



“Jindal Poly Films Limited Conference Call”

November 08, 2016



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Moderator:

Ladies and gentlemen, good day and welcome to the Jindal Poly Films Limited Conference Call. This conference call may contain forward-looking statements about the company which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should 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 would now like to hand the conference over to Mr. Laxmi Narayan Mandhana–Director Finance, Jindal Poly Films Limited. Thank you and over to you sir.

Management:

This is Mandhana from Jindal Poly Films Limited. Good evening, ladies and gentlemen. I am joined on this call by my learned colleagues, Mr. Udayan Sharma who heads the investor relations activities, Mr. Sanjeev Kumar, who is the Company Secretary of Jindal Poly Films Limited. From the transferor company's side, that is Global Nonwovens Limited, our Chief Operating Officer, Mr. Kumar was supposed to join, but because of his some last minute business exigencies, he is now being represented by the CFO of Global Nonwovens Limited, Mr. Singhal.

Ladies and gentlemen, we have organized this call to discuss the rationale for the proposed merger of Global Nonwovens Limited with Jindal Poly Films Limited and answer any questions pertaining to the same in order to enable any investor arrive at the decision for voting on the item of the proposed merger. The details on Global Nonwovens Limited and the merger have already been sent to the stock exchanges and are also uploaded on our website. Hope all of you had a chance to go through the same. The said file namely 'shareholder presentation on merger of Global Nonwovens Limited with JPFL' is available on the home page of our website Jindal Poly Films Limited. Let us start with a brief introduction, post which, we will take the questions.

Global Nonwovens Limited, the transferor company is a 100% subsidiary of Jindal Poly Films Limited. It is the first Indian manufacturer of nonwoven fabric domestically, used in hygiene and medical applications. The product is a polypropylene based nonwoven packaging solutions using Reicofil German technology. The merger of GNL with Jindal Poly Films is expected to give access to market with high potential growth rates for years to come. The nonwoven fabric market in India is expected to grow at 17%-20% per annum and expected to reach 40,000 tonnes pa by the year 2020. Currently, almost 70% of India's requirement of nonwoven fabric is imported and supplied to established brands in India. Globally also, this segment is growing at about 7% and the bright spots for this commodity area Asia Pacific, Middle East buyers, with highest growth coming from the hygiene segment.

The commercial production at Global Nonwovens Limited was achieved in July 2015 almost about 15 months ago at the Nasik plant in Maharashtra and the plant has a capacity of 18,000 tonnes per annum. The total project cost of setting up Global Nonwovens was Rs. 481 crores,



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which was funded by 146 crores of equity and balance 335 crores was arranged through debt. The project is also eligible under Government of India's Technology Upgradation Fund Scheme, briefly (TUFS).

There are also subsidies available from the state government of Maharashtra in the form of sales tax and other related interest and capital subsidies. This particular product has a wide application range in diapers, fem-care pads, disposable products for medical segment, industrial applications and secondary packaging etc. We believe this nonwoven segment has high entry barriers in the form of high capital expenditure, long lead time for customer approval, high client stickiness and technology. The performance momentum for Global Nonwovens Company in this segment has been strong with capacity utilization of 50%-60% in the current financial year and EBITDA margin of around 14%-16% already achieved. Global Nonwovens is supplying its products to leading hygiene and medical brands in India and also overseas to many diapers and fem-care pad producers.

I would also like to add that Global Nonwovens Limited is continuously getting more and more customer accreditations. To talk about the merger of Global Nonwoven and the Jindal Poly, the board of directors at the meeting held on August 23, 2016, has approved the scheme of amalgamation of Global Nonwovens Limited with Jindal Poly Films Limited. The scheme is further subject to approval of honourable High Courts of Bombay and Allahabad. The merger is expected to lead to maximized stakeholder value, by providing leaner management structure, cost competitiveness and operating efficiencies, centralized management control, which would increase synergistic opportunities, improve financial strength and cash flows, product portfolio enhancement and enhance the stakeholder value accruing overall growth prospects to the combined entity. Before we open the lines to questions now, we request all attendees on the call to please restrict the discussion to this merger aspect only, so that the time on the call is optimally utilized as per the objective of this call. We may start the questions now. So, I hand over the control of the conference to our investor relations firm M/S SGA.

- Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Riddesh Gandhi from Discovery Capital. Please go ahead.
- Riddesh Gandhi:** If you could just highlight the commercials of with the merger as in what is the swap ratio is, the implied pricing of the acquisitions etc.?
- Management:** Mr. Gandhi, this merger is of 100% subsidiary of the listed company, so there are no new issues of shares of Jindal Poly Films Limited. So technically the swap ratios and valuation is perhaps insignificant in this given proposition.
- Riddesh Gandhi:** Then just to understand the reasons for sort of, if it was a 100% subsidiary, then effectively it is the same thing excepting just optimizing the structure effectively?



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- Management:** You are right because once the balance sheet is merged, we are able to accrue whole host of advantages like common balance sheet, common financial resources, common purchase of raw materials and the product portfolio of the combined entity gets enlarged, we will be able to achieve the administrative expenses on a consolidated basis. There are whole host of advantages that accrue once the two entities are under the same corporate umbrella.
- Riddesh Gandhi:** And is there any guidance as to how long you will take to reach 100% utilization or you already have utilization what your margins are, any guidance on those things?
- Management:** Mr. Gandhi, this is Singhal here from Global Nonwovens Limited. So we have completed 15 months of operation and currently, we are at 70% capacity utilization. As you know that the supplies are made to all multinational customers and it is a gradual ramp up. So the first quarter of calendar year 2017-2018, we would be reaching around 85%-90% and the second quarter calendar year 2017-2018, I think we would be at 100% capacity utilization.
- Riddesh Gandhi:** And any guidance around how much EBITDA is at the existing level and how much it could go to once you reach 100% utilization?
- Management:** See Mr. Gandhi, we are happy to provide you the present EBITDA levels which are close to about 16%, but as a matter of corporate philosophy, we would not really like to share the hard coded financial projections part.
- Moderator:** Thank you. We will take the next question from the line of Ashish Shah, an individual investor. Please go ahead.
- Ashish Shah:** Subsidiary is 100% but ours was 60%, 40% was with someone else?
- Management:** 60% shareholding was acquired directly.
- Ashish Shah:** Who has got 40% shareholding?
- Management:** Rest of the shareholding we have purchased from other shareholder.
- Ashish Shah:** Who is that?
- Management:** They are our investors who had shared the equity risk and I want to tell you that Jindal Poly Films would have acquired or purchased from minority shareholders. All the shares we have acquired at Rs. 10. There has been absolutely no difference in terms of the acquisition price.
- Ashish Shah:** How much time Global Nonwoven started?
- Management:** 16 months.



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- Ashish Shah:** 16 months and to put the project it must have taken one or two years so that the 40% shareholder, how he agreed to sell at Rs. 10?
- Management:** We would really like to share this with you. This 40% shareholding was with the promoter family of the listed company. Now it has been very clearly perceived that the promoters, the kind of upside that they can earn by letting the merger happen and through the combined entity, they already have 75% in the listed company as promoter shareholding. So whatever value upside they are getting merging it with listed company that they are not getting keeping it outside if two different corporate entities are there. So complete synergy and whole economic benefits could be achieved.
- Ashish Shah:** How much is your turnover expected in FY 17 ?
- Management:** Of Global Nonwovens Limited?
- Ashish Shah:** Yes.
- Management:** Global Nonwovens Limited, it will be between 185-200 crores.
- Ashish Shah:** 200 crores in this year could be possible?
- Management:** We have reached around 70% capacity utilizations in the past 2 months because we are qualified multinationals.
- Ashish Shah:** So is it not a deal of loss in front of the investment of 500 crore our turnover increase only 150-200 crores?
- Management:** Now, Mr. Shah this is high EBITDA margin business. First of all being linked with oil and oil is at its lowest that is the reason number one that the turnover is low and at 100% capacity utilization, our turnover will be close to Rs. 300 crores plus. And let's put it that way our cumulative interest cost savings of Global Nonwovens Limited will be around 3.5% and the EBITDA margins would be between 22%-25% in full capacity utilization. So the turnover will be Rs. 300 crores and that is purely because of the oil prices and it is not got to do with turnover alone and we should rather also look at profitability.
- Moderator:** We will take the next question from the line of Dikshit Mittal from Shubhkam Ventures. Please go ahead.
- Dikshit Mittal:** Sir, can you tell who are the other domestic players in the same business segment?
- Management:** Global Nonwovens Limited is the single manufacturer of quality nonwovens who is catering to multinational customers in India. There is another company which is looking at entering into India in the year 2018, but right now we have no competition and we are only replacing imports.



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- Dikshit Mittal:** So there is a small company called Fiberweb, is it in the same business or is it a different thing, any idea on that?
- Management:** Yes. If you see, Global Nonwovens Limited has got a high end Reicofil fourth generation line with multibeams. We have 5 beams in total and Fiberweb, their equipment is close to 25 years old first generation equipment with a single beam. So this cannot cater to the baby care segment and baby care segment is the growth segment in India whether in you see Procter & Gamble, Unicharm, Kimberly-Clark, all these customers having double digit growth year-on-year and they are importing. So they basically cater to the femcare business and is largely oriented in the export market and they cannot produce lower gauge material which is the need of the hour. So their quality does not focus on the baby care segment.
- Dikshit Mittal:** And sir any further plans to enhance the capacity in this segment?
- Management:** Yes, we have a qualification going on with another multinational customer which is at its final stages which would take the capacity straight away to 100% utilization and then we would be going for a better product mix to increase our bottomline. At that point in time, we will be looking at an expansion and it is certain that the expansion will be at a much lower cost because all infrastructure is already ready, utilities all ready for the second plant as well and it will be specific to a particular segment of baby care. The first equipment is very versatile which is capable of producing all different types of fabric, but our second line would be very specific.
- Dikshit Mittal:** And sir any long-term contracts that you have for the current capacity because you mentioned the customer stickiness is one of the key entry barrier?
- Management :** So basically since there is no one in India who is currently producing this quality of nonwovens, once we qualify with these multinational customers, it is kind of a long-term contract, but it is not like a 3-year, 5-year contract, so prices get renewed every quarter based on raw material fluctuations.
- Dikshit Mittal:** So you will have kind of fixed margins in this business or how will the margins move?
- Management :** It is not fixed, but of course, there is little variation in the prices, only pass-through is the raw material, which is related to oil.
- Dikshit Mittal:** Can you give roughly industry breakup like how much currently you are supplying to baby and how much in the feminine segment and how much in the medical currently?
- Management:** So right now we are at 70%-75% capacity utilization. So the medical segment is ranging between 10%-12%, fem care would be around 25% and remaining 65% will be the baby care segment.
- Moderator:** Thank you. We will take the next question from the line of Raj Shah from Raj Finance. Please go ahead.



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- Raj Shah:** I just wanted to understand that how much money has Jindal Poly Films Limited invested into Global Nonwovens Limited?
- Management:** Close to about Rs. 80 crores.
- Raj Shah:** So we have approximately Rs. 80-81 crores.
- Management:** For the 100% investment, the total value invested is 80 crores.
- Raj Shah:** Sir if I look at the numbers for 2016, the top-line of Global Nonwovens Limited has been roughly about 62 crores and EBITDA was negative at 27.8, net closed was around Rs. 5 crores.
- Management:** March '16 is partial year of commercial production and as you can understand that any capacity utilization ramp-up and new technology in order to get commissioned and operationalized, it takes a bit of time.
- Raj Shah:** I completely understand that, it does take a lot of time in all to reach economies of scale, but already the company has done blunders with the investment in the power plant which kept the yield less than 3% and now with an Rs. 80 crores investment to Global Nonwovens Limited, I just wanted to understand that every time it is the minority interest shareholders which is getting compromised in this group because we just get returns through either by capital appreciation or by dividend payout, both are not doing well for the company. So I just want a rationale for the same and please do not say it is a long-term investment. We have been hearing this argument for last 4 years.
- Management:** I am speaking on behalf of Global Nonwovens Limited, this business caters to the baby care segment and fem care segment which is very sensitive. So the first 3, 4, 5, 6 months of operations, we hardly achieved capacity utilization because all customers who are under qualification and, when you see the FY16 details, it was only the last 3-4 months where we achieved capacity utilizations. As far as the rationale behind Jindal Poly acquiring Global Nonwovens Limited, there is a lot of synergy which Global Nonwovens Limited would benefit, in turn Jindal Poly would benefit. The raw material is similar, both Jindal Poly and Global Nonwovens Limited, their raw material is polypropylene. Jindal Poly has got long-term contracts with similar suppliers. So there is a huge benefit that both Jindal Poly and Global Nonwovens Limited would benefit due to this merger. As far as cost reduction is concerned, I think the synergies between Jindal Poly and Global, as the merged entity would benefit Global Nonwovens Limited hugely. So I think the combined strength would actually be very beneficial.
- Management:** Mr. Shah and we would also like to share a small financial projection also. We believe going forward from now on, the whole capital invested of 80 crores would be recouped from profit after tax of the transferring entity till anytime around 36 months or so.
- Raj Shah:** By 36 months?



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- Management:** In about 36 months, this business will give profit after tax of the invested amount to Jindal Poly Films Limited.
- Raj Shah:** So even if you take that value, it is around more than 2.5 years right. I just have this own concern for the company that rather investing in companies which might give you a payback period of more than 2.5 years and which yields less than 3% in the power plants, why the company not paying dividends right and that is the reason why the stock of Jindal Poly Films is actually hitting new lows on the multiples. Our earnings are growing higher, but no one is buying the stock. As simple as that and we as investors are neither getting benefit from the dividends nor from the capital appreciation.
- Management:** No, we note your point Mr. Shah and definitely this point will be brainstormed internally, but yes, the only point which I want to share with you is the industry being a little capital intensive industry, the present times have been decided or looked upon more to conserve cash, but yes we take your point and will definitely review it with open mind.
- Raj Shah:** I just wanted to understand that if the merger is happening that how much cost will be saved on the part of Jindal Poly Films in the raw material, just a rough figure or rough estimate that how much cost will be saved for the entity Jindal Poly Films, not Global Nonwovens Limited.
- Management:** No, Jindal Poly would not save on raw material hugely, but certainly the benefit would accrue hugely to Global Nonwovens Limited, but because of the combined purchases, there will be some benefit which cannot be penned down right now.
- Raj Shah:** We are not expecting more than 1%-2% decrease in the raw material if we take Jindal Poly Films as the single entity.
- Management:** Yes, but 1%-2% advantage on raw material where 65% is raw material cost, will be the huge impact.
- Management:** Mr. Shah, I think you can yourself gauge this question very well because at the end of the day most of the purchases are crude derivatives and where if we have larger basket of quantity to purchase, I think we will be able to negotiate better price.
- Moderator:** Thank you. The next question is from the line of Rajendra Mule, an individual investor. Please go ahead.
- Rajendra Mule:** Sir my question to you that thanks for arranging this investor concall that may bridge the gap between investor and the company, so thanks for the same. Lots of people are saying this the Jindal Poly Films is the only merger and acquisition company, would you like to change that?
- Management:** I think every merger and acquisition happened only with the shareholders' approval and whatever mergers and acquisitions that have been done in the past, we would leave to the



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analysis of the learned investors to see how value accretive those propositions have been, but yes, we in the management, we strongly feel that because of our high domain knowledge of the industry, I think we have been able to replicate our knowledge into much larger volumes and thereby the value for the overall shareholders of Jindal Poly has definitely increased and is poised for larger increases in the times to come.

Rajendra Mule: Sir by sincere investor and very faithful investor, I have invested money since last 5 years and I have purchased share at Rs 650 in 2010 after there was a bonus and after 5 years, I have not received that much price, can we expect by merger of Global Nonwovens Limited, shareholder will reward in future?

Management: Definitely this is our belief that this proposition is surely a value accretive proposition and as I shared with another learned investor also, the whole investment amount will be recouped through profit after tax in about 36 months.

Rajendra Mule: What will be the top-line we can expect in year 2017-2018, not this year, next year end for whole year?

Management: We believe, in March 2018, our total annual sales volume in GNL business should be about Rs. 250 crores.

Moderator: Thank you. We will take the next question from the line of Kaustav Bubna from SKS Capital & Research. Please go ahead.

Kaustav Bubna: What is the revenue and EBITDA and capital utilization for your last quarter that is quarter 1 FY17 for Global Nonwovens Limited?

Management: As we told you, right now the capacity utilization is close to about anything between 60 and 70%.

Kaustav Bubna: For quarter 1 FY17, not trailing, not right now, previous quarter?

Management: We can say that also.

Kaustav Bubna: And what was your capacity utilization?

Management: The capacity utilization was close to about 45%-50% in the Q1.

Kaustav Bubna: On your presentation that you put, you are saying you achieved EBITDA margin of 20% in Global Nonwovens Limited in quarter 1 FY17, 5 crores is about 16%.

Management: Let me just know, which page are you on?



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- Kaustav Bubna:** I am on page 8.
- Management:** If you go by the percentage because the turnover was very small and there is some approximation which I have told .
- Kaustav Bubna:** When you said that you will make up your 80 crores investment in Global in Nasik and you will make up the 80 crores investment, did you mean EBITDA or did you mean PAT because in your presentation by FY19, you should be doing only 40 crores in PAT?
- Management:** No, I have meant profit after tax.
- Kaustav Bubna:** So in the presentation for Global Nonwovens Limited, let us say with 90% capacity utilisation on 18,000 tonnes per annum installed capacity, you are saying you will do about maximum 23 crores based on your table, this is also on page 8 and if you go on the table and see the presentation
- Management:** Yes, you are right. FY20 will see much improved numbers than what you are seeing in FY2019 and in the middle of 19-20 itself, the whole investment of 80 crores would be recouped.
- Kaustav Bubna:** is there any debt on the books of this 100% subsidiary?
- Management:** yes.
- Kaustav Bubna:** Could you tell me that compared to Jindal Poly's debt?
- Management:** This particular company, the transferor company has a debt of close to about 270-280 odd crores and once the loan has got shifted to Jindal Poly Films Limited, we have got the loan repriced and we have got interest cost reduction of close to about 270-280 basis points. So the interest rates have been repriced based on the financial strength of Jindal Poly Films Limited.
- Kaustav Bubna:** So you have basically finance cost in your full consolidated EBIT to reduce?
- Management:** Yes.
- Kaustav Bubna:** So that if taking a repricing of loan, you are saying that cumulatively you should touch 80 crores by FY20, correct.
- Management:** You are right, more or less you are right.
- Management:** And there will be certain advantages which would accrue directly to Global Nonwovens Limited on account of because raw material being close to 65% of your cost, there is a huge benefit because the suppliers are common and that would have a big benefit accruing to Global Nonwovens Limited in terms of better pricing, better formulas and better working capital



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requirements. So that itself would add a lot of value to the operations of Global Nonwovens Limited.

Kaustav Bubna: But you are saying from the 16% EBITDA margins right now, what is your FY20 EBITDA margin target for this Global Nonwovens Limited?

Management: We would not like to give an absolute number, but I think anything between 23%-25% is clear that we should achieve, 25%.

Kaustav Bubna: So since this is a 100% subsidiary, what basically was going to happen is all your consolidated financial statements because this is obviously included in your consolidated financial statements right. So basically what is going to happen is your finance cost is basically going to reduce.

Management: Yes.

Kaustav Bubna: I am talking on the debt side. Is that correct?

Management: Yes, that is correct, but to achieve that reduction of financial cost of 7 crores, it is essential that the debt will merge in the listed company's balance sheet. So merger is a proposition which alone can bring in this interest cost saving.

Kaustav Bubna: That is exactly what I am talking about, this won't happen with click of your finger that is what I mean.

Management: Yes.

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

Management: Ladies and gentlemen, thank you very much for attending this call and taking your time out. We believe we have been able to answer all your questions satisfactorily. The postal ballot e-voting will commence from 9 a.m. on 11th November 2016 and close at 5 p.m. on 10th December 2016. We seek your cooperation for positive assent to the resolution, so that maximum shareholder value creation can happen. Should any investor still require any clarifications, we are too happy to provide. They can approach us directly or through our investor relations firm. Thank you all.

Moderator: Thank you. Ladies and gentlemen, on behalf of Jindal Poly Films Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.