

February 7, 2013

Moderator

Ladies and gentlemen welcome to Q3 FY13 Results Call of Essel Propack Limited hosted by Emkay Global Financial Services. We have with this Mr. Ashok Goel – Vice-Chairman and Managing Director; Mr. Ganesh Ganapathy – CFO; Mr. M R Ramasamy – President; Mr. Vinay Mokashi – Financial Controller; Mr. Roy Joseph – Head AMESA Region; Mr. Amit Jain – Treasury Head and Mr. Neeladree Nandy – Business Analysts. 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. Should you need assistance during the conference call, you may signal for an operator by pressing '*' and then '0' on your touchtone telephone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Prashant Kutty – Research Analyst, Emkay Global. 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. Goel for his opening remarks.

Ashok Goel

Thank you so much and ladies and gentlemen welcome again to the quarterly investors conference call of Essel Propack, if you have seen in numbers I think we are reasonably pleased I am using the word reasonably that we have maintained the ratios more or less as the same quarter. If you see the numbers where if I start with the profit after tax then it is Rs. 22.1 crores which is a significant improvement over the last year which is 41.2% same period last year. If you also look at the YTD numbers that is three quarters we have already exceeded the profit which is Rs. 54.1 crores against full year last, that its last financial year was Rs. 51.0 crores. So in this year we still have one more quarter left and therefore we expect the PAT numbers for the full financial year to be North of Rs. 70 crores. Another thing I mentioned last time to you was that we are no more chasing the volume game, we are chasing the value growth, so in line with that couple of years ago we had 25% revenue that were coming from non-oral care, last year was 34% and this year it has come to 39%. So we are seeing the trend going up and our target for next couple of years as I mentioned is to have 50% revenues coming from non-oral care. I did also have elude last quarter that some of the tough decisions that are required to be taken in the organization, so just to briefly mention that we now have a new business head in Europe, he is on board completely and fully ready to deliver now because he is on board few months ago. Roy Joseph who is the Africa Middle East South Asia for us that means India and Egypt is the business head he also came on board last year. We have Mr. Chandrasekhar resigned and he was the President. He was handling Europe and America's business. He has resigned and also he has served his notice period so 31st January was his last date. We have another gentleman who has resigned is our global purchase head, he will be serving his notice, his last working day will 31st March and we have many more organizational changes. Amit Jain has joined the new, he is the Head Treasury, and Ramasamy's portfolio has been reassigned that means he is responsible for East Asia Pacific and Americas. So I will personally supervise AMESA and Europe along with the respective business heads and there are some more organizational changes that are in the offing which will be announced in due course. I also talk about the organization being a little more agile and I am happy to say that the consequently two quarters our results are reflective of the commitment of the leadership team and have recognized that we need to be more agile, we need to be more fast in decision-making and fast in implementation. I did also announced this morning to stock exchange that we have won a large contract from a large multinational company in Europe that project is as we speak is under implementation and this will give a revenue growth of €15 million per year once fully ramped up and are expected ramp up period is September this year, so that is in a nutshell that I could speak. We also have in the investors note also mentioned a multinational corporation giving us a long-term contract in East Asia Pacific Region for cosmetic tubes and therefore as I mentioned last time that internally we are no longer looking at laminated tubes and plastic tubes the ways we are looking at is the oral care tubes and the non-oral care tubes. So that is the opening remarks that I could offer of course we will be happy to answer all the questions that you might have.

Moderator

Participants we will begin the question-and-answer session.

Prashant Kutty

What was the reason for muted growth in the India region actually we have seen most of the FMCG companies in this quarter when we have seen the growth basically moderating as compared to the previous quarters, so could we know the reason for the same?

Ashok Goel

I think this is just a little seasonality that has set in, this year's festivities in India were a little earlier which were captured in the previous quarter that is typically Diwali and Navaratra and Ganesh Chaturthi and all, so the festivities were captured in the September quarter, so it is just the seasonality effect. Yes, the FMCG is growing so are we growing both oral care as well as non-oval care but if you look at the growth for the year it has been in India about 18.8%.

Prashant Kutty

I believe this quarter we have seen Diwali actually came in November and ideally one should have seen the positive impact on this quarter, that is the reason as to why I am asking actually?

Ashok Goel

Yes, Diwali was the one earlier this year, so all the reproduction and top pipeline gets filled up before that. This year will Diwali was in November, so the delivery pipelines were filled in much before that.

Moderator

Thank you. We have our first question from the line of Ruchita Maheshwari from Nirmal Bang Securities. Please go ahead.

Question and Answer Session

Ruchita Maheshwari

Just wanted to know if we see all the four regions there was a decline in the revenue growth quarter-on-quarter, so what was the regions which have not performed well like in terms of Poland or Russia, what was the regions which have been the main source for decline?

Ashok Goel

If you compare with the last the quarter the same period last year, AMESA has grown 8.15%. East Asia Pacific has grown 6.19%, America have grown 4.68% and Europe has grown 22.86%.

Ruchita Maheshwari

But if I compared with the quarter-on-quarter there is a decline in each and every region?

Ashok Goel

Yes, quarter-on-quarter there is a decline which is I think more to do with the Christmas vacations which typically happen in America and Europe and AMESA the festive season being advanced by one month.

Ruchita Maheshwari

And what is your view on the Europe business, how the Europe is progressing and do we see a decline in the losses going forward or what is the scene like?

Ashok Goel

Europe let me give you the first the over arching situation in Europe. I know that many all of us actually including the financial fraternity are concerned about the European decline and we may have a view of 2% contraction of the economy. Let us take a case I am even going further let us take a case even let us say it is shrinking by 4%, now what does it do, it does put a lot of pressure on everybody whoever is there in the ecosystem, in this situation what happens is that my competitors are also under financial stress particularly the local or regional competitors and we have seen in the last six months two of the regional players, one has partially shut down its plant and another one has gone under administration, now that is one side of the

equation. The second side of the equation is my market share in Europe is nothing great as of now, so what it is doing is one hand competition going belly up, us not having a significant market share, so for us there is very little to lose on the contrary because of this financial situation I'm getting more opportunity and that is the reason why I have this long-term contract which is under implementation and we are winning some more businesses as well. So for us as I see the business is only going to grow and number two, what we are also doing we are taking some short-term measures as well, so what we have decided is we will put out one complete plastic tube line from Poland and coming into India because in India we are seeing growth and next year we will probably have to invest afresh so rather than spending money we conserve cash and shifting one line from there and by shifting so what I am also doing is I'm also reducing the cost base also in Poland, so therefore all in all Europe and as I mentioned we have a strong business leader also there, along with him we now have a European business development head as well, he joined about a 20 days ago, so he's been on boarded in that sense and he happens to have the domain expertise. So all in all I think we are on the right track as far as Europe is concerned, it is a temporary blip that the loss in this particular quarter is a little higher that could also possibly be because of some of the costs of the new projects implementation that is kicking in this quarter.

Ruchita Maheshwari

What will be the cost for transferring of this tube unit to India and by what time you are expect it?

Ashok Goel

Cost I do not know, Ganesh will tell you specifically but this is a leased lined, so we are returning the line to the lease company and then we will buy from them in April this year in India and as we speak I think they are packing up the lines right now.

Ruchita Maheshwari

When do we start this line in India, when is it expected to be operational?

Ashok Goel

It would be May I think it will be operation.

Ruchita Maheshwari

If I see the tax rate, your tax rate has reduced the quarter which has supported the jump in the profitability of the company, so what will be the full-year tax rate and what was the reason for the decline in the tax rate for the quarter?

Ganesh Ganapathy

As far as the tax rate is concerned and as we have explained before also it is a mix of the different units and depending on the PBT level at the various units the rates can also change, so we are looking at around 30 to 35% as the rate for the near future.

Ruchita Maheshwari

30 to 35% it is a big range, for FY13, what should be the ideal tax rate which we should take for projection and all?

Ganesh Ganapathy

FY13 go by year-to-date rate that would be fairly distinct given plus minus 2.

Ruchita Maheshwari

The raw material expense has reduced this quarter, so is it because the deduction in cost to prices or it is because we have taken some price hike with is respect to it has taken place?

Ashok Goel

It is the combination of factors, the internal efficiencies, the price increases, reduction in scrap, all those factors.

Ruchita Maheshwari

What was the price increase, how much price increases you have taken?

Ashok Goel

Different geographies would have had a different price increases

Ruchita Maheshwari

What would be the average price increase?

Ashok Goel

May be about anything between 1 or 2%.

Ruchita Maheshwari

When we say it is because of internal efficiencies, what do we mean by this? What kind of efficiencies we are talking about?

Ashok Goel

We're talking about lower scraps, we are talking about also higher sales price because of product mix is also changing and that also so therefore the sales price is also higher and that would have some impact there, it is a combination of.., we will maintain this trend of 18% EBITDA.

Ruchita Maheshwari

For full year talking about 18% EBITDA margin?

Ashok Goel

Yes.

Ruchita Maheshwari

Because last quarter you said you'd be maintain somewhere around 17 to 17.5%, so we will see 50 basis points increase or 100 basis point increase from here, from your last guidance?

Ashok Goel

So what I'm say is we will maintain around 18%.

Ruchita Maheshwari

And what would be the revenue growth?

Ashok Goel

Revenue growth for the full year around 12%.

Ruchita Maheshwari

A few bookkeeping questions, what is the loan right now, including working capital and everything?

Ganesh Ganapathy

Total loan is more or less it is similar level, it is around if you look at the because our loan is subject to translation effect because many of them are payable in the respective countries in the local currency, translation is very notional on this one only for consolidation, so on a constant basis it is about Rs. 936 crores.

Ruchita Maheshwari

That is of the same last year it was Rs. 935 crores?

Ganesh Ganapathy

If you compare with the March end, so on the same basis it will be Rs. 936 crores and on a current basis around Rs. 970 crores, .that is as I said it is purely a translation.

Ruchita Maheshwari

And there is any repayment of loans going forward?

Ganesh Ganapathy

Those are all very closely managed, so very careful about our DSCR, so those are already planned normally on a 12 month rolling basis.

Ashok Goel

As I mentioned last time our DSCR target is 1.5 and we are working towards that and we will continue to work towards that. And I hope that by the middle of next financial year, we should be reaching this target 1.5 DSCR rather than looking at the absolute numbers, why not absolute numbers is because the business is dynamic and we are expecting some growth, we are expecting some more expansions; therefore DSCR becomes a good benchmark to that effect.

Ruchita Maheshwari

What will be the key reason for the growth in the company going forward according to you what should be the key reason?

Ashok Goel

There are plenty, one is that FMCG sector is growing, second, you must recognize that Essel Propack has a emerging market play which is higher than the developed market play and these are markets which are growing, FMCG including I'm not just talking about oral care and because it is non-oral care, the revenues are higher as compared to the oral care tubes and as I mentioned about Europe because of the economic situation which normally would somebody would be scared that the economic situation is bad but for us it is an opportunity. In America there is a lot of growth opportunities, in Latin America that we are already in discussion some of the contracts have already come, some are in the pipeline, some are under implementation, so this growth will continue and we believe that the market consolidation will also happen in terms of packaging play. So all these factors will continue to fuel our growth in general.

Ruchita Maheshwari

During this quarter have we faced any problem with the discontinuation of with any of the customers and what all customers we have added in this quarter?

Ashok Goel

I cannot give you the names.

Ruchita Maheshwari

I am not looking for the names but I just wanted to know the brief outline, what is the scene going around?

Ashok Goel

I do not think we have any major customers who has left the ship, if at all we would have added quite a few, there are local players, there are regional players, there are global press and global players also increasing their sourcing from Essel Propack I can tell you we have been recognized by a fast growing multinational large corporation, I am saying fast-growing multinational large corporation who has given us a status of preferred suppliers which means that Essel Propack for their global purchase for this category we are among the top 1% of the suppliers and that gives us confidence to build our growth further.

Ruchita Maheshwari

I just wanted to know in any of the region, what are the contribution by the top five customers, is it at 70%, 80% contribution?

Ashok Goel

You mean the revenue share?

Ruchita Maheshwari

Yes, what will be the percentage contribution from the top five customers?

Ashok Goel

In China right now it is about 80%, in India it should be about 60%, in Europe it would be about 20%, in America it could be again 70%-80%.

Ruchita Maheshwari

The contribution of the non-oral care category has improved in this quarter which is roughly around 39.9%, so if you can tell me what is the operating margin for non-oral care category and for the oral category during this quarter compared to the last year and the last quarter?

Ashok Goel

So I can tell you is that the percentage margin is the same, where as absolute numbers are better.

Ruchita Maheshwari

There is no improvement in the non-oral care category margin?

Ashok Goel

In percentage terms, no.

Ruchita Maheshwari

Because last time you said that you will be increasing the contribution to 50% by the end of FY15?

Ashok Goel

Last time also if you read the transcripts I said the same thing what I'm saying now, that is in absolute terms it will be higher but in percentage terms it would be the same.

Ruchita Maheshwari

And what is the difference between the non-oral care category margin and oral care margins, in the basis points also that will help?

Ashok Goel

Percentage point is the same margins.

Ganesh Ganapathy

Per-unit realization is more.

Ashok Goel

Per unit sale price is higher and therefore if you take the same percent on the higher...

Moderator

Thank you. Our next question is from the line of Akshay Shah, an investor. Please go ahead.

Akshay Shah

In this investor update which you have given, for the first time you have given the comparison with some global companies and where we are standing, so my question is when they are much ahead of us in terms of valuations and all that and we are lagging, so what is that we need to do so that our valuation also gets catch up with those companies and I think I have gone through many of them are not really like comparable with us where we are into plastic tubes and laminated tubes they are more into canes and closures and all that, so can you highlight what we as the management needs to do and what we have not done and we are likely to do for that investor gets more insight into our company?

Ashok Goel

This is the second time we have given the comparison. Second thing is that the business has to perform best nothing succeeds like success and the rest is I cannot do anything as far as the evaluation is concerned it is the investor community who has to do. But what I can say is that we have to improve our overall profitability, our asset productivity, our capital productivity that is what we have to do and that is the direction we're heading at.

Akshay Shah

But as an investor you may be doing everything but I think probably we were not be able to communicate more with the investors in a better realistic way, so are we looking at that where the investor get more knowledge about our company and what we are doing and what is its impact on the profitability or on our working, are you looking at that kind of investor update continuously so that people can catch-up with the valuation, what is the real worth of this company?

Ashok Goel

I think maybe we need to relook at our communication strategy which probably is not working as we thought it should have and we have to figure out how to more effectively communicate but there is also a fact that I think our investors community here in India particularly tend to build more constraints in the growth because this one question for last 20 years I have been hearing, what will make you to grow? Why will you grow, how will you grow because you have this market share already.

Akshay Shah

Fairly enough because we are the world's largest laminated tube company with so many credentials and I think do now with the predecessors you gave their reply that what will drive the growth I think that if fair enough what needs to be done is the message carried to the investor at larger that is needed to be done?

Ashok Goel

So the point I'm making is that the fact is we have grown continue to grow in last 20 years and we still believe there is an ample opportunity for Essel Propack to grow and another thing is the returns threshold from the Indian investors' perspective versus the overseas there is a difference why there is a difference because we borrow money at 12-15% whereas they borrow money at 1-3%, so maybe that is also something to do with valuation but the fact is that I'm not an expert on valuation, you guys are the expert in valuations.

Akshay Shah

One more question this list of companies which you have given, the nine companies, you said that many of the competitors are under financial stress, any of them are under financial stress or anything like that all?

Ashok Goel

These are global companies the comparison that we have given in the chart, I talked about the companies under stress are regional or local players have significant market share in those countries and therefore opportunity for Essel Propack.

Akshay Shah

Because I would say it would be great if you can rearrange your investor briefing and all that because Essel was once upon a time it was like a blue-chip company and in lastly 3-4 years, of course it has had its own problems also but it has gone offside line I think we can do much better and you can bring up the valuation and really this company can do wonders for everybody that is what it has got that potential. And my second question is like that, you said that you want to reach the non-oral 50%, so it will take another two or three years kind of time by 15 you will be at 50%?

Ashok Goel

Yes, that is the time horizon that we are working on.

Akshay Shah

This competition I think one was the Sun Capital which they took the Betts and all that, I think they are in trouble I suppose?

Ashok Goel

No, I'm not suggesting that I cannot give you the names but it is certainly not Sun Capital who acquired Alcan and Betts, is now called Albéa I'm not talking about them at all.

Akshay Shah

Okay but they are on a good footing I suppose I do not know?

Ashok Goel

I do not know about that as well but what I can say is that they have not gone down under and I do not see that happening soon.

Akshay Shah

I was wondering like how it is the pricing pressure because earlier we had the commodity prices moving up and down we were hard pressed to pass on, now there is a clear-cut understanding with the customers that after one quarter everything will be passed on because last three or four years our working was effected because of that?

Ashok Goel

That has always been the case, we always had the contract that the price of raw material is always a pass through, now this has become a reality where the price volatility is high, so we cannot be cribbing about it all the time it is just that we have to get our house in order, how we can purchase even more efficiently.

Akshay Shah

That is there but they are also not accepted beyond certain limits when it goes up the price otherwise when there goes up the price they used to say, no, it is just for one quarter it will come down in the next quarter and then again the prices were just going up and they were not ready to accept the pricing increase but now that has smoothed up actually what is your ground level reality?

Ashok Goel

It is actually formula based, it is provided in the contracts.

Akshay Shah

So the risk is not there now?

Ashok Goel

Price revisions happen every quarter in some cases every month except for one or two countries where sometimes the lead time is even longer but those things are there I'm saying beyond that this is the fact of life that the price volatility is the fact of life for us, for our customers. What I am saying even further is that how do we improve our efficiency and sourcing, how do we improve our efficiency in consuming the material, this is where we can reduce the blow and we think we can do it, we are putting the right steps in those directions.

Akshay Shah

Okay, that risk is minimized. I think sometime back probably in CNBC Mr. Chandrasekar said that we try to convert our balance sheet from more India denominated to the respective currency denominator, so that we get the lower rate interest loans there, so have been reached in that goal or what is to be done there also still?

Ashok Goel

Yes, a large amount of it has been done if you see the finance cost therefore we have reduction in the finance cost by 0.25%.

Akshay Shah

So the only thing it will have is just the translation loss at the year-end just on the notional loss otherwise it will be paid from the respective countries revenues?

Ganesh Ganapathy

There would not be losses actually because these are only balance sheet items.

Akshay Shah

Not as a loss but only mark-to-market valuation that is all different that is all, like you explain the Rs. 970 crores has increased because of from Rs. 936 crores because of this currency movement that is why?

Ganesh Ganapathy

Understood what I'm saying is that it is only translation consolidating it does not impact the profitability.

Akshay Shah

I think last to last annual report our Chairman has said that we want to reach that 22% kind of EBITDA margin which was there in 2006 or something, so today we are seeing for the current year it will be 18% margin, how long it will take to reach that 22% type?

Ashok Goel

Yes, of course those are the aspirations that we constantly work towards but I can say that 20% is not unthinkable it can be achieved, now the question is how soon we can achieve that, is the question that we have some work in progress internally that we are working on.

Akshay Shah

No, I'm saying 22% which was in 2006?

Ashok Goel

Aspirations have to be higher now.

Akshay Shah

But can you put some time frame to it reasonably, nothing to hold on but still?

Ashok Goel

What I'm saying is that we can foresee 20 how to achieve. Therefore there is a work-in-progress internally how long that travel the road is and we have to travel, we are putting in different pieces of puzzles together and hopefully in the next two years we should be reaching that.

Moderator

Our next question is from the line of Ruchita Maheshwari from Nirmal Bang. Please go ahead.

Ruchita Maheshwari

You said that you will grow by 12% in this FY13, so that means your Q4 will be a subdued quarter compared to the last quarters and therefore the profitability will also be muted?

Ashok Goel

It might be because there is some seasonality factor that will come into play, for example China will have their New Year vacation, in some geographies Jan to March is typically a lean period.

Ruchita Maheshwari

I understood your point but what I wanted to ask is, even if I compare it year-on-year basis there is no major improvement, so that is the key concern for me, even if year-on-year basis improvement is there I'm not talking about the quarters but year-on-year improvement has been there then it would have been a good?

Ganesh Ganapathy

Because in our business I cannot really point out what is the exact number of the revenue growth because it is decided in a lot by the exchange rates. So we have an internal working how we are heading towards it could be 12, it could be 13, it could be 14 depending upon whatever, the key point is we are looking at our bottom line.

Ruchita Maheshwari

No, I understood your key point. What I'm saying is even if I exclude the FOREX gain exceptional item even on that basis year-on-year basis there is no major improvement, even if there would have been major improvement then we could have said okay, the profitability of the company is improving so it is a good thing but even on the year-on-year basis the revenue is there is no major improvement it is marginally high it is Rs. 412.6 crores in the last year and if I'd go with the 12% which you have guided, it is just Rs. 418 crores so there is no major upside in the revenue terms as well even on year-on-year terms, I'm not talking about the quarter-on-quarter I know that Q4 is a bit muted quarter for you, but even year-on-year on year basis there is no major improvement?

Ganesh Ganapathy

I do not know how you have calculated but we have done our numbers, of course it is also based on our own estimates based on what orders and sales are emerging. In terms of the quarter growth that even if I sustained at the current level the top line growth, this quarter was around 7-8%, so we would be let us say assuming on a conservative we are at 8% but that may not be impacted by your seasonality. Based on that we have also to consider the fact that our margins are improving if you take both into account our own assessment is that there will be significant growth in the bottom line like what we have delivered in this quarter, we will be looking at a strong double-digit growth in the bottom line for the next quarter also. We have done our numbers on that.

Ruchita Maheshwari

No, what I have done calculation is Rs. 1584 crores was your full year revenue for FY12, if I take a 12% increase from that it is coming to Rs. 1773 crores, now from Rs. 1773 crores if I minus the nine months number it is coming Rs. 418 crores, now from Rs. 418 crores the last year it was Rs. 412.6 crores, so there is no major improvement, what I'm saying is that it is marginally high, it is just Rs. 412 crores and here it Rs. 418 crores?

Ganesh Ganapathy

That is what I am saying what we do is our numbers is in some constant terms, we are talking of the sales what we are saying is that there will be a growth and that growth will take care in terms of a stronger bottom-line growth. 12% is what I'm projecting to you in constant terms we will be ending up much higher than that between 12 to 15% anywhere depending upon the exchange rates but that I have no idea to estimate now that is the reason.

Moderator

Our next question is from the line of Akshay Shah, an investor. Please go ahead.

Akshay Shah

You said that DSCR 1.5, you are talking about debt-equity ratio, what is DSCR then?

Ganesh Ganapathy

That is debt service coverage ratio.

Akshay Shah

What would be the CAPEX in the current year?

Ganesh Ganapathy

CAPEX in the current year we expect somewhere in the region of Rs. 125 crores to Rs. 130 crores.

Akshay Shah

And what would be your next one or two years if you broadly if you can say?

Ganesh Ganapathy

It depends upon the new projects which we are going to take up. This year has been as we mention to you there are a couple of contracts we have won and we are implementing and therefore it has seen an upside in the CAPEX both in Europe as well as in the East Asia Pacific. We also invested in an expansion in India during this year. Now going forward next year it will all depend on where the growth is coming. If we're going to grow with our new engagement and contracts in let us say in America and Europe we have capacity on ground, we might need very minimal debottlenecking equipments or some tooling's and the growth which is coming let us say in a place like in India we require a capacity expansion.

Akshay Shah

So Rs. 120-Rs. 130 crores in the current year but that depends upon the new project or new assignments but what is the minimum CAPEX or the maintenance kind of CAPEX?

Ganesh Ganapathy

We were at one time lower than our depreciation but after we have started utilizing our capacity to the fullest now we need to start investing, so I would say anywhere close to 1x of depreciation is definitely will be there for the next year.

Akshay Shah

And what is our utilization presently?

Ganesh Ganapathy

Utilization varies from region to region. So overall average could be in the range of about 60 to 65%.

Akshay Shah

We can go up to 85 to 90%?

Ganesh Ganapathy

That depends upon the region where I am already higher we need to investment.

Akshay Shah

No, for the company as a whole I am asking. The operating leverage is there that means?

Ashok Goel

No, it will never go 80 to 85% in this business it does not happen.

Akshay Shah

What would be the ideal than 80%?

Ashok Goel

About 75%.

Akshay Shah

And what would be the average cost of debt now here?

Ganesh Ganapathy

Average cost of debt is around 9.7%.

Akshay Shah

Any chance of reducing it?

Ganesh Ganapathy

As I said we are working on somewhat putting up to dollar debt that should give us some reduction plus this interest rate cycle turns in India it will also reduce our debt cost.

Akshay Shah

So if the dollar debt around we can say about one percent less if possible?

Ganesh Ganapathy

We should be targeting close to about 9% in the next six months.

Prashant Kutty

What was the growth in the oral care and what is the growth in the non-oral care of the company in this quarter, probably the quarter number and also the nine months number,

Ashok Goel

What was or what will be?

Prashant Kutty

What was?

Ashok Goel

As I mentioned non-oral care grew by 4% over the previous year.

Prashant Kutty

And oral care, I guess you told me that 4% is the increase in the share if I'm not wrong?

Ashok Goel

That is right. Non-oral care grew by global average of 5.5% and cosmetics grew by 4.1%.

Prashant Kutty

We have seen 5.5% growth in non-oral care and oral care of 4%. What kind of growth we are looking at going forward, some ballpark number?

Ashok Goel

I do not have the ready global numbers but for example I can tell you in Europe because of this new contract all of a sudden oral care will grow for me about 300%.

Prashant Kutty

This contract is in the oral care segment?

Ashok Goel

Yes, but we also won some non-oral care as well. So non-oral care can also grow let us say about 25 to 30%, so that pushes my threshold of continue to grow higher in the non-oral care, so that is what I eluded to you last time that I cannot give you a specific number I and chasing my because the target is always dynamic, so in India and I for example next year I may grow in oral care about 25%.

Roy Joesph

Growth in India is around 28% in the Pharma because we have a lower base, cosmetics and all around 20% for the quarter if you compared that with the previous quarter of last year, so the growth has been higher while on the oral care side because we have a higher base, the growth will be around 2% versus the growth for the quarter.

Prashant Kutty

So the reason of impacting growth in India was oral care?

Roy Joseph

Yes but oral care has a higher base so that is why you see the absolute number the volumes will be growing but you will not see that as a percentage. While cosmetics and Pharma have a lower base but the margins are high. Now what will be in terms of Pharma there is an opportunity in terms of there are a lot of our category products are packaged in aluminium tubes which transition happening from an aluminium to lami, so basically it is more throwing the market the conversion which will happen from aluminium to, it is a long process we work with the brand owners in making those conversion happen and that is where we see even coming quarters the similar rate growth as far as Pharma is concerned.

Prashant Kutty

Could you probably know what would be the growth drivers going forward, when we're talking about is it going to be only non-oral care which probably would be the key growth driver for the company or any more which you can cite up as well?

Ashok Goel

There are multiple things and let me say that we are expanding the tube market itself which means convergence from aluminium tubes, conversion from bottles, conversion from cans, so that is one of the growth drivers. Now if you look at category wise growth then emerging market is exploding with the cosmetics and hair care and other products so that is driving the growth. In India you also must recognize that many FMCG companies import finished products and launch those products ready to market in order to protect their marketing plans and stuff like that but as the products get settled in the country they start to localize the product that is driving the growth for us. Sourcing base getting consolidated for example many customers are consolidating their own filling sites. So we are well-positioned in those geographies so that is driving business for me.

Prashant Kutty

I'm sorry I could not understand last part?

Ashok Goel

The last part is that many FMGC companies are reducing their filling sites concentrating... and I'm strategically located in those sites because again just tie up my thoughts that I shared earlier with the emerging market play and FMCG typically are consolidating their positions in the emerging markets in terms of filling sites therefore you see a lot of research R&D centers investments almost all FMGC companies are doing in India, in China, in Mexico, in Indonesia. So they are practically investing hundreds of millions of dollars in the R&D centers so therefore their filling sites are getting consolidated. So those are the drivers and the fourth point I mentioned because of the economic challenges, local players in terms of my competition are under stress. And another one is that the conversion from inter lami and inter plastic tubes which means that if I am an FMCG player and I have a particular SKU which is currently filled in plastic tubes with high decoration and the moment I have reached a particular threshold volume in that SKU, I'm shifting to laminated tubes and as you know we do not have many locations where we make plastic tubes this is giving us advantage.

Prashant Kutty

We have seen an increase in our capital employed for EAP region and for the Americas region on a YoY basis, any particular reason for the same? We have seen an increase of Rs. 314 crores in the last year to about Rs. 392 crores in the EAP region whereas in Americas there has been an increase from Rs. 165 crores to 194 crores?

Ganesh Ganapathy

As far as EAP is concerned we have put in place some investments there because that business we are looking to diversify into cosmetics and pharma care, so this requires advanced decoration capability and certain special lines which will produce tubes with a less visible seams, etc., so along with that debottlenecking the equipments and tooling so there is an investment which is happening in the EAP putting the contract which we are implementing at the moment which we have presented to you. Right now as far as America is concerned, America actually our investment is not very huge but there are some accounting requirements on restatement of the new additions, so as per accounting standards, now you know the Rupee-Dollar parity has changed significantly compared to last year and this year, so in terms of consolidation you will see that is to going up.

Prashant Kutty

So this investment in EAP region which you have seen probably going forward do we believe that this will probably help us grow this business because right now we're just seeing it being pretty muted for the past few quarters in the EAP region especially after we also had that issue with the particular client as well, when do you see kind of attraction coming up in the EAP region?

R Ramasamy

Oral care market in EAP is growing under value segment, it is not going but we are getting into value-added segment, we are getting much better customer base as of today and we will see a volume growth and maybe we will put it in slow growth. Cosmetics we have done a lot of efforts as Ganesh was explaining, we invested in our last few years. We have done our lot of road shows and are lot of conversion is taking place from current tubes to cosmetic tubes offered by.... We will see a growth in the next six months much larger in this segment plus as we explained last time our pharma segment for the last 2 to 3 years we are settling to get the license that has been done as we explained last time. We are seeing growth in pharma segment also, which is conversion from aluminium to Lami. Two will be the main growth drivers in EAP and EAP has a strong base has to be in terms of volumes but will continue to grow in these two segments.

Prashant Kutty

Thirdly, I just wanted to know a bit more on Americas as well, this quarters we saw a good growth as far as America is concerned, so how is if you could just probably explained a bit on that?

R Ramasamy

America we have seen during the last 3 to 4 years that we used to grow in single digit. It was primarily because we were contemplated on new customers on a higher percentage. There has been a lot of efforts in the last one year has been put into the market equally in all other customer base. So a lot of marketing efforts are on, team has been strengthened and we will see that kind of changes in US markets. Now growth rate has near to be double-digit numbers going forward. And markets like Mexico we have won the contracts already it is under implementation you will see a big change in the Mexico market, so we had some operational difficulty as we explained to you earlier. Those are the on the path now. We have a good team and we have a good product in place ready to go in different segments where you will see growth in México. Colombia is a very steady market for us for a long period of time, we have expanded now we're also offering a particular kind of print service to the customers, so that is also on the implementation you will see accelerated growth even in Colombia. So the region as a whole we have seen whatever growth is going to be much more accelerated than the current rate.

Prashant Kutty

As far as the interest cost is concerned you said that you have seen some reclassification, so going forward we are going to see the interest rates following, right?

Ganesh Ganapathy

As I said interest rate will be impacted for two reasons, if the Indian interest rate starts dropping almost 50% of my debt is in the Rupee denominated, so it depends upon the extent of drop we will be able to get reduction because these are all floating rates.

Prashant Kutty

No, I'm just talking about the current scenario because we saw interest rate cost reduction right now, so let us assume that the current scenario remains the same and my interest cost would still reduce going forward?

Ganesh Ganapathy

Yes, the main source of reduction in this quarter is because we have converted substantial part of over Rupee debt into a Dollar debt in that balance sheet without any increase in risk or anything. So that gives us a bit differential in my overall interest cost and we have a little more of that to do that is why I was hinting that together with the Indian interest rate going down in the next six-months' time we should be seeing closer to 9%.

Moderator

As there are no further questions, I would now like to hand the conference over to Mr. Prashant Kutty of Emkay Global for closing comments.

Prashant Kutty

On behalf of Emkay, I would like to once again thank you all for joining the call and also thank the management. Thank you very much and have a great day.

Ashok Goel

Thank you.

Moderator

Participants with that we conclude the conference. Thank you for joining us, you may now disconnect your lines. Thank you.

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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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