

Transcript**Conference Call of JBF Industries Limited**

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Presentation Session

Moderator: Good morning ladies and gentlemen. I am Shirley, moderator for this conference. Welcome to the conference call of JBF Industries Limited hosted by MF Global Sify Securities India Private Limited. We have with us today from JBF Industries, Mr. B.C. Arya, Chairman, Mr. Rakesh Gothi, MD, Mr. P.N. Thakore, Director-Finance and also Mr. Cheerag Arya, CEO of JBF RAK. At this moment, all participants are in listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Kapil Bagaria of MF Global. Over to you, sir.

Kapil Bagaria: Thank you Shirley. Good afternoon everyone. On behalf of MF Global, I welcome you all to the Q1 FY 11 earnings conference call of JBF Industries Limited. We have with us the senior management team of JBF. I would now throw the floor open for Mr. Gothi, to first take us through the results and the outlook thereon. Over to you, Mr. Gothi.

Rakesh Gothi: Thank you Kapil. Before I go into the outlook etc. I'll take you through the numbers which we have as of now. In terms of the financial performance, the consolidated turnover has gone up to 1414 crores from 1221 crores and this reflects an increase of 15.8%. In terms of EBITDA, the number has gone up to 155 crores from 98 crores, which is an increase of 58%. Profit after tax before the minority interest is also up to 66 crores from 54 crores, which is an increase of 22%, though after the minority interest the number is 55 crores from 52 crores, which is an increase of 4.35%. The earnings per share for the current quarter stands at 8.81 which are also up from 8.41 as of the previous period, corresponding previous period last year. As a percentage of sales, the EBITDA number is up from 8% to 11% and the profit after tax before the minority interest is up to 4.7% from 4.5%. The detailed numbers, the other numbers which would be of interest to you is that the return on net worth now stands at around 24%, the

return on capital employed stands at 15% and the debt equity is still continuing to be less than 1. As far as the highlights during the current quarter in terms of the production, in terms of the operating performance has been virtually the doubling of film production at RAK that is the plant near Dubai. And there have been better performance in terms of realization, both in case of polyester chips as well as both textile grade chips as well as the bottle grade chips, as well as the realization for polyester film. During the same period, we have been able to increase our exports. And the exports now stands at roughly around 24% of our top line. During the period under question, we have also been able to add to the value added products, these are value added products in terms of chips, films and POY as well. Future outlook, yes, we are continuing to do, expansion in India at our Silvassa plant. We have already completed more than 50% of the ongoing expansion. This expansion, if you would recall, which we had informed you last time is works for 200 tonnes per day of polyester POY, being done at a cost of almost 220 crores. The specialty yarns, the expansion was on specialty yarns. We have completed more than 50% of this expansion and the balance part would be completed somewhere by end of August. I think at a full year of turnover, this should add close to, this plant will fully include production. And if we consider full year of production for this plant, the total turnover, it should add to our, top line should be of the order of 1000 crores. And of course we expect EBITDA from this side again around 9% or so. We will continually be going to do minor debottlenecking activities at our existing plants in India, as well as we also propose to do some debottlenecking at our JBF RAK plant. We propose to enhance the PET chips capacity by another 200 tonnes per day or roughly that would add close to 70,000 metric tonnes there, as well as that would be done by the end of this year, that is December 2010. By the end of next year, that is 2011, December 2011, we would be adding capacity to our film lines by another 30,000 tonnes per annum basis. The estimated CAPEX for this kind of an expansion is of the order of 70 million, seven-zero million US dollars. All in all, we are targeting a turnover for the coming years beyond 6000 crores. And we hope to achieve similar percentages in terms of the EBITDA of the order of around 10% and expect our targets for PAT are also in the range of 5%. And in the next three years, if we look at our targets we hope to collect almost 1400 crores by cash, over the next three years. We should have a cash generation of almost 1400 crores over the next three years. Any questions, would you like any further clarification on this part?

Moderator: Sir, we will take the Q&A now?

Rakesh Gothi: Yeah.

Question and Answer Session

Moderator: Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

I request the participants to press * and 1 for your questions.

The first question comes from, Ms. Naga Deepika from Capital Market.

Naga Deepika: Hello sir. Congratulations on a good set of numbers. I just have some few queries.

Rakesh Gothi: I think you have to be a bit louder, because we cannot hear you?

Naga Deepika: Okay, am I audible now sir?

Rakesh Gothi: Yes, please.

Naga Deepika: I have a couple of queries. Can you just give us the break up of what would be the domestic production and the sales volume? Because, I see the international RAK has been doing well, but I just want to know what is the bottleneck for domestic sales growth?

Rakesh Gothi: For the Indian operation, if you look, the numbers are that we have, the last year in the same quarter we achieved a net turnover of 674 crores, we have achieved now 850 crores, which is a variation increase of 26%. And in terms of EBITDA, the number has gone up from 70 crores to 89 crores, which is an increase of 27%. And the PAT numbers currently stands at 32 crores, which is down from 52 crores, because last year we had a FCCB gain and a FOREX gain of 24 crores, which is not there this year, rather there has been a FOREX downturn by about 12 crores. But nevertheless, the PAT is at 31 crores, which still stands at around 4% of our net sales.

Naga Deepika: Yeah, that's right. But I was just asking about the production terms, in the production and sales terms?

- Rakesh Gothi:** In terms of tonnages, is that what you would like?
- Naga Deepika:** Right, right.
- Rakesh Gothi:** Okay, the numbers in terms of tonnages, just a moment, I would be able to give you that. We have achieved a total tonnage in the current quarter of 204,000 tonnes domestically. Out of which, POY and the COY after captive consumption of chips would be, is of the order of 45,000 tonnes domestically.
- Naga Deepika:** Okay, okay. Sir, although the average realizations have improved.
- Rakesh Gothi:** Okay, I am sorry, I should clarify that part. The 123,000 tonnes is a domestic production and of course 81,000 tonnes is the RAK production. The total tonnage is 204,000 tonnes between JBF India and JBF RAK. So, JBF stands at 123,000 tonnes and out of that after captive consumption 45,000 tonnes is the production of POY.
- Naga Deepika:** Okay, got it. Sir, what is the price trend on raw material front, both PTA and MEG? Do you expect the MEG prices in particular to move ahead from these levels? What is going on in the global front in both these raw materials front?
- B.C. Arya:** You know, MEG world wide demand and supply is mismatching. The demand is less and supply is much more. In last two years, 3-4 plants has started production in Saudi, one plant, a big plant in Singapore Shell and one plant in India has also started IOC in Panipat. So, all these put together the MEG as on today, is much more supply than the demand. So, prices have been under pressure. If you remember the last six months back, the prices were in the range of 1000 dollars, today it is hovering around 700 dollars. And we estimate the price should be stable around 700, it should hover around 700 to 750 dollars, the next 6 to 9 months.
- Naga Deepika:** Okay and how about PET sir? Sorry, PTA?
- B.C. Arya:** PTA also, this 2-3 plants have already started in China. And India's Mitsubishi plant in Haldia is slowly, slowly coming to stabilization. So, PTA price has been hovering around 800-850 dollars, should be in the range of 850 to 900 dollars.
- Naga Deepika:** Okay, okay. Sir, coming back to the CAPEX front, you have said that there is a, by the end of 2011, the RAK will have the CAPEX of 70 million USD, right?

- B.C. Arya:** That's right.
- Naga Deepika:** That is by the end of March 2011?
- B.C. Arya:** It's like this. We are expanding in our PET productions by 200 tonnes per day, this will be over by December 2010 and we are spending almost 26 million dollar there, including the infrastructure. We are putting turbines and other utilities and one film line we are putting in 2011, this will be operational by December 2011. There we are putting 45 million dollars. So, total is 71 million dollars for total capital expansion, 26 million for PET expansion and 45 for film.
- Naga Deepika:** Okay, and this will be near Dubai, RAK plant, right?
- B.C. Arya:** This is RAK plant.
- Naga Deepika:** Okay. Sir, what would be the domestic capacity by including this current, we have already got in some 36,000, what would be the domestic capacity now?
- Rakesh Gothi:** You are asking by after addition of the current capacity of another 70,000 tonnes, that's what you are asking?
- Naga Deepika:** Right, right.
- B.C. Arya:** Once we complete this expansion of POY and specialty yarn in India we will have 240,000 tonnes per annum POY capacity, 20,000 tonnes per month.
- Naga Deepika:** Okay, fine, thanks sir. I'll come back later.
- Moderator:** Next question comes from Mr. Karthik Mehta from Sushil Finance.
- Karthik Mehta:** Hello. Good afternoon sir.
- Rakesh Gothi:** Good afternoon.
- Karthik Mehta:** Sir, can you just provide us the delta for our three categories of chips as well as POY and films?
- B.C. Arya:** You want to know chips in India?
- Karthik Mehta:** Yeah, chips in India as well as in RAK and also the delta for POY, FDY as well as film category.
- Rakesh Gothi:** I would be able to give the consolidated delta for chips so far is India is concerned. By delta, I presume you mean

the difference between the raw material and the sales price.

Karthik Mehta:

Yes sir.

Rakesh Gothi:

It would stand at close to in the range of about Rs.8½ in India as of today.

Karthik Mehta:

Per kg?

Rakesh Gothi:

That is rated at rupees per kilogram India today. And in case of POY, the same number is of the order of Rs.20, per kilogram.

Karthik Mehta:

Okay, and for films.

B.C. Arya:

Film is in the range of almost 1500 dollars per tonne.

Karthik Mehta:

Alright, that is the delta for films.

B.C. Arya:

Yes, that is the delta for the films.

Karthik Mehta:

And how is it for solar film particularly?

B.C. Arya:

Solar films, we are producing, this is a very specialized film and we are producing only 1000 tonnes per month and that delta is very good. That is almost more than 2000 dollars.

Karthik Mehta:

Okay, okay. And sir, what is our actual rated capacity at the Indian (not sure) that produces the bottle grade chips?

B.C. Arya:

Bottle grade chips in India, we have got 400 tonnes per day as on today.

Karthik Mehta:

Okay. And we intend to expand it?

B.C. Arya:

We are thinking to expand it.

Karthik Mehta:

Sarigam?

B.C. Arya:

But, we will take a decision next year only.

Karthik Mehta:

Okay. That is going to come at Sarigam, right?

B.C. Arya:

That is going to come at Sarigam, because all the infrastructure are there, so at a very minimum cost we can increase to 700 tonnes per day.

Karthik Mehta:

Okay, okay. Sir, on the CAPEX side, I could not get certain numbers, just wanted to reconfirm it once again.

For the next two years, we have to summarize the CAPEX both at India as well as in UAE separately, so for India there is going to be 26 million dollar CAPEX for Sarigam?

B.C. Arya: No, no, in India we are not spending any money, very small amount of money for just this debottlenecking or anything. The total expansion is coming at RAK only. Total expansion in RAK is 71 million dollars, out of that 26 million dollars is to increase the capacity of PET resins to 200 tonnes per day that will cost only 6 million dollars. And we are putting one more line for specialty like solar and LED, the 30,000 capacity that will cost 45 million dollars. Total cost of expansion in RAK is 71 million dollar, this will be spent in next two years, 2010-11.

Karthik Mehta: And when is going to, over this PET expansion, by December?

B.C. Arya: December 2010.

Karthik Mehta: And that film line, December 2011?

B.C. Arya: 2011, right.

Karthik Mehta: Okay sir. And how are we going to fund it basically through debt only I suppose.

B.C. Arya: Yes, some debt and some internal accruals, out of this 45, we are taking 30 million dollar debt and 15 million dollar through internal accruals and this 26 million dollars, we have taken debt of 15 million dollars and 11 million dollar through internal accruals.

Karthik Mehta: Okay. And it will be international debt only?

B.C. Arya: International debt only, only RAK level, yeah.

Karthik Mehta: Okay, at 6-6½%?

B.C. Arya: Around that. LIBOR plus 3½ to 4%.

Karthik Mehta: Okay. And sir what is our current debt on the books as well as cash?

P.N. Thakore: In India we have as on date, total debt of around 500 crores and cash on our hand is almost 200 crores.

Karthik Mehta: 200 crores. And we intend to maintain that cash level or we will be utilizing it?

B.C. Arya: We would like to increase the cash levels.

- Karthik Mehta:** Okay sir. And sir, the concern of that PTA supply from Mitsubishi plant is getting elevated?
- B.C. Arya:** Slowly, slowly getting out. Now, they are running at more than 70%. And hopefully by next quarter they hope that they will be running 100% and that should be over.
- P.N. Thakore:** See, this debt is excluding working capital.
- Karthik Mehta:** Sir, regarding mark to market loss, how is it like nature of the contract of that particular, like I understand it is between US dollar, Japanese yen currency pairs?
- B.C. Arya:** Yeah, it is very difficult to know what is going to that net loss or anything, it depends on the yen and how yen behaves. So, we hope that in the total year, the projection we have got from the banks and everybody, we should likely be maximum loosing around 10 to 15 crores the whole year.
- Karthik Mehta:** Okay. And what is our breakeven point for that strategy?
- B.C. Arya:** Breakeven is yen is around 92.5, there is no loss.
- Karthik Mehta:** Okay. And just wanted to understand the psychic behind entering into USD, Japanese yen currency position wherein we majorly deal into non-Japanese yen currencies?
- P.N. Thakore:** We took ECB loan of JPY and we had hiked basically the currency as well as the interest rate, that's how we had got into this.
- Karthik Mehta:** Okay. And sir, one question is that we have a mark to market loss of 150 crores, 151 crores at the end of this first quarter. And last year, full year it was 60 crores at the end of the financial year. It has been expanding very rapidly, so any specific reason for not providing anything, even if the fact that the loss is widening?
- P.N. Thakore:** No, it is as on 30th June, the JPY was very strong. It was around 86. That was the reason the loss had come. It keeps on fluctuating depending on the yen level. We had a similar transition about 2 or 3 years back where at one point of time that derivative was showing about 70 crores of M-to-M and we were able to unwind that about, a cost of about a crores rupees or so. So, it's very difficult to crystallize exactly what is going to happen. And had we provided that 70 crores in that quarter about two years back, next quarter we would have to reverse that. So, our

experience has been that very difficult to predict exactly what is going to happen.

Karthik Mehta: We can always calculate and adjust the PAT accordingly?

P.N. Thakore: No, see it's all misleading, because what happened in JPY, the forward is always at premium. So, the M-to-M is always looks very large, because it's a three years transaction. So, M-to-M always shows much higher than what can happen.

Karthik Mehta: Any counter remedy we are undertaking?

P.N. Thakore: Yeah, we will see. Maybe at appropriate time. We are in touch with the bank and based on their guidance, we will take necessary actions.

Karthik Mehta: Alright. Because, this is one of the drag what is probably we are not accounting as of now.

P.N. Thakore: Yeah, yeah, all I can say, we are less affected than the Japanese Government.

Karthik Mehta: Sir, last question on the UAE operations side, like I understand our entire billing including revenue and costing is done in AED?

B.C. Arya: No, it's not everything is done in AED, mostly US dollars. We are selling some quantity in UAE market also, which are billed in UAE, but otherwise 80% is US dollar and 10 to 15% in the euro.

Karthik Mehta: Okay. And sir, and then for consolidation we convert in US dollar to Indian rupees?

B.C. Arya: That's right.

Karthik Mehta: At the end of the year?

B.C. Arya: That's right.

Karthik Mehta: So, in that case, do you have any guidance for the currency where, because usually we are the one of the companies wherein the currency matters a lot?

B.C. Arya: No, this dirham AED to dollar is fixed. And dollar to rupees, we are taking at the last day of the quarter. This year we have taken Rs.46.60, so the end of the quarter, the RBI rate whichever we are taking as foreign currency rate.

- Karthik Mehta:** Okay. AED to dollar is what rate, fixed?
- P.N. Thakore:** 3.675.
- Karthik Mehta:** 3.675.
- B.C. Arya:** This is fixed rate.
- Karthik Mehta:** Okay, alright. So, we don't intend to give any guidance for INR, USD?
- P.N. Thakore:** No, it is very difficult.
- Karthik Mehta:** Okay sir. Thank you very much. I'll come back to you if I have any doubts.
- Moderator:** Next question comes from Mr. Jignesh Kamani from MF Global.
- Jignesh Kamani:** Congratulations for a good set of numbers. Sir, just want to know, if you talk about the Indian operations.
- Rakesh Gothi:** Could you please again speak up louder please?
- Jignesh Kamani:** Yeah sir. I just wanted to check about the Indian operations, do we face any problem in terms of raw material availability this quarter, which was prevalent in Q3 and Q4?
- B.C. Arya:** You know this MCPI Haldia plant, we have a long contract with them. Our contract is to buy almost 16,500 tonnes per month. And their plant has a lot of problems, saving problems. For the last one year, they have been running less on 50% of their capacity. So, we have small problems. But, now they are running at more than 60-70%. They are hopeful by the end of this year, they will be running at 100%. So, today we are looking at that, there should be no problem of PTA, getting PTA.
- Jignesh Kamani:** Sir, what about the current utilization level, we did in Q1 is sustainable you can say?
- B.C. Arya:** This Q1 we produced around 120,000 tonnes of chips. And Q2, hopefully we will be producing around 140,000 tonnes.
- Jignesh Kamani:** Okay, you can say Q1, we can consider as a base you can say for the next, near future?
- B.C. Arya:** Yes.

- Jignesh Kamani:** Okay. And sir, if you talk about RAK there was a decline in terms of production of chips as well as sales was subdued in terms of chips.
- B.C. Arya:** In RAK, chips production declined because we were buying a lot of material from Thailand used in the plant. And the first quarter there were a lot of problem in Thailand where chipping was a problem. So, because of that we couldn't get the PTA in time, so production was less. But, in this quarter, hopefully we are buying the PTA from other sources. And hopefully we will be producing 100%.
- Jignesh Kamani:** But, there was also a decline in sales also, compared to production also. So, mainly on account of your Saudi market and Europe, is that why?
- B.C. Arya:** Naturally once we are producing less, naturally sale also will be less.
- Jignesh Kamani:** No, no, even though we produce quite a lot, this percentage, sales as a percentage of production was little subdued, that's why?
- Cheerag Arya:** Captive consumption which is almost close to 6000 tonnes a month, that is 18,000 tonnes a year, 18,000 tonnes a quarter, sorry. And that would subtract the distance which is 80,000 to 63.
- Jignesh Kamani:** So, concern was only raw material, not on the sales front, is it?
- Cheerag Arya:** Yes.
- Jignesh Kamani:** And, how is currently the demand from I think Europe is little bit, you can say waning out. So, how we are hedging our self you can say?
- Cheerag Arya:** Actually if you see in the last week's time, we had managed to win the case against Europe that we had, which is published in the last weeks report in PTI which shows that JBF is one of the only companies in the world where the case has actually been withdrawn, because the evidence that was provided was very strong. And anyway even during the course of the three months where we did have this problem, we have managed to expand into new markets which are North Africa. Africa, as a matter of fact has been a very good market, we spanned out into Eastern Europe, but the market is very strong. Earlier, we didn't really concentrate on, because we were focusing on Europe. But, now with this issue that has come up, we

started looking at it and we have been very successful in these markets also.

Jignesh Kamani: Okay. So, what is, I can say right now are we paying any extensive counter bidding duty or the anti-dumping duty to Europe?

Cheerag Arya: Nothing, nothing.

Rakesh Gothi: Totally has been withdrawn. It's been withdrawn.

Jignesh Kamani: Okay. Earlier what percent of our sales used to go to Europe where we used to pay anti-dumping duty?

Cheerag Arya: Whatever is this, even if we sold anytime during this period, we will be refunded that money.

Jignesh Kamani: So, what will be the quantum you can say?

Cheerag Arya: I can't hear you, sorry.

Jignesh Kamani: Hello.

Cheerag Arya: There is no percentage, there is a euro value. There was a euro value of close to 48 euro, which was levied on to us. But, now any customer that bought the product during that period, will be refunded that money.

Jignesh Kamani: Okay, so we foresee any quantum, I can say, inflow from that?

Rakesh Gothi: No, it will not be for JBF sir. It will be basically the customer has paid that duty and they will get the money.

Cheerag Arya: No, no, the customer has to pay it and it has nothing to do with JBF.

B.C. Arya: So, once this anti-dumping has been withdrawn, any customer which has paid the anti-dumping they will get the refund.

Jignesh Kamani: Okay, okay, not to us.

B.C. Arya: Yeah.

Jignesh Kamani: Okay. And sir, there was a FOREX loss of 13 crores, you can say in the Indian books which we already accounted. So, mainly on account of which loss was this accounted?

- B.C. Arya:** This is, we have ECB's and we also have some FCCB to be converted, so because of that the last quarter Indian rupees was 44 and today it is 47, it was notional loss.
- Jignesh Kamani:** So, this 13 crores is notional, not I can say actual?
- B.C. Arya:** Notional loss.
- Jignesh Kamani:** So, what is currently outstanding you can say on foreign loans on which you can say, we may book for notional loss...?
- B.C. Arya:** We have got ECB of 40 million dollar outstanding. And FCCB 7 million dollars, still balance, that's all.
- Jignesh Kamani:** Okay. And what rate? Blended?
- B.C. Arya:** This ECB is Japanese yen, we are paying Japanese LIBOR plus 1% and FCCB, of course, FCCB hopefully it will be converted now.
- Jignesh Kamani:** No, I am talking about the threshold level, means if you talk about this 40 million dollar, Japanese yen loan, at what rate that dollar to yen you can say we have entered into?
- P.N. Thakore:** We had entered 123.
- B.C. Arya:** 123.
- Jignesh Kamani:** So, anything mark to market has been booked?
- P.N. Thakore:** No, that has been, there are two parts of it. One is 20 million that mark to market is provided every quarter. Second is hedged to this instrument which is showing this loss. So, when we have to repay, we will get 123 yen against 1 dollar. That is completely hedged.
- Jignesh Kamani:** Okay sir. Thanks a lot.
- Moderator:** Next question comes from Mr. Apoorva Doshi from Kotak Securities.
- Apoorva Doshi:** Yes sir, congratulations on a good set of numbers.
- B.C. Arya:** Thank you sir.
- Apoorva Doshi:** Sir, just one question on this RAK, you are saying that chips you would expand by December, but film by December 2010. But, films you are saying December 2011. I believe you are already operating at 100%

utilization. Why it would take such a long time to expand films in RAK?

Cheerag Arya:

Because, it's a completely new line. New line in order to, from zero date which is the date you place the order, it takes about 12 to 14 months to arrive at site and another about 2 to 3 months to erect the plant.

Apoorva Doshi:

Okay, so this is going to be completely different location from existing RAK?

Cheerag Arya:

Same plant, but a new line. Same structure, same shed, everything is the same thing, but it's just the new line that we are installing.

Apoorva Doshi:

Okay. So, this would not be possible before December 2011?

Rakesh Gothi:

Delivery is more than a year, once you open the LC, the manufacturers deliver after a year.

Apoorva Doshi:

Okay, so that is the main problem, otherwise, from demand front there is no?

Cheerag Arya:

There is no stocking.

B.C. Arya:

In case, if we can get the machine, we can install within six months.

Apoorva Doshi:

So, would it make sense to acquire some films capacity? Are such facilities available in Europe or maybe in Middle East?

B.C. Arya:

Middle East there is no capacity available. Europe, of course, there are very old plants, old machines, old plants which are very less sufficient and very small capacities.

Apoorva Doshi:

Okay. So, you will have to set up this plant, there is no other alternative?

B.C. Arya:

There is no other alternative.

Apoorva Doshi:

Sir, any update on the PTA plant? MOU with Oman Oil refinery?

Cheerag Arya:

It is in the process, we are still finalizing on the, we are just sitting down on the negotiations front. We need to, before we get onto the final signature, we need to make sure we have all the utility prices, all our transfer prices of Paraxylene in line to get them at the rate we want them, before entering into any kind of a joint venture agreement,

we want to make sure that we have everything in line to our requirement, before we get into a JV.

Apoorva Doshi:

Correct. But, how much time it will take, roughly?

Cheerag Arya:

It's the summer months, it's the summer month going on, and as you know next week Ramadan starts, next 6 to 8 weeks we should be able to finalize everything.

Apoorva Doshi:

Okay. And after that it will take 24 to 28 months to commission the refinery?

Cheerag Arya:

Commission the PTA plant, yeah.

Apoorva Doshi:

Commission the, sorry, the PTA plant, okay. Sir, a question on this Citigroup, you were going to buy back 22% of the CVC in JBF Global. What has happened there? Because, I believe we have provided minority interest, full 33% is provided.

B.C. Arya:

Yes, hopefully buy this 22%, we will buy back by the end of this month.

Apoorva Doshi:

By end of this month, but we have already signed agreements and all. So, what is the delay?

B.C. Arya:

We have signed the agreement, but money has to be paid. Hoping to pay by the end of this month.

Apoorva Doshi:

Okay, so basically from next quarter, that minority interest will actually move down significantly?

B.C. Arya:

Down to 11%, yeah.

Apoorva Doshi:

Okay. And what about the balance, one-third?

B.C. Arya:

One-third, we will look into it.

Apoorva Doshi:

Okay, but valuation is 60 million dollars for two-third?

B.C. Arya:

That's right.

Apoorva Doshi:

Now is there option for you to buy another that third component at the same valuation or valuation can change again?

B.C. Arya:

Valuation will change. But, we have option to buy that.

Apoorva Doshi:

Okay, but valuation will not remain the same?

B.C. Arya:

Yeah.

- Apoorva Doshi:** Okay. Sir, in India this POY capacity, this 36,000 has commissioned and another 36,000 when it will commission?
- B.C. Arya:** By, hopefully before September end.
- Apoorva Doshi:** Before September ends. So, we will have 1.6 lakhs plus 36 plus 36, correct?
- B.C. Arya:** Yeah.
- Apoorva Doshi:** So around 2,40,000 by September?
- B.C. Arya:** By September, yeah.
- Apoorva Doshi:** Because, currently I believe even the current POY is operating at 100%, it's around 40-42,000, so that means it will start operating at 100%?
- B.C. Arya:** Right.
- Apoorva Doshi:** Okay. And this 36,000 which has commissioned now, that is a full commissioning or is there a partial ramp up in that?
- B.C. Arya:** Fully commissioned by September end.
- Apoorva Doshi:** No, no the first 36,000 which has got commissioned?
- B.C. Arya:** That has been fully commissioned.
- Apoorva Doshi:** So, that's 100%?
- B.C. Arya:** 100%.
- Apoorva Doshi:** And already operating at 90-95%?
- B.C. Arya:** Yes, 100%.
- Apoorva Doshi:** Already 100%?
- B.C. Arya:** Yeah.
- Apoorva Doshi:** Okay. And sir, on your chip side in India, I believe the capacity is 1500 tonnes per day, out of that you said 1400 is bottle grade.
- B.C. Arya:** No, no, we have got around 1600 tonnes per day as the total capacity, bottle is only 400 tonnes.
- Apoorva Doshi:** 400 is bottle grade?

- B.C. Arya:** Yeah.
- Apoorva Doshi:** So, currently, how much we are producing in bottle grade?
- B.C. Arya:** Around 300 tonnes per day.
- Apoorva Doshi:** Around 300 tonnes. This we want to ramp up to 400 tonnes per day?
- B.C. Arya:** Yeah.
- Apoorva Doshi:** Okay. And what is the margin difference in India, in say this normal chip and bottle grade chip?
- B.C. Arya:** Normal chip and bottle grade chip, their difference is Rs.3 to Rs.4 per kilo.
- Apoorva Doshi:** Okay, so it is more beneficial for bottle grade chips?
- B.C. Arya:** Yes, more beneficial for bottle grade chips.
- Apoorva Doshi:** Correct. Now going forward, the sale of chips in India will reduce, because it will be captive consumed for POY, so any plans to further increase chips capacity to maintain our market share?
- B.C. Arya:** We are just doing some de-bottlenecking; it's not in a major way. We slowly, slowly want to get out of fiber grade chips. Production of fiber grade chips is going to be very, very low. Our (not sure) plant, so many other people are putting their plant over the fiber grade. The strategy is that we should be out of fiber grade chips in the next 18 months.
- Apoorva Doshi:** Okay, so whatever we will produce, we will use captive consumption for POY, which is a value added product?
- B.C. Arya:** POY and we will convert everything in bottle grade chips.
- Apoorva Doshi:** In bottle grade, of course, POY and in bottle grade. Okay. Sir, on the debt front, Mr. Thakore mentioned 500 crores for India. What is the consolidated debt including working capital?
- P.N. Thakore:** About 600.
- Apoorva Doshi:** Including working capital?
- P.N. Thakore:** Yeah.

- Apoorva Doshi:** And including RAK?
- P.N. Thakore:** No, RAK is separate, this is standalone.
- Apoorva Doshi:** No, I want consolidated.
- P.N. Thakore:** All put together you can take about 1200 crores.
- Apoorva Doshi:** 1200 crores of debt. And cash?
- P.N. Thakore:** Cash around 180 to 200 crores.
- Apoorva Doshi:** 180 to 200 and out of this 60 million dollar has to be paid to Citigroup? Hello. Out of this, 60 million dollar has to be paid to Citigroup for buying that stake?
- P.N. Thakore:** Yeah, we are looking at some funding for that. But, (not sure) will be paid out of it.
- Apoorva Doshi:** Okay, so in terms of funding actually the next question, we had taken the board QIP approval, so what is the process over there?
- P.N. Thakore:** Yeah, we are looking at it. At appropriate time, we will look at it.
- Apoorva Doshi:** But, nothing has been finalized?
- P.N. Thakore:** We are just examining. We are looking at what are the options.
- Apoorva Doshi:** Okay. And on this FOREX loss derivative, just wanted to understand, assuming that whatever level is yen today, when will the actual payouts start from 30th August or 30th September? And if the yen reinstates today's level, what will be the monthly pay out?
- P.N. Thakore:** When the observation starts from August...
- Apoorva Doshi:** Correct, from tomorrow.
- P.N. Thakore:** We cannot look at it this way, if the yen remains at this particular level.
- Apoorva Doshi:** No, no, it's just an example to understand what could be the potential loss.
- P.N. Thakore:** Yes, we had done some calculation based on the SBI had given certain projections by yen, which is at right now, it is around 87 and slowly it will move up to between 95 and this. If we go by the projections provided by State Bank

and do the working, the yearly loss may be tune of around 11-12 crores.

Apoorva Doshi: But, the yearly that will be next year only, this year will be only six months?

P.N. Thakore: Yeah, we had just done calculation based on the State Bank's projection.

Apoorva Doshi: No, no, correct. Sir, I understand whatever State Bank has given, that is separate, but if we assume yen to be at today's level, what will be the monthly pay out?

P.N. Thakore: That's a formula, we will have to just work on that and we can get back to you on that.

Apoorva Doshi: Okay sir. Thank you. And apart from this, there were some market rumors here on this Bombay Dyeing thing, can you clarify?

B.C. Arya: No, no, just a market rumors.

Apoorva Doshi: Absolutely nothing, right?

B.C. Arya: Nothing, nothing.

Apoorva Doshi: Because, as you said, the strategy for you is to exit chips and enter more into POY, so just wanted to understand, how does it fit into the entire scheme?

B.C. Arya: No, absolutely no.

Apoorva Doshi: Absolutely nothing?

B.C. Arya: That's right.

Apoorva Doshi: Okay sir. Thank you very much and best of luck.

B.C. Arya: Thank you.

Moderator: Next question comes from Mr. Rohit Sanghavi from Prime Securities.

Rohit Sanghavi: Yeah, good afternoon. Congratulations on your results.

B.C. Arya: Thank you.

Rohit Sanghavi: I have a question regarding the margins. If you see year on year, your margins EBITDA, at the EBITDA level have gone up from 8% to 11%, what do you attribute this to, the India business or the UAE?

- B.C. Arya:** This is a combination of both. UAE film is doing very well. So, there EBITDA is more than the Indian operations. And in India also as we are expanding our POY and specialty yarn capacities, since we are getting out of chips. That's why the margin is going up. India we hope to have the EBITDA around 10% and RAK might go up to 12 to 13%.
- Rohit Sanghavi:** In fact my follow up question was on the same, because your EBITDA for this quarter, for the first quarter was 11%, whereas your PAT margin was about 3.9, but your guidance that you mentioned earlier in the call, you mentioned EBITDA will actually go down for the year to 10% and PAT will increase by about 1% to 5. So, I am just trying to understand how the whole thing will work out, because EBITDA is going down by 1% for the full year, from 11 to 10 and PAT is actually going up from 3.9 to 5.
- B.C. Arya:** We are looking at that there should be no FOREX losses.
- P.N. Thakore:** Take note that there is almost 13 crores of FOREX loss for this quarter. We don't expect rupees to go worse from this level.
- Rohit Sanghavi:** Okay, so basically this gain at the PAT level will primarily come out of the FOREX gain?
- P.N. Thakore:** Yeah.
- Rohit Sanghavi:** Okay. And EBITDA going from 11 to 10 euro, obviously you are expecting pressure on margins going forward.
- B.C. Arya:** We are conservative, we hope that at least we achieve 10%, but we don't feel any pressure because the demand is good and raw materials are stable. Conservatively, we are telling that okay we will be at least that 10%.
- Rohit Sanghavi:** I see, alright. That's it from me, thanks.
- Moderator:** Next is a follow up question from Mr. Karthik Mehta from Sushil Finance.
- Karthik Mehta:** Yes sir. As you said that your total debt is 1200 crores and standalone debt is 500 crores, so remaining 700 crores is of RAK debt?
- P.N. Thakore:** 500, I said without working capital, so roughly you can take 600 crores here and roughly 600 crores in RAK.
- Karthik Mehta:** Okay. And cash level in the RAK balance sheet?

- P.N. Thakore:** Cash level is only in the Indian operation, RAK there is no surplus.
- Karthik Mehta:** Okay. And is it possible for us to just convert the existing fiber grade chip making capacity to bottle grade?
- B.C. Arya:** Yes, in India we have the flexibility to convert into bottle grade, just by debottlenecking some of the equipments, which will cost a couple of crores. And we are working on that. Hopefully, next year we will convert from fiber grade to bottle grade.
- Karthik Mehta:** Like if that is the case then most of the players who are having the fiber grade chip making facility and they would also intend to convert it to bottle grade where the margins are pretty high?
- B.C. Arya:** No, it is not that, it is not that easy, because once you start plant, a Greenfield project, you have to design according that you are going to have a bottle grade or a fiber grade. Before putting the second (not sure), we had very clear cut understanding that ultimately we are going to convert everything into bottle grade. Does that (not sure)?
- Karthik Mehta:** Okay. And sir, what is the kind of per tonne conversion cost, as the CAPEX we may have to incur?
- B.C. Arya:** Excuse me, I couldn't understand what you want to say.
- Karthik Mehta:** What will be the kind of CAPEX cost per tonne for the conversion of fiber grade to bottle grade?
- B.C. Arya:** For us it's hardly anything, because I think it will cost us from 400 to 700 tonnes, will cost around 15 crores. But, if you want to put a new plant, it's a huge cost.
- Karthik Mehta:** Yeah, that's what I was asking, just comparison. Okay, and sir how is the situation of the demand supply, particularly in the light of Chinese rate for the fiber grade chips?
- B.C. Arya:** China, there is no threat, because in India our cost of manufacturing and our logistics, nobody is going to import. Because, import is lot of problems, you have to keep a lot of inventories and delays at the port and congestions. So, and we see that nobody can import. Your pricing is fixed in such a way that our landed cost and our cost is almost same, so nobody wants to import.
- Rakesh Gothi:** I might say, China is not exporting any chips to India, because they themselves are I think on the shorter side.

They themselves import from other countries like, let's say Taiwan or Korea, so that kind of a threat is not there. And I think for China to export and looking at whatever these transportation costs are today and with the kind of delays which are happening in shipping, it is virtually impossible for anybody to move chips from China to India. And there is adequate quantity of chips here, so I don't believe people would be willing to import chips from China.

Karthik Mehta:

Alright. And sir, last question. I understand that we are sending chips out here, from here to our UAE plant for making films. So, with expansion at UAE it will be over and we would be sourcing from that plant only?

B.C. Arya:

No, no, to UAE we are sending only specialty chips. Their requirement is 7000 tonnes per month, we are sending from here only less than 1000 tonnes, that's around specialty chips.

Karthik Mehta:

Okay, that will be continued going forward.

B.C. Arya:

That will continue.

Karthik Mehta:

Alright, thank you sir.

Moderator:

Next question comes from Mr. Gaurav Sud from Kanav Capital.

Gaurav Sud:

Hello sir. I wanted to know that what are the margins in the film business and ultimately what are your plans to scale up in that, because apparently the margins seem to be expanding a lot?

Cheerag Arya:

Well, actually today the situation is a little very, very juicy as such. So, today we can say the margins are anywhere between 1200 to 1500 US per metric tonnes.

Gaurav Sud:

Okay. When you say margins then, that means the delta per kg would be of the order of Rs.65-Rs.70?

Cheerag Arya:

That is from raw material to selling price.

Gaurav Sud:

Okay. And so you this is as a short term opportunity, it won't last?

Cheerag Arya:

Well we are hoping it goes up.

B.C. Arya:

We hope that, at least for next four quarter will continue. What happens that in 2008-09, markets were bad. Nobody had installed new lines. And the film line growth was there. So, there is a mismatch of demand and supply.

Now, lot of lines will be coming 2010-11 and 2012, so by 2012 again the demand and supply will match. So, next 3 to 4 quarters, we hope that margins should be better.

Gaurav Sud: Sir, so what is your current capacity in, since right now?

B.C. Arya: 72,000 tonnes per annum.

Gaurav Sud: 72,000 tonnes per annum. And that will positively impact your EBITDA this year and maybe next year?

B.C. Arya: Yeah. Hopefully yes.

Gaurav Sud: Okay, that's it. Thank you.

Moderator: Thank you sir. I request the participants to press * and 1 for your questions.

Next question comes from Mr. Batra an Individual Investor.

Batra: Hello. I am K.S. Batra. I just want to know who are the competitors in our industry in the polyester films.

Cheerag Arya: We have companies like Polyflex, (not sure), TORAY, Mitsubishi, DuPont.

Batra: UFLEX also?

Cheerag Arya: UFLEX also. We have SKC. Those are the global players.

Batra: I understand even they have done lot of expansion in last one year, they have increased their capacity?

Cheerag Arya: Yes they have. They have actually started a new plant in Mexico, but that is right now is going through a crippling phase, which is not running at around 100% due to internal issues.

Batra: Okay. No, after commissioning of their plant, will there be any effect on our margins?

Cheerag Arya: No, not at all.

Batra: Not at all, okay. Thank you sir.

Moderator: Thank you sir. I request the participants to press * and 1 for your questions.

I request the participants to press * and 1 for your questions.

Next is a follow up question from Mr. Apoorva Doshi from Kotak Securities.

Apoorva Doshi:

Yes sir, in the presentation you have mentioned that going forward availability of PTA could be one of the concerns going forward, can you just briefly explain how you are going to avoid that? Because, in the past also we have seen that several times, because of PTA production has gone down, thereby it affects profitability.

B.C. Arya:

As I explained, in India this, Mitsubishi plant has already started at a good efficiency, so in India there should be no problem. And RAK, Cheerag will explain you.

Cheerag Arya:

In RAK, we mainly import from Taiwan, Korea and Thailand. All these three countries used to mainly export into China. And China has put anti-dumping duties against the PTA imports from these countries. So, we don't foresee for the next at least 3 to 4 years having any shortages in terms of supplies, in terms of the quantities available for PTA in RAK.

Apoorva Doshi:

Okay. So, but what will be the quantum of the anti-dumping duties?

Cheerag Arya:

It's substantial, where the PTA players are being hurt.

Apoorva Doshi:

Okay, so ultimately they would have diverted to you.

Cheerag Arya:

Yes, they have to divert it elsewhere.

Apoorva Doshi:

Okay sir. Thank you very much.

Moderator:

I request the participants to press * and 1 for your questions.

There are no further questions. Now I hand over the floor to Mr. Kapil Bagaria for closing comments.

Kapil Bagaria:

Thank you sir for giving us the opportunity to host this conference call for JBF Industries. I would also like to thank all the participants for dialing into the call. Thank you.

B.C. Arya:

Thank you Kapil.

Cheerag Arya:

Thank you very much.

Moderator:

Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may

disconnect your lines now. Thank you and have a pleasant day.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.