"Piramal Glass Limited Q1 FY2013 Results Analyst Conference Call"

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MODERATORS **MR. VIJAY SHAH –DIRECTOR**
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Moderator Ladies and gentlemen good day and welcome to the Piramal Glass Ltd. Q1 FY13 result and Analyst conference call. As a reminder all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded I would now like to hand the conference over to Mr. Chunduru Srinivas, President, Group Corporate start strategy. Thank you and over to you Sir.

Chunduru Srinivas I welcome you to this quarterly earnings call of Piramal Glass Ltd. I would now request Mr. Vijay Shah to give his view on the quarterly results and business aspects of the company, followed by which I will take you through the presentation. The presentation has been e-mailed to all of you, otherwise it is also loaded on www.piramalglass.com under the investors section. Over to Mr. Shah will take you through his views on the quarterly results and the business of Piramal Glass.

Vijay Shah Good afternoon and welcome to the investor call for Piramal Glass. This quarter we recorded a sales growth of 19% within that each segment wise the sales growth has been quite different from what we use to have in the earlier quarter, so I will explain that. Cosmetic and perfumery grew by 12% as against a growth rate which is to be in the region of 20% plus in the past so there is a nothing to worry about, within the cosmetic and perfumery the premium segment grew by 20%, so the premium growth story is intact. The mass segment grew only by 4% it is partly because of non-availability of the products required for this segment, as one of furnaces is under repair, 65 TPD and partly because in the initial months markets like Latin and Turkey and Russia were a bit subdued which they have recovered later on. On the other hand Pharma for the first time it is showing a phenomenon sales growth both of 34%, that is because last year during the same quarter our a large amber pharma Furnace was under relining. So this year we have got full capacity available, hence it shows a very high growth rate, especially food and beverages shows a 19 % growth rate these are mixed back.

We had a recent growth in Sri Lanka especially for food and beverages. In US in fact there has been a deferment of sales for our major brand called Nuvo by the Company X because Nuvo has been acquired by the Company X and because of that June ending is there year end and they have destock to some extent. The sales will be recovered this quarter. In India in a new furnace 162 TPD which was started in April primarily in the mass market, however being the first quarter of the Furnace we started off with absolutely low end product and that is why we are catering to the low end food and beverage market in India. This has had dual effect it shows our specially food beverage numbers growing faster. On the other hand it leads to the question of profitability and that has suppressed the profit this quarter. So if you look at the profit numbers, our ratio to EBITDA to sales as regards to sales is lower by almost 2.4% as compared to the same quarter last year. And one of the major factor contributing to that is the starting of the new capacity 160 TPD. If you recall we had invested 100 crores plus in this capacity to make 160 tons per day Furnace which was primarily in at the mass market. This Furnace is in initial phases and going to teething trouble and that is why production is gradually ramping up, the major hit on the bottom line is because of this new capacity that has begun. To some extent US because of deferment of sales and its productivity issues also contributed to be margin reduction. In terms of market news the C&P market we continue to gain share in Europe. In US we are more or less flat this year because the uptake by the customers of C&P side is not very high, it is stable. The Europe also the market is not growing significantly in C&P but as I always say it does not worry is too much because we are gradually gaining share and creeping increasing share in this market. Our major focus area and challenge this quarter is to bring back the new capacity into full production and that is what we are doing and seeing the efficiency improve month after month. So I will hand over to Srini who will take you through the result and we will be back to answer all your questions that you have.

Chunduru Srinivas I will take you through the presentation and request you to go through the Slide # four of the presentation which has been e-mailed, it is available on the website. The Indian operations accounts for 56% of the global sales followed by US opts which accounts about 30% and Sri Lankan operations which accounts for 14% of global sales.

Take you to Slide #6 which gives an analysis of consolidated profit and loss account. The sales at 376 crores grew by about 19%, the operating EBITDA is almost flat, similar to last year same quarter at about 82 crores, however the EBITDA to sales ratio as Mr. Shah said dropped from 26.2% to 21.8 a fall of about 440 bps. At the PAT level compared to 31.5 crores, we had in Q1 of last year it is showing a profit of 10.6 crores this year in the same quarter, which is almost about 3% of sales.

Take you to Slide #7 broadly in terms of key ratios are return on capital employed which was almost about 15.5 last year annualized value of that is about 12.6% mainly due to the subdued profit that we had. In terms of return on equity it is about 10.2% and book value for share is about Rs.44.4, and net debt to equity is 2.85: 1 which is marginally higher than what we ended the last quarter at 2.8:1 and the annualized EPS is 3.7.

Slide #9 this is bifurcations in terms of segments that we operate in, first slide was on geography-based. 52% of the sales is accounted by the cosmetic and perfumery which grew by 12%. Pharma accounts were 25% of sale which grew by 34%, specialty food and beverage accounts for 23% of sales which grew by 19%. Essentially Pharma is more of catching up in the sense that last year in the same quarter we had the largest Furnace 233 TPD undergoing relining, that capacity is up for sale, so to that extent that it is 34 % is not with the same capacities but with an enhanced capacity and availability of capacity for a longer period. The growth of C&P was subdued on account of the fact that 65 TPD underwent relining and we have completed the relining of 65 TPD.

Slide #10 our recap of our sales how it has moved over a period of time. Cosmetic and perfumery constitutes 52% of sale and has grown at 29% in last five years-seven years time. Pharma grew at about 10% and specialty food and beverage at 25%. This is CAGR over seven year period.

Slide #12 dissecting little bit of the cosmetic and perfumery market. In terms of geography BRIC countries and rest of the world constituted for 41% of our sale, West Europe 20% and US 39%, in terms of BRIC though overall C&P has seen a growth of 12%, premium grew by 20% and mass grew by 4%, we said in the opening call the stabilization of 160 TPD was one reason, and unavailability of capacity which is 65 TPD was the reason for this low growth in mass.

Slide #14 which talks about pharmaceutical segment, from our 71 crores of sales we have moved to 96 crores of sale 34% growth, as I mentioned this is on account of the full capacity of 255 tons which is available in this quarter which was not available due to relining in the last year same quarter. Slide 16 talks about specialty food and beverage segment where we grew by 19%, as you are aware that specialty food and beverage is not a focus in India, however, 160 TPD by the time it stabilizes we had used that capacity to cater to food and beverage sector in India, but what we caters from India is a low end food and beverage and therefore this number 19% is not profitable growth as in 160 TPD till it stabilizes instead of catering to C&P as catered to food and beverage. Sri Lanka grew by about 15%, US had some deferment of sales of brand called Nuvo because of ownership changes, and therefore the financial year changing for them ending at June and therefore there was some de-stocking. So this is overview of the business and certain financial ratios that we had for this quarter.

Now we are open for the questions, we have Mr. Sandeep Arora, CFO, Piramal Glass, myself and Vijay Shah, Director of Piramal Glass, available to answer any of your questions.

Moderator Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from Mr. Pankaj Bobade from Enam Direct. Please go ahead.

Pankaj Bobade I just wanted to understand the loan into MTM that is around 16 crores.

Sandeep Arora See this is coming from the operating loan that we have on the PCFC. So when we close March towards closed at about 50.9 or so and with the closing rate for this dollar denominated PCFC is about 55.6 when we closed June. The difference is mark-to-market on these loans.

Pankaj Bobade Only on 50.9 or around 102 crores of ECB and 150 crores of PCFC?

Sandeep Arora No it is only on PCFC which is about 35 million in India. The other may be in US. The debt increased its translation in US, that will be our translation because we have the 63 million of loans in US which is more of a translation.

Pankaj Bobade Just wanted to understand one thing this is notional right?

Sandeep Arora This is only a mark-to-market. It will only get realized as and when you it comes for repayment.

Vijay Shah Let me separate the two. We have a loan of 63 million in US in dollar that is not part of this, that is translation only if it shows up in the balance sheet somewhere and that completely notional because you never have to pay because US will repay that. And PCFC as and when it becomes due, so wherever exchange rate prevailing then at that rate we will have to repay.

Pankaj Bobade You mean to say six months from now.

Sandeep Arora They are rolling. There are different PCFCs at different dates and different rates. So they will get mature at different dates when you take it, it matures at the end of the sixth month.

Pankaj Bobade Just wanted to understand whether the coming quarters, will those quarters also be affected due to this $35 million of PCFC?

Sandeep Arora It all depends on the rate that the month would close or the quarter would close.

Vijay Shah If the exchange rate is same as this, there will be zero impact. There will be some rolling amount.

Pankaj Bobade And if it depreciates further there will be some impact in the P&L?

Sandeep Arora Yes.

Pankaj Bobade What is the hedging rate as on day for this quarter that is Q2FY13?

Sandeep Arora 48.50.

Moderator The next question is from Mr. Niket Shah from Edelweiss. Please go ahead.

Niket Shah Could you just tell me what is the hedging strategy that you normally follow?

Vijay Shah Current year we are hedged on an average at 48.50.

Niket Shah That is your average right. So you would have lost around 12 months hedged book running at any given point in time?

Sandeep Arora For this year we have, for FY14 we are doing some hedging in the range of 60.

Niket Shah Okay any given policy you will strictly typically follow that at any point in time you would have 12 months kind of a hedge book for your dollar denomination revenues?

Sandeep Arora Seeing the volatility we do not want to really time the dollar, as a policy we are doing is we are keeping our imports and the dollar denominated expenses like gas and all as open, so we will keep that open to do with the top-line and the expenses to be similar, so we will keep that as net and the net exposure that we may have after this, the committee would take a call on to hedging into an extent within that and also try and keep it open to the extent that we want to take an advantage if it depreciates further. We do not want to time the dollar actually.,

Vijay Shah We have been discussing this with the audit committee, current view is that for FY14 the net exposure we may hedge max of 50%, so we started looking only if the rates are very good, we said leaving 50% to the current rate of 50% of the net exposure.

Niket Shah Just wanted to know in your consolidated numbers which is around 385 crores of top line how much of that would have come because of that currency impact?

Sandeep Arora I feel in the range of 10% or so.

Niket Shah On account of the currency gain right?

Sandeep Arora Yes.

Niket Shah Okay and just one more question how many times in a year is really you need to take you capacity for relining?

Sandeep Arora Once in 8 to 12 years.

Niket Shah How much percent of your revenues is coming from Nuvo?

Vijay Shah In the US we are looking at between $5-$8 billion, as a percentage of company revenue overall consolidated revenue may be 2 to 3% in US about 6% to 5% in US.

Niket Shah Sure okay and just one final question how has been the margins in terms of segment wise. Can you just adjust throw some line on that?

Sandeep Arora Margins are in line with what we have always been sharing with you broadly. It is the C&P and specialty have highest margin, Pharma enjoys lower margin in relative terms.

Niket Shah So would it be possible for you to share how much segment wise margin you had in this particular quarters compared to last year same quarter?

Sandeep Arora Segment wise no we do not share that.

Niket Shah Okay and with your new capacity in our, kind of commissioned will your interest cost now started hitting the P&L going forward and hence for the rest of the area interest cost will remain high?

Sandeep Arora It is already there because the payment started even in last year so that actually takes about 8 to 9 months for the whole capacity to come up so the payments all started happening even last year, what you see today is actually is the total payments have been done for that now it must be at the peak, all that is included in the current numbers.

Moderator Our next question is from Aliasgar Shakir from Elara Capitals. Please go ahead.

Aliasgar Shakir Just on the capacity as you mentioned it was operating at sub-optimal level, I just wanted to understand basically first of all by when can we expect the full capacity ramp up to full utilization levels and secondly, the 65 TPD will that also requires some time to ramp up to full utilization, since that is the realignment it would not really have an impact?

Vijay Shah 65 TPD is the relining in fact it is back into production to full-fledged and 160 TPD- normally it is not capacity utilization, it gradually ramps up in terms of PAT to turn ratio and the product mix, so the drop will be lower from out of the 8 lines that are there on the first one, 6 lines were working, then 7, then 8, and in the third month for instance. Second is the product mix when you make a new furnace of this type if you recall the explanation we had given earlier it was the first time we had built a mass quality furnace of about 60 TPD at the lower CAPEX. So initially when we started this furnace we did not cater to the mass C&P market also from this, we made food and beverage for the domestic market, which is far lower realization. So, the yield is lower, the draw is lower, and the product base is also sub-optimal. So month-on-month this keeps on going up by 5% to 10%. So for instance the PAT ratio for the first quarter was 50%, today we have moved up to 70%, the peak will be 80% to 85%.

Aliasgar Shakir Can you repeat the last point that you mentioned?

Vijay Shah The PAT to melt ratio we call efficiency.

Aliasgar Shakir Basically how much rejection happened is that what you are trying to say. Out of 100 may be earlier 70 might be right 30 might be reject and that would reduce.

Vijay Shah The first quarter, we had 50% rejection, this July 70% PAT and 30% rejection and we will ramp up very soon now. I guess one more quarter to reach a stabilization level.

Aliasgar Shakir What would be the optimal level in terms of rejection?

Vijay Shah That would be 15% rejections.

Aliasgar Shakir We are presently at 30 basically.

Vijay Shah And also the production will gradually improve.

Aliasgar Shakir So if I break up and try to quantify the improvement that it will have in top-line the 30% to 15% rejection. How much would that increment would add to the sale and what would is the product mix improvement that we believe would add to the sales?

Vijay Shah I do not have the exact break-up for you at the moment.

Aliasgar Shakir If you can just generally give me a trend or probably just give me a sense trying to understand? Correct me if I am wrong, the 160 TPD ideally would have optimal level of revenues of around 1 crore per tonne or something like that?

Vijay Shah You cannot look at 1 crore per tonne but this furnace we would expect 150 crores sales on our normal running basis.

Aliasgar Shakir That is around 0.9 or may be around that. Somewhere close to that.

Vijay Shah Yes, you can say that.

Aliasgar Shakir Right now how much it would be probably generating, approximate revenue number. I can understand what is the incremental value that it can add maybe over the next one or two quarters?

Vijay Shah In the first quarter, the sales from this furnace would be in the range of 10 crores, we have just started ramping up.

Aliasgar Shakir And then will it add significantly? Another 150 crores or 10 crores is for the quarter of so for 40 it is doing 10 crores basically 30 crores lesser.

Vijay Shah Yes.

Aliasgar Shakir So maybe by Q2 - Q3 or by when can we expect this to increase?

Vijay Shah Output in Q3, Q2 will be the in between ramp up period.

Aliasgar Shakir So maybe by Q2 it will increase to about 20% to 25 % and then we can see in Q3 about 35% – 40%?

Vijay Shah Possibly.

Aliasgar Shakir And what about improvement in the product-mix how much incrementally in terms of absolute –?

Vijay Shah We said inclusive number when we say 150 crores. It was a mass market product mix.

Aliasgar Shakir That includes both product mix as well as improvement in the rejection.

Vijay Shah Yes.

Aliasgar Shakir On the material cost side, we have improved significantly as a percentage sales, material costs have come down from 22% last quarter to around 19%, some 300 basis point improvement. So it is because of any increase in realization rates or this is the merely because of the product mix?

Vijay Shah There is no ground for reduction of that type, but are you looking for standalone numbers or consolidated numbers?

Aliasgar Shakir Consolidated numbers and I am looking for QoQ and not YoY because I thought material cost is more of a variable cost? There would not be any seasonality?

Vijay Shah I thought QoQ also numbers are not matching.

Aliasgar Shakir I am taking the entire material cost basically, including the cost of traded goods, finished goods all put altogether, these are around 22.5% of sales last year, which is around 19% this quarter. So there is 300 basis point of improvement.

Vijay Shah Not that I am aware of any significant change in material cost so if at all there is something it is because of product mix.

Aliasgar Shakir Maybe because of change in closing stock probably?

Vijay Shah Yes.

Aliasgar Shakir And the entire staff cost increased and energy cost increase is largely because of new furnace right?

Pankaj Arora New furnace and the increment that would have flown in because you have your increments coming from April, so YOY that would be….

Aliasgar Shakir But then this would remain flattish for the entire year now, considering that there would be no new significant increase in the resource in the staff?

Pankaj Arora Yes.

Aliasgar Shakir If there is an increase how much would you attribute this to increase in interest rate and how much to increase in debt?

Sandeep Arora See the interest cost is about 8.25 leaving the MTM part.

Aliasgar Shakir This was I think around less than 7%.

Vijay Shah Yes 7.77%.

Aliasgar Shakir In fact I think it was less than about 7% couple of quarters.

Sandeep Arora That was much earlier.

Aliasgar Shakir This is increased may be about 50 basis points.

Sandeep Arora That plus increase in debt.

Aliasgar Shakir What is the increase in debt approximately?

Sandeep Arora Debt has two components versus March. One the major part of it is the FX which would be notional and the real increase if I remove that would be around 10 crore to 15 crore versus March that is about it.

Aliasgar Shakir Then what has led to this significant increase in the interest cost? Is it purely the change in debt because of the notional?

Sandeep Arora I am talking versus March. If you are seeing versus last year, then it will be different.

Aliasgar Shakir I am talking about the March quarter.

Sandeep Arora March quarter also had an issue with- there was a significant MTM that was there in the Q3 if you remember when the rates went up and then it came down so you had that positive impact coming in and that is why you are seeing this. Offline I can give you that breakup. There is no significant increase versus that.

Aliasgar Shakir So this interest also has any change in the debt because of the FX change?

Sandeep Arora The number that you see 38 was got 16 crores of mark-to-market. So remove that and that it. Actually if you neutralize for both it the number in a very similar to that.

Vijay Shah Even that 13 would have 21……so that was about 21 and this is 22.5, so 1 to 1.5 crore.

Sandeep Arora Actually it is getting vitiated because you do not see the difference of FX that was there in two quarters because Q3 was about 53 or something and then it came down to 50.8 and then gone to 55.6, at least that what is vitiating as per the new schedule-6 guidelines.

Aliasgar Shakir So assuming it the rates remained at the same level, now we will have may be on a constant basis of 22 crores of interest cost every quarter?

Sandeep Arora Yes.

Aliasgar Shakir Do we have a plan to reduce our debt may be in the coming quarter, since we have now completed our CAPEX and we might have some free cash flowing in coming quarter?

Sandeep Arora Yes, it will be except maybe except in Q2 because of the dividends payout that happened there could be a temporary blip there.

Aliasgar Shakir Do we have any such target in terms of debt-equity or anything because we previously wanted to come below two times, do you have any such target?

Vijay Shah Idea is whatever free cash gets generated, we will use it for debt repayment in that sense and so the whole idea of debt reduction continues in the same fashion what we mentioned a few quarters back.

Aliasgar Shakir Just to summarize or to understand maybe from Q2 - Q3 onwards would we see coming back to the normal margins of around 22% to 23% and then coming to 24% to 25%, maybe from the coming quarters?

Vijay Shah I think it should bounce back quite a bit.

Aliasgar Shakir And also the top line we should stick to the guidance of 18% to 19% growth for this year and next year?

Vijay Shah Could be more than that.

Aliasgar Shakir Is it so?

Vijay Shah Because despite of the subdued this thing quarter it is 19%.

Aliasgar Shakir Yes we would stick to the guidance of 18% to 20% growth on topline and then the margins of around 23% to 24%?

Vijay Shah Yes.

Moderator Thank you. The next question is from the line of Kamlesh Ratadia from Enam Holdings. Please go ahead.

Kamlesh Ratadia I have a couple of questions. One is on this new plan, what would be the loss that we are suffering. If you can quantify that so that it helps us understand the performance of the rest of the business better and in terms of you said there is lower yield, so the lower draw is what I could understand from what you have already mentioned, but what is the yield that we are generating currently and how much it can go up to?

Vijay Shah The first quarter it is as low as 50%?

Kamlesh Ratadia So that is the draw right?

Vijay Shah No, that is the yield. Draw would have been slightly lower. For 163 TBD furnace where we were trying 140 on an average because some lines gradually started up, few lines started up later. So draw will pick up slowly and the yield was low at 50%, July moved up to 70% and we expect to ramp it up much faster now.

Kamlesh Ratadia And what was the absolute quantum of loss that we would have recorded in –?

Vijay Shah That would be misleading on this because cost allocation and others will play havoc with the numbers.

Kamlesh Ratadia If you can just help us understand and the other way round.

Vijay Shah I can give you the EBITDA percentage points almost 3%-4% was down because of this.

Kamlesh Ratadia But that is on the full revenue, is it?

Vijay Shah Yes.

Kamlesh Ratadia If you take 3% on 376 crores it will be about 10 crores of EBITDA loss is what you would have done on this?

Vijay Shah Possibly because of the cost output.

Kamlesh Ratadia So basically, once you ramp up to 35 crores of sales in a quarter, you will absorb this entire loss?

Vijay Shah Yes.

Kamlesh Ratadia So basically, you may not on earn any EBITDA, but you will not have any loss related to this facility is that understanding is right?

Vijay Shah No, why we would have some EBITDA also.

Kamlesh Ratadia Because on 10 crores revenue if you are doing a 10 crores loss then obviously when you ramp it up to 35 you should only breakeven, if you do a normal cost allocation unless the entire thing falls to EBITDA. Let me put it this way a 25 crores incremental revenue, if it has at least 30-40% variable cost which is your power and everything then you would recover your loss which is a 10 crores that you are making.

Vijay Shah We have not worked out precise number but let us see on a fluctuate basis, 40 suppose toward revenue.

Kamlesh Ratadia So incremental revenue is like say 25 and 40% of that 25 is variable cost so it almost only covers your 10 crores loss which you have done in first quarter. I am just trying to do this number back of the envelop obviously it will be some marginal profit but that does not move the needle. So what I am trying to say is that even if you do the full ramp up you will not contribute anything largely to the bottom line.

Vijay Shah Yes.

Kamlesh Ratadia Overtime you will actually try and improve the realizations also because now this 10 crores has a mix impact also. So what is the current realization per whatever you can say?

Vijay Shah It is a product mix which is suboptimal.

Kamlesh Ratadia The current product mix has what kind of realization is what I am asking.

Vijay Shah On a full furnace working basis we should realize in the range of 150-160 crores of the furnace so that gives you an indication of what is the potential.

Kamlesh Ratadia Not really, because in the first quarter you did 140 TPD but the yield was only 50% so I do not really understand how much is the realization currently and how much it can improve too. So basically suppose if you do the current mix only if some part of your business goes to food and beverages and it is ramped up to full capacity, all your lines are operating and you have an optimal yield also, what kind of revenue that would be versus what you have indicated of 150 is what I want to understand.

Vijay Shah I think what you should look at is what we are aiming for this furnace. We are aiming a sales of 150-160 crores and that is the journey that we are going through. So what is happening in the short term is an aberration according to me.

Kamlesh Ratadia I completely understand but there are two parts to it. One part is you improving your utilization your yield, draw and everything and the second is the mix. The mix will take longer than what we call it as utilization the draw and yield part of it, so that will happen in Q3 but the realization improvement or the product mix improvement may take longer because that depend on the market how you get better product mix for getting a better revenue so that is the reason why I want to understand…..

Vijay Shah Let me repeat it, this furnace is entered the mass market and it would optimally do 150-160 crores. It will reach to the mass market and the mix that we are looking at partly some food and beverage and partly mass market. And at that it would give an EBITDA margin of 20-25%

Kamlesh Ratadia So while that is your aspiration or that is the number that you are looking at?

Vijay Shah Normally we give that number within the couple of quarters of starting a furnace. In this case it took longer because this furnace was an experiment in the sense that we first time made a mass market furnace. We have never catered to mass market earlier. We have made furnaces meant for premium market and then we have to ramp up from mass market to premium in those furnaces. In this furnace we have a different learning because we started with food and beverage and are catering to mass market. So it may take couple of quarters to achieve these numbers.

Kamlesh Ratadia I have no doubt in terms of over the next two years you will definitely achieve these targets.

Vijay Shah I am saying couple of quarters.

Kamlesh Ratadia But in couple of quarters your explanation does not match with what you are indicating that is the reason why I want a better granularity to it. As we did the incremental turnover of 25 crores cannot give you the 20% margins. It is not possible to have that kind of margin so either we are missing something or the improvement in the mix can be substantially better which is what if you have the orders in pipeline or in hand that can be an indication that you can give that would help us understand better.

Vijay Shah In pipeline of order is not an issue. It is the question of stabilizing the production and start producing the right quality for the right market. As I told you we are ending in a capacity of 150 crores in this quarter and that gives us the number that we want.

Kamlesh Ratadia And that if you do a 20% margin you will do about 30 crores kind of an EBITDA?

Sandeep Arora On an annualized basis.

Kamlesh Ratadia So if I were to look at Q3 I will get $1/4^{th}$ of that as EBITDA as incremental so the swing in Q3 will be 15 crores approximately, the 10 crores negative that you have currently, I am trying to understand because for me it looks significant swing, is that the comfort that you can give us or it is not something which is possible. So 15 crores swing is a big number to have purely on 160 TPD.

Sandeep Arora Are you saying swing or are you saying profit?

Kamlesh Ratadia Swing because 10 crores is the loss that you had in this quarter and if your normal utilization on 35 crores a quarter if you do a 20% margin that is what you are indicating.

Vijay Shah I am saying 40 crores a quarter.

Kamlesh Ratadia So 40 crores in Q3 so 20% margin is 8 crores and the 10 crores loss that you have already done which you will obviously not have so that is the 18 crores swing, so from Q1 to Q3 will we have an 18 crores swing only on this new plant is that a right assumption?

Vijay Shah See if you look at any class further for glass industry the leverage on the fixed cost is very high, including ourselves if you look at during the period when we were making at losses and we turned around the fixed cost leverage in the industry is very high, when a new furnace comes up of this type you not make the money but you will incur the full cost and that is why you will start bleeding initially.

Kamlesh Ratadia So that is the reason for your confidence to get back to 23-24% margin by at least Q3-Q4?

Vijay Shah Yes.

Kamlesh Ratadia Also in your presentation that is this number of 82 crores of operating profit and that is excluding FOREX loss or gain but there is a gain of 7.5 crores this quarter.

Sandeep Arora Its actually including.

Kamlesh Ratadia And also gas cost has been coming down quite substantially over the last couple of months are we looking at any benefit from that?

Vijay Shah You maybe referring to LNG cost?

Kamlesh Ratadia Yes.

Vijay Shah And I am not tracking that closely but if the LNG cost comes down then the gas company like Gujarat Gas or GSPC who give us the mix should bring down the cost but so far we have not seen any reduction.

Kamlesh Ratadia So if it does how much of it will be spot price gas for us?

Vijay Shah We have zero spot price.

Kamlesh Ratadia So all the contracts will expire only by March?

Vijay Shah Contracts will not expire; we have several years of contract we are buying from three sources GAIL, GSPC and Gujarat Gas. So these companies they do change the prices during the course of the year so far historically we have seen only price increases now we are hearing from expert of the industry that we have reached the peak of this so if at all there is a price reduction it will come at any time.

Kamlesh Ratadia So if that were to come it will be at least on the quarterly basis or you do not have to wait till the end of the year on a regular basis right?

Vijay Shah So would the increase be….

Moderator The next question is from Niket Shah from Edelweiss, please go ahead.

Niket Shah Just one more question- what is your differentiation in terms of margin when you sell in your food and beverages market in India vis-à-vis abroad?

Vijay Shah There are two separate markets, unfortunately we classify under the same segment there is specialty food and beverages what we sell in US or what we sell out of Srilanka are very different markets, specially food and beverages in US is very high premium liquor, when we sell out of Srilanka to India it is bottle like antiquity or VAT 69 again premium bottle and what we are currently selling out of the 160 TPD furnace is very low end liquor market or food so it is very significant price relation between these segments.

Niket Shah So this quarter which was largely affected one of that reason was your shift to your India sales how margin shift you would have seen?

Vijay Shah It is not shift, it is when you started this furnace of this type you forget this time we do not want to cater to high end market you just start of with the low end.

Niket Shah So how much that would have hit your margins?

Vijay Shah It is showing that what everybody is analyzing that how much losses have we made in 160 TPD, this is purely impact of the product mix, productivity, yield and furnace drawn.

Niket Shah What was the volume growth in this quarter if you can share that?

Vijay Shah We do not calculate volume growth.

Niket Shah Because on a consol basis if 10% is your currency growth then your volumes might be flat is that the right?

Vijay Shah 90% is our overall growth I would not put it as flat.

Niket Shah So do you have any acceptances that you have on you balance sheet, your buyers credit or any of your LC or something?

Vijay Shah Contingent liabilities?

Niket Shah That is right.

Vijay Shah That will be….

Niket Shah No that will be a part of your current liability actually.

Vijay Shah I did not get what do you mean by acceptances?

Niket Shah Your buyer's credit or your supplier's credit which normally forms part of your current liabilities?

Vijay Shah that will always be there

Niket Shah So how much is that amount?

Vijay Shah On a quarterly basis we don't disclose that but year end you can see through the balance sheet.

Moderator The next question is from Aliasgar Shakir from Elara Capital, please go ahead.

Aliasgar Shakir I just want to a give color on how the market is shaping in Europe and US in view of the slowdown that we are seeing in these parts?

Vijay Shah No C&P markets in US is more or less flat, whereas specialty for us is growing because of our NUVO and several brands that we have launched. Similarly in Europe the markets of premium perfumery is more or less flat at the moment, but we are gaining share as we are developing and launching in this market

Aliasgar Shakir Would you be able to quantify like how much share we may have gained overall quarter?

Vijay Shah We have tried to calculate and shared with you that we are close to 5% - 6% of this market in C&P. Our share gain is very small as compared to the market size because we are still a very small player in this market.

Aliasgar Shakir Just a book keeping question actually your presentation gives your total sales number at 376 crores but numbers on the consolidated income statement shows as 385 crores, I do not know where is that?

Sandeep Arora Actually the other operating income as per the new SEBI format that gets added so just for your like to like purpose we gave you the 376 crores.

Aliasgar Shakir Because here the other operating income is present but it is the only 6.4 crores, so I was not getting the net sales income from operations is 384.8 crores basically.

Sandeep Arora They have to get clubbed under the net sales so what we gave you was actually the net sales 376, versus last year we gave you a different figure which is only the sales. Not other income from operation.

Aliasgar Shakir So basically the difference between both these actually other operating…

Vijay Shah Yes incomes from operation, that is the difference. So against I think 317 it is 323, and 376 and 384.

Aliasgar Shakir And then there is another 6.4 crores.

Sandeep Arora 64 lakhs.

Aliasgar Shakir 6.4 million that is separate.

Sandeep Arora Okay.

Moderator Thank you. The next question is from Prashant Kutty from Emkay Global, please go ahead.

Prahsant Kutty As far as the last two-three quarters we have been seeing the mass C&P market going at a very slow pace and the new facilities is mainly coming in the mass

C&P segment. Could you throw some color as to how the overall market is shaping up over there because we have seen the Brazil market also not been doing good for the past two quarters or so, could you help us with that?

Vijay Shah The mass C&P, the new capacity has been created more to displace the growth that we are in premium. So as we grow in premium we need more and more capacity for premium. It you recall what we had said that rather than ignoring the mass market we create new capacities so that we shift from premium to this new capacity for the mass. That is the first thing. Second is, yes you are right, our last two quarters they have shown no growth because of the disturbances in those markets but I feel that this quarter will bounce back completely. I am not too worried about it. These are mainly represented by Brazil, Turkey and Russia. These are the three big markets for mass products and to some extent Middle East.

Prahsant Kutty So how you feel that these markets will probably do well in the coming quarters?

Vijay Shah We are seeing signs of recovery. The order book is coming back and these are primarily of course a split between nail polish and perfume and we are seeing complete bounce back in this market. I think next quarter itself we can show, that is not something to be worried about.

Prahsant Kutty As far as our premium segment is concerned and also the specialty premium segment is concerned we have seen a bit of growth moderation happening over here as well. Obviously Sandeep has mentioned the reason for it but as far as the premium segment is concerned do we see this to probably be the steady state growth for this premium segment or we probably expect improvement from here on?

Vijay Shah You are referring premium C&P segment. The C&P segment unfortunately out of US it did not get growth not because I have been saying that US is more flat in the past so when we say 20% growth in C&P, a premium growth, it is average between US and India but if you look at India alone it is grown almost at 24-25%. So it is quite robust out of India that is what we feel.

Prahsant Kutty Lastly if you could probably say how the costing has been for the Sri Lankan operations?

Vijay Shah Actually we were quite pleased with the 1st Quarter performance of Sri Lanka because as you may recall last quarter between we got a very large increase in the energy cost and in spite of that we have reported almost 31% EBITDA to sales, so we could pass most of the cost increases there plus because they could bounce back completely in terms of product mix. Sri Lanka results have been very good.

Prahsant Kutty If you could probably repeat the EBITDA numbers which were 31% or 21%?

Vijay Shah 31% before management fees.

Prahsant Kutty Your are talking EBITDA margins, right?

Vjay Shah EBITDA to sales is 31% this quarter, pretty robust.

Prahsant Kutty Could we just have what is the debt as on the books currently?

Sandeep Arora About 1200 crores plus, of which about 60-62 is because of the FX, that is what I said that the increase is mainly about 15 if I go from a constant Rupee to a Rupee. So the increase is mainly because of the FX of about 62 crores which includes translation as well as the mark-to-market. So US will be more translation and India would be a mark-to-market.

Prahsant Kutty Could you tell, what is your working capital situation in terms of days or a probably number? Has there been an improvement there, how has it been like?

Sandeep Arora Whatever we do a total precise working on that for all group companies put together. We do it separately, each one have their own targets.

Prahsant Kutty But at a consolidated level we would not have a working capital in terms of…..

Vijay Shah Yes quarter for them.

Moderator As there are no further questions from the participants I now hand the conference back to Mr. Chunduru Srinivas for closing comments.

Vijay Shah I feel quite apparently the concern is because of the lower EBITDA number this quarter and we are quite confident that we will recover on this. This was mainly because of the new furnace in India and to some extent because of US, as explained deferment of sales of Nuvo and partly some productivity issues in US. So with that I feel that we would continue on the sales growth rate in fact better these numbers.

Chunduru Srinivas Thank you so much. In case you have any queries you can email to me or call up my number and we could take that offline. Thank you so much for attending this call.

Moderator Thank you very much. On behalf of Piramal Glass Limited that concludes this conference call. Thank you for joining us.