Piramal Glass Limited
Investors/ Earnings Conference call
(August 16, 2011)

Moderator: Good evening ladies and gentlemen. Thank you for standing by. This is Sonia, the moderator for your conference call today. Welcome to the conference call of Piramal Glass Limited. We have with us today Ninie Singh from Hanmer MSL. At this moment all participants are in the listen only mode. Later we will conduct a question and answer session. At that time if you have a question please press * and 1. I would now like to turn the conference over to Ninie Singh. Please go ahead ma'am.

Ninie Singh: Good evening ladies and gentlemen. On behalf of Piramal Glass, I welcome you all to the conference call of Piramal Glass Limited to discuss the 1st Quarter results of the company for the financial year ending 2011-2012. We have with us today Mr. Vijay Shah, Managing Director, Mr. Sandeep Arora, Chief Financial Officer and Mr. Chunduru Srinivas, President, Strategy and Investor Relations. I will now hand over the call to Mr. Vijay Shah, who will brief us about the Q1 results and the latest developments during the quarter. Thank you.

Vijay Shah: Good afternoon and welcome to the conference call. Our results in this quarter have been in line with what we have been indicating. We are well on our path of leadership in the cosmetic and perfumery and we are getting sufficient traction in the markets that we are addressing. So first I will request Chunduru Srinivas to take you through the presentation and then we will be open to questions and I am more than happy to answer any questions that you have for clarifications.

Chunduru Srinivas: Thank you Mr. Shah. The presentation has already been emailed to all of you or it is also available on our website under investor relation column. So I will take you through the presentation. I request you to take the slide number 4 of the presentation. In this quarter the Indian operations accounted for 56% of our global sales, the US operations 30% and Sri Lankan operations about 14%. The capacities mentioned in this slide is pre-expansion. That is whatever the capacities we had in end of FY11 is reflected over here.

I will take you to slide number 6, the key highlights for the quarter. The sales grew by about 14% and is at about 317.2 crores. EBITDA is 82.4 crores reflects 26% EBITDA which is a 320 bps improvement compared to last year same quarter. PAT grew by 80% in absolute terms and in terms of margin has improved by 330 bps compared to last year same quarter. In terms of interest cost, we are at around 7.3% of interest. All this has led to an annualized EPS of Rs.14.4 compared to Rs.8.2 last year same quarter and cash EPS of about Rs. 27 compared to Rs. 21 of last year same quarter.

Slide #7, the return on capital employee has moved to closer to 18%. It is almost an improvement of 1000 bps compared to last year same quarter or the 1st Quarter. Return on equity is at about 35% which is again an improvement of about 930 bps. Debt equity has improved. You may recall that the year before the debt equity was about 3.5:1. In FY11 ending it was 2.6:1 and after this quarter it is about 2.4:1. You will also observe that the asset turn over ratio has also improved from 1.2 to 1.4 in this quarter which led to higher ROC number. In terms of debt coverage ratio, from a debt to EBITDA of 6.1 last year same quarter, currently we are at 2.8 and DBPS of the share is at about Rs. 41 compared to Rs. 31 last year same quarter.

I will take you to slide number 9. Slide #9 talks about the segment-wise at the global level. Cosmetic and perfumery accounted for 56% of our sales. Pharma for 22% of our sales and specialty food and beverage 22%. The number in the bracket indicates the growth rate that we had. So cosmetic and perfumery grew by 30%. Pharma negatively grew by 16%. Specialty food and beverage grew by 22%. This negative growth of pharma is essentially because a furnace which was 75 tonnes of pharma has been converted into cosmetic and perfumery during the quarter and is currently at 55 tonnes per day for cosmetics. So due to the lower capacity and shifting of capacities from pharma to cosmetics and perfumery, you find negative growth in pharma.

Slide #10 talks about a 25% CAGR from FY05. This is mainly led by 32% growth in cosmetic and perfumery over five years time. And as we have already mentioned that cosmetic and perfumery is now greater than 56% of our sales which is in line with our long-term strategy of the company.

Slide #12, within cosmetic and perfumery as you are aware that the focus of the company is to get more and more premium which is likely to lead to more EBITDA and more ROCE. Premium has been growing at 43% and mass has been growing at 19%, so overall segment has grown by about 30%. In terms of geographical spread, Asia and emerging economies, the BRIC economies contributed 45% of the sales, USA 35% of sales and West Europe 20% of sales.

Slide #14 talks about pharmaceuticals sales coming down from 85.6 crores to 71.6 crores. This drop essentially, as I have already mentioned, is because of the diversion of capacity. 75 tonnes of pharma has been diverted to 55 tonnes of cosmetic and perfumery which happened during this quarter.

Slide #16, it talks about specialty food and beverage growing by 22%. You may recall that most of the specialty food and beverage either comes from Sri Lanka and some part of it comes from US. This growth is reflection of rebound of the local markets in Sri Lanka which has led to the growth. Added to that you may recall that last quarter we have mentioned about a particular brand of ours called **Nuvo** which underwent some change and we had a temporary set back in that brand last quarter which now, the matter seems to have settled and now that traction is more and, therefore, the bottle ordering pattern has improved. These two factors have taken the growth to 22%.

Slide #18, we kept mentioning that business process improvement has been the focus of company and that's probably leading to better numbers quarter after quarter. In this quarter we have received best HR strategy in line with business, Asia's Best Employer brand award by an organization based out of Singapore. Added to that PCI Coffman, a global agency based out of US, which does employee satisfaction survey and employee engagement survey has rated Piramal Glass especially the Kosamba Plant as 99th percentile among the manufacturing units that PCI Coffman covers not only in India but worldwide.

In terms of energy management systems the company has received ISO 50,001 which is essentially focusing on the area of Energy Management System called ENMS.

Slide #19, is a repetition of the strategy plan that we were talking about. We are talking about 16-18% top-line growth with premium growing at about 28-30% and overall top-line growing by about 17-18% between FY11 to FY13 on a CAGR basis. An EBITDA northward of 25-26% and debt to equity ratio would be less than 1.5:1 by end of FY13 and all these things would be achieved by virtue of the Greenfield low cost CapEx furnace that we are installing at Jambusar 160 tonnes. Shrinking of pharma and transfer of capacity to C&P which already occurred and also some rationalizing of product mix in pharma. In US, as we have mentioned that we will be focusing on ramping up the C&P transition and focusing on specialty food in Sri Lanka where the local markets from the tough time that they had till 2008-2009, today the local markets over there are booming with tourism, etc.

With this I will take you to slide 20, repeating the guidance that we have been giving. Sales growth of 17-18% as a CAGR between FY11 to FY13. EBITDA margins northward of 25-26%. Debt to equity ratio of 1.5:1 by FY13.

With this we are open for questions. I repeat we have Mr. Sandeep Arora, CFO of Piramal Glass and Mr. Vijay Shah, Managing Director of Piramal Glass, apart from me to take any of your questions. Thank you so much.

Moderator: Ladies and gentlemen we will now begin the question and answer session. If you have a question please press * and 1 on your push button phone and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn, and you wish to withdraw your request you may do so by pressing the # key. Participants please press * and 1 to ask any question. We have our first question from Mr. Samridh from Lucky Securities. Please go ahead sir.

Mitul Mehta: Yeah hi sir this Mitul Mehta. My question pertains to the general demand scenario that you are seeing in each of the geographies that you are operating. If you could just take us through how is the demand panning out in Europe and US, especially with your existing clients and if you have signed any large labels in the C&P business? And my second question is pertaining to your capital expenditure plans for re-lining of furnaces as well as new Greenfield furnace. So if you could just take us through FY12 and FY13 and how much we have already spent. Thirdly, what is the total debt as of 30th June? If you could just give us the inventory debtors and how much debt currently we are holding on to ourselves?

Vijay Shah: The demand scenario across Europe and USA currently, there is a very good demand. In fact all our competitors capacities are fully booked and there is no sign indicating that the end customers are getting lukewarm or something. So when I talked to some of the leaders in the industry they are little bit anxious and concerned about a couple of quarters from now. They feel that this demand is currently what they are doing is working for Christmas of 2011 and people plan a lot in advance for glass packaging. So they are worried about period beyond that. That is my reading also that the slight worry about period beyond this Christmas. But as of now, the capacities are fully booked in Europe. In fact there has been a extremely good rebound since the recession. As far as we are concerned, we are not very worried because every time we are gaining shares. So as we are gaining shares of the market, we find that even during the period of recession we were not impacted so much.

Your next question was on CapEx. We have clearly announced that FY12 and FY13 across these two years will have a spend of about 260 crores plus minus something, out of which 100 crores is going towards a Greenfield expansion of 150 tonnes per day which we are putting up for the first time a mass market, cosmetic and perfumery furnace. The balance 160 crores is going towards the four to five furnaces relining, which will happen between this year and next year. So relining we cannot precisely tell you the date and, hence, precisely tell you the CapEx is because the actual date of the furnace closure and re-starting depends on the life of the furnace and the conditions and stuff like that. So today I can say, okay, maybe I am planning to do one furnace after six months but you could have a leakage today itself and I may have to take it up for repairs. So that is why we always predict two years numbers. And that is why when we are talking about CAGR, we talk about two years numbers because the capacity expansion will mainly do a lot of growth later on. So the growth can be still based on when we are doing the relining. So when we look at quarter-on-quarter, we should look at broad outlook that we are getting, that is, 17-18% CAGR. This quarter may be 13-14% growth, next quarter may be even 8% growth or 6% growth, or following quarter may be higher based on what capacities are available in that particular quarter.

Your next question was on debt. So the current debt is around 900 crores and this could go up slightly because some of the CapEx spend is yet to happen this year. However, the debt equity number what we are indicating towards FY13 end is 1.5:1.

Mitul Mehta: Is there any repayment that is coming up in the current year as far as the debt goes?

Vijay Shah: Nothing significant, even if there is, then we tie-up the replacement of that debt. You have not asked this question but in fact we have had a very good situation on this because we have re-negotiated debt and the debt cost is close to 7% something.

Mitul Mehta: My last question is, this 260 crore CapEx Greenfield plus relining, now they should pretty much help us to grow as per our original guidance and beyond that are we going to incur further CapEx in to our fixed assets or how is it? I wanted to get some gauge of the movement of CapEx that could happen over next five years?

Vijay Shah: If we were not to do any CapEx, we should be able to maintain a growth rate in the region of 10-12%. If you notice earlier also few quarters back if you were talking about forecast we were giving a guideline of 10-12% growth rate without significant CapEx. The only reason the CapEx went up from 160 crore to 260 crore is because we decided to add a 100 crore of Greenfield projects and that also led us to a very high growth rate and that is why we are saying a 16-18% CAGR growth rate in the future. So let me explain it to you again. Roughly if you look at one-third of the depreciation on a long term basis, there is a kind of CapEx we incur for replacement of assets. That means relining our furnace and stuff like that with some tweaking of capacity. And that can give us a growth rate of 10-12% which may be primarily coming out of improving productivity and improving product mix.

Mitul Mehta: I am still not getting it because you said this 100 crore Greenfield will take our growth levels to a little higher from 10-12 to 15-16. Once we spend this 100 crores, which means we can still grow at 15-16% or we will still have to spend further more?

Vijay Shah: If we do not do any significant CapEx in the future we can continue growing at 10-12%.

Mitul Mehta: So what is the stand the management is taking today?

Vijay Shah: On?

Mitul Mehta: On the Greenfield CapEx that could come?

Vijay Shah: We are giving guidelines for next two years, this current year and next year. I do not think we are ready to give any guidelines beyond that because you have to watch the market, the way we are growing in the premium markets, a lot of factors will come to play.

Mitul Mehta: I wish you all the best, thank you.

Moderator: Thank you for your question sir. We have our next question from Mr. Ritesh from Emkay Global. Please go ahead.

Ritesh: On the capacity expansion side just from the previous question, what would be the augmentation of capacity on account of realignment of furnace and TPDs?

Vijay Shah: Ritesh, approximately 50-60 tonnes per day because when we are relining furnaces, what we do is we do augment the capacity, like in one furnace 230 is going up to 255, in others 65 is going to 95, in one 25 to 45, or one 35 into 55, so for this tweaking of capacity roughly in the region of 55 tonnes per day.

Ritesh: A clarification, when we said the Greenfield CapEx, it's the same brown filed at Jambusar which we always talk about, the 162?

Vijay Shah: No, Jambusar has two. One is in that same location we are adding one Greenfield plant which is 100 crore. In the same location the 230 TPD furnace is being realigned to make it to 255. That is the Brownfield one.

Ritesh: So overall CapEx of 216, 160 of realignment and 100 of the….and so 100 crore green filed is 160 TPD and the additional is the 650 to 60 TPD.

Vijay Shah: No, 160 crore is towards four to five furnaces.

Ritesh: 160 crore is towards four to five furnaces which equals to 60 TPD.

Vijay Shah: But do not forget, these furnaces need relining and at the same time, you refurbish the machines, somewhere you add modernizations, so the 160 crores is towards all that. So you cannot divide 160 crores by 60 tonnes and say this is our incremental CapEx. It is a lot of modernizations, relining, all that stuff goes on at that time when the furnace is shut down.

Ritesh: If you could tell us the utilizations in India operations, US operations and Sri Lanka operations currently?

Vijay Shah: As I always mention, in glass industry you have to have full utilization at any point of time. I mean you can draw may be less by 10-15% but you have to have full utilization. The problem is that, are you making the right product mix? I keep using this famous example of Tata that when we added a lot of new capacity, we actually made a Jaguar Plant but we were manufacturing Nanos in that. The whole idea is can we start making less Nanos and more Jaguars.

Ritesh: On the power cost side, there were gas price increases which had happened in the Quarter 1 of this fiscal year. So will that now come to play in case of your numbers?

Vijay Shah: No, the price increase happened effective 1st April. It has been absorbed and we do not expect any further changes in the gas prices in the next few quarters.

Ritesh: So the corresponding price increases have been taken for that?

Vijay Shah: We have taken corresponding prices increase in the mass market, in the pharmaceutical market. We have not taken it in the European markets because there you have to go along with the European players for taking price increases.

Ritesh: In the 14% rev. growth that we have in the quarter, if you could tell us how much is the volume growth and what is your blended volume growth expectation for FY12?

Vijay Shah: We do not separate that out, but I am just putting an estimate is that 3-4% may be price increase, the balance would be product mix and volume. Do not forget product mix is the bigger booster for us.

Ritesh: So if one has to consider volume then will it be 8-10%?

Vijay Shah: No, I do not think, it will be a lower percentage in fact. Our bigger play is on product mix.

Ritesh: On the business cycle front especially cosmetics and perfumery, how should one analyze the business cycle there because the customers are international so if you could tell us more on that particular area?

Vijay Shah: See broadly globally the market is growing at 3-5%. The growth is being led mainly by Brazil, Russia and now also India and China in this thing. What I am trying to say is that even a company like Coty when they sell CK1, they are saying that their larger sales are coming from India, China, Russia, and Brazil so to say. So it is the BRIC countries which are leading the growth significantly. The growth is not coming for these companies from US or Europe. So far the trend has been very good for some regions, luxury goods are still holding on and doing quite well. We have not seen any impact of all this, what they are talking about recession in Europe or in USA. Not only that is impacting the glass packaging producers. So people are a little bit nervous about couple of quarters from now. They are wondering whether the order booking will down or not. In our case we are not so worried because, as I said, we are gaining share for the market, we are growing very rapidly in the premium segment of market. So if at all there is some negative news in the future, our growth rate could be slightly lower in the premium segment but that does not mean that our numbers will be majorly impacted.

Ritesh: What are the signs that one should look at for any change in the growth momentum? Second, how are these contracts and all structured with these customers? Third, what kind of system level lag does this business itself have?

Vijay Shah: I think it is more of luxury goods sales but then we have got several other segments also because we are catering to the European mass market where they sell skin creams and low priced perfumes are like the after shave, Gillette, Denims, we also supply those people all these stores in Germany. So I guess except when there was peak recession, when there was slight slow down we did not see any other impact. So I think if there is a global recession again or something like that then, of course, it will impact this industry also. So that was your first question, what was the second question, I missed it.

Ritesh: Contract structure.

Vijay Shah: In that case, it is a very sticky business. There are no contracts, however, most brands once they switch to us they buy from us. So the demand for a particular glass packaging will depend on the brands demand in the market. So for instance, if you look at the entire range of Polo with L'Oreal manufacturers, there main buyers US operations and whatever happens to the demand does impact that operation. So we do not have written contracts of specific volumes but it is a very sticky business.

Ritesh: So how do you plan for the customer sourcing?

Vijay Shah: The customers do place orders with us three to four months in advance. Then also they give indication of the yearly off take, this is the broad indication.

Ritesh: So that means the in terms of business stickiness or lag, there is a five to six month lag before any event tends to have an impact on your numbers?

Vijay Shah: Could be more also because as I told you in perfumery we are preparing for this Christmas. Everybody is preparing for they Christmas, they do not know what will happen after Christmas and that will impact the next year's planning cycle or them. So if their marketing has indicated certain numbers they will build up inventory for this Christmas come what may. But if the off take does not happen than it will impact the next year numbers.

Ritesh: Any expenditure heads that you are worrying about in terms of slipping out? Lastly what would be the taxation rate?

Vijay Shah: So on expenditure heads, not really. The foreign currency worries us to some extent but not expenditure head because of our **so much this thing (28.19)** on exports and to mitigate that what we do is at least this year the exports are completely covered.

Ritesh: What price in?

Vijay Shah: North of 46. What was the next question?

Ritesh: Taxation?

Chunduru Srinivas: Taxation, I think this year will be zero tax. Sri Lanka will be zero, US will be zero, India will be about normal tax from part of the year. So from your modeling perspective may be 20-22% of PBT you can factor in.

Ritesh: Normal it means 30-35% tax.

Chunduru Srinivas: Yeah for India

Ritesh: Many thanks to you and all the best to you.

Moderator: Thank you for your question sir. We have our next question from Ali Asgar from Elara Capital. Please go ahead.

Ali Asgar: First of all, I want to know what is the period for the shut down during the quarter for the 55 TBD capacity that was shifted to C&P?

Vijay Shah: That was started in 1st of March last year, it got over April end. So it was 60 days. This shut down period for any furnace would depend on the size of the furnace and extent of repair we are doing. So, for instance, there is another big furnace 230 tonnes per day which began shut down I think 1st of June and I think it will be about to start somewhere now.

Ali Asgar: What is the size of that capacity?

Vijay Shah: 230 tonnes per day furnace and we are refurbishing majorly because we are entering to 255 tonnes but more importantly from six lines we are adding two lines extra. So there was lot of civil work on the sites and stuff like that. So it took almost 75-80 days. So the shut down time could range between the say 45 days to 75 days based on the complexity and size. Also let me explain this that the 230 furnace came down for repair after 13 years.

Ali Asgar: Just to understand if at all we take out the impact of that 55 TBD capacity shut down then how would our sales would have probably looked at in terms of growth numbers?

Vijay Shah: I think some 13-14% that we are reporting now it could have bee 15-16%.

Ali Asgar: 2-3% basically.

Vijay Shah: Yeah could be 3% more.

Ali Asgar: I just wanted to understand what is the revenue addition that we could expect from that particular capacity and if at all we net it out to the 230 TBD capacity that will be not available, how would our numbers probably look in the subsequent quarters because of that?

Vijay Shah: I will give you an example that what we did is we looked at our sales, what will it likely to end at FY13 and we looked at what our sales were in FY11 and that is why we are projecting a number of 17-18% CAGR over next tow years. So on quarterly basis we may report different set of numbers, if you look at effectively for two years we would expect to report, if you look at FY11 as a base, a CAGR of 17-18% for next two years because quarter-on-quarter the number could be slightly different.

Ali Asgar: This 230 TBD has been started now, correct?

Vijay Shah: In fact it is getting over now.

Ali Asgar: So it was not available for production in Q2 I believe?

Vijay Shah: Yeah let us say by 20th of August. It started off in Q1 so part of the Q1 30 days it was not available and may be another 40-45 days in Q2 not available.

Ali Asgar: The other thing I wanted to know is on the cosmetic perfumery. Qualitatively if you could just explain if we have added any new customers or what is the penetration that we have done in the specific customer that we have added in the cosmetic perfumery?

Vijay Shah: See we have already got access to most of the leading customers. So I do not recall adding any additional customer this quarter. However, we have traction on getting more products from the same customers. So every line addition will lead to higher growth rate. So if you look at premium growth rate that we had indicated, it is coming mainly because of more brands being commercialized. So we are gradually increasing the penetration with each of the customer that we are dealing with. But I do not recall having added any new customer. We have got access to **customers like** P&G, Coty, Louis Vuitton, Estee Lauder, L'Oreal, so most of the leading customers in the world who own perfumery brands are our customer already.

Ali Asgar: On the cost side in this quarter we saw the raw material cost dipping Q-O-Q and then fuel cost and freight cost increasing slightly. So just wanted to understand on the cost structure what is the trend that is following futuristically and what is the kind of margins we can look at because of this shifting trend in any of these cost?

Vijay Shah: I do not think cost in this quarter changed too much whenever the raw material cost dip actually.

Ali Asgar: The percentage of sales basically from something like 22% to this quarter like 20-21%.

Vijay Shah: No, I think if not the cost dipping, it is the product mix improving because there could be perhaps impact of closure or something. Energy for instance, has kicked in whatever has to kick in. Raw material may be it could go up slightly. We have been able to negotiate well but could go up slightly but the product mix change is far more rapid. So profit improvement, as I keep saying it will be the north of 36% in the future.

Ali Asgar: On the freight cost we are not expecting any increase because of our global shares increasing?

Vijay Shah: In fact it has been pretty stable.

Ali Asgar: Not even on the fuel cost, are we not expecting any significant increase?

Vijay Shah: Fuel cost is coming down globally.

Chunduru Srinivas: Ali, as Mr. Shah has said whatever high price had to come in has already come in from April 1st itself. So we do not expect any further price escalation on the fuel cost.

Vijay Shah: See Global freight would depend on two factors, the volumes and second is on the Brent crude or whatever crude that they use and that is not actually going northward, it is coming down or it is stable or to down.

Ali Asgar: Lastly I want to understand the CapEx of 160 TPD that we are doing, by when would that…?

Vijay Shah: The project will complete by March.

Ali Asgar: So this year we will not have any contribution from that?

Vijay Shah: Yeah, may not have.

Ali Asgar: Thanks a lot for your time. I will come back later if there is anything else.

Moderator: Thank you sir. We have our next question from Mr. Utsav Mehta. Mr. Mehta please go ahead.

Utsav Mehta: We have no further plans for capacity expansion in Sri Lanka, correct?

Vijay Shah: At the moment no. Same situation in Sri Lanka as in India which is where we are **tweaking** capacity. In Sri Lanka also the growth is coming mainly from product mix changes and we are not looking at any capacity expansions in the next two years.

Utsav Mehta: So whatever the growth we will be posting will be out of a production mix change?

Vijay Shah: Yes. Except there is a land lying there which is idle, 21 acres and we may dispose it off in the near future.

Utsav Mehta: By when are we looking to do that?

Vijay Shah: We are looking at getting a good price on that, so we are not in a hurry to dispose it off.

Utsav Mehta: What are the price range that we are looking at?

Vijay Shah: It will be could Rs. 30-40 cores. This is a onetime sale of land.

Utsav Mehta: Also a very rough estimate if you could give me, what would be the indirect exposure to our products as far as geographical segment go, the end product that is the perfumes and cosmetics that we sell what could be the indirect exposure?

Vijay Shah: What do you mean by indirect exposure?

Utsav Mehta: In the sense that the final cosmetics and perfumery geography-wise where do they end up?

Vijay Shah: Let me explain, the high end perfumery is made only in France and US and is sold across the world. So we cannot predict.

Chunduru Srinivas: May be one indicator not in this direction is that from a perfumer perspective, let us say a company like Coty, for them Europe and US are more or less like flattish from a consumption market. The growth is coming from Asia and BRIC countries are their consumption. They may fill anywhere. So my customer technically could be in Europe, in France, his customer may be sitting in India, Asia or any of the upcoming economies.

Utsav Mehta: As far as premium you said, we are still not seeing a slow down in growth but mass is also keeping up with predictive growth?

Vijay Shah: Mass is keeping it up, yeah, no issue there.

Utsav Mehta: One last question, you said that we have not increased prices for our customers in Europe. But if I am not mistaken we also have a massive cost advantage over our competitors who are based out of Europe, correct?

Vijay Shah: Yes, correct.

Utsav Mehta: So just wanted to know is there a particular strategy to gain market share?

Vijay Shah: In Europe we will take the price increase when the European players take a price increase and normally they do not take significant price increases. So if there is a major change in soda ash price or energy prices in Europe, they would take a price increase say, 3-4% and we will take along with them. In this market how do we take care of inflationary cost increases that we have is because one is when we initially price a product we price is very high. Secondly, as we repeat manufacturing of this brand our productivity increases substantially. Our rejection rates come down. We have very high rejection rates when we are doing very premium segments and as we repeat the process of manufacturing our rejection rate comes down rapidly.

Utsav Mehta: Thank you so much.

Moderator: Thank you for your question Mr. Mehta. We have our next question from Mr. Pankaj Bobade from Enam Direct. Please go ahead.

Pankaj Bobade: Can you please help me with the production and sales volume?

Vijay Shah: Tough question. I do not know how do you measure volumes, should we talk in tonnage of the furnace capacity or pieces. Now pieces are apples, oranges and bananas, because we got nail polish, we have got skin care, we have pop-in bottles which range from 30 ml, 50 ml, 100 ml to 150 ml, 200 ml.

Pankaj Bobade: Approximately tonnage-wise?

Vijay Shah: Tonnage, you have our capacities which are published all over the place.

Pankaj Bobade: In the earlier part of the con call you said that capacity utilization is almost 100%. So if you are having approximately 1120 TBD across globe and that approximates to around 0.4 million tonnes, so do we mean to say that our production was around 0.4 million tonnes for whole year?

Vijay Shah: The furnace may have say, 100 tonne capacity. We can draw on it say 85 tonnes to 115 tonnes. The draw would depend on the product mix. Now having drawn on the furnace, a furnace would have say, five products in line. So each lines actual rejection would defer based on what market you are addressing. So some line may have rejection of say 10%, others may have of 25-30% also, so very difficult to measure in volumes. If you are trying to look at tonnage terms, in our business we look at, having put up a plant, what is the profit per day or contribution per day that I make. So we relate contribution to time rather than tonnage or volume or stuff like that because having invested a capacity, you are trying to optimize the profit per day per line. So I find if difficult to answer your question about volumes or tonnages in this case.

Pankaj Bobade: You just mentioned that if you have 100 tonne of capacity you are utilizing it at 85%, right?

Vijay Shah: I can draw 85 tonnes or I can draw 115 tonnes. But how much I draw on it would depend on the product mix on the production line. If I am making a 200 ml perfume bottle, I may draw more and if I making 100 ml perfume bottle I may draw less. Then I have to try and optimize that draw across the five lines. However, what I look at, how much profit I make per line or per furnace per day. And that is what I am trying to optimize all the time. This is a little complex. You are welcome to visit our plant, then you will appreciate it better.

Pankaj Bobade: Second thing, how much of this capacity is gas fired and liquid fuel fired?

Vijay Shah: Our furnace in Sri Lanka is fired by furnace oil because there is no gas in Sri Lanka. In USA it is fully gas fired. In India all the furnaces except one is gas fired. One furnace is on furnace oil and also will be gas fired by year end. We have eight furnaces in India of which seven are gas fired, and one is furnace oil, and that too by year end it may become gas fired.

Pankaj Bobade: Is this natural gas fired?

Vijay Shah: All are natural gas.

Pankaj Bobade: So have we tied up for our fuel security in future and if we have done what is the rate at which we have entered into contract or we purchase at spot?

Vijay Shah: No we do not purchase at spot, we have tied-up with several gas suppliers, our energy cost as we had mentioned, a slight increase was there this quarter, whatever you see in this quarter numbers. We look at stability on that. We have tied-up with BEL, we have tied-up with Gujarat Gas and we are tied-up for the future supplies with GSPCL.

Pankaj Bobade: So approximate rate at which you have entered into contract?

Vijay Shah: There are different rates. We have got even the age old APM gas which is around $4. We have got gas at $12, we have got gas at $13. In US I think it is $7-8, so at different rates in different location and different furnaces.

Pankaj Bobade: That is all from my side. Thank you.

Moderator: Thank you for your question. We have our next question from Mr. Nayan Mehta from 21st Century Shares. Please go ahead sir.

Nayan Mehta: I just wanted to ask what kind of growth are we envisaging over the next two years for C&P business because I believe that pharma business may, though the 1st Quarter is not an indication of what is in store for the next couple of years, but I think if that could be slow growth business and you have to grow 17-19%, then probably C&P business should be growing at 20 plus. So if you can guide us on what could be the growth rate of C&P business next two years and what would be our market share in the current year in the C&P business?

Vijay Shah: If I draw your attention to slide number 19, it clearly mentions our overall growth rates, expected over the next two years. We have mentioned our growth rate for C&P business and we have also mentioned our growth rate for premium within the C&P business. So overall, to answer your question, we will grow C&P at 27% CAGR. Within that premium grow at 30% and mass will grow around 26-27% because we are adding capacity there. It also gives you some growth numbers of pharma and other businesses.

Nayan Mehta: What could be our market share in the current year in the C&P business?

Vijay Shah: We are currently globally around 5% plus minus, in the premium market it is around 3% plus minus.

Nayan Mehta: Because the market is growing quite healthy, so are we having any incremental market share this year? Are we coming close to about 6-7% in the next one year or so?

Vijay Shah: No, not in the next one year. We would maybe double the share in next two years or so. That is because we are growing at 28-30% whereas the market is growing at around 4-5%.

Nayan Mehta: Thanks for taking my question.

Moderator: Thank you for your question Mr. Mehta. We have our next question from Nehal Shah from Dolat Capital. Please go ahead.

Nehal Shah: My question is what has been the transition rate that is shifting of production base from US to India in the current quarter and for the last year?

Vijay Shah: As I told you last year roughly 20% of the US sales was from products manufactured in India.

Nehal Shah: That is only C&P or everything?

Vijay Shah: No, overall I am talking about. Mainly we are selling from India to them C&P and some distribution market products. So this will inch up gradually as we increase the top-line in US. So in spite of the recession in US we grew by $10 million from $72 million to $82 million in March 2011. So as we keep growing there, we will buy more from India.

Nehal Shah: So what is the expectation for next two years?

Vijay Shah: I would like to achieve 100 million in US in the next two years.

Nehal Shah: What would be the proportion of transition rate?

Vijay Shah: I think the transition rate will move up to maybe up to 30% of the sales. What they manufacture in US will continue to be a stable number because they are not adding any capacity there.

Nehal Shah: That answers my question.

Moderator: Thank you for your question Mr. Shah. As there are no more questions, I would now like to turn the conference over to Ms. Nimie Singh. Please go ahead ma'am.

Ninie Singh: I thank you all on behalf of Piramal Glass and Hanmer MSL for participating in this conference call. If you have any further queries please drop in your mail at ninie.singh@hanmermsl.com. So once again thank you very much.

Vijay Shah: Thank you very much.

Moderator: Thank you.