Transcript

Conference Call of Essel Propack

Event Date / Time	**:**	**31st January 2014, 3:00 PM IST**
Event Duration	**:**	**1 hour 6 min 41 sec**

Presentation Session

Moderator: Ladies and gentlemen, welcome to the Q3 FY14 results call of Essel Propack hosted by Emkay Global Financial Services. We have with us today Mr. A.V. Ganapathy, CFO, Mr. M.R. Ramasamy, President, Mr. Roy Joseph, Regional VP, AMESA and Mr. Vinayak Mokashi, Financial Controller. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference please signal an operator by pressing * and then 0 on your touchstone phones. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Prashant Kutty, Research Analyst of Emkay Global. Thank you and over to you Mr. Kutty.

Prashant Kutty: Good afternoon everybody. Thank you for joining us today. We would like to welcome the management of Essel Propack and thank them for giving us the opportunity to host this call. I would now like to hand over the call to Mr. Ganapathy for his opening remarks, over to you, sir.

Ashok Goel: Okay, Prashant, this is Ashok Goel.

Prashant Kutty: I am sorry, yeah.

Ashok Goel: We also have Cherian Thomas who is the CEO of Packaging India; we have Ashok Vashisht who is the RFC of AMESA and Amit Jain, the treasurer of the company. So, thank you Prashant and to Emkay Global and ladies and gentlemen, welcome to the con call. This is Ashok Goel, so I must say that this quarter was a satisfactory quarter in some sense posting revenue of 535 crores and net profit of 28.3 crores. This quarter saw the revenue growth accelerating to 19.8% contributed by all the four regions. As you know we have four regions Americas, Europe, AMESA that is Africa, Middle East, South Asia headquartered in India and East Asia Pacific headquartered in China. Consequently, the net profit has grown by a healthy 28.3%. The year to date revenue has crossed a milestone of 1500 crore rupees and that is a growth of 13.8% which is in line with our earlier indication. Year to date net profit of 80.5 crores represents a growth of 48.9% and is almost equal to the full year net profit of the previous year. Operating margins for the quarter is comparable with the previous year and has expanded by 80 basis points for the nine months. Traditionally this quarter has seasonal impact due to holiday season especially in the western world; the sequential comparison has to take this aspect into consideration. Having said that, we did have a major impact of offtake drop in Americas on account of pipeline correction by key customers in US. In fact their offtake was in excess of estimates during the previous quarter, thus making the correction to look rather steep. Based on the information and the understanding we have with the US customers, their volumes are going to bounce back in this quarter that is the fourth quarter. This together with the ramping up of new contracts in Mexico and Columbia, it should restore the growth and hence the profitability of the Americas region. Europe region has posted positive operating profit for the quarter, which is good news. With Poland, it is fast ramping up its volume which is on track of the new long term contract that you are aware of. The Lamitube sale of Poland have grown sequentially by 32%; however German unit sales declined seasonally and this is normal for us, causing the overall growth for the region that is European region to look low on sequential basis. German performance year to date has been very robust with topline growth of 34%. As such Europe continues to present promising outlook going forward. EAP that is headquartered in China continues to grow well, which is 32% year on year and 13% sequentially with the key customer offtake recovering. AMESAs that is America, Middle East, South Asia India headquartered has grown 14% year on year. This growth could possibly be higher, but we were constrained by the capacity for the third quarter, that is 3Q. Operating margins for the quarter has been impacted in case of Americas and EAP that is East Asia Pacific on account of volumes. In case of AMESA on account of higher input cost due to rupee devaluation passed through with the lag effect. Europe margins have improved significantly with volume ramp up in Poland and also in Germany on the YTD basis. Overall the margins have improved for all regions except EAP. Finance cost has been reduced by 12.8% points cumulatively with the average interest cost at 8.05%, lower by 165 basis points compared to average of previous year. Net debt at the end of December '13 was Rs.917 crores compared to 980 crores in September '13. In constant terms the net debt is 849 crores as compared to 909 crores in September '13. DSCR has improved to 1.4 and debt equity dropped below 1 to 0.96. The capital expenditure was in line with our indication, for the first nine months it was 122 crores. The oral care and non-oral care breakup that is a matter of always interest to all of us, the share of non-oral care in Q3 was 37.3% as against 40.6% in the previous year. Now this you must remember that we did have a new contract in Europe which was ramping up for oral care which is why there is a dip in non-oral care share, but that is not necessarily a bad thing, but we expect that going forward the non-oral care contracts that we have in Europe, in India and in China, this should balance out. I must reiterate that we continue to focus on our 50% revenue share in the next two years or so and therefore we will dynamically manage this ratio of oral care and non-oral care. Account receivable and stocks, our stocks were 33 days which is lower by 2 days compared to September quarter and DSO, Days of sales were 52 days which is lower by 1 day in September quarter. Exchange rates impact on YTD profit after tax growth of 48.8%, is 4.7% . If we reduce the exchange impact then the growth in constant terms is 44.1%. So with that I think we will be happy to answer all and every question.

Question and Answer Session

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. At this time if you would like to ask a question, please press * and then 1 on your touchstone phone. If you decide you want to withdraw your questions from the questioning queue please press * and 1 to remove yourself from the queue. Ladies and gentlemen, if you have any questions please press * and 1 on your telephone keypad. The first question comes from Hitesh Taunk from ICICI Direct, please go ahead.

Hitesh Taunk: Hello sir. Congratulations on a good set of number. Sir, my first question is, I just wanted to understand one thing, why our gross margin on our domestic business have declined around 300 BPs point, although you have explained like there was some FOREX dollar impact into the raw material cost, but I just wanted to know how much was contributed by the currency fluctuations and how much was the actual increase in raw material cost, that is the first question and sir, I just wanted to understand one thing more, like why our employee cost as a percentage of sales was so high like around 16% to 17%, if you could please explain this?

Ashok Goel: Let me take the last question first, Hitesh. There is some background noise. See, as we increase our footprint in the western market the ratio of employee cost gets skewed and if you see our expansion recently was in Poland and in Germany and therefore the costs there does impact on the overall, but I don't think it has significantly changed over the last year in terms of percentage. Ganesh, would you like to take on the margins decline?

Hitesh Taunk: Hello, I am sorry, sir, you are not audible, sir.

Ganesh: Hitesh, can you hear me?

Hitesh Taunk: No, sir. I am sorry, sir, I can't hear you.

Ganesh: Can you hear me now?

Hitesh Taunk: Yes, sir.

Ganesh: Regarding your question on the raw material cost for this year domestic business, see in India we import most of our raw materials like polymers and so there are two expenses for us, one is the polymer prices and the other one is exchange rate. Now, during this quarter the impact onto our consumption is largely arising out of the exchange rate. In our estimate it is around 8.5% to 9% . Now, what we do in such situations is that we have a pass through mechanism with our customers by which we will essentially be able to recover whatever the actual increase in the costs, which we have already completed, and according to whatever formula we have agreed with the different customers, okay. Now, to some extent, when cost is increasing the percentage looks little higher , but we have already done the pass through, but that will have a little bit of a lag effect. So, that should get corrected by the next quarter.

Hitesh Taunk: Sir, so you mean to say that the margin would be maintained for FY14 and 15 like what we have maintained for 9 months, am I right, sir?

Ganesh: Yeah, if you see my overall margin, you also see I do not have as much impact on the material cost outside of India, because the exchange movement is the particular one which has impacted us, so overall basis I am maintaining my material cost fairly on a cumulative basis, so with the corrections happening in India with the next quarter, that is the current quarter, the things should be improving back.

Hitesh Taunk: Okay, thank you. Sir, if I could allow for asking them one more question? Sir, currently we are in a good position in order to generating operating cash flow and we have debt also in the book, so what is your expectation in order to…on debt reduction by the end of FY15, if you could please throw some light on that? What is our debt reduction plan?

Ganesh: Okay, see the way we are looking at business, because business grows (not clear). Given the fact that intrinsically this is a cash generating business therefore to have debt is nothing bad for this business. What is important is that, how we manage the debt to ensure that it doesn't impose any additional risk to the business. So, if you noticed even as Mr. Ashok mentioned to you that today there is a reduction in the net debt compared to September. So, the cash flows are taking care of the debt and also whenever the CAPEX happens in lump you will notice little bit of the debt going up. So, what we do is we are managing it in terms of capacity to service the debt. So we look at indicators like the DSCR, we look at indicators like debt equity. If you notice our debt equity at one time was very low. Debt/Equity Ratio about two or three quarters back was close to about 1.1, which is now coming down to 0.96. Likewise if you see our DSCR it has now improved to close to 1.4 and we are targeting to take it up to 1.5. So these are some things which are very comfortable levels for operating. If the customers grow we will need to invest, when the customers are in a period of consolidation we don't invest and therefore our cash flows come back and reduce the debt level also.

Hitesh Taunk: Sir, just a follow up question of that on the same note, so what could be the dividend payout ratio you are looking for, if I could ask you for the year end FY15, what kind of ratio are you going to maintain?

Ashok Goel: One second, Hitesh. Hitesh, our policy is that we will continue to pay dividends and we have continued to pay dividends. I think last year our dividend ratio was 26%. I cannot obviously say preempt my shareholders, we would always look to maintain or improve on that.

Hitesh Taunk: Okay sir, anyway thanks for the answers sir and if there will be any question I will be coming in the queue, sir.

Ashok Goel: Thank you.

Moderator: Thank you, sir. The next question comes from Shivani Vishwanathan from Techno Shares and Stocks Limited, please go ahead.

Shivani Vishwanathan: Good afternoon, sir. Sir, I had a few questions, like if you could just, I don't know if I missed this number, what was the volume growth for this quarter and for the nine months, sir?

Ganesh: Yeah, volume growth was for the nine months has been 10%.

Shivani Vishwanathan: 10%, this is consolidated.

Ashok Goel: Revenue growth was about 19.8%.

Shivani Vishwanathan: And sir, for the quarter what has the growth been like?

Ganesh: Volume is around 10%

Shivani Vishwanathan: Okay, sir I just wanted your view on how specifically in your Indian operations, how have you been seeing both the oral and non-oral care demand coming, because from the feedback that we are getting from while hearing the other calls for FMCG sector, that there has been a slowdown on the personal care segment in India, so what are the feelers that you are getting from the market for demand?

Ashok Goel: It is a great question, Shivani. In a general sense what you are saying is for the FMCG sector is correct, but FMCG has a large portfolio, right. For example FMCG has impacted us in the specialty packaging business, but on the tube side we are only seeing growth and as I mentioned in my opening remark we were short of capacity in India as a result we lost, - meaning temporarily lost some opportunities and we are seeing a robust demand in oral care, we are seeing continued demand in non-oral care as well. Since we had some long term contract with some customers, so we obviously…those customers get the priority and therefore some of the non-oral care customers we did not accept the orders, but we are continuing to grow and in India we will maintain the momentum. In India the non-oral care revenue share is 51.2% for this quarter, no for YTD and we can only improve this ratio Shivani, but I know that there is a new contract we are negotiating which will give us some good increase next year. So, in fact we are very bullish, we need to expand the capacity and we are taking steps towards that.

Shivani Vishwanathan: Okay, sir if we could have the Y on Y number for non-oral care also, it was 51.2% this nine months, last nine months, sir, previous year?

Ashok Goel: Yeah, it was 53.1%.

Shivani Vishwanathan: The new tubing plant that we are shifting from Poland, sir that has commenced operations in India?

Ashok Goel: Yes, Shivani, that has commenced operations. Now that was the plastic tube line just in case for a reminder and I must add at this opportunity, globally we are seeing a shift from plastic tube to high decorated high value added laminated tubes, which is why we started to distinguish not by plastic and Lamitubes, but by oral care and non-oral care, so we are getting a good opportunity. Keep in mind that we have very small capacities across the globe for plastic tubes; a small capacity in US, in Poland and in India. So, we are riding the bandwagon, in fact we were the first mover to bring about the change from plastic tubes to laminated tubes and we are seeing the results, we have quite a number of projects underway to convert the plastic tube into Lamitubes. In India also it is happening, at the same time there is new demand keeps coming for plastic tubes for India, so that line from Poland is now running and we are getting opportunities for non-oral care growth.

Shivani Vishwanathan: Okay, sir, just a quick question on that. If I were a customer would it be cheaper for me to go in for a PBL tube in India or the plastic tubes, because the decoration on a PBL would I think cost more because like you said more graphic and it is easier to do it on that than to do it on plastic tubes, so I was wondering whether it is cheaper for me to go in for a PBL tube which has almost similar qualities as a plastic tube, sir as a customer?

Ashok Goel: It is a good question, Shivani. See, what happens is because the plastic tubes the lead times are longer therefore as a customer one has to manage their supply chain much more carefully, advance plan their demand, whereas in the case of laminated tubes we are able to churn the orders much quicker, so that itself becomes a good motivation and advantage for the customers, but plastic tube typically is also preferred by the customers where their volumes are lower, okay. The moment they cross a certain threshold of volume, they typically tend to change from plastic to PBL laminate and the graphics of course can be done on both in terms of output, the graphics, but of course the process varies between the two.

Shivani Vishwanathan: Okay and sir, also one more question on that only, okay I will come back to that question, let me just frame that. Going to AMESA region, sir, if you were to look at Egypt performance, what is the current capacity utilization that we are working on over there and during the disturbance that was there, sir we had hit a very low number there, so if you can just give me pre and post disturbance, how has the capacity utilization worked up there and how much can we ramp up there, basically your order book in Egypt, sir?

Ashok Goel: Shivani, during the disturbance I don't think there was a huge decline in the first place, right. For the quarter Egypt has grown in value terms by 14% and we continue to see the growth, we are getting more opportunities in Egypt from non-oral care. The earlier existing customers the demands are back, we are getting for pharmaceutical and cosmetic and we are expanding some capacities & capability for the cosmetic category.

Shivani Vishwanathan: Okay, sir just coming back to the PBL and those tubes, sir, if I was to ask you if X is the cost or the profit, let us take it the profit on our laminate tube, what would be your profit X plus what percentage for a PBL and for a plastic tube, sir, per unit also you can tell me, sir? I am not asking for figures, just plus what, X being X?

Ashok Goel: You don't want me to lose the margin by answering that question.

Shivani Vishwanathan: No, no, that is why I put an X there.

Ashok Goel: What I can tell you is the sale price of a normal laminated tube, in case of plastic tube it will be 4 or 5 times higher, but in the case of PBL, it will be 3, 3-1/2 times higher. Hope that satisfies you some bit.

Shivani Vishwanathan: Yeah. Sir, coming back to AMESA, sir, in the Indian flexible packaging business we had seen a hit last quarter primarily because of the slowdown, I was wondering how is it performing this quarter and how are the capacity increase plans going on there and you had spoken also about some export opportunities that you were seeing over there through that subsidiary of yours, can you throw some light on that, sir?

Ashok Goel: Yeah, I will let Cherian Thomas, who is the CEO of that business to answer that.

Cherian Thomas: In terms of capacity we have delayed the capacity expansion going by the sense that what we are hearing from the industry, so we delayed it by about 5, 6 months. The capacity expansion is going on to the extent of 20 odd percent . We expect that by the first quarter next year the capacity will be on stream for the market. The export opportunity that we mentioned was, we are still working on certain pockets in the African market and we have limited success, but there is still work that is going on that we expect to yield results in the next 4 or 5 months.

Shivani Vishwanathan: Okay, sir, can you just give us the capacities, that is the current capacity and what would it be going into FY15 after the full expansion?

Cherian Thomas: From the current there will be a 20%, 25% enhancement of capacity.

Shivani Vishwanathan: What is the current capacity there, if you can throw…?

Cherian Thomas: About 12500 tons, it can go up to close to about 16000 tons. That depends a lot upon the market in terms of the thickness of the laminate.

Shivani Vishwanathan: So sir, basically this is into only laminates, correct, no cartons or no other flexible packaging in this unit?

Cherian Thomas: Yeah, no cartons, purely flexible laminates.

Shivani Vishwanathan: Okay and can there be any value add in this, sir, is this new capacity that is coming up, can there be a value add in this coming through to profitability or margin expansion?

Cherian Thomas: There are certain new segments that we are starting, so in terms of the products offerings it is by and large similar, but with this we are able to enter certain segments which hitherto we were not there.

Shivani Vishwanathan: Okay, thank you, sir, that was it for me, sir. Sir, can I ask more questions or should I come back in the queue?

Ashok Goel: Your choice, Shivani.

Shivani Vishwanathan: Sir, for the America region, I just wanted to know, what was the reason for this fall in the client order, what exactly has happened in the market, why was there a cut in the budget?

Ashok Goel: No, there was no cut in the budget. As I mentioned in my opening remarks it was the stock reduction by the major customers in US which was known to us. In fact one customer had taken more tubes in anticipation of some of their plant movement, therefore we supplied them more than what was required in September quarter, so obviously we expected a dip in December which they had told us and another customer underwent stock correction because of the year end and our current discussion is that we have got more business actually from them which was not there with us and the volumes will come back up for this quarter.

Shivani Vishwanathan: Okay, and sir, how is the performance of PBL tubes been there, I think there was a management strategy towards pushing for PBL tubes, how has that been…

Ashok Goel: Yeah sure, Shivani. We already got a contract, in fact on the back of that contract that has become a global project for us with that customer and we are undertaking lots and lots of development and so the PBL movements in that geography as well is moving in the right direction.

Shivani Vishwanathan: Any new client addition, sir? Yeah, I will come back.

Ashok Goel: Yeah, there is a new customer, yes that I am talking about.

Shivani Vishwanathan: Okay, thank you sir, I will come back in the queue. I am so sorry.

Moderator: Thank you. The next question comes from Ujwal Shah from Axis Securities. Please go ahead.

Ujwal Shah: Thank you for taking my question and congrats on very good set of numbers sir. I just wanted to know about the Indian market sir. Are we planning any CAPEX considering we are facing some capacity constraints, and to what extent would we be expanding our capacity down here?

Ashok Goel: Yeah Ujwal, thanks for the question. Yes we are adding capacity. In fact we are airlifting a machine as we speak, that is the need of the hour and will add about 240 million tubes additional.

Ujwal Shah: 240 million tubes?

Ashok Goel: Yes. And if I could expand, as I have been mentioning, we are working on another project, which is a big contract, but we may not do CAPEX on that, but it will be a good number, north of 250 million tubes over and above what I said. That will come in at the beginning of next financial year.

Ujwal Shah: Okay sir. Just wanted to know that in terms of EAP we have been seeing that the margins in EAP have been very encouraging and if we just break it down in terms of regions, those would be more comparable to our Indian businesses, but if we compare on like-to-like basis in terms of margins, only if you take India business excluding the Packaging India business, PIPL, there is a huge differential in margin sir. So what actually makes China and EAP more lucrative in terms of margin than India in that sense? And can we replicate the same also to India and can spike up our Indian margins as well, which would have an overall impact on our EBITDA margins?

Ashok Goel: I think you have answered the question Ujwal yourself. The AMESA numbers gets skewed because of the Packaging India numbers. Packaging India obviously has the higher asset to turnover ratio, but lower EBITDA margins, which actually dips the margin of India by 2% if you combine that together. So therefore India and China profitability is comparable altogether.

Ujwal Shah: Okay sir. Sir, and in terms of cross selling of we were probably targeting this many regions, where we already have such good relations with, strong ties with a lot of (not sure), we can probably cross sell our PBL tubes to the oral customers who are probably FMCG giants as well? So how that plan has worked sir?

Ashok Goel: You are exactly right, Ujwal, that's exactly also happening, apart from adding new customers. And we are cross selling, I cannot name the customers publicly, yes, we are cross selling to a lot of multinationals and Shivani, the previous person on the call, she asked the question in US on the PBL, so that is a new customer for you as well as a global customer for us elsewhere. So we are adding that and a lot of new projects are in the pipeline and some have already started ramping up. For example, the same customer we started supplying in Philippines, we are already supplying in India. We just started with them in China. Europe, we are getting more business from them. So it is a global project, global customer, global opportunity, global cross selling. That is what we are doing apart from adding new customers like L'Oreal and the regional customers everywhere.

Ujwal Shah: Right sir. And sir, lastly to the Chinese market we have started I-shine program over there, in terms of marketing? Can you just touch upon how that program has responded? What is the response of people down there and we were also planning to expand more into the (not sure) Chinese regions, specifically Shanghai and those areas, so how is that region shaping up for Essel?

Ashok Goel: Right. Great question Ujwal again. I-shine is the same thing as what we are talking PBL, that's the way we sell that kind of, projected that as an initiative in China or in East Asia Pacific. And that is exactly what I said Philippines we started, in China we got a new business, we started making the commercial supplies, we are working on a project on East China, which is close to Shanghai, I think, the orders have already been placed for the equipments. The place has been identified, which is being retrofitted. So we are quite bullish on that. And we are getting fabulous response and I was personally there meeting some customers two weeks ago, and they are also very bullish.

Ujwal Shah: Okay thank you. Thanks sir, I will jump back in the queue.

Ashok Goel: Sure, thanks.

Moderator: Thank you. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Next question comes from Nirav Jimudia from Anvil Research. Please go ahead.

Nirav Jimudia: Congrats on a good set of numbers. I have just one question, like, sir the turnover from the American region has fallen from 113 crores to 105 crores, you rightly explained in your opening remarks that it was because of the customer off take problems there. But sir, I was just wondering like the PBIT margins have fallen from 9.6 crores to 2 crores. So like the turnover has fallen by 8 crores, the profitability has fallen by 7 crores. Sir, so there was any one off in the profitability because of which our profitability was impacted or like there was some problem with the margin of some product, which problem sir, just wanted to understand that thing.

Ashok Goel: A great question. See, in US, if your volume drops down a certain threshold, it has a direct impact on the bottom line. It will be close to equal . So that's what exactly has happened, which is absolutely temporary and we will probably make up some of the loss of the Q3, it may not be fully, but for the Q4 we will be meeting or exceeding our target.

Nirav Jimudia: Okay, and sir second question was on the employee cost. Like, the employee cost has increased sequentially by around 3 crores, so was this because of the increase in the American region, this cost has increased whereby our profitability has fallen there or was this because of a mix of salary increases in Europe and America at a consolidated level like, just wanted to understand that.

Ashok Goel: While Ganesh and Vinay are working on numbers, on a lighter note, the MD was not paid his bonus, for the previous quarter. we will answer the question. Mainly must be coming from Poland, Nirav, because we ramped up our capacity on the laminated tube side, so we added more people and probably added a shift. So part of 3 crore, 2 crore is coming from Poland I think. Some correction in China, I guess.

Nirav Jimudia: And sir, my last question on, sir any CAPEX guidance for next year like, since we are planning some more capacity expansion, so any…

Ashok Goel: In line with current year, Nirav.

Nirav Jimudia: Okay. Around 125 crores.

Ashok Goel: Yeah, not more than our depreciation.

Nirav Jimudia: Okay sir, thank you sir, thank you for the opportunity.

Ashok Goel: Thank you sir. Next question comes from Ujwal Shah from Axis Securities. Please go ahead.

Ujwal Shah: Thank you for this follow up question sir. Sir, just wanted to understand in terms of business, all our regions have been performing good and we have also seen Europe now going a bit positive, when do we actually see Europe start reporting net positive, what is our outlook, and secondly in terms of America, although sir it is a great revenue driver and in terms of the chunk it generated in terms of revenue, in terms of margins it has always been a bit of haphazard as compared to all our other regions sir. So what is actually that we are looking forward in terms of US as a market and where do you see this in terms of potential, the margin potential that this business could have?

Ashok Goel: Okay, so two questions. One on Europe, one on Americas, okay. In Europe, Nirav - Ujwal- sorry Poland has a good opportunity of growth, in laminated tubes, I expect the next year's growth in Poland for Lamitubes should be about 20%, 25%, I expect. Germany by the way is, I think, 80% of Germany is business is non oral care and historically has been so. Germany will continue to grow in big dia PBL cosmetic tubes, which gives good amount of revenue and margins. So Germany also I expect it will expand. Russia is part of Europe. Russia we have been saying very openly it has been a tough market, our own house was not in order, so we have done a lot of changes in Russia in this quarter, that is the quarter gone by, and we are realigning everything, we have got some long term customer in Russia. So Europe I am quite bullish and I think we will have EBITDA positive even in this 4th quarter in the current year. The next year should, consolidated Europe should make good progress. So we are quite bullish on Europe. As far as Americas are concerned, there are three locations, US, Mexico, and Columbia. In US we have two products, plastic tubes, and laminated tubes. Within laminated tubes we make both, so do we do in Mexico, PBL and ABL. And we have got some new contracts, as I mentioned, in US for PBL non-oral care, and we will continue to grow that opportunity. Shift, as I mentioned, in some of the earlier analyst question, that there is a shift, which will constantly happen, that if a customer is in plastic, he will shift into PBL and new customer for plastic keep getting added. That is also happening there as well. So nothing new, so we are well positioned. In Mexico, we have got some new contract, again shifting from plastic to lami, ABL to PBL, and all sorts of combinations. Apart from printing business, the decoration business that we got from some customer, this is a large quantity in Mexico and Columbia, which is ramping up. Though the ramp up process was little slow than what we expected, so we expect that to fully come on stream towards March of this year. So Americas, overall what was dragging Americas was Mexico, by and large and the plastic tube, right? So those things and we have already said that Mexico we have changed all the leadership, a lot of changes we made, and that those are all starting to yield results. And once this ramp up happens, Americas will also of course expand on margins.

Ujwal Shah: Okay sir. So, what kind of margins will we be comfortable with? Can we see it probably in this type of region?

Ashok Goel: See, we obviously look for 20, 22%, but in those markets it does not happen because the costs are very high. So I think we should be content with about 16, anything between 16% or 18% EBITDA margins.

Ujwal Shah: Fine sir. Thank you sir. That is all from my side.

Ashok Goel: Thank you.

Moderator: Thank you sir. The next question comes from Mr. Hitesh Taunk from ICICI Direct. Please go ahead.

Hitesh Taunk: Thank you sir for giving me one more opportunity to ask the question. Sir just wanted to know one thing sir. On a nine month basis our depreciation has declined from 97 to 94 crores. Would you please give me some reason on that sir? What was the reason?

Ganesh: Hitesh, there were some acquisition by which we had acquired a company as part of the BIFR Scheme and during the last quarter we had one exceptional item , part of that was to adjust the value of the asset. So that was in fact one of the reasons why you see depreciation is significantly moving up within the quarter, benefit of depreciation of the previous quarter.

Hitesh Taunk: Sir, one more question I just wanted to understand, in terms of understand the business sir, sir, if suppose you wanted to quantify in terms of percentage, how much percentage from the laminated tubes are going for non-oral care segment sir, in a rough estimate sir, if you can please tell me, and the same question goes for plastic tubes also.

Ashok Goel: Let me give you the macro numbers Hitesh. We may call it 240 million plastic tubes globally, whereas total tubes we sell is over six billion. So our oral care, non-oral care ratio is known to you (audio disturbance) right now is 37.3% in revenue terms. I don't know if I have answered your question.

Ganesh: And also we are looking at the whole thing on the base of the category, the type of container is what is specifically required for a particular product and the customer's marketing requirement As Ashok was explaining, the plastic tubes can hold up to certain volume level. As their volume…as the gram volume expands, then they look at something far more logistic friendly and that's where PBL comes. The moment you are in PBL, you are in the laminated tube category. So the point for us is that how many cosmetic customers I hook on. How much volume of the cosmetic we take, irrespective of which solution they want. So that's the way we are looking at it. We are not really looking separately- this product and that product as a separate one. And as I was mentioning, there is a big transition happening today. Just be aware that plastic is a huge market in Europe and America. When this transition started happening now, larger brands are looking at PBL as a much more optimal solution.

Hitesh Taunk: So you mean to say that people are switching from plastic to laminated tubes?

Ganesh: That's right. So what happens is there is a huge transition-, traditionally plastic tubes have been into the cosmetic market. But as this transition happened, we are actually increasing in a huge way, cosmetic category also in our laminated tubes as aluminium also converting into lamination in some geography. Essel is a very established player in the laminated tube, with a lot of innovation which they have done in terms of the structure and various other things, such as capability sort of things. These things are now helping us in a huge way because of the cosmetic category. You don't need to necessarily go through the plastic tubes for that purpose.

Hitesh Taunk: Okay one last question sir. What kind of tax rate are we looking for FY14 or 15? Is it the same like for 9 months ended?

Ganesh: No I think we are in the region of 35 now. The expectation is…look what is happening in Europe…Poland is in a Tax Haven, so as the operation becomes profitable, the benefit will start going to the tax rate. The other country where we have lower tax rate is China. There again we have a value thrust in terms of getting into the non-oral care. If you take these things into account, our own expectation is in the next couple of years we should be edging towards 30%.

Hitesh Taunk: Okay good, thanks for answering the question sir, thank you very much.

Moderator: The next question comes from Kamna Motwani from Crisil. Please go ahead.

Kamna Motwani: Good evening sir, thank you for taking my question. I had a query specific to the EAV region. There we have put up capacity for the ….put up more for decoration machinery for the non-oral care and that is what is impacting our margins because that is not been utilized to the best level, so when do we expect that ramp up to happen in the margins of the EAP regions to go back to the usual 20% odd?

Ashok Goel: Kamna we have actually started utilizing those equipments, the street marketing, the sampling all that…that phase we are…of course it is a continuous process but we are as I mentioned we work our commercial supply order….in fact we already made a commercial supply and based on that and the expectations of the customer because most of the cosmetics are manufactured in China which is either in the Eastern region or south west. So south west is where our….south east and south…so south is where we currently are, which is where our current equipments are, but most of our customers in the cosmetic category are in south east and we need to have that facility and therefore I think by middle of next financial year it will be up and running, in the meanwhile we are starting to (not clear) the market from south and we are quite bullish. Philippines we expanded, we increased our capability that is already at a stage where we are renting up the supply which is on track.

Kamna Motwani: Sir I also had a question related to the plastic tube manufacturing facility that we have in Americas and Europe. I understand that they are not a very big contributor and not very big in terms of investment also but now since the market in Europe and America is shifting from plastic to laminate and we are apparently bleeding on those two businesses, so what is the strategy of the company going forward…what do we plan to do with the entire plastic lines which are there?

Ashok Goel: Good question Kamna, as Ganesh alluded to; America and Europe are big consumers of plastic tubes. Each one would be let's say about 3 billion tubes, that is Europe 3 billion and America little less than 3 billion. And what is our capacity in those two countries, 150 million. And so even if the shift takes place the market is still there. So that's what we are, we are there, because right now we are able, in a position to offer any product the customer wants. They want plastic, we can give plastic, they want PBL, we can give PBL. So some of our customers also shift, existing customers, and some new customers are coming with the new requirement directly in PBL as well and plastic as well. So this is the constant chunk, which is very dynamic and we will continue to manage it dynamically. So we will continue to view these investments critically, but you must keep in mind technologically also not all of the equipment can go waste. Some very small part, which cannot be used and the rest of the lines can be converted to PBL line. So it is not a huge concern for us in terms of investments, even going forward. Assuming that the entire plastic tube business dries up, which is unlikely anyway.

Kamna Motwani: Right. Sir, where I was coming from was, plastic tube business in both Americas and Europe is currently not generating profits for us, that is one, only thing I wanted to probably clarify is does the plastic tube business help you probably get entry into a client when they are starting off their products like you said, plastic tubes would be more preferred when the volumes are lower and then people move on to the laminated tubes, so then it would of course make sense to stick on to that, we generate more leads for the lami business, you know, for future.

Ashok Goel: You have answered the question Kamna yourself. It is exactly right, and that's why we are hanging out there.

Kamna Motwani: Sure, that's great sir, thank you so much for answering my question.

Moderator: Thank you. Next question comes from Shivani Vishwanathan from Techno Shares and Stocks Limited. Please go ahead.

Shivani Vishwanathan: Sir, one last question, just on EAP, I was just wondering sir, you are getting a lot of good demand there, like you were saying, I was just wondering what is it that makes our tubes so, how come there is so much demand for our tubes in China, which is the place that the demand is coming from, especially if we compare, you know, the local players there for the tube business. So why is it that China is such a, we are seeing such huge demand for our tubes vis-à-vis other guys, local especially sir, competition.

Ashok Goel: Very good question Shivani, why us right? Why us right? So I think in a way, which is where Essel's uniqueness comes into play because we are the company which is end do in solutions unlike many other companies in the world or in the region for that matter. So therefore what is our core strength, our core strength is to give what is called barrier property, design the barrier properties suitable for each product that the customer has. And that's what we are able to innovate on and bring about the solutions as quickly or faster than anybody else in the world. Because we have the best in class laboratory here in India, in the mother plant, we have quite a few scientists constantly working on the bench, creating newer products, and that's what we are able to proactively go and offer to the customers, which is why you see we have in filing at least 8 or 10 patents every year for the last two, three years. That's what make us tick. And in fact we are the first company in the world to innovate even on the decorations, the kind of decoration that the cosmetic category requires; we are the first one to deploy that capability globally…so that's why us.

Shivani Vishwanathan: Okay. Okay, thank you sir. Thank you.

Moderator: Thank you. And just for the last question from Mr. Prashant Kutty from Emkay Global. Go ahead sir.

Prashant Kutty: Thank you for taking my question sir, most of them have been answered. Just one question, obviously I will probably ask on the guidance part as to what's the guidance that you are having for the next year on the revenue side and the EBITDA margin side?

Ashok Goel: That's what I am saying, already gone to next year. Let's finish this year, we should end north of 100 crores.

Prashant Kutty: Okay. Sir and one more just question over here, as far as EAP region is concerned, we just said that we had bagged the supply contract. Is there any value to this order size, which we, if you can probably share the same with us?

Ashok Goel: Okay. This is where this distinction between oral care and non-oral care comes. The distinction basically is that for oral care we have five years, 10 years, 3+2 years, 3+3 years contracts, fixed volumes. And non-oral care same customer, of course, we would not like to commit the larger volumes, larger periods, because we need to invest more money and at short notices and the opportunity to price the product on a time to time basis. So that is in some stance also, you see, when we say oral care, non oral care, it is not just the way the product is made or what exactly is filled into it. It is also balancing my portfolio of long term contracts versus short term contracts, if you still like to use the word contracts, because in short term I am able to price the product in an appropriate way, in the long term, my everything is fixed, so there is a multiple dynamics when we say oral care and non oral care, why we want to go after more, of course, oral care is always welcome, more non oral to balance the portfolio, therefore my opportunity to invest less and have higher revenues and better margins, so there are dynamics. So therefore, we don't particularly chase the volumes and the period when it comes to non-oral care.

Prashant Kutty: Okay. Sir, also as far as the, in this quarter, you just said that we had the non-oral care share was lower and that sir it was largely because of the Americas region, and so sir, basically what I want to know is that we have also mentioned in our investor update that lot of places you are seeing the oral care side we are probably receiving lot of orders or maybe we are probably seeing more of traction. If you could probably help us understand as to where are we seeing it on the non-oral care side, which is the places that we have seen traction?

Ashok Goel: Non-oral care traction Prashant is everywhere. See, why the oral care this thing has gone up, ratio has gone up in this quarter is, because of the ramp up of the large contract we had. In India we had to service the oral care customers because of long term contracts, thereby leaving the opportunity for servicing the non-oral care customer. Now we are adding the capacity we will catch those customers. So opportunity on non oral care, I have explained, we are getting in Mexico, in US, in Poland, in Germany, in India, in China, in Philippines, even in Egypt as I mentioned, we are expanding our capacity and capability. So non-oral care is growing not only in cosmetics, in pharmaceuticals also. India is leading the pack in pharmaceuticals, followed by China and Egypt and we will continue, and hair care of course; so lot of opportunities not only conversion from plastic, but also from aluminum to laminate. So the whole market is getting expanded and we are leading the pack Prashant. Of course, our efforts have started to yield results much later than what we expected, but now we are getting there.

Moderator: Thank you sir. Now I hand over the floor to Mr. Prashant Kutty of Emkay Global for closing comments. Go ahead sir.

Prashant Kutty: On behalf of Emkay I would like to once again thank you all for joining the call and thank the management as well. Sir, if you have any closing remarks?

Ashok Goel: Thank you. I greatly appreciate Emkay for holding they continue to hold this conference and the brilliant questions that came in and we will be happy to answer questions any time you can contact us, the details are known to you. So really appreciate it. Thank you very much.

Prashant Kutty: Thank you.

Moderator: Thank you sir. On behalf of Emkay Global Financial Services this concludes your conference. Thank you for joining us and for using Door Sabha's conference call service. You may now disconnect your lines. Thank you and have a good evening everyone.

Note:

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