

Moderator

Ladies and gentlemen good day and welcome to the Q4FY12 earnings conference call for Essel Propack hosted by Emkay Global Financial Services. As a reminder for the duration of this conference all participant lines will be in the listen-only mode. 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 call, please signal an operator by pressing * followed by 0 on your touchtone phone. I would now like to hand the conference over to Mr. Prashant Kutty. Thank you and over to you sir.

Prashant Kutty

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

Ashok Goel

Thank you Prashant. Thank you ladies and gentleman for joining us for this conference and I also thanks Emkay for arranging the call. Here with me, I have A V Ganapathy, who is CFO global, Chandrasekhar who is the President for America's and Europe. He is joining in on the call from US right now and we have Ramasamy who is the President for AMESA that is Africa, Middle East, South Asia and East Asia Pacific then we have Vinay Mokashi, who is the finance controller. We also have Ashish Patel who is Treasury Head, and Niladri Nandi who controls the financial investor relationship.

While as usual, I thank you all for taking time out the March quarter which is fourth quarter for us has seen some bit of turn around as compared to the previous three quarters over quarter of the same period last year. We have seen the quarterly growth in revenue terms about 18%, which is about the total revenue being 413 crores, operating profit at 38 crores, which is 20.5% increase over the same period last year and profit after tax is at 15.9 crores versus 8.4 crores last year same period. As a significant part here is that the tube volume in volume terms tube business had grown by 10% and flexible packaging has grown by 27. I have also recon that the March quarter was better than the previous three quarter in the same financial year, but that also tells that we are beginning to see some of the promises that we have been making to you that we are moving in the right direction in that sense. There have been a lot of internal middle management level changes. We have made that is brought in little more focus on business and the profitable growth, but we are also seeing as was told during the last conference call some significant contractual growth that is likely to come for us in India and Europe. We are at the final stage of negotiating those, I mean not negotiating the contract, but the terms of contracts being negotiated. So that's generally it, I would now ask Ganesh to walk us through some numbers and then we will be happy to answer the specific questions.

A V Ganapathy

Good afternoon, as well as quarter is concerned on a consolidated basis, our revenue grew 18% and the PAT is 15.9 crore as compared to the 8.4 crore of last year. If you would note that there were two notes we have given in the account. There has been a what is called extraordinary item relating to discontinued medical devices operation, but there was also the impact of merging with the two units, RAS extrusion and RAS propack, which has happened during this quarter, but the impact of these two more or less negate and profit number which we have given a 15.9 more or less is the underlying profit of the continuing business. Just of the quarter is concerned, now this has supported by a strong double digit growth across all the four regions and AMESA we have grown compared to the last year by about 12%. East Asia pacific we have grown about 17%, America's also we grow about 18.9% and Europe has grown by 49.1% in revenue terms and it is also good news from our side that in the Europe, the Poland operations are ramping up quite fast. The volumes there has actually sequentially grown compared to the December quarter by almost 47% during this March quarter and in terms of EBIT, also our growth in AMESA has been about 11% and EAP growth has 31.4%. Now we have had continuing some problems in terms of volume and uptake in the EAP region, however, the region has managed the cost and profitability has been maintained and sustained during this quarter. The America region is one where our performance in terms of profitability significantly improved compared to the last year by almost double during this period. Europe for the quarter, our profitability has been slightly hit as the two reasons for this. One is our operations in the UK where the volumes had gone down compared to the last year. Part of it because we consciously decided to disassociate with some of the customers where the payment was not forthcoming on time, but anyway this is history because effective 31st of March, the manufacturing has been shifted to Poland and UK of Manufacturing operations have been closed. The other area where we were hit this year which was explained in the last con-call also was in Germany. We are taking steps to improve the operational efficiencies there. Sequentially we have arrested the losses in Germany and

going forward I think under six months time that should be picking up. So that's broadly the position as per as the regions are concerned. So we will be happy to take any question and answer.

Moderator

Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touch tone telephone. Participants are requested to use handsets only while asking a question. Anyone who has a question, may press * and 1 at this time.

Question and Answer Session

Prashant Kutty

Sir good afternoon Prashant here. Sir firstly just a few questions. Firstly if you could give us the volume growth for the quarter and probably if you could just also have what has been the volume growth for FY12 also as to what do you feel is could be the sustainable growth in the region wise over the next two years?

A. V. Ganapathy

I will give you the actual numbers for volume growth and my colleagues Ram and Chandra will talk to you about the region. As far as laminate tube is concerned, we have grown for the quarter 10%.

Prashant Kutty

That's volume growth right.

A. V. Ganapathy

That's right and in the case of the flexible packaging we have grown 27%. Year-to-date, our growth in the tubing has been 6%, the flexible packaging has been 8%.

Prashant Kutty

Sir before the segment wise, if I could just also have what is the breakup of the revenue mix basically?

A. V. Ganapathy

Yeah of the total revenue yes for the full year of 1584 crores, laminate tube accounts for 75%, Plastic tube accounts for 11% or 175 crores and our flexible packaging is about 217 crores, 14%, yeah so 75% laminate tube, 11% plastic tube, and 14% flexible packaging.

Prashant Kutty

And what is the mix in terms of the oral care and non oral care?

A. V. Ganapathy

Non-oral care is around 35% per head.

Prashant Kutty

Okay, fair could I have these region wise growths and the potential which we are talking about?

A. V. Ganapathy

The AMESA volumes have grown by 14%, EAP is.

Prashant Kutty

We are talking about the quarter right?

Ashok Goel

Yeah and EAP has actually declined. We have explained last time that the customer has few marketing issues and the product change at beginning, but overall China market actually has not grown. The China market has remained flat, but we are seeing is that or may be a possibly a little negative growth in China for oral care and by the way in China we are predominantly in oral care so the ratio that you see of non oral care 35% is actually China is not practically about 3-4% which is non oral care and that is the effort that is going in right now over how to increase that share in China for non oral care that includes also the export market that we are trying to grow. Of course it has grown but from a very small way and we are also looking at cosmetics tubes to grow in China. So basically what has happened is that there is some volume shift between multinationals and local players and the two multinationals where we have one is 100% and another one is about 70-80%. Both two have seen little decline in the numbers that could won has been where we are 100% has declined I think for the large part of the last year is under review, but we are seeing some improvement there in the current year, but still that again to the same levels. What we have done is, we have also withdrawn some of the capacity from that customer and actually have shifted to another geography.

Prashant Kutty

Another geography.

Ashok Goel

Another geography all together so we are to that extent, we are reducing our capex and another customer where we are 70-80%, right now we are seeing some declined there whether it is permanent or temporary that we have yet to asses

Prashant Kutty

But as such what has been volume decline in the quarter, the quantum?

Ashok Goel

The quarter is 10%, overall is about 3%. Quarter is 10%

Prashant Kutty

Full year it has been 3% declined and AMESA for the full year?

Ashok Goel

Full year is a growth of 15%.

Prashant Kutty

So this EAP, the client which you are talking about, the decline which actually had a problem, what is the status on that I mean does it to continue or do we have any strategy lined up for that, how is it like?

Ashok Goel

As I said we have taken up, in fact I personally taken up to the global levels that your numbers have declined and we need to see a long term visibility as to how you are going to go. But we are seeing that the numbers have improved over the last year, but still not there as it was at the original level. Another customer has declined a little bit, but whether it is permanent or not is yet to see.

Prashant Kutty

Okay how it has been for Europe and America the volume growth

R. Chandrasekhar

I will give you for the year or for the quarter year?

Prashant Kutty

Yeah for the quarter and full year both sir.

R. Chandrasekhar

Okay, in terms of Germany for the quarter, these are down 13% and for rest of the year, we are down close to 6%.

Prashant Kutty

For Germany we are down 13%?

R. Chandrasekhar

It's the operations overall for the quarter, we were up by 18% and for the year down by 13%. These both are laminated tube business and for Russia, for the quarter we were up by about 40% and for the full year around 14%. Coming to America side.

Prashant Kutty

Sir sorry to interrupt you, if I could just have the Germany full year volume number. I just missed that number?

R. Chandrasekhar

Full year volume numbers for Germany, Ganesh you have that.

A. V. Ganapathy

Full year 47 x 4, so 160 plus, 188 million.

Ashok Goel

188 million.

Prashant Kutty

And I am asking of the volume growth sir for Germany.

R. Chandrasekhar

You want the full year volume growth?

Prashant Kutty

Yeah full year volume growth.

Ashok Goel

Fully -8%, -6 or 8%.

R. Chandrasekhar

Yeah, moving on to America's for the quarter you saw overall US growth of around 8%, Mexico was around 3 and Columbia was small decrease. If you take the full year, US was almost flat. It was like -2%. Columbia grew about 11% and Mexico decreased by 5%.

R. Chandrasekhar

this is the laminated tube part of the business.

Prashant Kutty

This is a laminated tube part of the business.

R. Chandrasekhar

Yeah, okay. If you want the numbers for the plastic tubes, I think Ganesh has mentioned earlier Poland was like 40% and US was around 50% as a quarter and for that full year US was around 40% and Poland finally grew by 14%.

Prashant Kutty

Okay sir in this quarter we believe Germany's volume growth has been pretty good actually I believe so, any particular reason as now what has been reason for the same?

R. Chandrasekhar

Are you referring to Germany or Poland.

Ashok Goel

Poland, I think you meant Poland.

Prashant Kutty

Okay Poland.

R. Chandrasekhar

Yeah. As far as Poland is concerned, I think the volumes are consistently growing up quarter on quarter. It is not something that happens new for this quarter always. So we will continue to see this trend at least for up to the month of September end and you will see again some small increase is happening quarter on quarter. So it's not that the volumes have picked up and whatever is the customers either developing or offering new products for the last one year. Most of the projects are coming through and materializing in terms of the business for us.

Prashant Kutty

Okay and I believe in the press release it is also mentioned about there is one new customer which is actually come in, because of which our revenues was pretty much robust for Europe. May I know what's your contribution from that particular customer?

R. Chandrasekhar

Prashant I think the new customer which you are referring to has started placing what you will call as initial orders as Ashok was mentioning roughly in the final stages of negotiations to seal the business. I don't think it will be very appropriate to disclose at this time.

Prashant Kutty

Okay, so it's, see probably would be seeing more traction may be over the next few quarter from the new client?

R. Chandrasekhar

You will be seeing traction, but if this project materializes, this contract materializes by the next one or two months, but for volume will take another six months to actually come up.

Prashant Kutty

Okay.

Ashok Goel

See I think the Prashant the confusion you have is how come that is already placing an order and how come we are talking about the new volumes kicking in after six months. That's two part of it. One is that we already have some capacity.

Prashant Kutty

yeah.

R. Chandrasekhar

That volume has come in outside of the contracts that we are talking.

Prashant Kutty

Okay.

R. Chandrasekhar

So that we are getting both in laminated tube as well as in plastic tubes and the large contract that we are talking about which will kick in may be we will sign the contract in a month or so and after that we will start to place orders for new machines and by the time machine start to come in and the customer start to unwind from his supplier and we pick up. So usually there is a ramping up per se. Re-ramping up from the incumbent supplier and ramping up with the new supplier right. So therefore there are two components of it.

Prashant Kutty

Okay I got that.

Moderator

Thank you. We have the next question from the line of Vinay Rohit from ICICI Prudential, please go ahead.

Vinay Rohit

Good evening sir. What is the sales number for FY12, I mean sales number for India and FY11 and FY12?

Ashok Goel

The sales number from India?

Vinay Rohit

Yeah.

Ashok Goel

In terms of revenue numbers. Yeah for the quarter, India's sales number for the full year it is 497 crores.

Vinay Rohit

And FY11?

Ashok Goel

FY11 is 418 crores.

Vinay Rohit

Okay.

Ashok Goel

418 versus 497.

Vinay Rohit

Okay and how is the margin compared to if I look at your EBIT margin for AMESA division which is like 13%-12%, the margin would be higher than this in India?

Ashok Goel

Yeah. The India the AMESA margin you have seen right which is operating margin for AMESA is 17.7% to the quarter.

Vinay Rohit

If I look at the full year, this year is 12.6%, so India margin would be higher than that?

Ashok Goel

Yeah 12.6% for the India the margin is for the full year 13.1% higher.

Vinay Rohit

Okay. Thank you sir.

Moderator

Thank you. We have the next question from the line of Prakash Kapadia from I Alfa Enterprises, please go ahead.

Prakash Kapadia

Sir if you could give you know some sense over the medium to long term for the Indian business, currently you know oral care is 53 to 55% of our domestic revenues. How is the traction in some of the newer initiatives like food, pharma, cosmetics, and over the next two years, how do you see oral care shaping up for us? What is the sense you are getting from large customers in the oral care in terms of volume?

Ashok Goel

Ramasamy will answer that question.

R. Ramaswamy

Yeah, oral care in India for the last 3-4 years going in the rate of 10-12%. That growth will continue to happen. We have major alignment tube terms or tonnage terms. Tube terms will be slightly about 14-15% in the oral care segment. That's we will continue to have because more or less we have contractual obligations with larger sales in the market. We will continue to enjoy the rate of growth to the industry.

Prakash Kapadia

And sir this you said you have you know visibility in terms of contractual obligation or you know certain kind o order from the most of the large players and the thing is sustainable for the next two-three years also given that you know it's a fairly penetrated category?

R. Ramaswamy

If you take two phase penetration level in India, its only about 55-58%. It varies between urban area to rural area. Rural area is still about 40-42% penetration. The growth of oral care will continue to happen. There could be slight lacks in some of months continue to be at this range. This is our companies views India oral care because of lower penetration level. In terms of what we do in terms of cosmetic and Pharma two-three years that we have brought in large amount of broker, traditionally if you know it is in aluminum and we have convert that into lami. Lami has efficacies in terms of scrap rates and usability to the consumers so that growth that we have seen robust from about 20% growth. Growth is basically comes not because of pharma products have growing but conversion is happening. So that will get the larger amount of, it takes time. Customers have its own stability period which is about 6 months. Some of the product which are moved out of the price control acts that we are trying to convert. Both efforts are going in and we believe in the next two threes years

Prakash Kapadia

Okay.

R. Ramaswamy

And as far as cosmetic is concerned, which is about 30-35% growth which is primarily products that low end cosmetics like face wash, cost was very higher in India because of most of the retail pharmacist have changed in India with a larger amount of growth. I think that will come down to about 15-16% level in the next two to three years. So overall we see it will continue to be a double digit growth around anywhere between 12 to 16% that's the customer we believe in Indian market.

Prakash Kapadia

And sir even you know the crude volatility and impact of the rupees, any sense on the raw material?

R. Ramaswamy

It's a challenge that we do in two accounts because some customers as we explained in previous call that we have pricing agreement. So it gets automatically triggered in a particular period. For other customer that we also have good amount of innovations going on since the volatile market, it is not possible at every time that we go for a price correction. Last year that we have taken two price corrections. We are also putting in lot of effort in introducing innovative products which are cost effective, so that we can mitigate risk of asking for a price increase every time, so both types our efforts are on.

Prakash Kapadia

Thank you so much.

R. Ramaswamy

Thank you.

Moderator

Thank you. The next question is from the line of Ruchita Maheshwari from Nirmal Bang Securities, please go ahead.

Ruchita Maheshwari

Yeah good evening sir.

Ashok Goel

Good evening.

Ruchita Maheshwari

Sir in last call, you have mentioned that you have taken an increase in raw material prices. Increase in prices you have taken, the effect should be seen in Q4FY12, but if I see the operating margins or marginal declined, so what the reason for that?

Ashok Goel

Ruchita I think you follow a good trend of question and we like it, and I thank you for asking lot of question first of all. This is Ashok Goel by the way. You are right that the margins have declined by 1.2% overall in terms of EBITDA the full year and 1% is actually due to material cost so this actually ties in with our story that we always have a lag effect and lag effect does impact us. So 1% is on account of material and 0.2 is on account of employees cost.

Ruchita Maheshwari

So can we see Q1FY13 the margins will improve because of this lag effect that you are not able to register in Q4?

Ashok Goel

Well see when you see in an up trend, Ruchita what happen is when you have the currency and raw material volatility and that to it's always moving in the North direction. We will have in the end of direction about lag effect will always be there. This is not to say that our margins will decline further but we are putting another measures whereby we try and improve our margins, but lag effect will always be there, if the price movement is on the one direction that is on the north side. It is on the south side I hope it happens unlikely in the foreseeable future. Then we will tend to retain some of the margins with the same lag effect.

Ruchita Maheshwari

Are they planning any price increase in the coming quarter?

Ashok Goel

Yes, as Ram was just explaining to the previous question that we are attacking the price issue in two ways. One is asking for price increase and the second bringing in more innovations thereby we change our formulations of recipe of various polymers that we use whereby the impact of price increase does not happen yet, we do not lose the margins.

Ruchita Maheshwari

By what quantum we would be seeing the price increase?

R. Ramasamy

We will ask with in line with the percentage decrease of rupee which will be around 3% to 4%. It is customer dependent. Contractual customer; we would be able to get this weekly but for other customers since we have gone in the price increase only in November, it will not materialize for this quarter. Plus we have also cut one correction on the excise duty because of the budget impact about 1.1% duty impact happened in March actually that corrections we have already got, but the cost we got it recurred. So it is a delicate situation. We are selecting customers and products in which will ask immediately in which we work with innovative products. Approach is on, we're working on that.

Ashok Goel

Third side of course Ruchita is that how do we get sell more value-added products, so these are our ways to mitigate it but is always a challenge in an inflationary economy.

Ruchita Maheshwari

Sir, can you throw some light on your Mexico unit, though we have achieved a big profit as you mentioned that will be doing in Q4 FY'12.

R. Chandrasekhar

Can you repeat the last part of the question?

Ruchita Maheshwari

Can you throw some light on your Mexico unit, because you mentioned that you'll be achieving a big profit, Q4 FY'12. So what's the status on that?

R. Chandrasekhar

Mexico, we continue to makes money, in the operational side we have lost money during this quarter Jan-March, I do not see that the unit performing at least turning around during the period April to June, but Ashok was mentioning at the beginning of the call it is one of the few units, we have made a change in the leadership and currently we are in that process of revamping the entire operations to make it profitable. But we are also hoping that July to September, it will definitely turnaround.

Ruchita Maheshwari

Ok Sir, by July to September only we will be seeing this profit?

R. Chandrasekhar

Yeah from July onwards.

Ruchita Maheshwari

Our European operations, there has been negative profit. So by what time, we can see a positive, contribution from Europe?

R. Chandrasekhar

I think when you look at Europe, it is better to look at the individual countries rather than the whole thing as a group because in each one has a different type of traction. Germany as Ganesh mentioned to you had turned profitable in Jan to March otherwise it lost money in October to December. There are two challenges in the Germany one is their internal challenge where currently our operations are well below the global EP standard and second is the market which seems to be very, very low growth happening in the domestic markets in Germany. Which has got really something low to the macroeconomic situation rather than our own internal issue? Actually if you see what we have done very differently between January-March compared to the previous quarter, we have a lot of programs in place for improving the internal efficiency and they are the ones which are mainly contributed to this turnaround in terms of a profitable quarter. We will continue to build on this, I think April-June the focus will be to sustain and to improve what we have achieved in the 1st quarter that is one part of the query, Germany is where it is.

Russia you must have heard earlier number about the quarter growth, it was a very strong growth in Russia. The obstacle in Russia the challenge is to see that we don't lose any cash and an EBITDA positive which we have done. On a local currency basis yes, we don't report a profit but that has really nothing to do with the operations. It is got more to do with certain way we are financially structured. It helps few operations in currency profit to be booked into the operations. So even though you would continue that's why it is one market that I am pretty confident that we will continue to do well and we will keep it in the positive side. Poland has two different tubes, plastic tubes and laminated tubes. Laminated tube you will recollect we started about a year and a half back that's has got a very decent volume I will say and it is making profit. But Plastic tubes we are currently tracking around 7.5-8 million tubes a month which means that we are actually cash profitable I would say but we have still not turned around in terms of PAT. When we will cross around 10 million tubes a month we will actually be seeing the year to turn profitable in Poland. As per the current annual plan which we have in place this will not happen at least 30th December. So Poland will continue to be making cash, it will be EBITDA positive but the PAT positive on the plastic tubes will happen in sometime in the third quarter of next year not before that.

Ruchita Maheshwari

That means Q4 FY'14?

R. Chandrasekhar

I am talking about the first quarter means January '13 to March '13.

Ruchita Maheshwari

Sir, Can you provide the total gross debt and cash balance as of now?

A V Ganapathy

Gross debt at the end of the year is 936 crores and now you'll recall that the currency, these are all translated in the closing rates. On a constant basis it is actually 891 crores.

Ruchita Maheshwari

And what is the cash figure?

A V Ganapathy

Cash is 88 crores.

Ruchita Maheshwari

Sir, any guidance for FY'13?

Ashok Goel

Guidance FY'13 on debt or..?

Ruchita Maheshwari

On debt, and as well on the top-line and margin front?

A V Ganapathy

As far as debt concerned, they do expect it to go down by about 50-100 crores. This is basically supported by the accruals and certain other matters we will be planning to.

Ruchita Maheshwari

Any guidance for sales and operating margin?

Ashok Goel

I think in the revenue terms. We will grow about 12% and in PAT terms I think we should have about 70 odd crores profit.

Ruchita Maheshwari

Just one more question. Have you witnessed any problems with any of our customers, which have resulted into any problems in business or is there any problem in that kind of thing? Are you experiencing any such kind of thing?

Ashok Goel

Good question. Ruchita in terms of relationship we have no issues whatsoever with any customer globally. In terms of geographical volume off take increasing and decreasing that keeps happening and one case in point we discussed at length about China. Other than that we are not expecting much. We are expecting some product mix change with one customer in US which actually in revenue terms, it will be positive, but in volume terms will be negative, which doesn't matter as long as in revenue terms we are improving, but the volume terms we are declining. By the way that capacity has in any case been shifted to geography where we met the capacity. So it actually meets our requirements while reducing the volume, it increases the revenue because of the product mix change. Mexico, we have an order book but we are currently as Chandra also explained changed our leadership. We also changed some leadership in the manufacturing in the Americas those combinations I think will give us good results in Mexico, so that we are able to serve them. We are actually negotiating some good contracts across the geographies which we don't see much. I mean we only see positive, hardly any negative message that I received. In the last two weeks I've met to global customers and the sense I get is that they continue to value us as their strategic partners, suppliers with them, so I think in terms of customer, we don't see any pitfall anywhere.

Ruchita Maheshwari

Sir, One more thing what is the contribution of revenue from non-oral care for FY'12?

Ashok Goel

In terms of revenue you are asking?

Ruchita Maheshwari

Yes revenue for FY'12 full year.

Ashok Goel

Non-oral care revenue wise it would be 35% price would be 25%, so 35% of the total you can calculate Ruchita.

Ruchita Maheshwari

And are we seeing any change in the mix like non-oral care contribution will increase because I believe, if non-oral care is the highest contributor compared to oral care?

Ashok Goel

You are right, but at the same time for the oral care is also growing faster, so we have positive challenge in that sense. As I talked to you about two large contracts that we are talking one is in Europe, and one in India both are in oral care. Now we have to maintain the ratio that means we have to grow non-oral care in volume terms even greater to maintain the same ratio. So that's what we are up against always and we will continue to do so.

Ruchita Maheshwari

Okay thank you, that's all from my side and all the best.

Moderator

We have our next question from the line of Sangam Iyer from Alpha Advisers. Please go ahead.

Sangam Iyer

I just missed the last part of the last question. I mean when you said we are expecting a 12% revenue growth in FY'13 because profit target of around 70 odd crores, right?

Ashok Goel

That's right.

Sangam Iyer

Sir, could you just run through this 12%. I mean in which geography you are expecting to grow strongly. I mean, I understand that you said two large contracts that are in Europe and in India which are expected to ramp up and also the margin profile for the next financial year.

Ashok Goel

Yeah, those two contracts just to add further will not be fully ramped up in this year's so therefore that full growth is not yet accounted for us in this 12%. But geography wise growth, so I think except for China all other geographies are growing quite nicely. I think we will grow in a Mexico, we will grow in Europe, and we will grow in AMESA that is India and Egypt. China, we may not see much growth still there will be growth in single digit, I guess in China. So exact numbers, I can't give you. We have it somewhere, but we don't have it handy.

Sangam Iyer

Sir with regards to capacity to do we face capacity constraints in any of these geographies?

Ashok Goel

Can you repeat the question?

Sangam Iyer

In terms of our capacities in the different geographies, are we facing any kind of capacity constraints or is it purely demand, which would restrict us to 12% kind of the growth that we are talking here?

Ashok Goel

It's mostly the capacity, but we have been mindful as I explained in the previous some of the questions, like in China when one customer volumes contracted we shifted the capacity from China actually came into India. US, I gave example of product mix the volume dropping and revenue increasing again that capacity has been shifted to India. We have added capacity in Mexico already and we have improved some of our efficiencies thereby we have headspace in US we have UK closed as operation. We have those capacities some of the capacity shifted to Poland and we're filling that up have already but the large contract that as I was talking it will mainly be coming from new investments that mean we have to capacity in overall we'll have to add capacity.

Sangam Iyer

And how do we see the margin profile for FY'13?

Ashok Goel

Margin profile I think on the EBITDA percent we are targeting 200 basis points improvement on the EBITDA margin.

Sangam Iyer

And this would primarily be driven by sir?

Ashok Goel

This will be driven by our internal efficiency mostly that is reducing our scraps reducing our costs as the ratio of 4000 tubes that we track on various counts, and also improving the ASP (Average Selling Price).

Sangam Iyer

And you said you have a cash balance of 88 crores currently and the current Debt would be Sir?

Ashok Goel

891 crores was at the close of the year on constant terms, but if you factor in the exchange rate difference, it was 936 crores.

Sangam Iyer

The final question would be the other income that we see around 17 odd crores for this year, can you give me the breakup of the other income?

Ashok Goel

It would be mostly the dividend that is coming in from overseas subsidiaries. If you're looking at India and some of the interest income that we have on advances paid.

Sangam Iyer

The effective tax rate that you mentioned during the call for the next year?

Ashok Goel

Effective tax rate for the next year we have targeting around 35% to 37% that is global, India could be lower.

Sangam Iyer

Thanks a lot and all the best.

Moderator

Thank you.

Prashant Kutty

Sir, as far as the FOREX gain is concern, we have reported the FOREX gain in this particular quarter about 35 million, could I know what is the breakup of this the same?

A V Ganapathy

It's a consolidation across various currencies Prashant.

Prashant Kutty

So it's a translation basically.

A V Ganapathy

If the translation plus across the countries, The big point is Prashant as I explained last time also in case of India this includes also the forward premium we earned where we are completely hedged so that the premium earnings also comes here. Our general policies remain hedged most of the amount and the premium earning comes under the foreign exchange line.

Prashant Kutty

Right now our receivables are completely hedged?

A V Ganapathy

Yeah largely hedged.

Prashant Kutty

At what price is it?

A V Ganapathy

It varies from the various points of the time.

Prashant Kutty

And I believe this quarter we had an interest cost increase. That's because of the FOREX losses actually been added to interest cost again or is it due to the MTM basically?

A V Ganapathy

See the interest cost. We have followed the new format described by the SEBI. So the interest has to be shown separately and second is that notionally the interest line is supposed to include that differential in your foreign currency interest and the local interest rate. So that's the notional adjustment, so that also we have to bring in. In case of the FOREX loan, I pay lower rate 6%-7% and in the Indian terms the interest rates are higher. It is the standard requirement mostly we have to establish a difference and add it with the interest line between the FOREX lines.

Prashant Kutty

But as such what could be our cost of debt currently?

A V Ganapathy

Cost of debt on global basis is around 9.8%.

Prashant Kutty

And out of that, how much would be FOREX and India?

A V Ganapathy

FOREX won't be as big.

Prashant Kutty

FOREX loan I am asking?

A V Ganapathy

It is about 60% will be India and 40% is for overseas.

Prashant Kutty

Just to ask back to again 200 bps expansion which we're talking about if you could probably give us exactly as to how we probably look at increasing that because I believe that we have spoken about in the past as well, considering the fact that currency is playing a bit of big role over here and also the fact that few markets are yet to probably turn up, especially if you're talking about the Chinese market or probably if you are talking about few other markets if those on play out if you could just give us the path for the same.

A V Ganapathy

Yeah. There are basically two things which will make for the increase. One is that, at some stage the raw material prices have to stabilize. Generally, the lag impact is about a 1 %. Second one if you really see in the case of China, we have geared for a certain level of volumes. But for market reasons our off take has suffered. We have not suffered the market share issue with the customer. The volumes which have not come up to the levels we have expected. So one we have actually lost the growth which we have planned there. Second, we actually ended up doing a little less than what we did last year. Just this correction alone in the case of China because their volume base is large push up the EBITDA margins because direct cost is going to incur there which is the capacity on ground that is supported.

Ashok Goel

So it is a combination of capacity utilization, reducing our scraps and keeping the costs under control, that's our target and I know we spoke about it last year as well. But we do have targets and sometimes we succeed.

Prashant Kutty

Sir, as far as our growth is concerned, we spoke about our volume growth across the segments for the whole year and the quarter. We believe that similar kind of volume growth, which is achieved in the fourth quarter. Probably the full year, would actually sustain for the next two years as well.

Ashok Goel

Oh yes definitely.

Prashant Kutty

What is been the price increase is that you taken in the full year FY'12?

A V Ganapathy

In India we can tell you 7% we have taken in two occasions. And then China is about 3%. I think that we have a formula agreement with major customers in the U. S. Price moved with the time lags that we have got price increases in the US. Most of our price increases in the US is still on 1st of April because of the existing agreements with customers. Six monthly you get in US.

Prashant Kutty

And in Europe, as such, there is no such price increase?

R. Chandrasekhar

No, we have not increased the price.

Prashant Kutty

So you spoke about some capacity you are looking at adding over the next year or so for these two large contracts. What would be the approximate CAPEX that we would be looking at? What are the capacity that we are looking at to add, and an approximate figure?

Ashok Goel

Those capacities will again be added in stages as the volumes ramps up. I think for the current year, we should have about 100 crores CAPEX

Prashant Kutty

For FY'13. And since you have said that as the ramp up would happen I believe '14 would also have similar amount of CAPEX?

Ashok Goel

Yes, it would be same for the FY' 14. However, our attempt is always for CAPEX to remain within the depreciation but when we have large contracts coming in that in that time we may be exceeding it.

Prashant Kutty

Apart from these two new large contracts that you actually working on any significant customer who came in probably clients, which gave you any orders? Yeah I am talking about last quarter Q4?

Ashok Goel

Last quarter, as we had natural growth in Indian, which we expanded capacity some of it was shifted from as we discussed from the overseas locations to India. I can't give you the customer name but it is in the oral care. We have grown in cosmetics that is plastic tubes in India. We have new contract we have started to supply last year, plastic tubes from US to Mexico.

R. Chandrasekhar

Most of the other ones that we had tend to be local except in Poland, there we are supplying on a very consistent basic tool to large cosmetic multinational company. We started with the company sometime from October to December. But now it has stabilized and....

Moderator

As there are no further questions from the participants, I would now like to hand over the mic to Mr. Prashant Kutty for closing comments.

Prashant Kutty

On the behalf of Emkay, now I would once again like to, thank you all for joining on this call have a great day thank you for the management especially.

Moderator

Thanking you all on behalf of the management Emkay Global Financial Services that concludes this conference call and thanking you all for joining us. You may now disconnect.

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

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