



**“Jindal Poly Films Limited Q4 FY16 Earnings Conference  
Call”**

**June 1, 2016**

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Jindal Poly Films Limited Q4 FY16 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, expectations of the company as on the date of this call. These statements are not the guarantees of the future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participants' line will be in the listen--only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manoj Gupta – Chief Financial Officer. Thank you and over to you, Mr. Gupta.

**Manoj Gupta:** Good Afternoon, Ladies and Gentlemen and Welcome to the Q4 FY 2016 Earnings Call of Jindal Poly Films Limited

On this call, I am joined by my senior colleague – Mr. Sagato Mukerji – COO of Jindal Poly Films India; Mr. Rakesh Tayal – GM, Jindal Films Accounts and Mr. Udayan Sharma – AGM , Investor Relations for Jindal Poly Films and representative of SGA, our investor relations advisor.

Our 'Financial Results' and 'Investor Presentation' have been uploaded on our website and I hope all of you have had a chance to go through.

I will start with some of the Key Updates of our Business and then with Financial Performance: CAPEX spend of additional BOPP line for JPFL India is complete and likely to be operational in the next two months, adding 41,000 tons p.a. capacity. We have already commissioned our Coating and Metallizing capacity in Q4FY'16. India standalone business currently forms 37% of our overall revenue. The BOPP capacity expansion of one line each in Europe and America will be completed by mid of 2017. This includes oriental capacities of 60,000 tons p.a. each and additional Metallizing capacities. The merger of Jindal Photo Manufacturing business was complete w.e.f. 1.4.2014 with the issuance of 17.387 lakh shares to the shareholders of merging entity in the ratio of 5.9:1 have been issued. Financial numbers have been restated accordingly in the current and corresponding previous year.

There are some synergies between the two businesses: Our subsidiary, Global Nonwovens Limited, commenced operation in July of 2015. The product produce by GNL caters to hygiene and medical segment. The primary customers are large MNCs in India who require rigorous qualification process and customer use test, which takes more than 12-months. We have already qualified with some of the major established brands and others are under process. It has achieved about 50% capacity utilization in some of the recent months.

Coming to the Highlights of Financial Performance of consolidated Q4FY'16:



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Gross revenue for Q4FY'16 is at Rs. 1,802 crores versus last year quarter of Rs. 1,769 crores, marginal increase of 1%. The quarter Operating profit is Rs.238 crores as compared to Rs.184 crores, improvement of 29%. The consolidated PAT for the quarter is Rs.79 crores as against Rs.64 crores of last year which reflects improvement on year-on-year basis.

12-Months FY'16 Performance: The FY'16 revenues is Rs. 7,226 crores as against Rs. 7,539 crores, a decline of 4.3%, this is due to lower raw material cost which was passed on to the customer. The Operating profit is at Rs. 1,010 crores as against Rs.650 crores, a growth of 55%. Operating profit as a percentage is 14.0% as against 8.6%, increase of over 500 basis points. PAT level is Rs.371 crores as against Rs.172 crores, growth of 115%. The net debt stands at Rs. 1,748 crores which was Rs. 1,606 crores as on March 2015, mainly led by some early repayments towards acquisition loan of JF, balance draw down of Global Nonwovens loans and some short-term borrowing for working capital for India business. Our consol debt-to-equity has improved from 0.9 to 0.7 times Equity.

Coming to Jindal Films: EBITDA improvement in the business from USD 15 million pre-acquisition to USD 60 million for FY'15 which was also our first full year of operation and for FY'16 EBITDA is USD 85 million. The current debt level in JF is USD 119 million, which was \$ 152 million as on March '15. The current capacity utilization continues to be over 93%.

That is all from my side. We are open to Questions.

**Moderator:** Thank you very much. We will now begin the Question-and-Answer Session. The first question is from the line of Shalin Shah from VP Wealth. Please go ahead.

**Shalin Shah:** Sir, with the top line being stable in Q4, there is an increase in other expense in standalone as well as in consolidated result. If you could inform me regarding the breakdown of these expenses?

**Management:** The other expenses have increased due to the certain onetime expenses incurred during the Quarter eg Plant Quality Certification expenses, preventive maintenance expenses and increased allocation of intragroup service expenses which are set off through increase in other income.

**Shalin Shah:** Same with the employee benefit expenses there you have also increased substantially?

**Management:** On standalone it has increased due to provision of performance-linked incentive (PLI) in this quarter.

**Shalin Shah:** Sir, with profit before tax is around Rs.48 crores and the tax expense is at Rs.30 crores. I would like to know why there is a such higher provision of tax in Q4 standalone result?

**Management:** The additional Income Tax provision is on account of certain Income which till last year was considered as exempt. But as per the latest tax advice the same has been offered for tax from this



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year onwards. Hence we have paid taxes on that and accordingly provided in the books for the entire current year.

- Moderator:** Thank you. The next question is from the line of Ankit Gor from Systematix. Please go ahead.
- Ankit Gor:** My question more relating to industry and how dynamic it is. If you can help me with our capacity of BOPP in India and globally, how much of which we are exporting and how much we newly added?
- Management:** Our BOPP capacity for JPFL India is 2,10,000 and for Jindal Films i.e. Overseas entity it is 2,15,000 Tpa. In the last one year we have not added any new capacity for the base BOPP film. For JPFL Indian operations 41,000 Tpa additional capacity will be operational in next two months. For the Jindal Films Operations 120,000 Tpa (2 X 60,000 Tps) capacity will be operational by mid of 2017.
- Ankit Gor:** From this Indian capacity of 210,000 how much we are exporting or it is just consumed within India or how it is?
- Management:** Approximately 25% is exported.
- Ankit Gor:** What would be the capacity utilization rate for India and globally?
- Management:** In India we track capacity in terms of machine uptime - for how long the machine was down due to lack of orders. So for JPFL India the machine uptime is more than 80% and Jindal Films machine uptime is more than 95%.
- Ankit Gor:** Would like to understand the whole cycle. Correct me if my understanding is wrong here. Considering that we are at upcycle of this whole crude cycle even if the demand/supply mismatch what is expected to breach the gap in sometime? As you and some of our global peers and domestic players are increasing capacity. So where we are actually standing at this point of time – are we at the top of this cycle or we are at the bottom or there is more space left to grow for everybody?
- Management:** Market is growing at a rate of about 12% p.a. So all the new capacity should get consumed in next two years.
- Ankit Gor:** What would be total India's BOPP installed capacity? Whether the capacity utilization can be increased to 85-90% or maximum utilization is at 80% level only. Whether you need the capacity for additional volume
- Management:** Country's total installed BOPP capacity is 4.5 Lac to 5 Lacs Mtpa. And the utilization level is close to 80% on machine uptime basis. This nameplate capacity is calculated /determined based upon 25 micron thick standard films. The output is measured in terms of weights. So companies



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who are producing thinner micron or thick microns films will have a different numbers inspite of same utilization. So machine uptime is a better nomenclature. for JF the machine uptime is 95%. for growing demand the additional capacity would be required.

**Ankit Gor:** What would be this global installed BOPP capacity? The utilization would be more or less similar 70-75% there also?

**Management:** around 8 million tons pa. The Global capacity utilization numbers is difficult for us to estimate.

**AM Lodha:** Mr. Gupta, standalone number is very poor year-on-year and quarter-on-quarter. So, is there any particular reason for this poor performance in domestic business?

**Management:** The gross margin is ~ similar for both the comparable quarters. There is an increase in other expense due to one off items eg one time machine maintenance cost. There are some expenses booked due to fluctuations in the feedstock prices.

**AM Lodha:** But all are sailing in the same boat, sir, they must have had inventory losses in this quarter also?

**Management:** If you see our competitors they are present either is BOPP or in BOPET segment. We are present in both Polyester and BOPP segment. Currently we are a large player in the country.

**AM Lodha:** We are investing heavily in Jindal Powertech Ltd?

**Management:** In Q4, the investment is small amount, the power project is fully operational, generating revenue, there are plans to raise resources at the power level and the preference shares would be redeemed accordingly as per the terms of issuance.

**AM Lodha:** Why Re.1 dividend is being paid to the shareholder?

**Management:** Company has an established dividend policy. We have announced the CAPEX of Rs. 1,000 crores in H1. The dividend percentage is decided considering expansion plan for the company and the priority is given to reinvesting funds for CAPEX and for future value accretion and market conditions.

**AM Lodha:** With conservative resources the company pay the dividend, where again this year you declared a dividend of Re.1 only when company can afford to pay the income tax of Rs.187 crores company cannot afford to pay Rs.20-25 crores to the shareholders.

**Management:** We are reinvesting the funds in the expansion which will result in additional profitability of the company. The same will lead to increase in the share prices of the company.

**AM Lodha:** Sir, in good time, when you are running Rs.600 crores a year after taking the ExxonMobil unit and you are running like a multinational company, when you acquire a business from the



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multinational company, we think you are truly an Indian multinational company. So far your company has bought the unit from ExxonMobil at Rs.1300-1400 crores three years ago and you are supposed to run the company like a multinational company. So our investors request is that kindly draw the attention of the senior management person, at least the dividend policy the company should come out with a dividend policy and pay minimum 10-15% of the dividend every year.

- Management:** Mr. Lodha, thank you very much, we have noted the same.
- Moderator:** Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.
- Riddhesh Gandhi:** So on your expansion plans of Rs. 1,000 crores, is this entire Rs. 1,000 crores going to be spent in FY'17? How much is the breakup between equity and debt?
- Management:** For FY'16 in JPFL India Rs.150 crores has been spent and in JF Rs 65 crs of advances paid. For FY 2017 another Rs 600 crs will be spent. Balance Rs 285 crs will be spent. The breakup between debt and equity is 70 : 30. For equity portion operations surplus flows will be used.
- Riddhesh Gandhi:** If I think about the CAPEX, you use equity IRR, ROEs, ROCs for certain benchmarks that you guys look while evaluating CAPEX plan and how much would that be approximately?
- Management:** We use payback method for monitoring. The bench mark for all Major projects is 3-5 years.
- Riddhesh Gandhi:** In terms of the demand/supply mismatch, both in India and globally, do you feel that there is actually a lot of new capacity coming online which could impact overall deltas in the business?
- Management:** In India, the capacity addition will be operational in late 2017 and in year 2018, The demand is growing @12% pa. The mismatches in demand and supply will be for a short period of time. Overseas there are normal expansions taking place. In our JF operations we are selling value added products which are not impacted by demand and supply of the general commodity products. So our JF operations should see a fairly stable outlook.
- Riddhesh Gandhi:** As you think about stickiness of clients because of value added products that you offer, our clients usually reasonably with regards to actually sticking with a particular supplier or do they tend to have contenders every year around and things like that?
- Management:** Suppliers will have annual or two-year tender, but most of our customers have been customers of the company we acquired for last 10- 15 years.
- Riddhesh Gandhi:** In terms of delta going ahead and for this quarter and the whole year ahead, are you expecting delta to remain the same or is there a compression or do you see room for expansion?



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- Management:** Delta, as we said, market is growing about 12% in India and Overseas about 6.5%. So considering this, we expect this to be stable. Even if there are mismatches, it will be for a shorter period of time.
- Riddhesh Gandhi:** Is there any kind of rough guidance growth you can give us as decent terms of conversion or anything, how much do you expect to grow in FY'17 maybe at an EBITDA level, any indications you can give us?
- Management:** No, we do not give any indication but we can tell you that our new capacity in India will be operational in next two months. So accordingly you can gauge.
- Riddhesh Gandhi:** How much is as a percentage of your existing capacity?
- Management:** new expansion at JPFL India will be 20% of the Existing operational capacity of 2,10,000.
- Moderator:** Thank you. The next question is from the line of Dixit Mittal from Subhkam Ventures. Please go ahead.
- Dixit Mittal:** Sir, do we have any plan to expand BOPET capacity as well because all the three lines are on the BOPP side only?
- Management:** No plans for BOPET capacity expansion.
- Dixit Mittal:** In Jindal Photo, why we have paid so high valuation since it is doing around Rs.3 crores EBITDA and we have paid around Rs.90 crores valuations for that, so if you can just explain what is the potential of that business going forward?
- Management:** There are certain additional Tax benefit and fixed assets which also has been transferred to the company. The share price valuation for both the entities has been done by valuer's about 12 months ago as per the prescribed guidelines and the reports are available on the website. There are some synergistic products in the Photographic field where the products are utilizing the plastics by Jindal Poly Films. This synergy can add a lot of value to the business. Besides after merger the administrative cost would also go down.
- Dixit Mittal:** So who are the customers for this kind of films?
- Management:** It is a photographic product like photographic replacement of photographic paper and such kind of products. So customers are everywhere it is a consumer product.
- Moderator:** Thank you. The next question is from the line of Nitin Gandhi from KIFS. Please go ahead.



- Nitin Gandhi:** I understand that two things; global capacity you said is 8 million. Can you guide us how much is in China and how China is shaping with reference to the capacity utilizations and what do you think they will be for the '16-17?
- Management:** China, is almost 50% of the global capacity. We do not see much competition coming from China. It is more of a closed market and China is not a major player in the international market, it is self-sufficient and we expect that is how it will remain.
- Nitin Gandhi:** You said Jindal Powertech Ltd cumulative investment is Rs.685 crores out of which Rs.288 crores was in FY'16. Is entirely held in preference share and if yes, then what are the terms, duration is 5-6-years instrument or 3-years instrument?
- Management:** These are entirely in redeemable preference shares at a premium, yield is 10% premium, duration is more than that.
- Nitin Gandhi:** But already we have completed two years as on date, right, but from the time you have made the investment already some money has already completed two years, can you just give Rs.685 crores breakup year wise; '14 how much, '15 how much, '16 how much, '17 how much?
- Management:** I do not have the breakup but this year Rs.288 crores has been invested.
- Nitin Gandhi:** So in any case yield cannot be above 3.5% for sure, that is very clear, right, because three years' investment at 10% is the premium. So from shareholder's perspective as some gentleman was previously saying do you think is it a fair yield which minority shareholders should get and if not what is the way to by having equity conversion or some other mode by which we can get better return out of this?
- Management:** This will be redeemed in two years.
- Nitin Gandhi:** Next question is you said Rs. 1,000 crores, you are going to spend out of which I understand in FY'16 you spent Rs.150 crores, Rs.90 crores India and 9 million abroad, next year you are going to spend 100 million approximately in '17 overseas, India nothing, so balance 40-50 will be spending in FY'18, right?
- Management:** Yes.
- Nitin Gandhi:** How are you going to propose to raise the debt 70%?
- Management:** We have availed ECA loan which costs ~ 2% pa. and for balance we will avail long term project loans. For JPFL Indian the ECA loan has a repayment period of 10 years, for Europe it is a 8.5-year repayment, so these have very long repayment period and at a low cost





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- Moderator:** Thank you. The next question is from the line of Chinmay Garg from Dron Capital. Please go ahead.
- Pathik Gandotra:** This is Pathik Gandotra from Dron Capital. I had two questions: First is have you achieved optimal margin profile of the International business? 12.9% this year, it has been on a steady upkeep. So do you think it will improve further, do you think there is still scope?
- Management:** With the additional capacity addition the overall operating margin can be increased. The new machines have a high efficiency in terms of production and operating cost. We are also doing small debottlenecking CAPEX. So the operating margins if not go up should be maintained at least.
- Pathik Gandotra:** But the low hanging fruit you have all harvested, right, meaning already improved the profitability?
- Management:** No, with the CAPEX it should be increased. With the existing machines it will be atleast the current levels. First, we will be replacing old and inefficient equipment to some extent with new and efficient line
- Pathik Gandotra:** On the Indian operations, I do not understand why the EBITDA margins collapse so much in the fourth quarter because we have looked at the number of other companies like Cosmo Films, etc., where the margins have not actually fallen that much. Is there any particular reason indigenous to Jindal Poly Films?
- Management:** There were significant one-off maintenance expenses in this quarter and we had some Inventory loss, I do not know to what extent others had. These were the two primary reasons and the same have been explained earlier.
- Moderator:** Thank you. The next question is from the line of Viral Shah from Enam Holdings. Please go ahead.
- Viral Shah:** I wanted to understand how is the Jindal Films business different from the one in Indian operations, I understand it is BOPP but how is it so different that we can earn much higher NSRs there over the Indian operations?
- Management:** The product mix of there in JF -Europe and America are value added Specialty Films. In JPFL India it is generic grades eg Standard Films. There is a big difference in the margins of Both region (i.e. India and overseas) which come from the Specialty rates, Secondly, in Overseas Business there are long-term supply agreements with most of the customers for the Quantity. There prices are linked to Index. Which also help us get better margins for the overseas Businesses.



- Viral Shah:** But the pricing with these customers would also be cost plus meaning will the raw material pricing be a pass-through year?
- Management:** Yes, these are all cost plus agreements which get reviewed at regular frequency and increase/decreases are adjusted.
- Viral Shah:** So the new capacity which is coming up in India, would that be a specialty similar to what we have outside India or would that be similar to what the Indian operations have?
- Management:** No, it is similar to Indian operations, standard machine.
- Viral Shah:** So one can expect outside India part of the business to continue the NSRs while the exact numbers are not available, they are roughly as per our calculations are closer to 1.6 to 1.7 / 1.8 X the Indian operations, would such a premium continue?
- Management:** Yes.
- Viral Shah:** Would it be possible to share the revenue breakup of the Indian operation between BOPP and BOPET?
- Management:** BOPP is 60%, BOPET is 40%.
- Viral Shah:** Would it be possible to share the current BOPP and BOPET prices and deltas, just the industry number or something?
- Management:** In Polyester, the prices are around Rs.85/Kg. In BOPP there are various grades, it is very difficult to pinpoint a single price for the entire BOPP because there are various products but the prices are roughly in the region of about Rs.130 /Kg.
- Moderator:** Thank you. The next question is from the line of Raj Shah from Raj Finance. Please go ahead.
- Raj Shah:** If I see the balance sheet in the consolidated and standalone base there is a high substantial increase in the fixed assets. So is it the revaluation of the assets or this has been the addition of fixed assets?
- Management:** In India we have capitalized the Coating Plant in Q 4 FY 2016.
- Raj Shah:** There is no revaluation of the assets if I understand that?
- Management:** In rupee terms, yes, significant increase, because large part of the assets consolidated statements are in dollar and Euro terms, with the depreciation of rupee, that is just obviously valued in Indian rupees at a higher number.



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- Moderator:** Thank you. The next question is from the line of Elesh Gopani from Gopani Securities and Investment Private Limited. Please go ahead.
- Elesh Gopani:** Is there any plans of raising the equity by QIP or anything?
- Management:** QIP is only enabling resolution, right now there are no firm plans.
- Moderator:** Thank you. The next question is from the line of Pritesh Vora from INCEDO. Please go ahead.
- Pritesh Vora:** What is the main reason of decrease in gross margin in the Q4?
- Management:** On a quarter-to-quarter basis the gross margins is same for Both last Qtr and current Qtr i.e. ~ 34%. There is a difference in the other expenses component due to one-off cost as already explained.
- Moderator:** Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.
- Riddhesh Gandhi:** On the power company given its operational right now, is it profitable and can we assume now that there is going to be no incremental actually can be made there?
- Management:** The Power plant is fully operational (both units), the PPAs of the power company will start within this financial year.
- Riddhesh Gandhi:** But in the event, that they need more money, would you expect to be paying that out of this company again or would you then find out the routes in which to pay it, because I would assume you do not want to make any additional ...?
- Management:** There is no guarantee from Jindal Poly Films for the Power business debt.
- Moderator:** Thank you. The next question is from the line of Ankit Gor from Systematix. Please go ahead.
- Ankit Gaur:** What was maintenance one-off thing if you can just elaborate?
- Management:** We have certain expenses towards certain quality certification we did at the plant to the structure we plan to meet international standards.
- Ankit Gaur:** Is it possible to quantify this to maintenance expense and inventory loss?
- Management:** Rs.10 crores was expenses related to maintenance, which takes care of the significant portion. The inventory loss is not significant.
- Moderator:** Thank you the next question is from the line of Pritesh Vora from INCEDO. Please go ahead.



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- Pritesh Vora:** Sir, I am repeating the question about the gross margin. If you consider the last quarter standalone results I have on the BSE as compared to fourth quarter 2015, 629 crores was the revenue and 404 crores was the cost of material. So that makes this 665 crores and 384 crores which is 281 crores. So there is a gross margin decrease by 20% vis-à-vis other competitors in the same field have reported quite good gross margin increase. So my question was pertaining to why the gross margin has decreased in your fourth quarter?
- Pritesh Vora:** Other companies in the same area of work reported 5-10% of gross margin increase and in your case it is decreased. So how do we see this figure?
- Management:** If you see we are the largest player in the country in terms of operations also and we have both BOPET, Polyester and BOPP Films. Other producers have either BOPP or BOPET. You may be comparing with other companies who have only operations of BOPP. Polyester margins if you compare year-on-year have gone down and BOPP margins have broadly remained the same. So if you compare only with the company that produces BOPP, it is not going to be apples-to-apples comparison.
- Pritesh Vora:** How is the demand/supply scenario going forward because Cosmo and other people also expanding the BOPP capacity?
- Management:** The demand in growth for Packaging Films and BOPP Films is quite robust; it is in the region of about 12-14% and with the economy now recovering we expect to grow further. So where the lines are planned cannot all come together, they are coming in a gap of about 8 months to a year. So where the lines are planned, we expect that the increase in demand will be justified by the increase in supply.
- Pritesh Vora:** ExxonMobil plant we have taken over. Do we see further efficiency gain this year from there?
- Management:** It is a continuous process plus the CAPEX expansions are also planned.
- Moderator:** Thank you. Ladies and Gentlemen, due to time constraints, that was the last question. I would now like to hand the floor over to Mr. Manoj Gupta for closing comments. Thank you and over to your sir.
- Management:** Thank you for your participation in this Investor Call and for your questions. We look forward for our next call and hope that you all will participate once again.
- Moderator:** Thank you very much. Ladies and Gentlemen, on behalf of Jindal Poly Films, that concludes this conference. Thank you for joining us and you may now disconnect your lines.