Piramal Glass Limited
Conference Call
(October 25, 2011)

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

Ninie Singh: Yeah, thanks. Good evening ladies and gentlemen. On behalf of Piramal Glass Limited, I welcome you all to the conference call of Piramal Glass Ltd., to discuss the second quarter results of the company for the financial year 2011- 2012. We have with us today Mr. Vijay Shah, Managing Director, Mr. Sandeep Arora, Chief Financial Officer, and Mr. Chunduru Srinivas, President - Mergers and Acquisition and Investor Relations. I will now hand over the call to Mr. Vijay Shah, who will brief us about the Q2 Results and the latest developments during the quarter. Thank you.

Vijay Shah: Good evening and welcome to the NS call of Piramal Glass Limited. I think, one thing that will be uppermost in everybody's mind is what is the market outlook and what is the business environment. So, I will leave the numbers and the presentation to be discussed later. I will give you a brief about, what is the business environment in the market that we are operating in.

So, I just recently been to an exhibition and a fare for, which is the top most fare for glass packaging, in Monaco, last week. And I met the leading manufacturers our competitors out there, including the leading customers in this market. Let me give you some brief market by market. Major European Customers like are all maintaining that the future is going to be normal and nothing major is going to happen to them or their brands. On the other hand my meeting with the competitors had a different story to say. According to them, these last few months, the leading companies have stopped new launches and they are very nervous about the future in terms of the demand pattern that will be there in the next quarter or the following quarter. However, all of them concur that the dip that they expect in the future would not be like the last recession, they are expecting something more like halfway than the last recession, they are expecting say, a dip in the region of 10% as against the 20% dip that happened in the last recession. So, most of the competitors are ready to shut lines, some of them have already shut some production lines and getting up for the markets in the future.

We have operations in US and, from there what we can see that mainly in cosmetic and perfumery market it has remained stagnant throughout the year, and the order book visibility is coming down as compared to the past. There is a different story in other markets. There is a sudden re-look at ordering pattern in markets like Turkey and Brazil, more to do with very short term issues in their environment, Brazil particularly went through a sharp devaluation. But, I am confident that the market will bounce back. On the other hand the remaining markets where we are operating like the low mass market which are Middle East, CISC countries and others. The demand continues to be strong, there is no sign of any de-growth or recessionary impact. So, this is the business environment. If there are more sharp or specific questions I will answer them. What is the impact or implication of this environment on us are very much like the last recession, if one was tracking the numbers then. We were not majorly impacted, because we are operating in the west, gaining shares month-on-month and quarter-on-quarter. So, in that sense the rapid pace at which we are gaining shares, I do not see major impact on our numbers on C & P as a whole or even on the premium segment of C & P. In the mass market I said, we are growing rapidly we are gaining customer confidence and we are getting our product capacity expansion in that segment. What I will do is, I will hand over to Chunduru Srinivas to take you through the presentation and later we will come back for specific questions to be answered. Over to Chunduru.

Chunduru Srinivas: Thank you Mr. Shah, and good evening all of you and Happy Dhanteras to all of you. Thank you for logging in. I will be using the presentation that has been circulated to all of you. In case you have not received it, it is already loaded on the website of Piramal Glass on the Investor Relations sub-heading. So, I will take your attention to slide No. 4, India as an operation constituted 54% of the sales, US constituted 30% of the sales and Sri Lanka constituted 16% of the sales. In terms of capacities these numbers reflect the new capacities post the realignment of a couple of furnaces which we have shared in the past.

I now move on to slide No. 6, which gives you the highlights of first half of performance. The sales grew by about 11%, from 579 crores to 640 crores, and EBITDA grew by about 18% to INR 162 crores in H1. As we mentioned in the earlier calls and the analyst meet that we had at the end of Q4 last year and Q1 of this year, we have some of our furnaces which are getting relined apart from the Greenfield Project that we are coming out in Jambusar. As we said earlier two of the furnaces have already undergone the relining during H1. If we normalise the sales, for the period that these furnaces were not available, the sales growth would have been 20% against 11% that is being seen at this point of time. The EBITDA margin improved by about 150 BPS and is about 25.3%. If we normalise for the relining which I have mentioned, that two of the furnaces which were relined in H1, EBITDA margin would have been in the range of about 27.5%. In terms of PAT it is about 58.9 crores and shown a growth of 44%, and it is an improvement of about 200 BPS. So, in terms of EPS, we are talking about an annualised EPS of about INR 14.7, and a Cash EPS of about INR 27.4.

I now move on to slide No. 7. The sales grew by about 7.4%. Again if we normalise for the relining period, what happened in Q2, the sales growth would have been about 15%. EBITDA grew by about 7.9% and is hovering around 25%. And, PAT at 27.4 crores, grew by 17%. PAT margin improved by 70 BPS.

Slide No. 8, in terms of key ratio, ROCE is closer to 16.2%, annualised number. Return on equity is closer to 29.4%, the debt service cover or debt to EBITDA ratio is about 3.2 times of EBITDA and debt equity is hovering around 2.5, and the book value per share is about INR 44.

I will take you to slide No. 10, where I develop on segment by segment, what has been the progress, in addition to what Mr. Shah has said on the market overview. Cosmetic and perfumery continues to be the area of focus with 54% of the sales coming from cosmetic and perfumery, showing a 24% growth year-on-year. Pharma constitutes 20% of the sales, and it depicts -20% growth, this is because of the transfer of capacity and the relining that we mentioned. Speciality food and beverage is 24% of our sales and I hope shown a growth of 24%. So, cosmetic and perfumery is currently at about 54% of overall sales. You may recall that when we started this journey before the US acquisitions, cosmetic and perfumery was about 30% of our sales, and in year 2000 it would have been probably 0% of our sales. Over this period of sales, is the period of time though the market grew by about 4, 5%, our growth has been about 32% in cosmetic and perfumery.

I will take you to slide No. 13. If we further dissect the number, the cosmetic and perfumery for H1 in Q2 you find that premium has been the growth driver, in Q2 19% was the growth of for cosmetic and perfumery overall segment, largely led by premium, which grew by 41% compared to the March growth of 3%. In terms of geography split, you find that 45% of the sales is from rest of world and Bric countries. US constituted 36% of the sales, and West Europe constituted 20% of sales. If we compare last few quarters the West Europe share has been increasing for us in premium segment.

Slide 14 is a photographic view of the 160 TPD cosmetic perfumery furnace that is coming at Jambusar. As we mentioned earlier in the call, we are hoping and confident that by April 1st next year, this furnace will be up and running. So, the benefit of this furnace in the CapEx that we did in this year would be starting from quarter 1 of next year.

Slide No. 16 talks about pharmaceutical sector. In Q2 it had a negative growth of 24%, and in H1 it had a negative growth of 20%. It is mainly because of the 230 furnace which was shut down for relining. The total relining took about 93 days. So pharma, but for this relining would have been more or less flattish but, this negative growth is essentially because of the relining that we had during this quarter.

Slide No. 18, on speciality food and beverage. It has shown a growth of 24% in H1 and 26% in Q2. There are two drivers for the growth, as you are aware that this segment is basically catered from Sri Lanka, a well as from US. We had phenomenal growth in Sri Lanka, the market itself has been growing at about 15% in Sri Lanka. Added to that, there was a lot of activity in terms of exports from Sri Lanka. Apart from this, this is one segment in US which has been growing. As Mr. Shah mentioned that cosmetic and perfumery is more or less flattish in US, however, this segment of the market Speciality Food and Beverage, is growing in US and, the combined effect of Sri Lanka and US, has given us a growth of 24% in this segment.

Slide 20, which depicts our focus on the business process which continues. In terms of certifications we have got EnMS, ISO 50001 certificate which has to do with Energy Management. Certain more awards which is basically a re-emphasis of the fact that business process and modern management thinking has been the two-twos based on which we are gaining this market share, and gaining a name for ourselves.

Slide 21, which is the last slide before we take any questions. We reiterate our guidance what we have given, probably about three quarters back. We will have a growth of 16% - 18% CAGR, mainly led by cosmetic and perfumery, within that premium will be the main growth driver. The Greenfield low cost CapEx of 160 TPDs is likely to be completed by March 31, 2012. There were four furnaces which were up for re-lining as we stated earlier. Two of them are completed and the furnace has started off in early Q3. In US, we would be focusing on S F & B, Speciality Food & Beverage, which is a growing market there and balance of it is being transitioned, that is the focus. In Sri Lanka, we will hold on to the 90% market share that we enjoy in Sri Lankan market at the same time focusing on a high yielding export market. So, broadly the graphical representation of that would be, by FY13 we are hoping that 16% - 18% of top line growth and EBITA margin northward of 25%- 26% is what our guidance is, and we will maintain the guidance. In terms of debt equity ratio, it will be less that 1.5:1 by FY13, which is in comparison to 2.5:1 that we have currently. You may recall that in FY09, the debt equity ratio was 15.7:1, so we are talking about 1.5:1. With this we hand over for any questions that you have on our results.

Moderator: Yes sir?

Chunduru Srinivas: Yeah. We are open for any questions.

Moderator: Certainly sir. 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 wish to withdraw your request, you may do so by pressing the # key. Ladies and gentlemen, if you have a question please press * and 1. We have the first question from Mr. Mithun Mehta from Luck Securities. Please go ahead sir.

Mithun Mehta: Yeah. Hi, good evening sir. Sir, my question is, in your opening remarks you did mention that total four furnaces would be up for re-lining, out of which two have been already relined and those two furnaces will be available for full production. So, can you just take us through how much money we have spent on the relined furnace and how much money we would be spending on the balance two, and when would the balance two furnace would be relined? And my second question is the 162 TPD, how much money we have spent on that. So, this would broadly cover the capital expenditure program so far? Is there any further CapEx where we would be incurring other than this.

Vijay Shah: I will take your question. We have total twelve furnaces in our system....eleven I think, eleven furnaces in our system. Normally a furnace comes up for relining between nine to thirteen years, except for the type 1 furnace, which is a very very specialised pharmaceutical glass furnace which comes maybe in four or five years. They are a very corrosive glass. Except for that one furnace, normal furnaces comes between nine to eleven years or thirteen year. When, in this period there is a bunching of relining happening, that means out of eleven furnaces, almost four of our furnaces are coming up for relining. We have not specified precisely the dates because; a furnace life is not practical to pinpoint a date. If a furnace can last longer, we would stretch its life. So, we had during this period indicated that, we would have a CapEx of 260 crores, out of which 100 crores was towards the Greenfield project of 160 TPD, the balance 160 crores is towards the four re-lining, which is stretched over this 8th quarter and, that is why if you notice that any indication that we are giving about our growth numbers, we are giving at a CAGR for two years.

Now, coming to the precise date of reline, so we have had two furnaces which are completed. One was on the early part of this year, and the second has happened partly in the last quarter and partly is flowing into this quarter, as the larger furnace, which is 230 TPD, amber furnace, and that is the one which has impacted in the pharma sales this quarter. Coming to quarter 3, so part of the 230 TPD will flow into quarter 3 and partly there will be one furnace in USA which will go for relining. The fourth furnace may fall in this year or may fall in the next year. Now, on the capexes of these furnaces, they are spread over 150 crores, lets up it this way roughly half of it we spend by now, and the other half would be remaining.

Mithun Mehta: Thank you very much sir.

Vijay Shah: Yeah.

Moderator: Thank you for your question sir. We have the next question from Mr. Pankaj. B from ______. Mr. Pankaj, please go ahead sir.

Pankaj. B: Good afternoon sir, and congrats for the good set of numbers. Just now as you mentioned, that the third and fourth furnace which is coming for relining, out of which one is from US, but if I am not wrong, now the two furnaces which were to come for relining are the ones in India, if I'm wrong 35 which will be converted to 55, and 65 which will go **(audio break)** production of 95 TPD. But, is this, the US one, in addition to that or other than that.

Vijay Shah: I will explain again. 160 tonne is our brand new Greenfield project.

Pankaj. B: Right sir.

Vijay Shah: Out of the one furnace which was converted from pharmacy to amber, to cosmetical perfumery at the beginning of the year, was the furnace which was 55 TPD.:

Pankaj. B: Right.

Vijay Shah: Then there is our third furnace which is, not the third furnace, the first I told you about relining, the second one for relining was 230 TPD amber furnace, which post relining will become 255 TPD, with eight lines from six lines.

Pankaj. B: Right.

Vijay Shah: That had just about completed the second furnace. The third one is in the US, which is roughly, you know in US we have two furnaces which are adding up to 195, each furnace is roughly 100 US tonnes. So, one of these two furnace is coming for relining this quarter. The fourth furnace is the one which you are mentioning, 65 TPD, going up to 95 TPD. That may happen this year, may happen next year.

Pankaj. B: Okay.

Vijay Shah: Right, that explains the four furnaces? In US, what we have got a new one, is the same one we had mentioned earlier.

Pankaj. B: No, I just wanted to ask you, the one, our C & P furnace which is having a capacity of 35 TPD, is it not in line for relining?

Vijay Shah: No, no, no. That won't come up for the next couple of years.

Pankaj. B: Okay, okay, okay.

Vijay Shah: Right.

Moderator: Thank you for your question sir. We have the next question from Utham Mehta from Derivium Tradition. Please go ahead sir.

Utham Mehta : Good afternoon sir. Just a few questions. First one on our sales prospects. In the last con call you had mentioned that it would be around this time, when you would be able to tell us how the demand situation is post festive period. So, are the order flow still coming in? Hello.......

Vijay Shah: Yes, are the..... what was the question, are the.........?

Utham Mehta: Are the order inflows still coming in?

Vijay Shah: Yeah, as I told you, that leading customers whom we are supplying to, they are not giving any indication of a slowdown. In fact, more so in our case, we have a healthy flow of order in the premium segment from Europe.

Utham Mehta: Okay.

Vijay Shah: In the US market, as I said the order flow has, they shortened the lead time in US, so where they would give a prediction of four months and three months, they have moved down to one to two months now. Other than that in Europe where we are operating, the premium market the order flows are continued to be healthy for us. And, in fact, as recession comes in, I have a feeling that we could have a stronger inflow, because, people would like to improve on the bottom line.

Utham Mehta: Okay. So, that means we are not facing any gaps in our lines essentially we are ....

Vijay Shah: Not in the premium market, which is primarily Europe.

Utham Mehta: Okay, but in some other lines, other segments are we facing a gap?

Vijay Shah: See, we saw some hiccups in Brazil and Turkey, which is a, relatively a mass nail polish market. These are for mass nail polish market, but that we saw the last time also when the devaluation happened and the recession began, there were shot term hiccups in both these markets and we are seeing that same thing happen again. But, that is easy to patch up.

Utham Mehta : Okay, thank you. Just another couple of questions on the actual results. Our loans and advances seem to be constantly increasing ever since last year. It is 152 crores, I think this time around. Any particular component?

Vijay Shah: I think this must be capital advances. Sandeep, do you have ....

Sandeep: Yes, it is basically we are doing the CapEx that we are doing, the capital advances which are there, and nothing beyond that.

Utham Mehta: And, the debt has also gone up by 100 crores.

Sandeep: Yeah. See, if you see debt has two three components. This quarter got bunched up for our dividend pay out, and also the CapEx payment that is now progressing. And, the third one was the mark-to-market on our loans. So, those are the three four components that bunched up this quarter. Nothing significant that.........

Chunduru Srinivas: So, I would put it that operationally debt would not have gone up, but it is essentially because of one-time events like, you know, like the CapEx advances that you paid and the dividend that you paid and marking the dollar.

Utham Mehta: So, basically by the end of the year we should be back to normal once the cash flows from the business starts coming in.

Vijay Shah: Yes, yes.

Utham Mehta: Okay, great. Just one last question, the other operating income that has also significantly gone up in this quarter. So, any notional part in it?

Vijay Shah: Are you referring to a stand alone?

Utham Mehta: Yeah, I am referring to the stand alone business.

Vijay Shah: Yeah. You are right, actually it includes the one-time dividend that we bought from our Sri Lankan subsidiary, but that get knocked out on the .

Utham Mehta: Consolidated, yeah.... okay.

Chunduru Srinivas: If you look at the consolidated numbers, there is no gain and no loss .

Vijay Shah: Somewhere round eight crores or something, six-and-a-half..........so, if you remove that, that is the........so, otherwise there is no major change in our other income.

Utham Mehta: Okay, okay great. Thank you so much.

Moderator: Thank you for your questions sir. Ladies and gentlemen, for any further question please press * and 1. We have the next question from Mr. Prashant Kutty from Emkay Global. Please go ahead sir.

Prashant Kutty: Good evening sir. Just a question sir. Could we know what was the volume growth for this quarter, and what is the price growth?

Vijay Shah: Prashant, you notice that we are always churning our product mix. So, we don't track volume and price growth separately. What is more important is that, the profit improvement is lead more by churning up product mix in the market. So, focusing more on C & P and focusing more on the premium within C & P quite clearly is the approach that we have.

Prashant Kutty: So, okay.........yeah, sorry.

Vijay Shah: I don't think we focus so sharply on what is the volume growth, the price growth in that sense.

Chunduru Srinivas: It is the product mix quarter after quarter, Prashant, that keeps changing in, so it will be comparing apples and oranges, so for, as far as we are concerned, we use EVA as a benchmark essentially to see how we are improving on the product mix in that sense.

Prashant Kutty: Okay. Sir, one more question, apart from that if you look at the; if I am talking about, I am not talking about the prices that goes, could I probably know what is the price increase that has been taken in the last, any price increase taken in the last quarter or so? Products?

Vijay Shah: We, begin price increase in certain markets ranging between 8% to 10%, in certain markets, in certain products. So that, increase normally happens in, my case the pharma market. On the other end, the premium market the whole idea has been shared at a much much higher price platform itself.

Prashant Kutty: Okay.

Vijay Shah: That is why the scenario on this looks complex.

Prashant Kutty: Okay. So, this quarter we saw an increase in the raw material cost, if you look at it as a percentage of sales, it has probably gone up by about, say about 50-100 BPS on a Q-on-Q basis, I don't know if on a Y-O-Y basis there is a higher increase, probably any reason to site at that, is it........?

Vijay Shah: Alright. See, even we had not noticed this, so ....

Chunduru Srinivas: amber and mix of the furnace. Basically the furnace was down. Maybe this is, yeah, by the mix of those glass that we have, one of the larger furnace was down, but there has been no significant increase in this quarter in any input cost.

Vijay Shah: Prashant, I will put it this way, that the largest furnace which is Amber, which is predominantly supplying to the domestic markets, that was not there in this quarter because of the relining, because it is catering to the domestic market or raw material as a percentage of sales, that could be lower. So, that means the base what you had for last quarter and this quarter are slightly are different. Last quarter .... yeah, so therefore that is where the percentage is a little here and ther, there has been no major input cost shifts.........

Prashant Kutty: Exactly, that was what I was coming to, like has there been an input cost pressure or that sort?

Vijay Shah: Not at all.

Prashant Kutty: Okay, okay. And sir, just to CNP side, like as you just mentioned, that in the mass side we just saw a 3% growth, now that as against the H1 growth of 11% for the mass segment, it seems to be lower. Now, one of the reasons you cited was that, mainly due the Brazil and Turkey. How do we kind of expect this to be going forward actually? It can be the lowest fall?

Vijay Shah: No. Mass is a residual growth. If I am in CNP, my focus is to first grow premium.

Prashant Kutty: I do understand, yeah.

Vijay Shah: So, whatever is the balancing figure that happened in mass, so mass is the residual growth number for us. It is not a media focus in that sense.

Prashant Kutty: No, in the past we have probably not seen this kind of lower growth in mass segment, we have always seen probably close to double digit growth, so that is the reason for the question.

Vijay Shah: I guess it will recover in this quarter. Most of it should recover in this quarter.

Prashant Kutty: Okay. And sir, finally could I know what was the tax rate which you have guided for the full year.

Vijay Shah: We have the normal tax rate and you see that higher versus Q1 is again because of the dividend income in India.

Prashant Kutty: Okay.

Vijay Shah: That was on standalone, because Sri Lanka there is no tax, and India is at a normal tax rate.

Prashant Kutty: Yeah, because this quarter we saw 25% being the tax rate.

Vijay Shah: Again, that is because of the dividend income that we got from Sri Lanka, at this point that came to us.

Chunduru Srinivas: So, broadly I would say that, you know depending on probable sales at each of the geographies will give in profits, maybe 20% - 22% of PBT would be right now.

Prashant Kutty: For the full year?

Chunduru Srinivas: Yeah.

Vijay Shah: Yeah.

Chunduru Srinivas: So just talking about our revenue growth for FY '11 – '13 being in the range of about 16% to 18%. Now we have probably seen relatively low growth in this particular quarter. So do we kind of still maintain this thing, because you probably see that FY'12 probably see a bit of dip and probably FY'13 could see the full impact owing to the CapEx coming up?

Vijay Shah: if notice we have always maintained a growth figure over two years in the range of 17% 18%. Because we have taken into account the drop in sales because of relining of furnaces. So yes you a may find quarter-to-quarter numbers changing, but we still maintain that CAGR will be 16% to 18% for the two years. That means if there is a short fall now it will be resolved in the future.

Management: Even if you see the capacity wise as I mentioned to you that April 1st 160 tonnes comes in additionally which was not in this year. Similarly 230 tonnes have become 255. After 7 month of the year, what did happen? So you have 35 tonnes or 25 tonnes extra for five months now and the full year next year. So you find that the delta capacity also will aid.

Chunduru Srinivas: Right. Just a clarifications over here. Sir the reformations are concerned, so you said that 230 tonnes per day capacity, we going are going to be probably seeing some bit of impact in the Q3 as well, right?

Vijay Shah: Yes.

Participant: Okay. And we are going to see one more capacity being realigned, the US capacity being realigned in the Q3 this year?

Vijay Shah: Yeah.

Participant: Okay fine. Thank you sir. I if have any questions, I will come back.

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

Shakir: Hello sir my question was pertaining to our revenue. If you see on a YoY, we have reported our growth, but on QoQ if we see CNP, Pharma both actually have shown a degrowth. And I understand that in pharma since our capacity was under restructuring. That's one of the reason but CNP, is it because of capacity constraints seasonality effects or were it in particular in relation to any demand side issues?

Vijay Shah: No I don't see any of the factors coming out of CNP. We don't track quarter-on-quarter, but I am not very worried about numbers being different. YoY we are quite healthy and growing well and that's got the right signal. So there is nothing to worry about on quarter-on-quarter basis. As you rightly pointed out pharma is mainly because of the capacity not being available.

Shakir: I mean there is not any seasonality effect into CNPs correct?

Vijay Shah: Not really. There will be slight dip because of Brazil, Turkey issue towards the end of the last quarter.

Shakir: Okay. But in that sense even premium has not really done pretty well on QoQ. It's kind of flattish or marginally downwards.

Vijay Shah: What happens in premium, the growth comes because of the new product development that are in process. So sometime what happens is _____ **33:32** gets longer or the clearance will take long. And once it comes to them, they start flowing in.

Shakir: Right. So just also wanted to know if at all probably in this quarter, if we have added any new products or any new clients in our portfolio?

Vijay Shah: See clients actually, we have now addressed most of the clients. The only new client that I can think of which is now we are talking to is huge Puig from Spain which a very large perfumery company. And now they are going to make a visit to our plant for an audit and that's good break through because huge brand like _____ **34:12** Paco Rabanne, Carolina Herrera. So one of the global leaders among the top five companies in the world. So this is the only company which is outside France, in Spain. So that's a break through that we have. So that pipeline will start developing now. But other than that, normally we are focusing on getting larger share of the wallet rather than getting to more companies.

Shakir: So in that sense have we added any new product into our portfolio?

Vijay Shah: There are three C&P products which we are waiting for clearance is which in developmental . So this could be very large volume products in the future.

Shakir: Okay. Can we quantify kind of in terms of order flow?

Vijay Shah: I have told you what is in that development but the premium portfolio will keep growing because we got a lot of the products of the past which we are getting repeat orders. So

I'm not too worried about it. Partially numbers may have been impacted because of US being very flattish right in the quarter.

Shakir: In the business environment front, just wanted to gauge your understanding. You told that, probably if at all US and UK might not do good. Probably you may get high share of the wallet because they would want to actually improve their cost or component fees. But I was just wondering because, the idea is that in the premium segment the cost of the bottle actually is a very low cost. So it's not really one of the key requirements for perfumery company. And I believe the clients are also quite sticky in sense of switching from one company to the other. So just wondered your sense about how would we be able to probably get a high share if the competitors are facing challenges.

Vijay Shah: The questions are very-very intelligent and pertinent, but they got that thing to do as necessary. Your one question is that if the bottle cost is so low compared to the perfume cost, why should they switch? So, that's a very-very basic question and whether there is recession or not, the question remains the same, because the point is that why would a leading company want to switch. And the second was that they are sticky? Yeah they are sticky and they try to stick to the same brands. Our US operation has been doing the entire range of Polo perfume bottles whether Polo green, blue, black whatever since last 40 years. So yes you are right there is market and the customers are very sticky to the products. So why are they switching? Take the case of a customer mainly Europeans. The entire portfolio of perfume that they have, in the glass purchase, they have is €160 million. Take P&G to be €110 to €120 million. So as a brand it makes no sense in fact we should not be in this business at all for any of this players to switch the us, because the bottle maybe €1, €1.5 in the max. But the reason they are switching is because as a portfolio when they are under pressure to reduce cost, then they think of resourcing the bottles and try to reduce cost. But the reason European customers are coming to us, because he has a target of €5 million cost reduction on a total purchase value that he want. So that's a rational for them to switch suppliers. Are you clear about that? And it is true that they are sticky when they come to us also, most of I have not seen a single of product that has come to us going away. So normally it's a very sticky business. They do not like to develop many suppliers. So normally it's a very stick business and the switches are very- very seldom.
Chunduru Srinivas : To add to what Mr. Shah has mentioned let's take case of a company like like large European players, that central purchase department the glass is so strategic to them that the combined buying would be at the range of €70 million to €100 million. Sony 5% change can actually mean a huge amount and its normally a central purchase what happens in that sense. That's point one. Second your looking as a percentage of MRP? Answer is right, on a $60 perfume maybe $1 is the price of the bottle so you are talking about less than 5% kind of things. However there is slice and dice for a $60 MRP into distribution cost, endorsement cost, brand launch cost, and manufacturing. Manufacturing would not even be $5 to $6 out of the $60. So and reality the glass is the single largest component and packaging is the largest component of the perfume. In fact probably the cost of the packaging exceeds the cost of the liquid also. In that sense of a manufacturing perspective, single largest component will be glass.

Shakir: Okay fair enough.

Vijay Shah: During the course of recession it's a hypothesis that I'm making that if the purchase department is under pressure or the company is under pressure profit, then they should look out more for lower cost sources. Now this is yet to be proven.

Shakir: Just one more thing, just wanted to know despite the currency volatility doesn't seem to have impacted us. Can you just explain me how have we done that?

Vijay Shah: Sandeep you would like speak to...

Sandeep Arora: Partly we are covered.

Vijay Shah: Yeah partly we are open.

Sandeep Arora: So we had some gains which offset the rate of the MTM that we have on the loan. If you see we had a positive on the quarter one that got nullified this quarter.

Shakir: Right. So what is the foreign loan that we have?

Sandeep Arora: In the total portfolio or India standalone?

Shakir: In the toal portfolio out of the 900 odd crores that we dent, what is the amount of loan which in foreign currency?

Sandeep Arora: See the US is totally $60 odd millions. Sri Lanka is in the local currency plus the debt and India its about $47 - $48 million some 100-110 million.

Shakir: So about 435 to 500 crores is out of the 900 odd what you said is in dock?

Sandeep Arora: But then US and Sri Lanka are within their own currency so that's more of translation. It's only India that is in the MTM which is about 48 million US.

Shakir: So this has got nullified against the foreign currency assets or how is that we know?

Sandeep Arora: We had some gains on our collections, the nullified it.

Vijay Shah: I think from a broad number perspective, one has to look at what is the naked exposure. So the policy wise what we do is that whatever is the naked exposure, we just take it on. And keep moving on the strategy.

Shakir: So just on the revenue fronts what is the amount of revenues that we may have naked or the part which we have hedged?

Sandeep Arora: That's difference we go on seeing in the market we don't keep fixed naked in that. So I don't think that's specific to it. But as we, we don't want to time of dollar actually. So it's very-very difficult in this volatile market to really have a fix on it on a long term view on how much we should keep now or not. So it's all depends on how the market moves.

Shakir: Correct. For my understanding, we believe that may be the foreign access which probably had nullified volatility in, basically whatever debt we may have had?

Sandeep Arora: No its not asset but our receivables. There is no other asset from this yeah.

Shakir: Fair then. Thank you.

Moderator: Thank you for your question sir. We have next question from Mr. Sangam Iyer from Alpha Advisors. Please go ahead.

Sangam Iyer: Congratulations to the management. Sir could you just provide me the average realized rate for the revenue during this quarter for the exports?

Vijay Shah: Yeah Sandeep will take this what.

Sandeep Arora: We have different currency. So they are at 46 47 average or Euro going up to 65 66. So they are at different levels.

Vijay Shah: The average being in the region of 46 47.

Sangam Iyer: On a sequential basis how this realization would have moved? I just trying to understand on a normalized basis how the growth has been?

Vijay Shah`: It's very similar one and two because the spurt really happened only at the fag-end of the quarter. So if you really see we had those gains earlier in quarter 1 on a net basis. So on an overall basis our collection view would be similar.

Sangam Iyer: Okay so the better way to look at it is, the growth that we have shown on a sequential basis also is primarily on a cost on currency kind of.

Vijay Shah: Yeah it's kind of.

Sangam Iyer: Okay sir in early part of your comments you mentioned that, the US market is kind of stagnated in this CNP segment and also the fact that when we went into a recession kind of a scenario last time around, as compared to that we are in a better position and the tip could be at least 50% lower. Assuming that this kind of scenario does pan out considering what's happening or what you are hearing from Europe, etc., So we still think that these are order flows or the visibility from clients that the two year growth guidance that we have providing is still as it is? Or does it take that into consideration while we are looking at this guidance?

Vijay Shah: See during the last session also what we found is that it was not impacted significantly. In fact even very marginal impact we had. Because we are gaining shares in the Europe market are in the US market all the time. So while in US it might be stagnating on CNP segment. We continue gain share in Europe. So we are the only one from Asia in this business. So we are expecting major impact on our numbers or on our guidelines that we are given.

Sandeep Arora: Other few thing is that we have been maintaining the market growth cosmetic perfumeries ranging from 3% to 5%. However, if we look at our 10 years track records, it has been much faster. So it is by gaining market shares not really the market growth based on which we are growing.

Sangam Iyer: Right. I just wanted to get sense in how much of the negativity is already into the pricing or well be it into the guidance?

Vijay Shah: The guidance what we are holding since last couple of quarters, no negativity build into it. But we find no reasons to review our guidance at this moment.

Sangam Iyer: Great. Sir on the realigning of the two furnaces that are supposed to happen in Q3 and Q4, both are for the CNP segment?

Vijay Shah: See one is the Amber 255 tonnes.

Sangam Iyer: Second was already done in Q2 right?

Vijay Shah: That partly went into Q3. So that was the second furnace. The US furnaces are mixed furnace but partly spirit and partly CNP.

Sangam Iyer: The US furnace which we are talking about in this quarter?

Vijay Shah: Right. The post-realigning and we now going to maintain the capacity. The next furnace just coming, 65 tonne to 95 tonne is purely a CNP furnace which may or may not come in this year. It may fall in to next year. But yes that is purely CNP furnace.

Sangam Iyer: And sir this realigning, typically how much time does it take. Is there any thumb rule or anything?

Vijay Shah: Yeah there is including the realigning it also depends on how much work you are doing? So US where we are doing a straight same capacity realigning and it could be 45 to 60 days. In India with that 255 tonnes from 230 was normally a realigning but there was accretion to capacity. And there we were adding two further lines to this furnace. So one was the addition line, one was tandem line. So that adds to civil work and another work that's involved. That we plan for 75 days through 80 days. The 65 TBD that is coming up, I think we are looking more like 60 days. Depending on the work involved during the realigning, the 65 TBD is going up to 95 TBD however the 5 lines will continue and we are just improving the productivity of the line. So that may take 60 days or so.

Sangam Iyer : And sir finally just to get a sense. When the US realigning would take place during Q3 year or later or early Q4, there wouldn't be much loss in productivity because the other shift from pharma to CNP in India would have already taken place which would compensate for the volumes right? Or they have to be, this unit also has to be approved separately before the shift if production takes place?

Vijay Shah: Realigning is in the US market so this quarter when it takes place US may get impacted to some extent because it will 200 plus to sell in the local market. Now when you are referring to pharma shift to CNP, I don't think anything major is happening on that. So I'm not clear about the question. US will definitely get impacted this quarter to some extent on sales.

Sangam Iyer: Okay.

Chunduru Srinivas: As Mr. Shah has mentioned that's the furnace which is mix of spirit which is specialty food and beverage and cosmetics and specialty is non-transportable.

Sangam Iyer: Okay, got it.

Sandeep Arora: So we would have some loss of rather postponement of sales depending on what you are talking.

Vijay Shah: It will definitely never lose CNP because as they will supply from there through inventory or they would source it from India.

Sangam Iyer: Yeah,

Sandeep Arora: If there is a credit then they will lose out of the market.

Sangam Iyer: Got it sir. All the best.

Moderator: Thank you, for your question sir. We have our next question from Mr. Susheel Gupta from Silverdale Capital. Please go ahead.

Susheel Gupta: Hello sir I just wanted to know how much would be soda ash as a percentage of revenues if you could tell me.

Vijay Shah: Its 6%.

Susheel Gupta: Okay. And how much would be weighted average power cost for the domestic business?

Vijay Shah: Domestic around 20%. Sorry energy cost. It's not power cost, its energy cost. Natural gas power everything rolled together.

Susheel Gupta: So it could be 20% of the revenues.

Vijay Shah: Yeah.

Susheel Gupta: Okay and on a per unit basis, if I can get that?

Vijay Shah: Per unit of the, power?

Susheel Gupta: Yes.

Vijay Shah: Yeah but first of all I give you 20%. I'm again repeating its energy cost, it's not power alone. Its power, natural gas, or whatever fuel that we are using. We are basically buying from Gujarat Electricity Board. I think it's in the range of Rs.5.60.

Susheel Gupta: And just one more question. When you are saying to normalize growth rate, that is considering that the plant was not shut down. To calculate this what is the revenue per TBD you take in further quarter?

Vijay Shah: It depends on which product that we have lost out. So currently we are losing out on Amber. The each plant is got different product mix and then the CS value in tonnage is different.

Susheel Gupta: So the range would be very wide is it?

Vijay Shah: Yeah very wide. Extremely wide because...

Susheel Gupta: Thank you very much sir.

Moderator: Thank you for your question sir. We have next question from Mr. Pankaj B from Enam Direct. Please go ahead.

Pankaj B: Sir just wanted to know what would be the debt level at which our company will be by end of the year?

Vijay Shah: The dent level at the end of the year depends on whether the last furnace comes for realigning or not, whether second furnace came for realigning or not. So I can tell you, that's why I'm saying that look at two year scenario in our case. That takes all the ups and down that we have got in quarter on quarter. And the true scenario is that next year we will have debt equity ratio at 1.5:1. And whatever debt we need, whatever money we need, will be paying through our cash generation. So we are not able to predict the debt level at the end of the year because of the realigning schedule is not in our hands.

Pankaj B: Sir just wanted to know if we have any repayment schedule in place? Any debt which we are having is set for repayment in next the two years? I mean by end of this year and FY'13?

Vijay Shah: We have loans that may come up but, they have all tied up and we generally get a roll over. So there is no risk of repayment that we have on them.

Pankaj B: So will be safe to assume that by FY'13 we will be having debt at this level and debt equity would be reduced to 1.5 due to increase in our...

Vijay Shah: Debt will go down.

Pankaj B: Probably to 900?

Vijay Shah: Yeah.

Sandeep Arora: I think broadly to look at the data number, annualized data and cash flows you will get to that number. So reduction plus equity going up in the range of 900.

Pankaj B: Okay sir thank you.

Moderator: Thank you for your question sir. We have next question from Mr. Mithun Mehta from Lucky Securities. Please go ahead.

Mithun Mehta: You said that it's very difficult to kind of gauge the timing of the realigning of furnaces, but just to get some fair sense, some approximation from your side. Apart from this two furnaces, which would be next round of realigning happen?

Vijay Shah: I don't have anything for FY'13, FY'14. 15 may be one of smaller furnaces would be coming up. So there is bunching happening now.

Mithun Mehta: Sir, this is a little longer than two years. The debt equity that we are targeting. Which means that in FY'14 or FY'13, we would have sufficient cash to kind of pay down debt. So could we be then looking to kind of pay down our debt?

Vijay Shah: FY'13 end, that is March FY'13 is what we are saying. So it's within two years. Not beyond two years. It's where we are saying that we will be bringing down our debt in the region of let's say 900 crores.

Mithun Mehta: Okay thank you sir.

Moderator: As there are no more questions I would now like to hand over the conference to Ms. Ninie Singh. Over to you 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. Once again thank you very much.

Vijay Shah: Thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. We thank you for your participation for using TATA Indicom Conferencing Services.