Piramal Glass Limited Conference call
Q3 Results FY2011-12 Conference Call
(February 1, 2012)

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

Ninie Singh: Good evening ladies and gentlemen. On behalf of Piramal Glass Limited, I welcome you all to the conference call of Piramal Glass to discuss the Third Quarter Results of the company for the financial year running 2011-12. We have with us today Mr. Vijay Shah – Director, Mr. Chunduru Srinivas – President, Mergers and Acquisition and Investor Relations and Mr. Sandeep Arora - Chief Financial Officer. I will now handover the call to Mr. Vijay Shah; he will brief us about the Q3 results and the latest development during the quarter.

Vijay Shah: Good afternoon and welcome to the conference call on Piramal Glass results. By now you would have our presentation with you. So, I will just focus on the highlights of the results and then later on I will hand over to Mr. Chunduru Srinivas to take you through the presentation. So in terms of the performance this quarter, the highlights are that we grew at the rate of 10% over the same quarter last year. However, there are two significant developments which was scheduled and planned; part of the performance is the relining of two furnaces. One furnace we had mentioned in the previous quarter, that one amber furnace of 230 tons was down for relining that has also flowed into this quarter where which was post relining increased to 255 tons which is now complete and it is in production during the course of the quarter. The second is a furnace in US; in US we have two furnaces. One of the two furnaces was due for scheduled relining which happened during this quarter. That furnace too also the relining is completed entered into production. However it impacted the US operations for 60 days for one of the furnaces. So both this developments had a cumulative impact of bringing down our EBITDA, by approximately 200 basis points. Because our overheads in US is very high and they could not be absorbed because of the relining. So the coming quarter all the furnaces are in production. And we should be bouncing back to our normal performance. Not only that we have also a new project 160 TPD which we had mentioned earlier. A new mass furnace that we have been in green filed project that we have started on. We are happy to announce that the project is on schedule and will be in full commercial production effective 1st April 2012. So except for this development in terms of the market scenario, during the last quarter these cosmetic and perfumery markets, basically in the west, there is a lot of concern about the slow down and the impact of recession. However, I will share this information on market on two geographical markets separately. In USA where we have customized established relationship, there we were slightly better due to the slow down during the last quarter. Our major customers' off-take was lower than last year. Also because of the relining our sales was surpassed. However the Europe market which we cater to from India continue to grow at the pace that we were expecting. So Europe keep growing because we are gaining share of the market in Europe that's on cosmetics and perfumery. We have had some issues with respect to nail polish market. Brazil and Turkey went through a little bit of turmoil during the course of last quarter but both back in full form again now. Brazil went through major demand upset during the last quarter because of the currency devaluation by 16%. The interest rates went up in the country and the GDP growth projection was brought down from 8% to 3%. However we noticed is that towards the end of the year and now in January, the demand is bouncing back. Similarly Turkey which is center for nail polish filling for the entire region went through a little bit of a tough period last quarter. However it's also back in action now. Except for this development, C&P market is growing very well. The premium within C&P is also continuing to grow. On the other hand in the Specialty Food & Beverages both through Sri Lanka and through US we are doing extremely well. In US, one of the leading brands that we are selling for company X which has taken over Diageo, they are doing very well and will continue to grow in the future. On the Pharma side, the only factor that impacted last quarter was lack of availability of products because of the furnace being under relining which will be back in action this quarter. So Srini will take you through the details of the presentation, but I will conclude the reiterating my guidance which we have always been maintaining for two years that will grow within the region of 16% to 18% CAGR over two years and an EBITDA, on the top line EBITDA is in the region of 25% to 26%. So our guidance doesn't change and the fact that, so far cumulative we have grown 10%. It means that our future growth would be much higher for the company. We have the capacities gets added. So with I will handover to Srini, he will take you through the presentation.

Chunduru Srinivas: Thank you Mr. Shah. The presentation has been emailed to all of you; otherwise it is also loaded on the site under the investor relation. Take your attention to slide number four. 56% of the sales is accounted from the Indian operations; this includes exports as well as domestic markets. US accounted for 28% of sales and Sri Lanka accounted for 16% of sales. Take you to slide number six. On YTD basis the sales grew by 10% and is at about 980 crores. The EBITDA is about 24.2% and 237 crores which represents a 10% growth compared to last year same quarter. The PAT cumulative is about 82 crores and the growth of 21%. In terms of EPS annualized figure is about 13.6 and the cash EPS of about Rs. 27. The PAT margin has improved by 80 BPS compared to YTD same time last year. Specifically on the quarter, the sales grew by 10%. EBITDA was flattish in fact little over from 78.5 crores of last year to 75 crores. There is a small error in that slide. There we mentioned EBITDA grew by 1%, that's a mistake. It in fact de-grew by about 3%-4%. Mainly the EBITDA was impacted as Mr. Shah said, due to the scheduled relining of two furnaces as we mentioned most of you whom we met or otherwise in the earlier calls that some of the furnaces were up for relining. And we completed relining of three furnaces so far in this year YTD. Out of which two of them were relined in quarter two and that had an impact on EBITDA. Both the furnaces are up and running, so you will find that the capacity availability was from day one of Q4. The PAT at 23 crores is lower than 26.6 crores PAT of last year. A dip of closer to about 2% points compared to last year.

Slide number eight. In terms of ROC, the company is about 14.65 ROC and an ROE of about 25.3 and the book value of 46.3 book value per share. In terms of asset turn over the net sales to net fixed assets has marginally gone down, but you will note that in the net fixed assets, the 160 TPD which will be productive from April 1st, the CapEx of 160 TPD has been added in net fixed assets. If we exclude that, the number would have gone up which resulted in an higher ROC. When we look at slide number 10, 52% of the sales is accounted by cosmetic and perfumery, 25% by pharmaceutical and 23% by Specialty Food & Beverages. It’s in line with our long terms strategy. You may recall that when we started this journey 2000 year almost 0% of sales was from cosmetic and perfumery FY'05 before the acquisition of US operations it used to account for about 30% of our sales. Today it's about 52% of our sales.

Slide number 12, just to recall the market sizing etc, so the whole strategy is all about moving from mass to premium. So we have defined what mass and premium which we do every quarter. Specifically in terms of the growth value when we talk about, and C&P growth as a segment was flattish in the quarter mainly on account of US relining. The US furnace is now up and running starting this quarter. So we should see that the numbers bouncing back. .If we dissect it little bit and look at growth in Europe from Indian operations, it has been growing and the growth has been on course. On a YTD basis cosmetics and perfumery as a segment grew by 15% and premium within that grew that 28%. In terms of the geography split, Western Europe and US accounts were about 55% of the sales balance of it by emerging economy. Slide number 14 on the Pharma front, we did not have 8 days of production for 230 TPD, which are relining started of in Q2 and as we mentioned in the Q2 con call, some part of it also spread into Q3. So we found, we see that, on a YTD basis the Pharma came down by 11% on a quarterly basis when the excess capacity was available from 230 to 255 tons. The sales went up by 9%. On the Specialty Food & Beverage segment which is predominately US and Sri Lanka sales, we find a healthy growth of about 31%. We saw lot of traction with customer in US as well as Sri Lanka. So US also has been growing at a good pace of 20+% in the segment so is Sri Lanka. Overall 31% growth has been accounted for on this account. On a YTD basis the growth has been about 27%.

Slide number 18; we have got quite a few of corporate excellence awards of National Prestige and some of them at international levels. Re-endorsing the fact that our belief that the modern management practice, that we have institutionalized in Piramal glass are comparable with most of the world-class companies. The feather in the cap was the "Gold Manufacturing Excellence Award" that we got from "Frost & Sullivan" for our Kosamba plant where the cosmetic and perfumery is manufactured and depositional as our centre of excellence for cosmetic and perfumeries.

Slide number 19 is summary of our strategy. We have that divided that geography wise. The green field low cost capacity of 160 TPD at Jambusar, as Mr. Shah said the project is on course. From April first we hope to see that commercial production for this furnace. The relining of two furnaces have completed YTD. In USA we have completed the relining of, one of the furnaces and the focus is Specialty Food & Beverage segment which is being growing at 20+% in USA. At the same time transitioning the cosmetic and perfumery to India. In Sri Lanka to maintain the market leadership and grow the high yield in export markets. Couple of quarters back we have mentioned that the focus of Sri Lanka is to export to some of the good South Asian markets and we have been successful in that and as we talked to you about 25% of sales of Sri Lanka is exports and the whole strategy is to nudge that and improve the exports. In terms of our guidance as Mr. Shah said we reiterate our guidance based on the new capacities that will be availability in FY'13. From FY'11 as a base to FY'13, we continue our guidance of 16% to 18% on the top line. And EBITDA margin of 25% to 26% that we stated earlier. With this we hand over for any questions.

Moderator: Certainly sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on their push button. And await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing the hash key. Ladies and gentlemen, to ask a question, please press * and 1 at this time. We have our first question is from Mr. Pankaj B from Enam Direct. Mr. Pankaj B please go ahead.

Pankaj B: Good afternoon sir. Well, congrats for a good set of numbers. Sir just a few question, there has been increase in energy cost, quarter on quarter from around 53 to 65. So any specific reason for that and are we expected to go on the same lines or the like what we did last quarter?

Vijay Shah: I think Sandeep will take this question.

Sandeep Arora: Pankaj, if you remember we have the relining that's happening in the last quarter, and after that the energy cost is because addition of the capacity. Also in the last quarter the exchange rate was pretty high compared to again last quarter as well as last year. That to some extend impacted, but again as you see it's been softening down. So that again should come back to it.

Vijay Shah: Our gases price in dollars. And that's where the Gujarat gas contract is in dollars so that's why the impact is coming.

Pankaj B: So going forwards it will be definitely lesser than Q3?

Sandeep Arora: No twice.

Vijay Shah: But nobody can predict the dollar rate.

Chunduru Srinivas: To the extent the capacities their they don't reduce because the capacity is again covered by or manufacturing and sales, that's a variable to that extend, but to the extend of dollars it remains subdue. To that extend you may find that. Also in the local market we have taken the price increase. And in terms of pharmaceutical market or the local cosmetic and perfumes market. So let's say that has been...

Pankaj B: So is this not pass-through for the C&P market?

Vijay Shah: For the C&P, local market yes. Not for the C&P premium market.

Pankaj B: I didn't get the....

Vijay Shah: C&P premium market which is Europe. Particularly we do not have pass-through immediately. So well, on a yearly basis we take a very nominal price increase when the competitors take a price increase. So energy cost scenario changes in Indian there is no justified price increase in Europe. Unless, there is global change in energy cost.

Chunduru Srinivas: In the mass market sense, the Indian market we can take that as a pass through.

Pankaj B: Well what was the utilization of US furnace in last quarter sir?

Vijay Shah: Furnaces as I always say that have to be utilized 24/7, but in US particularly last quarter after that two furnaces, one furnace was down for 60 days. So to that extent, you can say 60 days of one furnace you talking about 1/3rd under utilization or zero utilization to that extend or over heads were under absorb and that's why the profit got impacted.

Pankaj B: Right. So now in Q4 it will be coming for operation, right?

Vijay Shah: It is already in operation. For the beginning of Q4 it is operation.

Pankaj B: In India what is the usage of 65 TPD furnace? Is it premium or mass?

Vijay Shah: In the sense, I mean sorry why is this specifically asked for 65 TPD, I wanted to understand that.

Pankaj B: Because in my calculation I feel that there is the C&P and mass, I'm getting confusion in that. So that numbers are not tallying, that is why.

Vijay Shah: See this furnaces are fungible. So I can use the mass furnace for premium. It is not like as if you assign furnaces, the furnace that we are going to assign in the future is the 160 TPD furnace that's coming up.

Vijay Shah:: That will be purely for Mass.

Vijay Shah: The current furnaces are fungible in the sense that we can premium in a mass furnace.

Pankaj B: The product is interchangeable right?

Vijay Shah: Same looking product is - these premium products are with much tighter norms like when you buy Lacoste t shirt versus you buy a run of the mill t shirt. That run of the mill T shirt may be Rs. 150, Lacoste may be Rs.1500. It depends on quality and aesthetic required for that is far-far stringent ..

Vijay Shah:: Panjaj, just to explain within C&P it is fungible which means furnace which makes premium can make mass and vice versa.

Pankaj B: Just one follow-up question for the first one, as you said, there was an impact of dollar cost in the energy. But you would have got that dollar cost offset in the revenues too, you would have got the benefit of higher depreciated Rupee rather?

Vijay Shah: We should have got, but we had a forward cover which was in the range of Rs. 47. And that is why we did not get the benefit of the higher dollars.

Pankaj B: So going forward at what level are we covered and to what extent?

Vijay Shah: This quarter also is in the region of Rs.47 - Rs.48.

Pankaj B: And complete cover or part of it?

Vijay Shah: Most of it I think.

Chunduru Srinivas: Broadly, what we do is that periodically we check what is the naked exposure that we have and take a call. So it's not a prefixed policy that we have. So part of it is covered as Mr. Shah said in the range of Rs.47 Rs.48.

Moderator: Thank you sir, we have our next question from Smiti Bothar from Lucky Security.

Smiti Bothar: I wanted to know sir how much total debt you have in your book and what repayment have you done this quarter?

Vijay Shah: This quarter, in fact, the debt would have gone up because we are completing a new project of 160 TPD. So that project, there was an infusion of almost 115 crores for that project and the debt would have gone up rather than going down.

Smiti Bothar: So what will be your total debt?

Vijay Shah: In the region of 1100.

Smiti Bothar: And I wanted to understand one more thing. Because in US you had a problem because your furnace was under utilized, but like that isn't historically the third quarter supposed to be strong in US because of the Thanksgiving break and the Christmas?

Vijay Shah: No. First of all, this was a scheduled rebuilding of the furnace. It was not a surprise. It was scheduled rebuilding of the furnace in US as well as in India. If at all there is a short in demand, it should happen in the previous quarter. Because the cycle for what they prepare for 'Thanksgiving' they buy in the April quarter, what you call it 'Quarter Number One.'

Smiti Bothar: And one more thing, what is the total gross block as of December?

Vijay Shah: I will just answer this question in a few minutes while we go on.

Moderator: Thank you sir. We have our next question from Dhaval Shah from Derivium Tradition. Mr. Shah please go ahead.

Dhaval Shah: Just a follow-up question for the previous one. I want to know for the next two years how is your debt repayment scheduled? Like currently from 1100 crores, what will be the debt level by 2013.

Vijay Shah: We do not have major CapEx is coming up. The only one is, what we have is relining of 65 TPD which is in the first quarter of next year. The major CapEx in the sense of 160 TPD addition is would be through by March of this year. So I would put over the next two years you are asking. Let me put it in the region of 100-odd crores. But debt-equity should come down to 1.5:1 is what our rough estimate is.

Chunduru Srinivas: Just to specify that in this particular year you had a spurt in the CapEx mainly because of the scheduled relinings that we had. So, only one more relining is left out which we are anticipating in Q1 of next year. Barring that, balance would be broadly maintainable CapEx and no major Greenfield or Brownfield project coming up in the near future.

Dhaval Shah: So sir then for 65 TPD relining, how much would be the CapEx incurred?

Vijay Shah: In the region of 40 crores and we should have normal CapEx of ranging between 20 to 30 crores every year.

Dhaval Shah: That's the maintenance CapEx?

Vijay Shah: Yes.

Chunduru Srinivas: And depreciation of about 110, 115 crores yearly.

Dhaval Shah: And one more thing I did not understand, someone had asked regarding the cost pass-through on the Mass and the Premium side for our products. So can you please explain once again -?.

Vijay Shah: Let me explain that, normally in the Mass market there is a immediate pass-through. In the Premium market there isn't a pass-through immediately because when we say Premium market, we are referring to USA or Europe. So there the customers are not used to inflationary cost increases. So the pass-through happens or prices which happens when the European suppliers take a price increase for factors that impact their cost or even in US. However, there we recover the cost increases through productivity increases because when we are making Premium products, we are going through a very tough learning curve, and initially, our productivity levels are very low and every balance that we do, our productivity goes up and these products are priced very high. So take a Premium product pricing would be say $400 to $700 whereas the Mass product would be say $150 to $200.

Dhaval Shah: Sir, what do you mean by that productivity goes up? Would that mean that when the line comes out of the furnace, so can you just explain what is...?

Vijay Shah: The rejection levels gradually come down. The first time when we do a premium product like CK1 or CKB my rejection levels could be as high as 45%. For the next run could be 35%. The following run could be 25%. So because of the experience or learning curve in doing a particular product, understanding the cause of the defects and correcting them we improve the productivity as we go along.

Dhaval Shah: So then in our line of business how much time does it take to kind of have a very minimum rejection level?

Vijay Shah: Roughly between third and fourth one. We are at very good rate of production.

Chunduru Srinivas: What happens is, when a new product comes in, you run that multiple times. So first one, let's say its two lakh pieces. Second run, you do two lakh pieces over let's say 6 months to 12 months. As your run keeps going up for a given product because of the expertise and the practice that you gain out of that, by the time it comes to third, fourth level, you come to a decent level of productivity. However, what happens is because your funnel is so strong, at any point of time you have some products which you are making in the first go. So it's not a single product, its multiple product in that sense. So it's a continuous sources of improvement.

Dhaval Shah: Sir, what is our current gas cost? We have a gas from Gujarat Gas correct?

Vijay Shah: We got several contracts. We got APM Gas, we got Gujarat Gas and we have got GSPC which will be starting soon. Gujarat Gas and GSPC I think is in the region of $11 to $12, APM Gas is I think $4.2.

Dhaval Shah: So do we expect the gas price to increase further?

Vijay Shah: I wouldn't expect now going up further. In fact I was talking to somebody, expecting the global gas scenario to be stable to coming down in the future years.

Dhaval Shah: Correct, that is coming down in US. The national gas prices are coming down.

Vijay Shah: US is quite substantially lower and then people are talking about exports of Shell Gas which has not started. So whole gas scenario is pointed before the Japanese issues, because of the LNG being imported by Japan and that's a spurt that began. So we are expecting that they would be stable to dropping.

Dhaval Shah: So sir going forward can we assume like power and fuel cost as a percent to sales if we go to see, will it be in the range of around 18% to 20%?

Vijay Shah: Yes. Somebody has asked a question of gross block. The gross block is 1719 crores, out of which roughly 100 crores is capital work-in progress.

Dhaval Shah: Sir, what is our interest rate cost? Around 7%, 8%?

Vijay Shah: It is below 7%.

Moderator: Thank you sir. We have our next question from Ojasvi Ghosal from Kotak Mahindra.

Ojasvi Ghosal: I just had a question, what is the current position of our order book? Are the orders now coming in from US markets?

Vijay Shah: First of all we do not have a concept of order book. In our case, when a customer manufacture a particular brand from you, they come back to you for all their requirement of those particular brands. So say, take the case of US, has been supplying to Company Y, the entire range of Polo Perfume; Polo green, Polo blue. So whatever the global requirement of that particular perfume is purchased from them. So we do not have to have a formal contract because it is very, very sticky business. So what we have noticed post the last recession the lead times have been coming down. Earlier, when a customer would say, I would need so much over four months or six months, they are coming down to two and three months. So the order book in that sense the lead times are coming down.

Ojasvi Ghosal: So the scenario from US market is still the same as Q2?

Vijay Shah: No, the US market scenario, as I told you in Q3 was slightly subdued on a few large customers from Cosmetics & Perfumery. Partly, it was subdued from the customer side and partly, we were undergoing relining in US. From India to Europe we have been having a very robust growth.

Ojasvi Ghosal: And have we added new any brands, new customers in Q3?

Vijay Shah: That is what leads to the growth. The entire growth is coming from our addition of customers or brands, which keeps happening quarter-on-quarter.

Moderator: Thank you sir. We have a next question from Mr. Aliasgar Shakir from Elara Capital. Mr. Shakir, please go ahead.

Aliasgar Shakir: I have a few questions; first of all, a little bit on the macro, I just wanted to understand in each of the geography that we are operating, how is the industry growth doing, because of the slowdown, is the competitive intensity increasing or how is the competitive landscape shaping up?

Vijay Shah: As I mentioned earlier in corporate Perfumery industry, in the beginning I mentioned this that last quarter we had some dip from Brazil and Turkey, which are major Nail Polish markets. In Nail Polish, we are global leaders with 55% share of the global market. So we did not see a fall in share or competitive intensity going up, but we did see the demand falling from disturbed market. Turkey bounced back by December, and Brazil we are seeing it getting back to normal this month, that is on Nail Polish. On Perfumery as I mentioned US has been slightly depressed, but in Europe where we are focusing on growing share of the market all the time we see no impact of this because we are continuing to grow on a robust basis in the Premium segment of the market. Part of the numbers are depressed on CNPs mainly because of US being out of production in the last quarter.

Aliasgar Shakir: Brail, you mentioned the impact was because of currency low movement and also interest rates?

Vijay Shah: Yeah, the currency levered by 16% suddenly and the global inflation had picked up and I think was in the region of double-digit by 11% and interest cost went up, so suddenly, the currency went through a little bit of turmoil which is settling down now.

Aliasgar Shakir: But what was the issue in Turkey?

Vijay Shah: Turkey is a centre for selling Nail Polish for the entire region, Syria and other markets. So, we saw a drop in demand and suddenly the pipeline was not going too much, but that happened only September, October, November period. From December, I think Turkey is back to normal.

Aliasgar Shakir: Sorry, I did not get the reason, is it because of--?

Vijay Shah: The neighboring market demand had come down. There was some recessionary situation in demand for Nail Polish in that region. It could be linked with some of the turmoil in Middle East.

Aliasgar Shakir: Now you mentioned that it is coming back?

Vijay Shah: Yeah, Turkey is back to normal and Brazil is coming back gradually.

Aliasgar Shakir: Could you assign like a growth rate that the industry is clocking in each of these geographies probably and how are we doing vis-à-vis the industry?

Vijay Shah: Industry does not grow too much in this market. The industry is growing in the region of say 3%. That also we are expecting that with the recessionary conditions the industry overall maybe even flat. In fact the growth in the past was completely led by emerging economies like Brazil, Russia, China and India. So historically, Brazil and Russia enjoyed in corporate Perfumery end product growth of almost 30%. So this is what used to be leading the growth of the industry. Some of it got shaved off last few quarters. However, we are not dependent on industry growth rate because we are giving share all the time, particularly, in Europe, but we are taking away share from other competitors.

Aliasgar Shakir: During the quarter we saw a significant amount in the increase/ decrease in WIP and Finished Goods, can you throw some light about what is this amount?

Vijay Shah: CWIP is capital work-in progress.

Aliasgar Shakir: Not CWIP, it's basically part of the raw material cost, where 30 crores item over there, which is like change in finished goods or WIP?

Vijay Shah: I will come back to you on that. It's an increase in finished goods.

Aliasgar Shakir: Correct me if I am wrong. My understanding was may be because a large part of our probably inventory would have got revalued, because of the currency movement in this because of that?

Vijay Shah: No, inventory was not revalued.

Chunduru Srinivas: To an extent what you are saying is right. That comes for our new addition for US and Sri Lanka?

Aliasgar Shakir: Right, exactly yes.

Vijay Shah: Sri Lanka has got no major change, US, to some extent yes.

Chunduru Srinivas: No even last time Sri Lanka would have been at 42 vice versa 45, to some extent yes.

Aliasgar Shakir: Because that has actually changed material cost as a percentage of sales significantly either YoY or QoQ. Therefore, I thought probably --.

Chunduru Srinivas: To some extent what you are saying is right. To the extent of US inventory it would have got revalued at their closing rate that is more of a balance sheet translation that will happen.

Aliasgar Shakir: Correct, so that is one of the key reasons why we see that in a significant negative amount. On the contrary, I believe soda ash prices have moved significantly during the quarter, right?

Vijay Shah: I think not significantly for us. We also import a lot of soda ash, we keep looking at different markets, so we import a lot of soda ash from Turkey. In fact, because of dollar, yes, but not otherwise significantly.

Aliasgar Shakir: Because if I see the domestic players Tata, Birla, all of these guys have probably increased their prices, usually about 10-15% on--.

Vijay Shah: We do more of imports. So we would have got 5% impacted because of the weakening of the rupee, but we do not buy so much from local suppliers.

Aliasgar Shakir: And also, actually in January the prices have grown significantly. So I just wanted to understand what is the--

Vijay Shah: We are under contract with mainly Turkish suppliers.

Aliasgar Shakir: We are not seeing any increase in the soda ash price or are they also seeing some impact over there and we are going to probably shift those price increases to customers?

Vijay Shah: No, let me explain in two parts. We are not seeing any increase in soda ash prices because of the contract till March at least or may be even beyond that. On the other hand, yes, because of the energy cost increase, we have already started price increase, which we have already taken in this quarter in the Pharma market and the domestic markets. In the non-dollar market we have taken the price increase in the region of 8-10%.

Aliasgar Shakir: So that is not going to be a key risk for us?

Vijay Shah: Because the dollar market the customer would say that you have got a currency which is softening so why would you take a price increase?

Aliasgar Shakir: Correct. On the capacity front, as of Q2, if I can recall we had about 65 C&P capacity for refurbishment for this quarter. I believe that has not happened, right? There is a different **(Inaudible) 39.15** which has gone for refurbishment.

Vijay Shah: During Q2 you have heard about our Kosamba furnace undergoing relining, which was 230 ton, that relining partly fell into the Quarter 3, 2 and is now up and running it to 55. 55 TPD furnace which was due for relining this year, is running well, so we have shifted it to 1st April 2012.

Chunduru Srinivas: Yeah, Ali, as we mention always that relining is planned, but it can be off by one quarter year ending depending on many physical parameters that one watches at that point of time. So 65 TPD will be relined in Q1 of next financial year.

Aliasgar Shakir: Correct, but the US facility if I recall even in Q2 that was not up for realignment?

Vijay Shah: No, it was part of another furnaces to be relined this year.

Chunduru Srinivas: So if we recollect, four furnaces were up for relining, in which US was one furnace which was up for relining.

Vijay Shah::It was always there.

Aliasgar Shakir: Sorry, I missed the number for the US facility which has finished its realignment, if you can just help me with that number?

Chunduru Srinivas: Number, as you are saying CapEx or loss or profit?

Aliasgar Shakir: No, I am saying basically the size of the capacity which went for realignment and what is the new size?

Vijay Shah: In US, the sizes have not changed. In US there are two furnaces, approximately 92 tonnes each. So there we are not increasing any capacity.

Aliasgar Shakir: Just the case that it was a C&P capacity, now I believe it will be used for Food & Beverage?

Vijay Shah: US is fungible capacity between C&P and specialty Food & Beverage. Yes, but post relining it will be more amenable to specialty spirits which is very high-end products. These are boutique bottles which are being made for high-end spirits for Diageo's.

Aliasgar Shakir: Out of the 260 crore CapEx outlay, can you tell is the amount that we have already incurred and what is left?

Vijay Shah: Roughly 50 crores will be remaining, 210 crores has been incurred.

Aliasgar Shakir: Okay. And we are not seeing any positive run over there. That 260 crores is fairly?

Vijay Shah: No, we have not seen any.

Aliasgar Shakir: Can you please tell me the loss of revenue that we have seen in this quarter because of the capacity realignment and what would be the stable state basis if at all we would not have seen the loss of revenue?

Vijay Shah: I think 4-5% would be the top-line. Some of the revenue was sold through the inventory buildup. Let me put it that the growth would have been say in the range of 16%, we are in the range of 10%. So that is another indirect way of looking at it.

Aliasgar Shakir: Okay. And probably the margin would have been in the similar way or was that--?

Vijay Shah: Roughly at 2% higher margin.

Aliasgar Shakir: So, that was the higher margin business that probably we venture?

Vijay Shah: No, we will add 2% higher margin because the cost would have been absorbed. Today, the margins are lower because the costs were not absorbed. During the relining period some of the costs are fixed in nature, those do not get absorbed that is the point.

Moderator: Thank you Sir. We have a next question from Rohan Shetty from Unicon Securities. Mr. Shetty, please go ahead.

Rohan Shetty: Hi, most of my questions have been answered, but I have a question about over the last two quarters you spoke about a sale of land in Sri Lanka for an estimate around 30 to 40 crores and that will go towards your debt servicing. So, I wanted to know the status on that?

Vijay Shah: In Sri Lanka, I have been watching very closely, and we do not want to sell the land at any discount to what we are expecting or wanting to sell at. So far the interest is being shown but we have not got a deal on hand yet. But I am expecting that this may get consummated next year because the interest level is pretty high. A lot of Indian builders are also looking at Sri Lanka.

Rohan Shetty: The land is still unsold?

Vijay Shah: Yeah.

Moderator: We have a next question from Veena Patel-from Ivals Management [ph]. Ms. Patel, Please go ahead.

Veena Patel: Sir, looking at your consolidated numbers this quarter we have a ForEx loss of nearly 3.96 crore. So could you provide details relating to it?

Chunduru Srinivas: This is basically other than the MTM on the loans, this is just on the PCFC and the realignment of the PCFC loan and the debtors.

Veena Patel: What is the quantum of the ForEx loans that we have?

Vijay Shah: ForEx loans maybe linked to the forward cover.

Chunduru Srinivas: One is forward cover, the other one is also once you mark-to-market the PCFC which is a short-term business.

Vijay Shah: Foreign currency loans we got in different components, different market. We have it in Sri Lanka, we have it in US and we have it in India. So the Indian foreign currency loan is in addition to PCFC is $20 million other than PCFC. 40 million would be

PCFC which is in the same currency that we recover and 20 million would be other than PCFC. Balance crore is in the currency in which the countries in which we are operating like US is in Dollars and Sri Lanka is rupee.

Veena Patel: Sir out of the 3.96 crores of ForEx loss, how much is due to M2M?

Vijay Shah: I do not think M2M loss is about 20 million, which is in our Indian books, that is not in this.

Management: When you rebalance your book at the end of the month or a quarter, you take a closing rate. Now you will do a closing for your PCFC, you will do it for your debtors and receivables versus what you have booked your sales at and there will be differences between the two, so that would get accounted.

Chunduru Srinivas: Most of it is coming from the PCFC M2M to say so.

Management: Because they have a 40 million so that is a huge amount there on the PCFC in the Dollar term.

Veena Patel: Sir, in the coming quarters also we will be having such kind of losses?

Vijay Shah::It could be profit or it could be losses, because we cannot predict the Dollar/Rupee rate.

Management: If you want to do something, it is already we are 3–3½ rupees lower than what we closed month end December. It is so volatile. I think we should wait and watch till the end of the quarter.

Chunduru Srinivas: Because the way it is swinging, it could be either way.

Management: Already, we are down by 3–3½ rupees, so.

Moderator: We have our next question from U T Bilal from Corporate Database. Please go ahead.

U T Bilal: I had a couple of questions; one I just wanted to clarify, when we were talking about power and fuel costs and someone asked where it will stabilize at, I think what you mentioned was around 18% to 20%. What it has been currently is it has been about 14% to 16%, it just went up to 18% to 19%, this quarter. So that means do we see it increasing to about 19% to 20% or going back to the 16%?

Vijay Shah: We are not seeing any increase.

U T Bilal: As a percentage to sales?

Vijay Shah: Yeah, we are not seeing any increases. In fact, in US, it has gone down. In _____ **48.59** it has gone up. Entire fuel cost, in US it has been coming down.

U T Bilal: So we see it coming back to levels we had in the previous quarters, right?

Vijay Shah: Yeah.

U T Bilal: Second question related to the furnace shut down that we had in the US? In the last call, please correct me if I am wrong again what I am asking you already talked about, it impacting C&P segment as well as SF&B segment and more impact was supposed to happen in the Food & Beverages segment, but we have seen more impact on the C&P segment at least in terms of revenue number. So what exactly happened? I was little if you could just help me?

Vijay Shah: As I said that they are dual impact on the US number, partly because of the furnace relining and partly because of the demand being subdued from C&P. On the other hand on Specialty Food & Beverage we have had a very strong demand. So that is why the numbers of Specialty are far stronger than the C&P numbers from US.

U T Bilal: Is it mainly Mass that was impacted in the US it is seeing a slowdown or it is all Premium?

Vijay Shah: In US there is hardly any Mass. It is mostly Premium.

U T Bilal: Do we see this trend then going forward as well? Do you see any recovery happening right now?

Vijay Shah: I think C&P should recover from what it was in the last quarter. Specialty will recover more than that. Because basically we are looking at a particular brand. If you recall we have been discussing on quarter-over-quarter in the past that the behavior of this brand impacts the US performance on Specialty. This is the one brand which is a very large, almost $5 to 8 billion dollar of sales from the US portfolio and this brand was a boutique brand which was sold to Diageo and now under Diageo's umbrella they are growing it very, very rapidly, so the demand is so strong for this brand that currently you see very strong numbers this quarter and maybe you see in the first quarter also. So yes, it has got a very unique character, it has got few brands, few customers and they determine the trend of sales.

U T Bilal: And then post relining we are also expecting again the furnace to be more towards the same Diageo production that you talked about. Then what happens to C&P? Does that production shift to India?

Vijay Shah: Exactly. The whole strategy for US is to grow Specialty, because Specialty Spirit business is a local business and the idea is that if we grow Specialty there, we push more production out to India. That's the strategy for US going forward for next 4-6 quarters

U T Bilal: So will that be also something that'll happen when the second furnace goes in for relining next quarter?

Vijay Shah: No, there is no US furnace going for relining for next several years.

U T Bilal: The other one is fine, so we don't see any more shift happening in that sense.

Vijay Shah: No, US will continue to grow. And as it grows we want a robust growth both in Specialty and C&P. And as Specialty grows it will be pushing our production to India for C&P. That is the strategy for US. We are not increasing manufacturing capacity, footprint or capacity in US since the time we acquired that. The idea is that we grow Specialty and push out production of C&P to India.

U T Bilal: And last question I had is on growth in the Maas C&P segment, last quarter saw a slowdown in growth in that segment as well. This quarter we had a year-on-year decline. So how do we see that going forward? Do we see Mass going back up or is it only a relining impact or is it actually a demand impact on Nail Polish as well?

Vijay Shah: Mass C&P was mainly impacted because of Nail Polish demand going down. And as I said we got very large market in Brazil and Turkey. That got hit during the course of the last quarter but is recovering again. So, we see bouncing back on that. So there was no loss of share in this business. We are a dominant player in Nail Polish and leader in the world. However, because of that what happens that either there is a change in the trend in the market we get impacted immediately. So that's what we saw in the last quarter, for the first time that our Nail Polish demand got temporarily impacted both in Turkey and Brazil, but is bouncing back.

Moderator: We have our next question from Mr. Sandipan Ghosh from Jet Age Securities. Mr. Ghosh, please go ahead.

Sandipan Ghosh: I had a question that YTD the Specialty Food & Beverage segment has contributed to almost 25% of your revenues whereas the Mass C&P is about 26%. But if you look at the Presentation Slide #19, it says that Specialty F&B FY13 could be about 23% whereas your Mass C&P would bounce to about 31% of your revenues. So why do you expect Specialty Food & Beverage growth come off a bit at a time when Sri Lankan operations are doing so well?

Vijay Shah: No, it will grow well next year. In relative term it may come down as a share.

Sandipan Ghosh: Which means the additional volumes on Jambusar Unit would outstrip the demand from F&B customers?

Vijay Shah: Yes, because Jambusar handles 160 tonnes capacity and lot more in Mass. That is why. Let me share with you, the capacities are to some extant fungible between segments. So that is what we are expecting today, that the Jambusar capacity will lead to a huge growth on the Mass C&P side. However, that could change between segments.

Sandipan Ghosh: My next question is specifically to Mr. Shah. Sir, consequent to your appointment as the Chief Operating Officer of Piramal Healthcare, which is announced to the stock exchanges as well, have we already found a worthy successor as the new MD of Piramal Glass?

Vijay Shah: No, I am going to oversee the operations of Piramal as I have been doing in the past. We have very, very competent people here. We got four SBUs or this thing, Sri Lanka is a separate independent subsidiary with its own CEO, US is a independent subsidiary with its own CEO and in India also both the locations have got very competent people, operations people heading them, Jambusar and Kosamba. So we have got a very competent team leading it and I just want to make sure that I walk through the strategy that we have worked on this, the vision that we have looked at for this business to be leader in this business over next three years, so I will continue to lead the business.

Sandipan Ghosh: My final question is you had mentioned in the call that during the furnace relining period there is some cost which are fixed in nature. Does energy cost come under that?

Vijay Shah: No, energy does not come under that. Actually, if you see, in India, the impact is not very high because fixed costs are mainly the manpower cost. So, in India, the manpower cost is 10% to 12% and the other overheads let us say corporate overheads and stuff like that so another 10%, so 22%, whereas energy variable, raw material variable. On the other hand look at the US cost structure, 35% to 40% is manpower cost and the overhead is another 10%, so 50% cost. US kind of operation get more impacted because of unabsorption of cost rather than India.

Moderator: We have our next question from Sushil Gupta from Silverdale Capital. Mr. Gupta, please go ahead.

Sushil Gupta: Sir, could you please help me with the capacity that is going to come up at Jambusar, the 160 TPD? You said that it will start in the first month of next fiscal year. Will it have any stabilization period or low productivity period?

Vijay Shah: The capacity 160 tonnes furnace is well on schedule and we will do the trial run in the month of March. So I don't expect much disruption in production when it gets into production in April, this is an expectation.

Sushil Gupta: And sir, your US subsidiary is not really paying taxes right now I suppose. So when exactly are they going to come under tax and what kind of tax rate will be applicable to them?

Management: Not in the near future, they have their carry forward losses. So I don't expect them to--

Sushil Gupta: So for the next two years you don't expect the US operations to be paying taxes?

Management: Yes.

Sushil Gupta: And sir I was just not able to understand one thing. You said that had the plants not been shut down for relining, you would have had 2% more margin, But I see that the power cost were in dollars. So even if your relining would not have happened the power cost would still have affected the margins, right?

Vijay Shah: Major hit during the quarter as I keep saying is because of unabsorbed cost in US. That has got nothing to do with power cost in India. What was the differentiating factor during the quarter was 60 days of one furnace being shut down in US which did not absorb its cost.

Management: If it were there you would have seen the EBIDTA margins probably towards in the range of 24% instead of 22%.

Vijay Shah: The power cost increase in India partly has been offset because of the price increase in India and Mass markets and partly due to product mix changes.

Sushil Gupta: The thing that I am not able to get is that, when I look at all the costs as a percentage of your sales, it's only the power cost which has actually moved and the rest of the costs are constant. So is the relining expenses mostly clubbed in the power cost?

Vijay Shah: In the US the relining expense is not a relining expense again. It's unabsorption of the manpower cost and overheads in US. Suppose had we produced in US it would have been absorbed by the production which would according to sales or according to inventory. To the extent of the 60 days of one furnace the cost had to be absorbed in US. And I am talking about the cost which is in the region of say 50% of sales value in US whereas in India when the furnace go for relining, the unabsorbed cost is much lower because I was just alluded to you that 10-12% manpower cost and the overheads of another 8%, that's 20% .So 20% versus 50% in US is the fixed cost, even when the furnace is shut.

Sushil Gupta: And sir you also mentioned that you have Soda Ash contract with the suppliers in Turkey. You also mentioned it is till March -

Vijay Shah: No, I did not say it is till March exactly, I recall that at least for this year I am not seeing any changes and my supply chain manager has not mentioned to me any impact of Soda Ash price changes in the near future also. So I don't recall exactly how long are the contract for.

Sushil Gupta: I am not able to understand that you are totally insulated from movement of Soda Ash prices, is it?

Vijay Shah: Soda Ash cost is 6% of my sales value as a company as a whole. Even if there is some movement we are talking about I don't know what percentage, but we got impacted only because of the dollar movement. The fact that we are buying from Turkey we are buying in dollar. I have not heard beyond that any impact in the near future. If the Indian local suppliers are correcting the prices, maybe they are correcting to the extent of the dollar movement in the imported prices.

Sushil Gupta: And since you have said that all your sales have already been logged into an FX rate of Rs. 46-47, so in the next few quarters as well we will not see any positive impact in the revenue due to any FX movement, right?

Vijay Shah: It is not 46-47, in the last quarter it was 47, I think till the year end it is in the range of 47-48.

Chunduru Srinivas: And it is notional one and second is it is not that some parties make an exposure and we take a call timely, timely as to what needs to be done with it.

Management: It also depends on where the dollar would be in the coming years.

Sushil Gupta: When I went through one of your investor presentations last year, you showed that you had a decline of 3 or 4% in revenue due to negative FX movement. So

I was expecting if there is an opposite scenario you would be making profits from the situation. But seems like you have changed your …

Vijay Shah: Like several companies which are highly export-oriented we had to take a call on the dollar. So you are hearing the same news from several infotech companies. Some have got the exposure, they might kept it naked is the policy that the company adopt. And we have had ours till at least this year end in the region of 47-48. If you had looked at one quarter back people were saying that the rupee will strengthen and go down to Rs 40 to a dollar. This is something which is very volatile environment and one has to take a call. If you look at the budget, our budget was at Rs 46, we said okay, if it is Rs. 47-48 we are fine with that…

Management: I think the part of the movement on dollar was not fundamental, more speculative

Sushil Gupta: Just one final question, you said in the previous con call you have mentioned that you partly hedge your mark-to-market loans and receivables and partly you keep the exposure to FX rates now. What I am trying to understand is that how much of FX movement can generate significant losses or profits?

Vijay Shah: We said in last quarter our entire sales was in the region of Rs. 47, next quarter will be in the region of Rs. 47-48.

Sushil Gupta: I am talking about the mark-to-market on loans and…

Vijay Shah: We do not hedge anything on loans. I am referring to the receivables. The loans are not high. If you look at in US we have borrowed against US operations. In Sri Lanka we have borrowed against Sri Lanka operations. In India we have borrowed only $20 million as loan and the PCFC is hedged against the actual receivables, the 40 million of PCFC is hedged against the actual receivables. So our dollar exposure on loans is not that high. What we get hit is because of the normal operations, the dollar sale that we do.

Moderator: Thank you sir, we have a next question from Prashant Kutty from Emkay Global. Mr. Kutty please go ahead.

Prashant Kutty: Could I have the working capital position as of December '11? The days or probably the number.

Vijay Shah: It is around 25% of sales.

Prashant Kutty: Have you seen any increase as far as the working capital position is concerned as compared to last year?

Vijay Shah: It's stable.

Moderator: Thank you sir, we have our next question from Mr. Dhaval Shah from Derivium Tradition. Mr. Shah please go ahead.

Dhaval Shah: We just discussed right now that we had a 60 days loss of production in US, and there manpower cost is 30 to 40% higher than our Indian operations. Sir, but then if you go to see our employee cost as a percentage of sale, it has not changed significantly, it is around in the range of 19, 20% only. And when you see our gross margins they have actually come down from 67% in Q3 FY11 to 63%, basically due to raw material costs increase and power cost increase. So where does employee cost factor come into?

Vijay Shah: Let me explain, for example, in the P&L, assume for a moment those 60 days we had our production. So we would have produced some goods. Now, those goods either would have been sold or the goods would have been in the inventory. In both the cases the top line would have gone up. For every Rs. 100 of top line that goes up, manpower cost would not change and would remain as it is, only the raw material, packing material, and freight and energy would have changed, so which means for every Rs. 100 of top line that gets added, cost would get added let's say by 50, 60, 70 depending on which country you are talking about. So balance would have been additional profit. So when we said unabsorbed cost, what we meant is the manpower cost remains stable but there's no utilization of the manpower for those 60 days time. In a normal course those 60 days of time, the manpower would have produced something that production is not captured, so that's what he is referring to.

Dhaval Shah: Otherwise whatever inventory left we have that we sold because of that the sales increased, but then there was no actual utilization because the production was stopped.

Vijay Shah: Absolutely.

Dhaval Shah: When we met a few months back, at that time we had discussed that by FY13 our debt level would come down to around 900 crores or something. But then actually FY13 if we go to say it is going to be around 1,050 crores.

Chunduru Srinivas: I don't know how you have computed that, because how much of CapEx you have taken in FY12 and '13 if you would say. So 260 crores is what was the guidance for the CapEx in FY12 and '13. As Mr. Shah said 202 crores have been spent already.

Dhaval Shah: I took at around 40 crores of maintenance CapEx.

Chunduru Srinivas: That's okay.

Dhaval Shah: So then if you go to, say, it will come down excluding that land sale in Sri Lanka by FY13 it will be around 1,000 crores.

Chunduru Srinivas: I do not know what you have assumed in your sales. What you have assumed in your sales you will have to look at it once. EBITDA margin what you have guided is 25, 26% and take about 35% of sales as working capital and look at your free cash flow, I think there is some…..

Vijay Shah: There will be some impact because of the FX restatement. To that extent it maybe impacted.

Chunduru Srinivas: The debt/equity as your guidance goes, in the range of 1.5:1 something which we are confident of.

Moderator: As there are no more questions I would now like to handover the conference to Ms. Ninie Singh. Over to you ma'am.

Ninie Singh: Thank you all on behalf of Piramal Glass and HANMER MSL for participating in this conference call. If you have any further queries please drop in your e-mail at ninie.singh@hanmermsl.com.

Moderator: Ladies and gentlemen this concludes your conference for today. We thank you for participation and using TATA DOCOMO Conferencing Service.