Piramal Glass Limited
Q4 & FY 2012 Results Analyst Conference Call
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MODERATORS :

MR. VIJAY SHAH –DIRECTOR

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Moderator Ladies and gentlemen, good evening and welcome to the Piramal Glass Limited Q4 & FY 2012 Results Analyst Conference Call. As a reminder, for the duration of this conference, all participants' 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 any assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now like to hand to Mr. Chunduru Srinivas – President, Group Corporate Strategy. Thank you and over to you, sir.

Chunduru Srinivas: Good evening all of you. We have Mr. Vijay Shah – Director, Piramal Glass and Mr. Sandeep Arora – CFO of Piramal Glass along with me. I will begin the call by handing over to Mr. Vijay Shah and requesting him to give an overall business brief, after which I take you through the presentation which has been emailed to all of you. Presentation is also uploaded on our website - www.piramalglass.com, post which we will have Q&A session. Over to Mr. Shah.

Vijay Shah: The performance during the year has been in line with the expectations.

- We have had sales growth of 13% overall and EBITDA to sales of 24.2%.
- I want to inform you that we had a major expansion project during the course of the year, that is 160 t.p.d. new furnace. That furnace has commenced commercial production from 1st April and out of the 8 production lines, 4 have already started and balance 4 have started from 1st May. So, the project has been on schedule which is very comforting to us.
- If you have been noticing since the last couple of years we have been giving broad guidance for two years, that means up to 2013. This practice has been on since 2010 when we have been sharing with you the overall growth rate of the company, the growth rate of C&P segment and within that premium C&P segment. Now that we have completed the planning exercise for the current financial year that is FY13. I can comfortably tell you that we are well in line with the promise that we have made, the overall growth rate of the company should be in the region of 20% CAGR starting from 2011 and so we will have a much higher growth rate during

the year. The premium C&P CAGR also would be in line with what we have said between 28% and 30% and so would be the overall C&P CAGR of 26% to 28%.

- On the other positive side in US, if you notice we went from quarters to quarters some fluctuation of Specialty business, primarily we dependent on one major brand which had changed hands from a single entrepreneur to Diageo and because of that there was some hiccups QoQ on the number, so that business has settled very well and we are manufacturing more and more variants of that products and US is doing very well on Specialty business.
- Separately, we have declared a dividend of Rs. 3.50 which is the same as last year.
- In terms of the environment, we continued gain share in Europe and US though the market growth rate has been pretty stable, is not very high, the growth is driven in the markets primarily because of the BRIC country.
- On the other side, on the negative side, we are facing tremendous cost pressure in India, primarily on Energy front, on Natural Gas front and to some extent on raw materials, which has major impact on the last quarter.
- On the results front if you look at Q4 numbers, you find some major variation vis-à-vis early quarter and primarily due to FOREX impact. So, that will need some explaining to you because a lot of it is optical, because if you look at the full year number, the FOREX impact is very minimal. This happens mainly because every quarter end we have to reinstate the numbers based on the dollar/rupee rate on the last day of the quarter, so debtors get reinstated and there are a lot of variations linked to the realization versus debtors are forward exchange, forward cover, because of the volatile exchange rate played havoc with the numbers and Q3 if you are aware, Q1, Q2 and Q3 exchange the Rupee kept depreciating and Q3 ended with rupee/dollar around 53 on the last day whereas Q4 has ended with Rupee being stronger at around 51. So that has impacted on the numbers.

Sandeep at some later stage will explain to you the impact of that.

- I am very confident of the future. We are doing very well in the Cosmetics & Perfumery market. We are still going on ahead with our strategy on growing in the premium segment of the market and with the new furnace in place we will address the mass market. As I have been sharing with you in the past the new furnace is a low cost furnace which has been made primarily to address the mass C&P market, so earlier the thinking was to walk away from mass as we are growing in the premium segment of the market and somewhere down the way we decided to make a low cost furnace for the mass market and we are addressing that segment of the market too. So, with the addition of that furnace; however, the numbers for this following year primarily because of this furnace will be impacted to some extent because as we had a large capacity of 160 tonnes, you do address some extent of sub-optimal product mix. In other words, the capacity gets added in the chunk, the market growth is linear, so initially you may have to make some lower profitability product than what you intend making. So, by next year we should get connected. And there are also some stabilization period of new capacity. So, some of this will impact the next year's numbers and I would say that compared to the year we could expect in the region of 150 to 250 bps lower EBITDA to sales because of all these factors. However, as we go beyond that I expect the numbers bouncing back to 25 plus EBITDA range.

However, we will answer this question in more detail in the question and answer session. I will hand over to Mr. Chunduru Srinivas to take you through the presentation. Thank you.

Chunduru Srinivas: I will take you through the presentation which has been emailed and on the website.

- I am on Slide #3 which broadly gives the split up of the sales from each of these operations. The Indian operations accounted for 56% of the sales, the US operations 28% of the sales and Sri Lankan operations 16% of the sales.
- I am on Slide #5 – In a fixed sense, as Mr. Shah has mentioned, Q4 to Q4 of last year is pretty not comparable because of the regrouping of certain things which we will take during the Q&A session. So, I would urge that for a comparison sake looking at YoY would be a better measure than looking at QoQ, especially on account of the FX loss/gain

which may slightly give a distorted picture in that sense. So, in the previous financial year, the sales grew by about 13%. You may note that during the year we had three relinings, so we did have some loss of production and sales during that period of time which was mainly Q2 and Q3. So, in spite of lower capacity we had a 13% top-line growth. Our EBITDA margins were kind of flattish at 24.2% compared to 24.8% of the last financial year. In terms of PAT, we are marginally higher from 103 crores to 108.5 crores. In terms of EPS from Rs. 11.5 to Rs. 11.85 post minority that is the Sri Lankan component. And in terms of cash EPS we are kind of stable at about Rs. 24.9 per share.

- Slide #6 – Again I repeat, since there has been some regrouping and some kind of a restatement for Q4 on a standalone basis, some of the things in Q4 are strictly not comparable. At an operating level, the EBITDA margin has marginally declined from 24.6% to 23.9%; however, if you look after FX the number looks distorted because we had an notional FX gain in last year the same quarter, we had loss of 22 crores in this year so therefore the number looks more like 28% to 18%, but operating EBITDA is 24.6% to 23.9%. As Mr. Shah has said it is more of an optical change than actual change. In terms of PAT we are at about 26.6 crores of PAT after minority interest is about 25.1 crores of PAT. We did have some amount of margin pressure mainly because of the cost escalation in India and Sri Lanka. In Sri Lanka, there was a sudden spurt of the fuel price which some of it could be passed to the customers, some could not be and therefore there was a little bit of pressure on the EBITDA margins at Sri Lanka operations.
- Slide #7 – In terms of key ratios, ROCE is now marking towards late teens, it is about 16.5%; return on equity is about 25%; the book value per share about Rs. 48. You would have observed that asset turnover ratio is going up, it used to be about 1.2, now it is about 1.4, and debt-to-equity ratio is about 2.3:1, in the beginning of the year we were closer to about 3.5:1.
- Segment-wise I take you to the Slide #9 – C&P being the focus of the company accounted for 51% of the company sales, showing 17% growth; Pharmaceuticals where some of the capacities have been transferred to Cosmetics & Perfumery 75 t.p.d. has shown a negative growth of 6%; Specialty Food & Beverage which is mainly served from Sri Lanka and

USA showed the highest growth of 25%. Sri Lanka has had a very good year in terms of the local market growth in exports so as US.

- Slide #10 – In all if you look at historical perspective and the strategy that we have been adopting, when take a seven-year horizon. Cosmetics & Perfumery grew by 32%; the Specialty Food grew by 30% and Pharma grew by 9%. The overall CAGR has been 22%, one of the highest in the Glass industry when we look from a CAGR perspective for a period of 7 years.
- Slide #12 – As I recap, basic and market sizing, etc. that we talked about. So, market looks to be about $2.1 billion to $2.3 billion growing at about 3 to 5% market growth. Specific to Piramal Glass, Cosmetics & Perfumery grew by 33% in this financial year. Within that the premium grew by 33% and overall Cosmetics & Perfumery grew by 17%. So, it is in line with the strategy and focus on premium Glass.
- In terms of geographical mix up, the West Europe accounts for 21% and BRIC and rest of world accounts for 45% of the sales, essentially a mix of emerging markets and developed markets.
- Slide #14 – we are on Pharmaceuticals. Pharmaceuticals, as I mentioned to you earlier, have seen a negative growth of 6%. This is essentially on account of conversion of a particular furnace; 75 tonnes in Kosamba into Cosmetics & Perfumery. Other way of stating is that in spite of closer to 25% capacity reducing, the sales reduced only by 6%, that is other way of looking at this number.
- Slide #16 – Specialty Food & Beverage. As I mentioned Specialty Food & Beverage mainly we cater from Sri Lanka and from US. It grew by about 28%. US grew almost at about mid-20s and Sri Lanka grew almost at about 30% plus mainly on account of newer exports, booming domestic markets in Sri Lanka which accounted for this kind of a growth. In the past we have mentioned that Specialty Food & Beverage had certain hiccups in Q1, Q2, etc. Those are stabilized and US, we are confident of growing in the years to come as well.
- Slide #18 – This is just an update on the 160 TPD new furnace that we talked about. Last financial year we have announced that we are going ahead with this CAPEX. So, I am happy to state that as I am talking to you the furnace is up and running, operational from April 1st. There are total eight production lines. When we started off in the month of April, four

of the production lines were completely up and running. From May 1st onwards, all the eight lines are up and running which is as per the project schedule that we had. Out of the eight lines, three lines currently have sub-optimal product mix which improves over a period of time because the capacity comes in a lump sum whereas the market development happens in stairs. We find that three of the lines have sub-optimal product mix which we are attempting to improve over a period of time and also there have been a sudden spurt of energy cost and certain energy conservation measures have been initiated, the energy cost for this particular furnace is at peak. So, we feel that in FY13, for the moment I am not talking about balance of the furnaces, only this furnace will have some amount of pressure on EBITDA on a standalone basis and we find that the full EBITDA or the optimal EBITDA of this particular furnace will be fully visible in FY14 mainly because of the stabilization issues, sub-optimal product mix, escalation in energy cost. So, therefore, since this particular furnace accounts for 7, 8% of overall sales, and this would be at a lower EBITDA margin, it would have an impact on overall EBITDA and considering the balance of all the other furnaces, maintain the EBITDA, because of this new furnace, you would find marginal dip in EBITDA margins.

- Slide #19 – Earlier two years back when we gave guidance of FY11 to FY13, we gave a guidance of 17 to 21% CAGR as top-line growth. The revised guidance for same period of FY11, FY13 is about 20, 21% top-line growth which means FY13, the top-line growth would be much higher than what has been envisaged and therefore we are revising this top-line growth of 17, 18% to 20, and 21% for the period of FY11 to FY13. However, because of the new furnace stabilization, the cost escalation we could find EBITDA margins subdued by about 150 to 200 basis points in financial year FY13. So, we would envisage that the EBITDA margins probably would be in the range of between 22, 23%.
- In terms of overall strategies, of the four furnaces, three furnaces have been relined in FY12; one furnace is undergoing relining. The US plan of transitioning, we find that Specialty Food & Beverage has been growing in US, so without enhancing any capacity, the Cosmetics & Perfumery is getting transferred more aggressively to India and we would be growing on Specialty Food & Beverage segment in US. Sri Lanka, we hope to

maintain the market leadership position of 90 plus percentage and focus on exports keeps continuing. Today, greater than one-third of the sales come from exports market. So, we continue to focus on that. In terms of India, the low CAPEX Greenfield project 160 is up and running. So, we would focus on improving the product mix as we move into the year.

- So, just to summarize, we are saying that the top-line guidance that we gave of 17 to 18% for two years CAGR, we are revising upwards probably more towards 20, 21% CAGR basis. In terms of EBITDA margins we find that probably really subdued about 150 to 200 basis points.

With this we are now open for some question and answers.

Moderator: Thank you so much. We will now begin the question-and-answer session. The first question is from the line of Rahul Agarwal from Systematix Shares. Please go ahead.

Rahul Agarwal: My question is that as you say that French perfumery business is quite sticky. So, how and why did you get business from them?

Vijay Shah: We continue to grow in the French market, in fact, when we say premium growth, it is basically Europe and US. US been very stable and not growing too much mainly this is coming out of Europe. And in line with our strategy we have continued to get more share of wallet in Europe from the existing customers, for instance, this year we have grown in premium segment, almost 33%, and in the quarter about 44%, so, we continue to grow in this business.

Moderator: Thank you. The next question is from the line of Pankaj Bobade from Enam Direct. Please go ahead.

Pankaj Bobade: Actually I have one question that, as you said, our EBITDA margins are expected to correct by around 150 bps, am I right for next year?

Chunduru Srinivas: Yes.

Pankaj Bobade: So currently, if we are having around 21% approximately, are we expected to have our EBITDA margins below 20% next year?

Chunduru Srinivas: No, we were discussing from the year number, not quarter number. So, currently, the EBITDA margin is 24%, it could be in the range of 1.5% to 2% lower. I am not referring to the quarter numbers. So, if you see the dip in the quarter numbers, that is being connected to price correction to some extent in several markets.

Pankaj Bobade: I did not get. Price correction or hike in price?

Chunduru Srinivas: What I mean by is hike in price. If you see the dip that has happened in both out of India and Sri Lanka, Sri Lanka also went through a major energy cost increase. So, Sri Lanka and India, in both markets we are doing price revision upwards. And of course, product mix improvement that is going to come through.

Pankaj Bobade: So what is the approximate price revision do we expect in next quarter or next year?

Chunduru Srinivas: It is very complex because it is across segments. If you look at quarter numbers it is around 21, we will recover on that. The full year number being 24%, is slightly lower than that.

Pankaj Bobade: Can you help me with the tonnage wise production for India and rest of the world?

Chunduru Srinivas: India is 860 tonnes, US is 195 tonnes, Sri Lanka is 250 tonnes.

Pankaj Bobade: That is a capacity.

Chunduru Srinivas: So what do you need?

Pankaj Bobade: I wanted the total production.

Chunduru Srinivas: We do not calculate in tonnage. Different segments have taken differently.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from Systematix Shares, a follow-up question from the side. Please go ahead.

Rahul Agarwal: Just a follow-up on what I asked earlier. So, what is the cost saving the company has in terms, when they give business to companies in India?

Chunduru Srinivas: Roughly in the range of 10 to 20%.

Rahul Agarwal: Is it such a huge cost saving?

Chunduru Srinivas: Let me answer that question. So, I got your question wrong last year time. You said if it is such a sticky business how is that you are getting business out of France. Correct? So, if you look at from bottle perspective or perfume bottle perspective, for a bottle that sells at $60 or something, a dollar or two for an empty bottle is not that high. However, if you look at the leading perfume brands in the world, all the brands are owned by handful of companies. Roughly top 20 companies own 80% of the world Perfume markets. So, when you buy CK1, CKB it has got nothing to do with CK, it is owned by a US based Company. Similarly, some of the major companies in the industry own most of the Perfume brands in the world. In these companies, the Glass buying is centralized. So, that US based Company buys Glass worth $160 million, major companies in industry buys €120 million, so they have very, very large glass packaging purchase. So, the strategic purchase for this function is centralized. And when there is a cost cutting pressure across the company and they say, okay, you have to drop the procurement cost by certain percentage, they try in a packaging material category to bring up the cost by switching suppliers. So, that does not mean that they do rampantly because there are not too many options left with them. So, we are one of the only leading Asian players who can bring down the cost for them. So, that is the only motivation for them to switch.

Sandeep Arora: I just add that, if you slice and dice the $60 that Mr. Shah said on MRP, manufacturing costs our estimate is should be in the range of let us say $8 to $10, balance would be brand building, distribution, etc. In the $8 to $10, glass packaging becomes one important component. So, therefore from their manufacturability perspective Glass is one of the important line item in their cost.

Rahul Agarwal: And is it also that the design capabilities there are also a hurdle into a business?

Chunduru Srinivas: It is not design capability because in every leading perfume brand of the world the designs are prepared and conceptualized by the brand owners, they are never done by the glass companies. The challenge that we have is in repeating the design, in our facility repeating the quality that they need. So, the biggest challenge in terms of skill is take a simple Chanel bottle. It looks very simple, very clear, and easy to make bottles, however, it is the most difficult bottle we made. So, the know-how required the temperature at which they cut the glass, the mold design, the mold temperatures that they maintain, so, there are many, many, many variables which we have to do trial and error and then learn to develop it. So, we take anywhere between six months to 18 months to develop a product.

Rahul Agarwal: And when do you think this process will get over for Piramal Glass?

Chunduru Srinivas: This process has to be repeated for every product that we develop. It is not that we learnt to know how once and we are home.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Derivium Tradition. Please go ahead.

Dhaval Shah: Can I just get what is the debt figure on the balance sheet as on date?

Chunduru Srinivas: It is 1143 crores.

Dhaval Shah: Was there any reason for finance cost coming down practically from 28 crores in the last quarter to current 30 crores?

Chunduru Srinivas: This needs some explaining primarily because of FOREX issues. Sandeep will take the Q4 numbers and try and explain to you.

Sandeep Arora: On a gross cost basis it is the same versus almost last quarter. What happens is as per the new Schedule VI requirement, any foreign exchange gain/loss on the mark-to-market with your loans has to be regrouped with the finance cost. Now, some of our loans are on foreign currency and as Mr. Shah indicated to you earlier that the dollar was at almost 53 and 49.50, 53 in the third quarter and that has come down, so that is an aberration but the whole FOREX thing is on a full year basis because these are the things that with the current volatile scenario in the exchange market, it corrects in one quarter and it moves up in the other. It is always better to see it’s on a full year basis. So, that is the only aberration. The interest cost has really not come down to that extent.

Dhaval Shah: So, basically and the cost of our fund was around 6 7%, so that has remained same?

Sandeep Arora: Yes, it is about 7.5 - 8%, it was never 6%. So that remains the same. This is more of a regrouping that happens as per the new requirement on the Schedule VI.

Dhaval Shah: If I see the figure which was given in the Q3 release the finance cost was around 17.5 crores and right now that same cost has been showed at 28.62 crores in this quarter's results. So, is it due to this FOREX grouping?

Chunduru Srinivas: Yes.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Emkay Global. Please go ahead.

Prashant Kutty: Just a few questions on the quarter. Firstly, could we know the reason for a higher material cost? Because this quarter it seems material cost increasing to almost 22% or 23% of sales. Could I know the reason for the same?

Vijay Shah: Basically, the input cost went up by 6 - 7% on the raw material front soda ash couple of other raw materials went up. That is the reason for the raw material cost going up.

Prashant Kutty: In this quarter we have seen the mix change increasing highly in the favor of SF&B segment? Because we have seen the Cosmetics & Perfumery segment going down to 49%. This is always above the 50% range. And it is more to do with the fact that the mass segment has actually witnessed a very nominal kind of growth.

Chunduru Srinivas: This is mainly because of US, in US, we had a spurt in the sales of the Specialty Food & Beverage segment, where we have one single customer who sales had gone up.

Prashant Kutty: But as far as the C&P segment is concerned even for the quarter we have seen the mass segment growing by only 2%. Even on a full year basis we have seen the mass segment growing by about 4%.

Chunduru Srinivas: Mass segment is always residual segment. So, we give it low priority, we first service the premium and whatever left out we get to Mass. What is important is that overall growth was 22%, which is pretty healthy.

Prashant Kutty: But just a question, in the last quarter we believe the mass segment had also witnessed a lower?

Chunduru Srinivas: No, in terms of business we prioritize. First, any business there is a premium gets priority, number one, and the balance capacity is then allotted to mass. I do not see any concern on the growth of mass segment.

Prashant Kutty: No, the reason as to why I asked that is because new capacity is basically a mass capacity, so that is the reason why I asked as to the low growth that you see in the last two quarters in the mass segment?

Chunduru Srinivas: That means we are sacrificing mass in favor of premium.

Prashant Kutty: In the last one year, what is the price increase that we have taken for the full year, what will be the approximate price increases we have taken?

Chunduru Srinivas: These are very complex set of markets and business. Let me explain to you. Say a take pharma X Company. There we would have taken 8%. I remember type one class within Pharma also is 8% to 10%. In the Mass also we have taken 8%. These markets that we have taken price increases are the lower prices, these are the Europe and US, because there we would have taken in the range of 2 to 4%, maybe.

Prashant Kutty: That is because again it is very difficult to probably be to pass on the prices increase?

Chunduru Srinivas: Exactly.

Prashant Kutty: And on the power and fuel cost again, this quarter we have seen a higher number. Is it because of the SF&B itself?

Chunduru Srinivas: No, energy cost in India. Basically, gas prices in India went up because of that. Also, the 160 t.p.d. furnace had more than projected gets price increase. And the third part was that gas price also goes up because the contracts are in dollar terms. So, overall basis gas prices went up by almost 20%.

Prashant Kutty: What would be our current procurement cost of gas?

Chunduru Srinivas: This is a good question because just today had a board meeting and we were talking to some experts, except for the APM gas, which is limited to 50,000 in one location and 30,000 to another location, we procure 1,50,000 gas which is in the range of $15 to $16. So, we were discussing this issue during the board meeting and a view was expressed that this is the highest cost that one can expect that gas has peaked out and people are expecting the scenario to improve from here onwards as the LPG scenario and shell gas comes from US and stuff like that, expect the scenario to improve. If that improves it is a positive news. There are two factors. I can keep saying gas, but in India, it is gas. In Sri Lanka, furnace oil is to be subsidized so far and in the last quarter almost furnace oil went up by large extent because subsidy was withdrawn. However, there we are trying to correct the price increase.

Prashant Kutty: The EBITDA margin guidance which you have given about 150 bps decline, is it factoring the gas prices will be in the range of about $15 - $16 itself?

Chunduru Srinivas: Yes, we assume that.

Prashant Kutty: So, any positive from there would actually improve the EBITDA margins?

Chunduru Srinivas: Yes, the point was that the cost increase; however, we may not be able to recur all of it from the customers, so it is factoring that.

Prashant Kutty: But as such we are not facing any procurement issue as far as gas is concerned?

Chunduru Srinivas: No.

Moderator: Thank you. The next question is from the line of Sagar Parikh from Enam Holdings. Please go ahead.

Kamlesh Ratadia: You have given a guidance of 150 to 200 basis points reduction in margins. Now, is it possible for you to explain how much the margins for the new furnace will be lower by? Because if it is contributing only 7% to 8% of our FY13 turnover then the drop in margins look to be a little higher than expected, because even if it is 10% lower, then it should only contribute to 70 basis points reduction in margins. So, on a standalone basis, what could be the margins for the new furnace if you can help me with that?

Vijay Shah: The new furnace we are expecting around 35% but we will be below 10%; in fact, it is within the range of 7 - 8%, and that is a massive drop, but there are several factors; on one hand, it is energy cost for that furnace; the other hand, as we begin this year four lines began from 1st April, four lines have started on May 1, there will be some stabilization impact. Third, there is some impact of product mix. So, as Srini mentioned in the beginning of the call that as we have budgeted suddenly we are adding eight lines in the market, so it is a step increase in capacity whereas the market development is linear, so we will have to address three or four lines to suboptimal markets. So, whenever new furnace, Greenfield capacity gets added in the first year, it goes through the turmoil to some extent. We expect that this will bounce back completely, as our past experience is by the next year.

Kamlesh Ratadia: So, if I were to just bifurcate this explanation into two; one is that capacity addition in a step manner of 8 lines is something which was projected. There is no surprise to that because that was well-known. So, a product mix was kind of factored in. As per budget was gas price. So, if you can break this up into what came as a surprise to you and what against your own budgeted expectation and what is new to you?

Chunduru Srinivas: The primary issue was the rising prices for the furnace, because this was conceptualize almost in December, 2010, months back, so that time the prevailing gas prices was much lower. So, it is a maximum on the thing.

Kamlesh Ratadia: What was our budgeted gas price and what has it gone up to if you can just explain?

Chunduru Srinivas: Around $8 what it was prevailing there it is almost $16 now.

Kamlesh Ratadia: So, it is almost double?

Chunduru Srinivas: It is almost double for this project particularly. We are doing budgeting from year to year and to some extent when you come closer to the action, you say, okay, let me keep some buffer for stabilization, let me keep some buffer of market development. So, when you are doing initial projections, you do on a more broader numbers.

Kamlesh Ratadia: And as your product mix improves in FY14 and you stabilize a plant and things like that, what should be the normalized margins?

Chunduru Srinivas: Let us say in the region of 30% it should bounce back.

Kamlesh Ratadia: 30% EBITDA margin, is it?

Chunduru Srinivas: So 25% is what it should stabilize for I would say. Maybe some positive because of fixed cost being the same.

Kamlesh Ratadia: If there is 20% kind of lower margin, then your company level margins and the entire 150 basis points of reduction is contributed by this plant alone?

Chunduru Srinivas: Yes, majority from this. To a small extent inability to give a pass through on the energy increase.

Sandeep Arora: But if I do a majority of it will be on account of the new furnace.

Kamlesh Ratadia: But even if I take this impact out, what I am taking is a differential margin into 7% to 8% which is the share of revenue that this plant contributes? Then what I realize is that even adjusting for this particular plants EBITDA lower contribution there is absolutely no growth, in fact a lower EBITDA margin for the remaining capacity which is a little surprising given that your share of C&P is improving.

Chunduru Srinivas: Right, that is where I am saying the pass-through on the cost increase is not happening fully in this year.

Kamlesh Ratadia: But the favorable share of C&P should not mitigate that and plus you have a rupee/dollar benefit also to some extent?

Chunduru Srinivas: Rupee/dollar benefit is not fully because we have some forward cover this year and our cost is not covered, so we get full hit by the cost. In our case, energy is in dollar terms, freight is in dollar terms, solar is in dollar terms. So almost 25% of our costs is in dollar terms. On the other hand, on the dollar-rupee, we have some forward cover in the range of 48.50 for almost say 60-70% of our sales. That curtails us from enjoying the benefit of the exchange rate sometimes. We are looking at following a good major fall in numbers.

Moderator: Thank you. The next question is from the line of Pankaj Bobade from Enam Direct. Please go ahead.

Pankaj Bobade: Just a follow-on question. If I am not wrong, you just said in the earlier part of the call that our debt is 1143 crores. What is the reason for rise in debt?

Chunduru Srinivas: Yes, this is what we had indicated earlier that these are some CAPEXes this year, there was a lumpy CAPEX during the course of this year, we had several furnaces relining. We have added one more new furnace.

Pankaj Bobade: And going forward what would be the debt scenario? Will it fall down?

Chunduru Srinivas: It will fall next year for sure because CAPEX requirement is falling drastically.

Vijay Shah: Also what happens is closer to 60 plus crores is restatement of the debt because of the exchange which is notional in that sense out of this, and there is some cash of about 20 crores we have taken, so real debt is closer to 1060 crores only, because FX is only restatement.

Sandeep Arora: If you go a like-to-like from FY11, on a dollar-to-dollar, it has not increased, but when we do a translation for US debt a similar phase, if we got 60 million and then 60 million now, only the closing rate at that point of time was $44-odd and now it is 51, that itself adds to a translation but that is a balance sheet translation actually. But if you see debt in isolation it looks inflated to that extent.

Pankaj Bobade: Was the same reason for the restatement of interest figure in last quarter?

Sandeep Arora: That is only India because US is only a translation.

Pankaj Bobade: Because in last quarter we had paid some 28.6 crores of interest and now it has fallen down to 13.5 crores.

Sandeep Arora: It is only in India and Sri Lanka where it is on loans, US is only a translation.

Vijay Shah: I was referring to India, December ended at Rs. 53 to a dollar whereas my margins ended up Rs. 51 to a dollar, so you got an opposite impact here.

Pankaj Bobade: How much of debt do we have in dollar terms?

Sandeep Arora: On a global basis around $132 million. But then US is US, dollar to dollar sales and the whole balance sheet is similar.

Moderator: Thank you. We have a follow-up question from the line of Rahul Agarwal from Systematix Shares. Please go ahead.

Rahul Agarwal: What if we compare our finishing techniques with respect to players in Europe like Heinz, so where do we stand in competition with them?

Vijay Shah: What do you mean by techniques?

Rahul Agarwal: Whatever finishing they do on the bottles, the embellishments, the coloring.

Chunduru Srinivas: Let me explain this. When a customer approaches for a bottle like CK1, CKB, whatever that we are doing we get business only if we match it completely, exactly what they used to get. So, in that sense, there is no difference, it is a pressure of winning the business.

Rahul Agarwal: But given the fact that in the presentation you had said that the range of premium segment bottle goes from $330 to $1000 per thousand pieces, so in which sub-segment are we present as on date?

Chunduru Srinivas: No, it is nothing like that. It is each bottle, pricing is different, based on the difficulty in making it, the design, the shape, the weight of the bottle and the decoration on it, that means crafting, coloring, printing, whatever, the more decoration on it that is when the prices go up. We have bottles price at even $700, we have bottles price at $800 per thousand and we have at $350 also.

Rahul Agarwal: So you are saying that we are capable of producing as comparable bottles as Heinz's?

Chunduru Srinivas: However, the customer has to approach us saying that, look, try and replicate. For instance latest project we have won is Project X. So, it is a slightly bend difficult bottle. Sometimes it could take a longer period to develop it. So, it is a question of timing and effort. Sometimes, once in a while we do the bottle which we find that we are just not able to develop it. But that is very rare.

Rahul Agarwal: How do you plan to pass on or tackle this high energy cost in India?

Chunduru Srinivas: When we price bottles for the west market it is not cost plus, it is what the market can bear. So, there is an implicit much higher margin on these bottles, so we are aware that as we go along, on the one hand, we will have to bear inflationary increase in cost; however, on the other hand, we have to improve the productivity on this bottle. So, when we initially make these bottles, rejections rates are very high. But every time we make it again and repeat this we learn the techniques of making them better and better and our rejection rate falls. So, in the western markets we will have to learn to manage through productivity and throughput increase rather than always chasing price increase.

Rahul Agarwal: So, this learning process will be margin lucrative going forward let us say three, four years?

Chunduru Srinivas: Yes. Every new production that happens, the productivity goes up.

Vijay Shah: This is specific to every new product which comes in. So, a lot of products would have already come in, so today, we would have been at a better productivity than what it was. As the new product keeps coming in, we go through the learning cycle.

Chunduru Srinivas: So for the company as a whole will improve through productivity of premium range products and through producing more premium range bottles and through producing more C&P bottles.

Rahul Agarwal: On hedging, our exposure to foreign currency, is there any change in policy going forward?

Chunduru Srinivas: Currently, we are holding that because it is getting far too volatile than earlier. If you go back six months, people would have been thrilled at 48.50, today, they are not happy at 52 also, they are talking of 55. So, I can see a repeat of what has happened two, three years back. So, for the moment we have called up pause in last one quarter, whatever we have done forward bookings, on an average of 48.50, 60% of our foreign exchange what we are holding on to it.

Rahul Agarwal: But in the past have you been hedging your net foreign exchange exposure or it has been that you hedge only your revenues and you leave the cost open?

Chunduru Srinivas: Yes, we have been hedging our revenues.

Rahul Agarwal: But what was the rationale behind keeping the cost open?

Chunduru Srinivas: No, that is a net effect.

Sandeep Arora: You will do a natural hedge actually and also some of the costs are actually just denominated in …..

Chunduru Srinivas: You cannot hedge more because you have been negating against each other. We can't be hedging cost as well as revenue.

Sandeep Arora: So you do a natural hedge against your exports to an extent.

Moderator: Thank you. The next question is from the line of Aliasgar Shakir from Elara Capital. Please go ahead.

Aliasgar Shakir: I have a couple of questions; first of all, on the material cost, wanted to understand the increase that we have seen QoQ, is it solely because of increase in price of soda ash or is there also something to do with the mix change?

Vijay Shah: No, it is not a mix change. It is mainly to cost increase. So, soda ash and several basic raw materials that we buy from Gujarat and Rajasthan. There have been freight cost increase, there have been some taxes has been levied through on trucks passing to Gujarat and there are several other factors.

Aliasgar Shakir: So, these have we taken any price increase already or we plan?

Vijay Shah: We have initiated price increase across, in some other segments our last prices was just between three and six months old. So, we cannot immediately take it. In some cases we are taking it immediately. So, across several segments from we are taking it. As I explained sometime earlier how we have taken in the past that should give signal as to what we can do in the future.

Aliasgar Shakir: So this should come down as a percentage of sales basically from hereon?

Vijay Shah: Q4 is not representative of the next year. It should improve on Q4.

Aliasgar Shakir: And the improvement can be come down to what we have seen in the Q1 to Q3 period?

Vijay Shah: That is where I explain that for the whole year while we are around 24.2 percentage EBITDA-to-sales we are saying that the future numbers for the next year would be 150 bps to 250 bps down.

Aliasgar Shakir: Yes, that is on the margin front, but on the material cost from maybe we will see improvements?

Vijay Shah: Could be.

Aliasgar Shakir: Just wanted to understand this energy cost, though the absolute number has risen significantly, but as a percentage of sales, actually it has reduced, probably on QoQ basis. So, I just wanted to understand because I was of the opinion that if the production and the revenues go up, this also would go in the same linear form. It would probably be as much as in Q3 similar levels but it has come down as a percentage of sales significantly. So, can you explain me that part?

Vijay Shah: I fail to understand this point that you are making that energy cost has come down significantly because actually in Q4 it has gone up.

Aliasgar Shakir: Q3 was about 65 crores

Vijay Shah: Are you going by absolute number or are you going by percentage?

Aliasgar Shakir: I am going by absolute as well as percentage points it was about 19 percentage of sales which is about 16.5 percentage of sales in this quarter from Q3 to Q4.

Vijay Shah: We will have to pass this question and you have to raise this separately with Srini on this because I do not think energy cost has come down and the increases have been towards the end of the quarter also. So, we will have to study and come back to you on this. Electricity, we are trying to bring the cost down to power trading. So, we got some benefits in the Q4 through power trading. We got some very good tranches of power at very low cost.

Aliasgar Shakir: So then this would probably can be seen as anomaly and probably Q3 will be the way forward?

Vijay Shah: You can take it like that.

Aliasgar Shakir: The debt part then we have 1060 crores is the real debt, you said 65 was the FOREX restatement. I just wanted to understand what is the maturity of this dollar denominated debt?

Sandeep Arora: Another two more years to go. What we did is we just started to take it during the year for our projects because it comes at a very low interest cost and so it has got a moratorium of three years.

Aliasgar Shakir: So, this will be paid post FY13.

Sandeep Arora: This is more of notional and let us hope where the exchange rate fluctuates.

Aliasgar Shakir: So, this will be paid post FY13?

Sandeep Arora: Yes.

Aliasgar Shakir: What is the absolute number in dollar or whatever?

Sandeep Arora: There are two parts to it. One is on the working capital which is like your packing credit, 30-odd million which is about six months rollover, that is a continuous rollover and the other part would be about another 30-odd million in India, that is about three years moratorium.

Aliasgar Shakir: Together about 60 million?

Sandeep Arora: Yes, but that balance 30 million is a rollover every six months.

Vijay Shah: Total dollar debt.

Sandeep Arora: Yes. What I am giving you is India. US is more working capital and all so that remains. And Sri Lanka is anyway paying off locally. They have dollar sales too. The total is 132 million. 60 in US, 60 in India and the balance 8, 9 is Sri Lanka.

Aliasgar Shakir: You said 30 is working capital and then 30…

Sandeep Arora: No, this is only India. As I said US is the US-denominated so it is not too worried on that.

Vijay Shah: India 30 plus 30, US is 60 and balance is Sri Lanka.

Sandeep Arora: 8- 9 million is Sri Lanka.

Aliasgar Shakir: Total is 132 million which is somewhere about 30 - 40% of our debt?

Sandeep Arora: Yes.

Moderator: Thank you. The next question is from the line of Akhil Dhawan from Locus Investments. Please go ahead.

Akhil Dhawan: I just wanted to follow-up first on the FOREX question. I just try and understand if I look at FY12 versus '11, there seem to be muted sort of FOREX impact on your business. Is that just because of hedges you had in place?

Chunduru Srinivas: It is not only hedges, it has got several factors let Sandeep explain them.

Sandeep Arora: Let me make it a little simpler. There are three components to it. One is when you do a mark-to-market with your closing debtors that you have so that is one part. The other part is your actual realization versus your billing rates. And third could be whatever you have a forwards to the extent. Now, what you see the volatility between quarters. Majorly almost 60% what you see in Q4 has been due to the mark-to-market. Now, what happens is with your average billing rate and your closing rate it is a function of that. So, there was a profit in Q2 and Q3 because the average billing rate was lower and the MTM closing rate was higher, the gap was much higher and now it has shrunk. And so it is a play of these factors and on a full year basis it is actually marginal 6, 7 crores plus/minus.

Akhil Dhawan: Right, so I guess what I am trying to understand is given FY12 generally had a better FOREX rate for you than FY11.?

Sandeep Arora: FY11 we were almost at 44.50 - 45.00.

Akhil Dhawan: And so FY12 given that your business is more sort of outside of India or it benefits from a weaker rupee in general, you should have seen some benefit in '12.

Sandeep Arora: We did not enjoy the whole benefit of weaker rupee because we have had forward cover in the region of 46.50 average.

Akhil Dhawan: So the region was largely the cover?

Sandeep Arora: Absolutely.

Akhil Dhawan: The second thing was just on in terms of your CAPEX for next year what is your budget?

Vijay Shah: From a cash flow perspective it should not exceed 100 crores.

Akhil Dhawan: And that is largely just maintenance CAPEX?

Vijay Shah: No, one of the furnace relining got shifted to this year, so that partly we are doing some CAPEX in US because of the significant increase in Specialty business. We are expecting a lot of business in that area, so we have to shift a decoration facility to the plant. So, except for US and this furnace shifting from cash flow perspective balance is normal CAPEX.

Akhil Dhawan: And then lastly just in terms of your tax rate, what is the forecast for next year?

Sandeep Arora: India would be on almost full tax rate now and Sri Lanka comes into tax net only from December end but that is at 10% for next two years and US is zero tax.

Akhil Dhawan: And how long is US zero tax in place?

Sandeep Arora: Enough Long time. We have got a lot of carry forward of losses so we do not see it in near future.

Chunduru Srinivas: Sri Lanka three months from this year and full of next year will be 10% tax.

Sandeep Arora: Till December 2014.

Moderator: We have a follow-up question from the line of Vishal Chopra from UTI Mutual Fund. Please go ahead.

Vishal Chopra: I just wanted to know what would be the finance cost without taking that FOREX impact? If I were to just compare it.

Chunduru Srinivas: It is about on a global 7.5, 8%.

Akhil Dhawan: In crores rupee terms if you can say for Q4?

Chunduru Srinivas: For Q4?

Akhil Dhawan: You have given as 13.47 crores, that include some mark-to-market…

Chunduru Srinivas: So you wait for a moment, they are just working out. In the meantime if you have any other question.

Akhil Dhawan: If I see in the top-line also there is some restatement, the other operating income has reduced and net sales figure has increased and what is that?

Chunduru Srinivas: It is just our mold recoveries and the windmill income, the technical fees, so they are just as per the new guideline they have been…

Akhil Dhawan: So, they have been factored from operating income to net sales?

Chunduru Srinivas: Yes.

Akhil Dhawan: And your depreciation expense also if I see has reduced even on absolute number, what could be the reason for that?

Chunduru Srinivas: No, it is a depreciation, some old furnaces which has come down.

Akhil Dhawan: No, you have been doing new CAPEX.

Chunduru Srinivas: No, that comes in the later part, so the full impact will come now. So the new CAPEX, the new commercial production only from 1st April, no depreciation on that CAPEX comes into last year.

Akhil Dhawan: No, you have done some relining also.

Chunduru Srinivas: Yes, that is true but those are small expenditures.

Sandeep Arora: Interest cost is about 21 - 21.5 crores in Q4 before restatement.

Akhil Dhawan: This figure you told contains the mark-to-market of the debt, correct?

Sandeep Arora: Yes.

Akhil Dhawan: And the FOREX which we see in the expense line, what is that then? 22 crores odd FOREX

Sandeep Arora: As I explained in the earlier this thing those are the three issues of mark-to-market of your debtors because those are business-related and it is more on finance cost-related.

Vijay Shah: The one which you see separately in mark-to-market of debtors is a forward cover. You got to understand the slight volatility in the September ended at Rs. 53 to a dollar, March ended at Rs. 51 to a dollar.

Akhil Dhawan: The thing is I can clearly see that much 22 crores figures, so I can obviously adjust for that. But this figure I do not have, so I cannot adjust.

Vijay Shah: Yes, no problem, sure.

Moderator: Thank you. The next question is from the line of Sandeepan Ghosh from Jet Age Securities. Please go ahead.

Sandeepan Ghosh: This is more a general question. What I understand that our premium C&P prices should be at least say 15% discount to the western peers. So, still we have to follow their behaviors in pricing, especially in a scenario where say manufacturing costs are rising. Why cannot we pass on some part of the price hikes to them?

Chunduru Srinivas: We do pass on some price hike but in the western markets we are not used to 8, 10 or 12% price increases. A couple of percentage they would accept. And what we do is we correct it when we do new product pricing, so the next product prices margin we correct the pricing. It is very difficult to go there and say, give me 10% price increases. And this is not we alone, any industry which is used to developing, which is in touch with western market would have this challenge.

Sandeepan Ghosh: And about the spare land which we have in Sri Lanka, Ratnamala, do you have any plans to sell it off in the current year?

Chunduru Srinivas: The idea is to sell it off; however, after the stock market went up and economy is booming, we have a certain price that we have in mind, we would like to achieve that price. So, we are hopeful. Maybe this year it should happen.

Sandeepan Ghosh: Just to understand what could be the current valuation of that parcel of land which we have?

Sandeep Arora: Give or take it will be about 40 to 43 crores.

Sandeepan Ghosh: And finally, just wanted to understand about this furnace oil subsidy which was withdrawn by the Sri Lankan Government, can you just explain a little bit, how it had impacted our cost in Sri Lanka?

Chunduru Srinivas: In Sri Lanka the cost went up substantially above 40, 50% on furnace oil. Let us say it should be in the region of 12% or so. That increased substantially. So, they are trying to recover some price increase in that market.

Sandeepan Ghosh: And we are in phases trying to pass on this cost increase to customers?

Chunduru Srinivas: In Sri Lanka, yes. But again, because the increases are so large, they may not be able to pass through everything but in absolute terms they pass through everything. So if Rs. 100 was the increase because of the increase in the furnace oil price, they have passed through that Rs. 100; however, as a ratio, EBITDA-to-sales has taken a very small beating, during the course of the year if we get one more opportunity take this increase.

Sandeepan Ghosh: And finally, on this 22 crores FOREX loss, which we report in the fourth quarter how much is the cash component in that?

Chunduru Srinivas: Cash component is not at all in that.

Sandeepan Ghosh: It is mostly non-cash FOREX loss?

Sandeep Arora: As I said, 60% almost of it is MTM on the receivables.

Moderator: Thank you. The next question is from the line of Vinit Sambre from DSP Black Rock. Please go ahead.

Vinit Sambre: Just one clarification on the CAPEX. What has been the CAPEX in FY12 and you are proposing a CAPEX of 100 crores in FY13 if I heard it right?

Vijay Shah: In FY12 it is in the range of 250 crores cash basis.

Vinit Sambre: When we had made the estimate earlier we were talking of CAPEX of 260 crores for two years, so now this is 260 plus 100, 360 crores, so what is the additional…?

Vijay Shah: There have been two; one is the Sri Lanka and USA.

Vinit Sambre: How much it will be there? What is the additional because of exchange and what is additional which is really a CAPEX? What has increased increment in the CAPEX now?

Vijay Shah: 250 was last year from cash basis, exchange rate went up by 20 crores and next year there will be some just ad-hoc normal CAPEX budget. But what is important is the US one which is as we are entering very strongly into the

Specialty segment, we have to do some shifting of upgrading of the line and shifting of from decoration operation to the newer plant. So, we got another 20 crores because of that. Balance is with such a large capital base is a normal CAPEX that we are just providing for.

Vinit Sambre: This 100 crores also includes the normal CAPEX or?

Chunduru Srinivas: Yes.

Vinit Sambre: And what will be the normal CAPEX? 70 to 80 crores on a yearly basis?

Vijay Shah: 50 - 60 crores.

Vinit Sambre: Additional is just 20 crores and not beyond that?

Vijay Shah: Yes. That is that US one what we have mentioned.

Vinit Sambre: The other question is new line. 160 tonnes per day, so while large part of the margin impact is because of the ramping up which will take place here, so are we then in the growth when we are targeting, when we do a CAGR, FY13 growth works out to more than 28 or 29%. What is the capacity utilization assumption for the new unit as we enter third and fourth quarter, are we looking at optimum capacity utilization from the new unit?

Vijay Shah: In our industry we have utilized the capacity fully because it is 24X7 operation, the moment you make glass you have to utilize it.

Vinit Sambre: My question was all the lines will begin towards the end of this year, right?

Vijay Shah: No, four lines have begun on 1st April, balance four has begun on 1st May.

Vinit Sambre: So then the question is when we are seeing lower margins this is purely because of the cost increase and nothing to do with the productivity of the new capacity?

Vijay Shah: No, we mentioned earlier several factors. We said that you cannot dump 160 tonnes at 8 lines immediately in the market. Market is a linear growth. We do not utilize the capacity but you go for sub-optimal markets which means you make cheaper liquor bottles or something like that. So, it makes a year or so to go back to the market than you wanted to be in. So the next year numbers will be a lot better because we would have overcome the cost issues, we would have stabilized the furnaces and the lines and we would have addressed the right market for this furnace.

Vinit Sambre: Like earlier question which was asked what made you change your stance in the EBITDA margin, you mentioned it was purely because of the gas price increase. So otherwise, excluding the gas price increase, all these things were budgeted in your estimates that this is going to take a year's time for the capacity to stabilize and all that?

Vijay Shah: More or less, yes.

Vinit Sambre: There, there has not been a surprise…

Vijay Shah: No.

Vinit Sambre: So to that extent, if I were to assume that you are in a position to gradually pass on the price increase over a period of two, three quarters, your exit margins for even this capacity towards third or fourth quarter should enhance to your average of 24 - 25?

Vijay Shah: No, I would not say that. This year based on a number that we have put the weighted average margin on this, furnace around 10% for the whole year. Following year I would be bouncing back.

Vinit Sambre: My question was this 10% is constant margin…

Vijay Shah: No, it would not be constant. It will be lower than 10% in the first two quarters and higher in the in the later quarters. But still I would not see this furnace seeing 25% margin in Q4 more like Q5 and Q6.

Moderator: Thank you. There are no further questions at this time. I would now like to hand the conference to Mr. Chunduru Srinivas for closing comments.

Chunduru Srinivas: Thank you all of you for taking out time and participating in the call. If you have further questions you could email to me chunduru.srinivas@piramal.com

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