see that working?
- M.P. Taparia:** It has been approved by ENNI, Standard in Europe. The commercial equipments will be shipped in last quarter and then only once we submit the sample we will get the approval. We are very confident and encouraged by the approval in the European Testing Laboratory of the trial sample produced therein Europe from our machine and we will be not only be going for 14 liter but we will be going for smaller capacity also considering that we want to participate the international market. We are very confident of getting approval but we are still not sure about the demand generated from domestic company. Still Government of India is unclear about floating a requirement of this composite cylinder to supplement the steel cylinders.
- Chirag Setalvad:** You would be supplying from March 13 onwards once the capacity comes on stream?
- M.P. Taparia:** We expect definitely we will have turnover in the last quarter April-June.
- Chirag Setalvad:** Sir last question in terms of raw material prices and Rupee Dollars how has that impact been in the recent past and how do you see that going forward?

**M.P. Taparia:** Rupee has depreciated by 25% since August and as on today there is some correction in the commodity prices also on the low minus side and we found that we were not affected due to the increased cost of raw material up till now. With the 25% depreciation the price of conventional material also went up and in many applications they substitute with plastics. We cannot say what could be the Rupee Dollar trajectory. Our company policy remains that any crystallized foreign exchange liability cannot remain unhedged so we would not have foreign exchange exposure.

**Chirag Setalvad:** Thank you very much Sir.

**Moderator:** Thank you. The next question is from the line of Viraj Mehta from Equirus. Please go ahead.

**Viraj Mehta:** Sir just a couple of questions; one when you say your margins have gone up because of lot of liquidation of the final finished goods in the fourth quarter of course I mean the 19% margin that we have clocked this quarter; how much would be the inventory gains this quarter?

**M.P. Taparia:** It may not be very significant may be Rs. 7 – 8 Crores.

**Viraj Mehta:** But sir I mean I am just trying to look at the company for the last two three quarters and compare the margins of Piping System they have been as down as 9% - 10% to as high as 20% this quarter. I have not seen any other Plastic Piping company is showing so much variation in margin, can you just explain what causes this much 10% - 10% kind of margin variation?

**M.P. Taparia:** We are not only in Plastic Piping Company we manufacture varieties of products.

**Viraj Mehta:** I am saying only in that division alone we are seeing margins go as low as 10% to 20% this quarter?

**M.P. Taparia:** We told you 17% only, which as we explained to you earlier we had the inventory to be kept for meeting the requirement of April-June, April – June is the peak season demand for Plastic Piping System and the inventory of finished goods are always valued on historical cost with the continued Rupee depreciation the stock which was valued on 31<sup>st</sup> March was on a lower side and when all the stocks was liquidated in April-June then they definitely gives a gain. Apart from that as we told earlier in the Q3 we had an inventory loss when the plastic prices had gone down so they had given a temporary loss also in that quarter in our margin. In normal manner, the quarter-to-quarter there could be always variation in such a volatile raw material pricing.

**Viraj Mehta:** Sir out of Rs. 1300-odd Crores of Plastic Piping sales that we have for the full year how much of it would be housing, how much of it would be infra and how much of it could be agri?

**M.P. Taparia:** May be around Rs.850 Crores will be in housing, infra may not be more than Rs.50 Crores. Infra actually demand wise is less as till now so many issues are not sorted on infrastructure side. Balance is in irrigation.

**Moderator:** Thank you. We will take the next question from the line of Ashish Kacholia from Lucky Securities. Please go ahead.

**Ashish Kacholia:** Good evening Sir. My question pertains to the kind of CapEx that we are planning to do over the next four to five years. On this Rs. 1200 Crores CapEx what is the kind of turnover that we can hope to have?

**M.P. Taparia:** In 2015-16, our turnover may be around 6000 Crores.

**Ashish Kacholia:** So this investment of Rs. 1200 Crores should give us a turnover of about Rs. 2500 Crores kind of a number?

**M.P. Taparia:** We get generally on investment around three times the turnover..

**Ashish Kacholia:** Three times a turnover, okay.

**M.P. Taparia:** On our product mix the turnover around three times of the investments made.

**Ashish Kacholia:** Sure. The second question that I had was Sir, you mentioned about exports of pipes and piping systems and you also mentioned the export of composite cylinders. Now both these items seem to be very bulky items and yet you are saying that you have a very good export opportunity, so is this export opportunity sustainable in the light of the fact that you know you will have substantial freight expenses in these two product lines?

**M.P. Taparia:** Let me talk about plastic piping systems, the major sales are on fittings and pipe when we are exporting from India they are all telescopic so in telescoping we are not shipping much air, those are sustainable and they are growing every year, but current year we expect them to grow much better. The countries which require cylinders where it is not produced. Gulf Countries are importers of

cylinders, so when you are requiring a product, which is not produced t here, then you have to price.

**Ashish Kacholia:** This technology is a very difficult technology, this composite technology or is it widely available? I mean, is it a very high margin product effectively?

**M.P. Taparia:** It is a highly technical product; . Machine is supplied by a very reputed company in Europe and we are enjoying the technology supplied by them.

**Ashish Kacholia:** Congratulations on a very good set of numbers and wishing you all the very best.

**M.P. Taparia:** Thank you for your encouraging words. Thank you.

**Moderator:** Thank you. The next question is from the line of Kamlesh Kotak from AMSEC. Please go ahead.

**Kamalesh Kotak:** Good afternoon Sir. Could you just give us some more details about the piping business? How much of that is coming from CPVCs side and some more details on the raw material sourcing?

**M.P. Taparia:** Raw materials, local raw material there is no increased production possible in the year 2012-13. The local raw material producers are planning capacity increase in 2013-14, Reliance is planning to expand PVC capacity by 96000 tonnes. In polythene raw material there is no problem. We are getting adequate quantity from local producers. On CPVC our supplier is putting up a plant where plant should be operational by January - March 2015. PVC currently we are buying from locally two companies. We are importing from

various sources, so we are able to procure our internal raw material required at affordable price.

**Kamalesh Kotak:** Sir what is the CPVC revenue in this year or this quarter?

**M.P. Taparia:** CPVCs revenue overall it may be below 200 Crores.

**Kamalesh Kotak:** How much it was last year?

**M.P. Taparia:** Last year it was in excess of 50% by value.

**Kamalesh Kotak:** Sir, about our industrial business could you just give some more updates as to which segments are showing the demand traction? Is it automotive consumer products? What exactly is driving. What is the outlook?

**M.P. Taparia:** In Industrial segment since January there is growth in demand. Only the auto segment is growing slow in the growth, but the growth is there.

**Kamalesh Kotak:** What is the outlook for the same Sir?

**M.P. Taparia:** We expect a better business growth this year as compared to last year.

**Kamalesh Kotak:** Sir, if the monsoon is looking to be weak this year, is it going to have any bearing on our pipe business or the outlook for the demand as a whole for the industry? How are we on that?

**M.P. Taparia:** Plastic Piping System we are not at all worried as of today, because if the water level is low then they may require more number of pipes to drill deep into the ground for extracting water. In housing segment

there are inroads now in tier II and tier III towns. The agriculture crop values are coming better and farmers are very enterprising in the country. We firmly believe that the crop, production overall in the country will be good. It is not so adversely affected is what we read in the paper.

**Kamalesh Kotak:** So even a weak monsoon will not be detriment for the piping?

**M.P. Taparia:** We do not believe that there is a tremendous contraction of production in the year. We do not believe that.

**Kamalesh Kotak:** Sir what are the plans about the monetization of our real estate commercial building; I mean, how it is now going to be?

**M.P. Taparia:** As on today 182000 square feet or nearly two-third area is lying unsold. We have got a beautiful office building completely ready with occupation certificate. The commercial area requirement needs are quite low today in the city of Mumbai. We do not have much debt and we are not under any hurry to monetize these assets. If we drops the price it can be monetized yesterday. We have no reason to drop the price as we are seeing the new activity of commercial premise in city of Mumbai has gone to a very low level. We believe the prices may go very high in the year 2013. Our building is very good. We will get very good value for our property.

**Kamalesh Kotak:** Thanks.

**Moderator:** Thank you. We have the next question from the line of Kalpesh Gothi from Walfort. Please go ahead.

**Kalpesh Gothi:** Good evening Sir. Congratulations for the good set of numbers.



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- M.P. Taparia:** Thank you for your encouraging word, dear friend.
- Kalpesh Gothi:** Thank you Sir. Sir, what is the share of the premium furniture in the furniture segment?
- M.P. Taparia:** Last year it has gone up by 5%, it went to 37.7%. Current year we expect to grow by 8% plus of our total turnover.
- Kalpesh Gothi:** In furniture business what is the value added product shares?
- M.P. Taparia:** Value added product I told you last year it was 37.7%, current year we are aiming to increase the share to 46%.
- Kalpesh Gothi:** Sir, can I know the margin of the value added products?
- M.P. Taparia:** It has to be in excess of 17% of turnover value.
- Kalpesh Gothi:** Sir we have guided for the 16% volume growth can you breakup in the segment wise that we are seeing in plastic packaging?
- M.P. Taparia:** All the segments will grow. Every segment will grow this year.
- Kalpesh Gothi:** Even consumer?
- M.P. Taparia:** Furniture will also grow. Last year there was a degrowth. This year due to value added it will also have growth. Growth will be small, but growth will be there in every segment. We do not anticipate any negative growth volume in the current year.
- Kalpesh Gothi:** What was the total export during the year?
- M.P. Taparia:** It was about \$13.5 million, which saw 19% growth in dollar terms after excluding discontinued business of the previous year. In the

previous year we were manufacturing mats and mats was mostly exported and that business is discontinued so if we exclude the discontinued business from the previous year, we had a 19% value growth in the year which we are discussing.

**Kalpesh Gothi:** How much raw material we have procured from overseas?

**M.P. Taparia:** About 40% of our requirement. Out of 245000 tonnes around 40% we have procured from international market.

**Kalpesh Gothi:** In the last year?

**M.P. Taparia:** This is last year.

**Kalpesh Gothi:** In FY'11 how much was there?

**M.P. Taparia:** It is same, it may only go higher because PVC will be having good growth and PVC nothing extra is available locally. We anticipate our overall volume may be 285000 tonnes and import may be around 50%.

**Kalpesh Gothi:** Sir can you repeat the CapEx for the year?

**M.P. Taparia:** For this year?

**Kalpesh Gothi:** Yes.

**M.P. Taparia:** When compared to the last year commitment also be coming ground this year. We are counting the total commitment of last year it is coming on to ground this year and the commitment if we are going to make for the year 2013-14, total investment will be Rs.400

Crores out of which the cash outflow may be below 250 Crores. Last year cash outflow from our capital account was around 165 Crores.

- Kalpesh Gothi:** Are we factoring in the tax flow from the real estate projects?
- M.P. Taparia:** Last quarter there was nothing from real estate. For the current year business plan as on today we have had no plan for real estate money as we told earlier we are not in a hurry to sell we do not want to depend on anything on real estate monetization.
- Moderator:** We will take the next question from the line of Kamna Motwani from CRISIL. Please go ahead.
- Kamna Motwani:** Good evening. Congratulations on a good set of numbers.
- M.P. Taparia:** Thank you for your encouraging words.
- Kamna Motwani:** Sir just wanted to understand the creditor days seem low in this year for the year end so any sense on that?
- M.P. Taparia:** Creditor days, I will request my colleague Mr. Somani to tell you. Over to you Mr. Somani.
- P. C. Somani:** Creditor was at the same level as of last year.
- Kamna Motwani:** Sir, can you provide the exact amount of creditors because of the new schedule there is some confusion there?
- P. C. Somani:** That is right. As per the new schedule the creditors payable this year was Rs. 206 Crores vis-à-vis last year of Rs. 161 Crores.
- Kamna Motwani:** Sir, can you give us a breakup of other current liabilities?

**P. C. Somani:** Other current liabilities this year it is Rs. 200 Crores vis-à-vis last year of Rs. 215 Crores.

**Kamna Motwani:** Sir what is the breakup of this other current liabilities. I believe it has some debt element to it also?

**P. C. Somani:** So debt element is Rs. 97 Crores. Last year it was Rs. 67 Crores.

**Kamna Motwani:** Sir, there has been a decline in the non-current investments, so what was that because of?

**P. C. Somani:** There is no decline in non-current investments . Supreme Petrochem shares we are continuing to carry so there is no decline as such.

**Kamna Motwani:** Sir, can you also give the gross block & work-in-progress numbers for the year?

**P. C. Somani:** Gross block for the current year is Rs. 1245 Crores and the work-in-progress is Rs. 34 Crores.

**Kamna Motwani:** Sir, one last question, Sir, you mentioned that our Q4 EBITDA margins have increased to 19% because of the high amount of inventory that we were sitting over the last three to four months and also we had some inventory gain and increase in production, but does that account for close to 5.5% quarter-on-quarter jump in EBITDA margins?

**M.P. Taparia:** EBITDA margin for the quarter has gone up by four factors; one is increased production which reduced our production cost. Secondly increased sale of value added items and thirdly the finished goods which remained at high level on March 31, has reduced to a lower

level on June 30. March 31 stocks are valued at historical cost and fourthly a small gain of Rs.6-7 Crores due to inventory gain. All four factors combined together have shown a better margin in the last quarter.

**Kamna Motwani:** But finished goods you are saying would be at a lower cost as of June 30?

**M.P. Taparia:** Historical cost because it is getting historical cost as raw material price went on going up.

**Kamna Motwani:** But have not we seen softening of raw material prices?

**M.P. Taparia:** Finished good stocks will be valued at a historical cost basis. We do not value them at the selling price in our balance sheet.

**Kamna Motwani:** So raw material cost went up?

**M.P. Taparia:** Due to the rupee depreciation the raw material cost went up and currently we have no loss in currency. Our currency remains fully hedged.

**Kamna Motwani:** So the selling price that we are booking that is as per the current raw material cost that is how we got it?

**M.P. Taparia:** It has to be like this. When any selling price drops then we have inventory loss also.

**Kamna Motwani:** Sir the employee cost has gone up by about 36% on a quarter-on-quarter basis. What was that because?



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**P. C. Somani:** The employee cost this quarter is 34.5 Crores vis-à-vis last year of 31 Crores.

**Kamna Motwani:** Now in the press release it says 35 Crores versus? I am saying over Q3 of FY'12 26 Crores of employee cost?

**P. C. Somani:** This will be in the preceding quarter from this. The increased profit has to provide for the increased commissions to the director and with the annual valuation of the gratuities and leave accumulations which we do for June so all that effect, comes into the last quarter.

**Kamna Motwani:** Sir, any plan for further repayment of debt for the next year because we are sitting now on close to 1148 million of debt?

**M.P. Taparia:** Our medium term loan is below 200 Crores, maybe it may remain at Rs.200 Crores on June 30, 2013 also unless we are able to sell some properties. Our cost of debt is below 10% and our return on capital employed above 30%. The Debt to Equity is reasonable. We have no such great plan to bring the Debt further down.

**Kamna Motwani:** Thank you for taking my questions.

**Moderator:** Thank you. The next question is from the line of Krudan Chedda from ValueQuest. Please go ahead.

**Krudan Chedda:** Congratulations on for a good set of numbers.

**M.P. Taparia:** Thank you for your encouraging word, dear friend.

**Krudan Chedda:** Sir, what is the current capacity utilization in all segments?



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**M.P. Taparia:** Current capacity utilization segment may be it remains at 70% around.

**Krudan Chedda:** Around 70% in all segments?

**M.P. Taparia:** On an average it may be around 70%.

**Krudan Chedda:** Sir, can I get this segment wise? Would it be possible for you to get?

**M.P. Taparia:** I cannot reply immediately. As there are seasonal demand so we do not run the plant throughout fully and with our product mix also the capacity utilization will always remain little lower, but as I told you we are making investment only when demand is there.

**Krudan Chedda:** What is the peak capacity utilization Sir that we can achieve?

**M.P. Taparia:** Peak capacity utilization remains between the month of April and May.

**Krudan Chedda:** In percentage terms how much would it be?

**M.P. Taparia:** Percentage terms it may go close to 90%. Plastic piping we go slow between July to October, in furniture also we remain at a lower level. In Cross-Laminated film product we remain utilizing the capacity continuously. We do not slow it down..

**Krudan Chedda:** Sir, can you give the breakup of our 1100 Crores CapEx each segment how much would it be?

**M.P. Taparia:** It may be higher.

**Krudan Chedda:** How much would it be for plastic piping, industrial, and consumer?

**M.P. Taparia:** Majority will be in plastic piping and Cross-Laminated film products followed by industrial component and material handling and protective packaging. We are investing money in all the six segments. In the composite segment also we are investing and we are committing 300 crores plus on composite segment. We anticipate we will be investing around 75 Crores will be in cylinders and then around 16 Crores we are committed to composite pipe. We are discussing one or two more items to be added so it is nearly around 125 Crores during this whole year.

**Krudan Chedda:** Sir, this composite cylinder will be operational by this year-end?

**M.P. Taparia:** Composite should be operational by March 2013 and composite pipes may be operational by November 2012.

**Krudan Chedda:** What would be the margins in this segment?

**M.P. Taparia:** We should get payback in three-year time.

**Krudan Chedda:** Payback. three years payback?

**M.P. Taparia:** Yes you are right.

**Krudan Chedda:** Sir, one last question, how much is our total exports?

**M.P. Taparia:** Exports for the last year was \$13.5 million. This year we expect this to cross \$20 million.

**Krudan Chedda:** 20 million total exports?

**M.P. Taparia:** We expect. Last year it was \$13.5 million.

**Krudan Chedda:** Thanks a lot.

**Moderator:** Thank you. The next question is from the line Niket Shah from Edelweiss Securities. Please go ahead.

**Niket Shah:** Congratulations a good set of numbers.

**M.P. Taparia:** Thank you Sir.

**Niket Shah:** Sir, just wanted to know what is your installed capacity as on FY'12 end?

**M.P. Taparia:** FY'12 installed capacity will be 349700 tonnes.

**Niket Shah:** Again, I think, 330000 tonnes the previous year, right?

**M.P. Taparia:** 329150 tonnes, you are right. You remember very well. Thank you very much.

**Niket Shah:** Sir, just one more question. We have seen around 100-BPS of reduction in your other expenditure on a YOY basis. What would have lead to that Sir?

**M.P. Taparia:** I request Mr. Somani. Maybe Somani will tell you.

**P.C. Somani:** Basically it is on control of expenses of expenses.; all administrative expenses remain under control. Once you see the balance sheet, the whole expenses of the administration cost with increased turnover they are not increasing and we are keeping them between 5% to 10% increase against the increase of 20% in turnover.

**Niket Shah:** Got the point Sir. Thank you so much.



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**Moderator:** Thank you. The next question is from the line of Jagdish Balu from Axis Bank. Please go ahead.

**Jagdish Balu:** Good afternoon. Congratulations on a good set of numbers Sir. Sir just wanted to understand how does crude oil affect your basic raw material pricing and how susceptible are you to margin fluctuations?

**M.P. Taparria:** Crude oil definitely affects our raw material cost. The cost goes up, when the crude goes up and when crude comes down, the raw material price goes down. Whenever the raw material prices go up then depending on product to product we transfer the increased cost to our selling price. Like in Plastic Piping we increased it in the same day, for other products with a time lag of two to three week. When the prices come down then in plastic piping we reduce the next / same day. Other products may require again two to three weeks time lag, but we are able to always to reflect in our selling price the correct cost of current raw material.

**Jagdish Balu:** So decreases also on the same way Sir. Now say crude oil prices come down significantly so you do not expect any margin improvement because of this crude?

**M.P. Taparria:** If you recall oil was \$88 from five weeks before and today morning it is \$107. With the price of crude oil went down it is reasonably a history. That is going up so polymer prices also started to going up.

**Jagdish Balu:** So basically it would not be affected. At the end of the day, your margins are protected because you will be able to pass on the pricing immediately?

**M.P. Taparia:** In quarter-to-quarter it will be affected. But for the whole year there is no problem. As we told you in plastic pipe we pass it immediately and other products between two to three weeks time lag.

**Jagdish Balu:** Got your point Sir. Thank you.

**Moderator:** Thank you. We have the next followup question from the line of Nehal Shah from Dolat Capital. Please go ahead.

**Nehal Shah:** Sir, just one thing any new business opportunities in terms of new verticals, are we seeing at this point in time?

**M.P. Taparia:** The new vertical, which we opened, is composite. In composite we started only with cylinder and now we added composite pipes and we are looking into two more products in the same segment. Once it is zeroed down we will inform the shareholders.

**Nehal Shah:** Sir, in composite pipes which are the products which we are thinking to enter into?

**M.P. Taparia:** Composite pipes we have already entered into. We have placed the order of equipment. They are under construction and they will be in production by November 2012 and in this composite pipe requires American Petroleum Institute clearance and this will be principally for oil exploration. It will be replacing a very different quality of steel pipe.

**Nehal Shah:** Will it replace seamless pipes, which are used for exploration purpose?

**M.P. Taparia:** Yes, exploration purpose. It can go up to 5 km deep in the water and it has a very long life. It will not be corroding for 25 years. Steel pipes corrode in five years time. It will be exploration pipe; it will be far superior functionally.

**Nehal Shah:** So it will be replacing the seamless pipes, which are being used at this point in time?

**M.P. Taparia:** To supplement them.

**Nehal Shah:** It will supplement them?

**M.P. Taparia:** It will supplement steel pipe because this is small thing. The steel pipe is a good business.

**Nehal Shah:** Sir, basically what kind of market is this? Where has this been used outside of India or have we started been using?

**M.P. Taparia:** Entire Gulf market requires the pipe for exploration. It is being used in India also.

**Nehal Shah:** It is also being used in India also?

**M.P. Taparia:** Yes. ONGC is the customer.

**Nehal Shah:** So basically it will replace what kind of pipes Sir?

**M.P. Taparia:** The steel pipe requires for exploration, to bring the crude oil from mother earth

**Nehal Shah:** What is the kind of differential obviously these pipes will be a bit expensive as compared to the steel pipes?

**M.P. Taparia:** It will be expensive more than 25% compared to steel pipe and will remain for useful life more than 25 years. The life of steel pipe is more than five years.

**Nehal Shah:** What kind of market is this, like in terms of demand for this year, what kind of market this would open up like?

**M.P. Taparia:** It is going to be a huge market. We are only investing Rs.16 Crores we will be able to produce only 15000 pipes of 10 meter length that is very small quantity. This is just we are exploring and seeing. Once it will succeed and then we will put several lines.

**Nehal Shah:** Thanks a lot for this.

**M.P. Taparia:** Thank you.

**Moderator:** Thank you.

**Kashyap Pujara:** This is Kashyap here Taparia Ji. I just had one more question as a last participant. These pipes that you mentioned about the composite pipes basically these are the ones, which are going to be replacing seamless pipes, is it?

**M.P. Taparia:** The pipes that are supplied by Welspun.

**Kashyap Pujara:** So basically these are the stainless the seamless pipes rather?

**M.P. Taparia:** Right.

**Kashyap Pujara:** So this is the replacement towards the same and what is the tonnage that we are looking out at for these pipes?

**M.P. Taparia:** The number of pipes that we are running at current capacity and once it reaches 15000 pipes of 10 meter length it is a very small capacity that we have put up and once we get all API clearance it will not take a long time then we will be putting much larger capacity of the same product. We are quite excited about the product. There is a great future for the product.

**Kashyap Pujara:** Globally for such type of pipes that you are getting into API clearance is there. I mean, you are seeing such pipes internationally.

**M.P. Taparia:** You are right. It requires API clearance. This is from Japanese Company patented technology and we will be enjoying this technology exclusively in India.

**Kashyap Pujara:** Which is the company from which we have taken this technology Sir?

**M.P. Taparia:** From Japanese Company.

**Kashyap Pujara:** What is the duration? Are we exclusive in India or how is it?

**M.P. Taparia:** Currently we are exclusive in India.

**Kashyap Pujara:** Any time duration?

**M.P. Taparia:** Once we succeed in a very big way then we may think of putting a joint venture with them. We are unclear today.

**Kashyap Pujara:** That is very encouraging. This 16-17 Crores of investment that you are just talking off potentially what is the kind of revenues that can generate?



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**M.P. Taparia:** Pay back period should not be more than three years.

**Kashyap Pujara:** Pardon me. I did not hear you.

**M.P. Taparia:** It should not be more than three years. The pay back for investment should be less than three years.

**Kashyap Pujara:** Fine.

**Punit Chokhani:** This is Punit Chokhani. I am Kashyap's colleague. I had one question pertaining to margins actually you mentioned inventory liquidation was a large part. Can you quantify that number? Is it possible? How much of inventory?

**M.P. Taparia:** It comprises of four factors.

**Punit Chokhani:** I got that Sir. I just want to understand if you can quantify how much of sort of margin, jump came in from inventory liquation is what I am asking?

**M.P. Taparia:** Inventory of finished goods only. I do not want to tell you any number of the company. All the four factors combined together is showing a better margin in the last quarter. Last quarter is always our best quarter in the Company.

**Punit Chokhani:** That is absolutely correct.

**M.P. Taparia:** That is why if you have seen we are keeping our balance sheet closed only on June instead of March.

**Punit Chokhani:** Fair enough.



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**Kashyap Pujara:** Thank you so much Taparia Ji and Mr. Somani for participating along with us on the call.

**M.P. Taparia:** Thank you very much.

**P.C. Somani:** Thank you Kashyap. Thank you for the invitation to the Enam conference for hongkong.

**Moderator:** On behalf of Enam Securities Private Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.