“Piramal Glass Limited Q4FY13 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Piramal Glass Limited Q4FY2013 Results 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 assistance during the conference call, please signal an operator by pressing '*' followed by '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Srinivas Chunduru. Thank you and over to you sir.

Srinivas Chunduru: Thank you so much. We have Mr. Vijay Shah – Director, Piramal Glass; Sandeep Arora – CFO, Piramal Glass and myself Srinivas Chunduru on the call. We will begin this call with handing over to Mr. Shah to take through the market realities and certain highlights of Piramal Glass. After that, I will take you through the presentation that has been e-mailed to all of you or it is also loaded on our website. Over to you Mr. Vijay Shah.

Vijay Shah: Good afternoon. I will touch base on the industry environment. As I have been sharing with you in the last few quarters, Glass Packaging industry both in India and internationally is undergoing lots of pressure; in India, the pressure is more because of a huge increase in capacity; there has been an increase in capacity by almost 25%. And the top two players in India are in a deep financial stress because of this. Our exposure to India is limited, mainly for the Pharma glass packaging market and to some extent, it has a repel effect on our Perfumery and Cosmetics strategy. No direct implication. So the impact on the Pharma market was that we last year could not take a price increase in this market which we normally would take for overcoming the inflationary cost increase in the input cost. Separately, coming to the global markets in Cosmetics and Perfumery, what we have been seeing that there is a slowdown in global markets, almost in lines of what we used to see in the last recession in 2009-10, the Cosmetics and Perfume market globally are very, very slow and that has an implication on the glass packaging supply to this business. Thirdly, I am talking about the west, like Europe or US, but we have seen in the recent past, even in markets like Turkey, Russia, Latin America in these countries also, local cost pressures, volatile currencies and general slowdown in demand is impacting the market. So it has been a similar trend for us. Our foray and our focus on Cosmetics and Perfumery continues in terms of growth, both in the past and in the future. We would continue growing deeper into this market.

So one of the significant developments last year was the capacity addition. We added a new furnace 160 TPD for the mass market. The idea was that instead of losing share in the mass market, we would try and gain share both in the premium as well as the mass market. Initial couple of quarters we had lots of teething problem on this furnace and that had put a tremendous pressure on our financials. I am happy to report that since the last quarter the furnace is into full production and is achieving the expected efficiency. The main drawback on this new capacity addition are two; one is that since the time we conceptualized the project, we have had unprecedented gas price increases in our contract with GSPC, which continued unabated even last year. And separately, the product mix for this business, we were wanting to foray deeper into the mass market gaining share in Perfumery, we are well on the path; however, the gain in share has not been in line with what we were expecting. So our product mix is poorer than what we would have expected. And this has had an impact on our financials for the Q2; both cost increases as well as having not the right product mix.

Separately, in Sri Lanka, we have mentioned in the past that we have a large tract of land, almost 21 acres, where the earlier factory was located. Now, part of the land was sold in the month of April, so it is an event occurring after the balance sheet date for a value of around INR 15 crores. So I will give it over to Srini, he will try and explain to you the financials and numbers and then later on we will take questions from you.

Srinivas Chunduru: Thank you Mr. Shah. So I am listening to the presentation that has been e-mailed and I am on Slide #4. Indian operations accounted for 57% of the sales, US operations 29% and 14% is accounted by Sri Lankan operations. This includes sales from the new furnace 160 TPD.

Moving to Slide #6, specific to Q4 at a consolidated level, the sales in rupee terms grew by about 7.8%. EBITDA margins were at 18.3% compared to 23.9% in Q4 of F12 which is a contraction by about 560 basis points; 560 basis points is on account of subdued product mix in the new furnace 160 TPD which we have installed last year. And also, certain technical issues that we had in another furnace 255 TPD, by virtue of which we have some draw constraints in terms of number of tonnes being drawn from the furnace. In terms of updates from the new furnace, efficiency is moving up, and currently is in the range of 84-85% efficiency that we are talking about; however, the product mix continues to be subdued.

At the PAT level, the reported PAT is 7.3 crores compared to 26.6 crores in F12, 60% of this dip is on account of larger depreciation and interest which occurred mainly due to the new furnace which has been installed last year, depreciation moved from 26.4 crores to 33.6 crores, balance 40% is on two accounts. One is on the restatement of loan or loan MTM and a dip in the operating EBITDA.

Now, on Slide #7 on an overall year basis, the sales grew by 17% from Rs.1377 crores to Rs.1611 crores. In terms of operating EBITDA, at 314 crores is representing 19.5% which is a 470 bps dip compared to last full year. Most of this is on account of the new furnace and the technical issues that we had in 255 TPD which we shared in Q3 and also in the earlier call that we had. At the PAT level, compared to Rs.108.5 crores before minority interest last year, PAT this year is about Rs.35.8 crores. 62% of this dip is on account of larger depreciation, by about 26 crores and higher interest by about 20 crores which is mainly on account of the new CAPEX that we did in the last financial year.

Moving to Slide #8, in terms of key ratios, we saw a dip of ROCE from about 16% to 11%. In terms of ROE, 29.2% to 6%. Book value per share from Rs.50.6 to Rs.53.6 EPS from Rs.11.9 to Rs.2.7.

I move on to Slide #10 to give some more information on segment wise and geography wise. Cosmetics and Perfumery from 51% of our overall sales and has shown a 17% growth year-on-year. Food and Pharma constitutes about 25% of our sales and it has shown a 27% growth. Specialty Food & Beverage constitutes 24% of our sales and has shown 8% growth. The higher growth in Pharma is mainly on account of the fact that last year FY12 we had a relining of the furnace, in FY13 we did not have the relining of the furnace so that explains the leap growth of 27% in Pharmaceuticals sector.

I am on Slide #11. So if you look at historical growth from a low base in FY05, Cosmetics and Perfumery has shown a CAGR of 30%; Pharma 11% and Specialty Food & Beverage 27% from the period of FY05 to FY13.

Slide #13, more details on our area of focus which is Cosmetics and Perfumery segment. If you look at F12-F13 the Premium market which is our focus area grew by 13% and the Mass grew by 21%, and average of Mass and Premium is about 17% growth on C&P segment. Today, half of the Cosmetics and Perfumery is Premium and half of it is Mass. In terms of geographical split, USA accounts for our largest market with 34% of sales in the US, followed by BRIC countries where our sales is about 26%, 21% is Europe and 20% is other markets like Middle East, etc.

I am on Slide #15, Q4 showed a 18% growth in the Pharmaceuticals segment and the overall year is 27%. As I mentioned earlier that in F12, one of the furnaces is 255 TPD which makes Pharmaceuticals amber glass bottles was in relining, so it was not available for a couple of months, and last year we had that furnace available for the full year and therefore due to the additional capacity the sales growth could be achieved. Also, one of the smaller segments, but a very niche segment, Type-I, we have done quite well and that also helped in getting to this gain of 27% top line growth that we had.

Slide #17, specific quarter of Q4 we had a dip of about 13% in Specialty Food & Beverages and overall as a year we had 8% growth. Specialty Food & Beverage is mainly catered from Sri Lanka and US; however, in these numbers, the low end liquor market that we cater to in India is also being added and we are catering to this low end Specialty Food & Beverage in India until the new 160 TPD furnace stabilizes, which means this number which is depicted for Q4 & FY13 also includes not the high end liquor bottles but also the low end liquor bottles which we are catering in India as a makeshift capacity till Cosmetics and Perfumery is being produced in 160 TPD.

Now, we hand over and we are open for any question-and-answers. We have Sandeep Arora – CFO of Piramal Glass; Mr. Vijay Shah – Director, Piramal Glass and myself Srinivas Chunduru available to answer your call.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Rahul Agarwal from Systematix Shares. Please go ahead.

Rahul Agarwal: My first question would be what is the breakup of US sales between manufactured and traded products?

Vijay Shah: I though it is to be 20%. Traded means exported from India and sold in US.

Rahul Agarwal: And you also mentioned in your comments that draw from the 255 TPD furnace is constrained right now. So, how long do you think this constraint will continue?

Vijay Shah: The furnace is designed for 255 tonnes but we were intending to draw more like 280 tonnes, and we were drawing last year, about 2 quarters and then I think there was an unprecedented bubble issue on this furnace which hit our numbers very badly between August and November, I think. Since January then we have decided to hold the draw back at 270 tonnes per day as against 280 tonnes per day, this is a small setback in our numbers, but it is a definite setback.

Rahul Agarwal: Okay, but Sir, drawing 270 tonnes per day should not affect our numbers, right, because we are still drawing above capacity?

Vijay Shah: Capacity is one thing and budgets are made on a separate basis. The furnaces are designed for a particular draw. We could overdraw them by 10 to 15% or underdraw them by 10 to 15%, but the lines are based on product mix that we want for the market. So what happens is, when the draw is constrained like this, and when you want more draw, then you have to curtail the production, in amber case, particularly we would have been happier drawing more like an average up to 278 tonnes, whereas we require to hold back to 270 tonnes, that has a slight impact on our numbers for this year. We are still working on it. We are still experimenting with it of how to raise it back to 270 or 280 tonnes.

Rahul Agarwal: Next question is on revenue in SF&B segment during Q4, what led to the dip in this quarter?

Vijay Shah: Yes quite clearly, the dip is mainly out of India, when in the 160 TPD furnace we were making some liquor products for the local market. Now these are not premium, but these are low priced liquor products for the local market. As I keep saying that when you start a new furnace, you do not have an optimum product base, until you reach the optimum product mix, you fill it by using filler products and this mass market liquor is a low priced filler market, but because of an excess capacity in India which I mentioned earlier. Currently, there is a price war going on here, leave aside the increase in price that we take, 8 to 10% every year, this year we have seen reduction in prices by 10 to 20%, and that will show up in the results of some local beverage and liquor glass companies. The ripple effect on us was that we found that these products are not viable to me because in our case they were falling below cost, so from the quarter January onwards we have actually shut two lines. Instead of making liquor products we have decided to shut two lines. That has been showing the reduction in SF&B.

Rahul Agarwal: During the quarter was there any setback in terms of raw material cost, any cost which has gone up?

Vijay Shah: There has been an increase in gas cost, particularly energy cost, natural gas cost, and I would say there was a 15% increase in natural gas in this quarter itself.

Rahul Agarwal: I am trying to understand what has led to further FOREX loss during this quarter because I believe the rupee has not fluctuated much between quarter?

Sandeep Arora: What you see, the number, the bigger effect is on the mark-to-market between the quarters. What you see, quarter 4, just to take you behind and that will give you an answer is, the quarter 2 closing rate was about 52 or odd something, okay, and then it moved to 55 in quarter 3, and that is where the game came in, in quarter 3. Again in quarter 4, the rupee went down from 55 to 54.3, so quarter 4 will show a loss due to mark to market versus quarter 3 and that is why you see a huge number in the unrealized part.

Rahul Agarwal: But Sir, this FOREX loss that you mentioned of 18.7 crores, is this an unrealized part?

Sandeep Arora: Out of that, the realized part between the 2 quarters is the same. Between quarter 3 and quarter 4 is the same. But in quarter 3 if you see, you saw a 2.9 crores exchange loss only. If you have your numbers of quarter 3, you are seeing only a 2.9 crores in the standalone, because that is where the major part of the FOREX movement is. From 2.9 crores you are seeing an 18.7 okay. Out of that the realized part between both the quarters is about 14 crores. The unrealized part in quarter 3 was a gain of 11 crores versus a hit of 5 crores and that is what I was trying to explain to you, if you got a gain in quarter 3 because of a lower exchange rate in Q2 versus a higher rate of closing in Q3, so you suddenly got a gain in Q3. Whereas between Q3 and Q4 it came down from 55 to 54.3 or so, so you have got a relative loss versus last quarter and that is where the difference is actually.

Rahul Agarwal: And Sir, for the full year, how much is realized and how much is unrealized out of the 38.6?

Sandeep Arora: Almost everything is realized because the unrealized part over the years nullifies itself almost. So this is finally a realized loss.

Rahul Agarwal: And Sir, going forward in FY14, will we see further loss on account of the instrument that we had last year?

Vijay Shah: I think the forward booking that we had was for the last financial year. Going forward we do not have a forward booking.

Rahul Agarwal: The loss that we saw on account of the FOREX exchange difference in FY13 of 38.6 crores, this should ideally go away in 2014?

Vijay Shah: The loss to the extent it was because of the difference between forward booking and actual rates, should not be there. We have some booking done on Rs 59 to 60 for the future, that is around 10 to 15 million.

Rahul Agarwal: How much of the foreign exchange debt is hedged?

Vijay Shah: No, nothing is hedged.

Rahul Agarwal: What is the quantum of that in dollars?

Vijay Shah: In the US, it is a dollar to a dollar. So in terms of foreign currency it is not a debt. India is 58 million, and that is what is more important because US and Europe are in their own local currency, the aggregate will be about 135 million. But out of that the one that is subject to real fluctuation is the India debt, which is 58 million.

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

Prashant Kutty: Firstly, if I could know what is the impact as far as the technical bubble issue is concerned? What is the impact on the revenues and also on the PAT for Q4? Could you quantify the same?

Vijay Shah: Roughly 6 crores on the sales and around 3 crores in EBITDA.

Vijay Shah: Yes.

Prashant Kutty: Okay, so that is almost half of it Sir. Look at the EBITDA portion?

Vijay Shah: 2.5 to 3 crores on the EBITDA.

Prashant Kutty: Yes, right, I understand that, are you saying on sales of 6 to 7 crores right?

Sandeep Arora: It does not work that way because your fixed cost and variable cost, this number is not straight proportional.

Prashant Kutty: Sir, as far as the technical issue is concerned, till when do we expect it to actually continue?

Vijay Shah: The bubble issue has been resolved. The percentage of bubble that comes, and leading to glass rejection is within the norm, so that the issue does not recur, we have been advised by the expert to hold the draw and cap it at to 270 tonnes. They feel that the issue occurred because of overdrawing. This is the hypothesis. But, we have budgeted at 270 tonnes draw, whereas last year we had budgeted at 280 tonnes draw. So to that extent, our outlook is subdued, however, we are still going to experiment and push it up to 280. But we have not started yet.

Prashant Kutty: There is a possibility that this one could continue in the next quarter as well?

Vijay Shah: 270 tonnes, yes.

Prashant Kutty: Secondly, as far as the status of the new facility is concerned, could we know what is the revenue which we are currently drawing from the new facility and currently if I am not wrong, if I look at the numbers, we probably incurring a loss as far as the new facility is concerned. Correct me if I am wrong Sir?

Vijay Shah: The new facility has overcome all the technical issues. We had teething troubles vis-à-vis efficiency or packing. Packing is as per expectations. The reason it is bleeding still, is because out of 8 lines, we have shut down 2 lines, we are operating 6 lines, and the product mix is not of what we want today. So both the factors are impacting it. Separately, the third factor is that the gas prices keep going up or down, quarter-on-quarter. So the cost increase, poor product mix, and under drawing because of the two lines we shut.

Prashant Kutty: Could I know what is the revenue that we got from this new facility for the fourth quarter and for the full year?

Vijay Shah: Last full year, I think 57 crores or 50 crores roughly. For the Q4 we got 19 crores yes.

Prashant Kutty: What was the extent of loss that we incurred for that as far as this facility is concerned?

Vijay Shah: Around 34 to 35 crores at an EBITDA level.

Prashant Kutty: So are we seeing any improvement as far as this is concerned, because we just mentioned one thing that the product mix still continues to be not on the expected lines?

Vijay Shah: The fact that we had to shut two lines.

Vijay Shah: Normally, you would have buffer sales happening from the Indian market where we would at least earn slightly more than breakeven. The prices prevailing are so poor that I prefer shutting the lines rather than running them. So today the market does look bleak, but as in any capacity or any new furnace that we add, the attempt is always to keeping tweaking the product mix, so we will look at for more, for mass perfumery business, we look for more new product development, new markets, so that effort continues and gradually the furnace gets filled up with the right product mix that you want. So let me put it differently. Assuming two lines shut, assuming that we would not be able to get better products for the whole year, this year we are expecting a loss of 9 to 10 crores on this furnace.

Vijay Shah: Assuming that we will not, our effort will be to get these lines started. So we are seeing the furnace in the red this year also if we don't get the lines started.

Prashant Kutty: Could you probably tell us how is the overall competitive pressure, because you just mentioned, is there any pressure as far as the existing facilities are also concerned?

Vijay Shah: You mean to say the existing market.

Prashant Kutty: The existing market and the existing lines also which you are currently running?

Vijay Shah: The premium market, we continue to grow, but the pace of growth has come down. Nothing has happened to the existing product mix or prices in those markets. The products that are there continue with us, the price continues to prevail as it is. The mass market is where we wanted to grow much faster because of the new capacities, and there we also wanted to address some of the premium liquor out of India. So some of those markets, the premium liquor prices in India came down because of this competitive pressure. So those markets are not in line with what we were expecting. My view is that mass market will continue to drive deeper into it, because we are substituting China in some of those markets. So it is not a competition from local competitors that is what we are doing, and we will continue to grow in this. Significant change has been, is that, nail polish as a segment, which is normally always growing with us and keep adding capacity and we added a lot of capacity in the nail polish segment, this recent quarter we have seen some lower growth in that, so that is worrying us, but normally it picks up always, and these are big markets for Brazil, Turkey, Russia, and some of these countries. So the existing product markets, we are not too worried, it is the question of pace of growth, would we be able to continue at 15, 20, or 30% or would we be at 20%, is the question.

Prashant Kutty: Okay, but if I am not wrong, if we see the mass market growth of about 20% in this quarter, where would this growth actually be coming in from, if you say that probably nail polish which is one of the biggest segments for us?

Vijay Shah: That must have come more from perfumes. Mass market perfumes. The effort made in the previous quarter in terms of converting mass markets, convert customers and introduce new products for them and stocks has yielded results**.** So that foray will continue.

Prashant Kutty: So mass market perfume has been doing well, but this slowdown has been in the nail polish is where we are concerned.

Vijay Shah: In relative terms, mass market perfume has been doing well.

Prashant Kutty: What would be the growth as far as nail polish is concerned?

Vijay Shah: If we see historically, we have grown 15 to 20% every year.

Prashant Kutty: How much would that be currently now?

Vijay Shah: This year also, we clocked in that number. We built in more capacity, we did clock in that number. Because even if we look at our numbers, top line numbers are in that line and nail polish has been growing. I think we got slightly more dealers in capacity addition on nail polish.

Prashant Kutty: Just a rough cut number, ballpark number, what would be volume growth that we have actually clocked as far as all these segments are concerned, may that be, C&P, Pharma, and Specialty Foods and Beverage for FY13?

Vijay Shah: I would still put it in the range of 10% to 12% growth in volumes.

Prashant Kutty: This is the overall volumes that you are talking about and how would it be segment wise?

Vijay Shah: I think pharma was slightly low because of bubbles issue. SF&B we should not even talk about because from India you know, it was what you call the buffer capacity. We were using it as the buffer market, that market is more relevant from Sri Lanka and US. Sri Lanka also actually had a lower volume growth because we corrected prices quite a bit. Sri Lanka did not have a great volume growth but they have met the numbers overall.

Prashant Kutty: But C&P would be in the range of about 10 to 12%?

Vijay Shah: Yes, I would put it that. Perfumery and cosmetics, yes.

Prashant Kutty: Finally, what is our outlook as far as FY14 is concerned on the revenue side as well on the EBITDA side?

Vijay Shah: I would feel that on the revenue side, you should continue growing same as last year in the range of about 16%.

Prashant Kutty: How would our EBITDA be?

Vijay Shah: EBITDA, because of the pressure that we have been facing and as I said, the energy costs keep going up unabated in spite of the lack of any cover on the dollar, assuming that the dollar remains at the current rate, I would not see major change in the EBITDA percentage.

Prashant Kutty: So it should be as our Q4 exit number itself?

Vijay Shah: Last year's numbers, overall.

Prashant Kutty: Overall year numbers.

Vijay Shah: Assuming that the dollar-rupee remains in this range.

Vijay Shah: Just to correct that profit numbers that you are discussing. Assume that 160 TPD will be as I told you with 2 lines shut and will make a negative of 10 crores or something like that.

Prashant Kutty: As far as the product mix is concerned, what is the current product mix which is, currently in the new facilities concerned, and what is the optimal which you are talking about?

Vijay Shah: I would be doing one line of liquor, that also premium liquor, we call it. People who wanted high quality for their local market, and balance line I would be in cosmetics and perfumery. Now what is not right with it? What is not right with it is that first is mass market, because of the pressures from one or two players from India and other things, overall market, last year we did not take one price increase, and this year we have not budgeted a price increase, so you can imagine we are behind 20% on the top line number of the mass market, so this is one market where do we take about roughly 10% price increase every year. So, ideally I would like to get this corrected and it should be possible in a normal year. Second, as I said, the product mix should be more cosmetics and perfumeries rather than keeping two lines shut. This two line shut is a big blot on these numbers. Third is, these are the two price increases if I get these two lines running, and further there is some scope to tweak the product mix.

Moderator: The next question is from the line of AliAsgar Shakeer from Elara Capital. Please go ahead.

AliAsgar Shakeer: The top line looks pretty okay, with about 18 to 20% growth but now moving from here, considering the current cost structure and the price increases happening in all your different cost components, is the current margin that we should assume as the stable state margins the company will continue to operate at, or would it be that we would move to the peak 24 to 25% levels in sometime to come?

Vijay Shah: I would not call this a stable margin, I have been on this call several quarters back claiming that we were at 24 to 25% and we would be inching up towards like 28 to 29%. The issue is that we have had setbacks. The setback has been, in the interim it used to be these forward booking of dollar or the volatile exchange rates. The biggest setback has been the way the gas prices have galloped quarter-on-quarter. For instance, last year itself, in dollar terms there was a 20% increase in average gas price that we have been buying. So, corrected for the dollar to rupee, is phenomenal. I mean it is 30 to 40% is the increase we are seeing in gas prices. Now, I have been discussing with business experts since a couple of quarters, and they have been saying that this should plateau; the world market for gas is very different. Shale gas is being produced by US and Japan does not need any more LNGs, things are going to be different in the future. The point is that when it comes to India it is not changing. So, that is a very important issue with us. So one is the gas prices, which has had setback on our numbers. Now if things are to look different in the future, on that it would have a huge positive effect. For instance, all our furnaces are dual fired; there is gas and furnace oil. If petrol prices drop in the future, maybe we could convert furnace oil from gas. So one is the energy scenario, has a major say in our numbers. Two is, whether the rupee will appreciate or depreciate in the future. If it were to continue depreciating vis-à-vis dollar to take care of the inflationary increase in cost, which it has done for the last 12, 18 months. Suppose if you were to see a rupee at Rs.60 to a dollar, or Rs.65 a year later, again, that can change the game completely, because we are more export-driven. So these are the two external factors. The third factor which is in the hand has been the market conditions currently prevailing globally which I feel is a short-term issue and we should bounce back in terms of gaining share of the premium market as well as the mass market. So that is where we are saying that the top line numbers seem to be growing quite okay, but the bottom line has undergone a correction. So if you were to talk to me 4 or 6 quarters earlier I would be talking about going from 24% to 28-29%. The changes have been mainly because of the input cost, product mix, these are the two factors.

AliAsgar Shakeer: If you can just quantify the gas prices that are quoted right now that we are paying and what has been the increase over last year?

Vijay Shah: I will give in dollar terms, in F12, it was $8.7 per MMBtu, and I am talking on weighted average gas, because we have a mix of three sources of gas. Last year it was $10.5. Already we are looking at the year which ended in March 2013.

AliAsgar Shakeer: So fiscal '13 is $10.5, fiscal '12 was?

Vijay Shah: $8.7.

AliAsgar Shakeer: So close to about 25% increase?

Vijay Shah: We are already looking at $11.5 without budgeting any further increase in prices.

AliAsgar Shakeer: So it is already a dollar increase since FY13?

Vijay Shah: Yes.

AliAsgar Shakeer: So the current year FY14, we will be paying a dollar extra than what we have paid in FY13?

Vijay Shah: Yes, and that is exactly where the gain is on hedging. You will wonder where the money is going at 49.50 we had last year and this year you are gaining sales at Rs.55 or Rs.54 is going is because of the input cost increase. This is a major one, not to this extent is soda ash cartel that is operating in India where in every country we go to, anti-dumping duty again and again. So in the latest we used to buy from Turkey, again, there is an anti-dumping duty there. So that is another input cost which is going up. And in an economy like ours, the manpower cost goes up by 12% a year.

AliAsgar Shakeer: And the gas prices or soda ash prices, can we not shift the price to our customers?

Vijay Shah: That is what I was trying to explain earlier that in a Pharmaceuticals market and the Mass market we would take a yearly price correction, we would also take in Sri Lanka a yearly price correction, these are the three markets I would take correction because the people understand inflation, economies and you are pricing it in rupees. Last year because of the excess capacity in India in the Pharma industry, because we were competing with the local companies here, where there is 25% addition to capacity because of that there was no price increase taken last year, and as a matter of prudence, we are not budgeting for next year. So the price increase has not been taken last year which we would be taking earlier. Sri Lanka did take the price increase last year and that is why they have reported a 31% EBITDA margin for the whole year. Again, there has been a small energy cost increase in Sri Lanka in the last month and they are hopeful of taking a price increase in the future. In the other markets, the western markets, the Europe and US, where we sell in dollar and euros, normally, we do not get significant price increase, we can get a couple of percentage price increase but US has not seen any major cost increases so there is no question of doing that , in fact, the cost is coming down over time. And what we export into Europe also we are getting on the exchange to some extent.

AliAsgar Shakeer: The other expense component has also grown about 300 basis points. Is this particularly because of the 160 TPD two lines not operating and we are recording losses over there?

Sandeep Arora: Can you point out where?

AliAsgar Shakeer: Basically if I see the quarter number, it is about 55 crores and for the full year it is about 222.7 crores.

Sandeep Arora: That will include the repair, maintenance or consumables of the new furnace.

AliAsgar Shakeer: Because this particular cost item has grown over the 300 basis.

Sandeep Arora: But if you see from a quarter-to-quarter number, actually there is a slight decrease.

Vijay Shah: That is the new furnace.

Sandeep Arora: It is a normal fixed cost on repair, maintenance, consumables, variable on…46.34

Vijay Shah: The only thing that can rebound is the higher sales.

Sandeep Arora: Percentage of sales.

AliAsgar Shakeer: So basically the revenue growth can still happen due to those two lines that at present are not working?

Sandeep Arora: And a better mix.

Vijay Shah: Just to explain you the better mix, if you look at Sri Lanka, since two years the capacity is stagnant, till that the operation has been showing a growth of 12 to 15%, that is coming mainly because of mix and price increase. So it just demonstrates that even at a stable production. In fact, Sri Lanka last year maybe volume by a slightly lower in spite of a stable scenario it can correct and give better returns if you keep doing the product mix.

AliAsgar Shakeer: So the issue of product mix today in the 160 TPD, is it because we do not have sufficient number of buyers for the kind of product we are selling in the mass market or in the premium market?

Vijay Shah: 160 TPD was meant for mass market, it was designed and created for the mass market, so it is not for the premium market. So there are two factors. If we grow faster in the premium market, then we can vacate some more capacity in Kosamba, other furnaces, we push out some more products to this furnace. So to that extent, you are right that if we grow faster in the premium market, it will fill up the mass market capacity. But more importantly is that the market that we were to address from the furnace, the volume is more or less there, except for what I mentioned earlier nail polish, the prices below what we were expecting because we could not take price increase last year and to some extent we have to dilute the product mix. So, in any furnace, if you see historically, because of 24x7 operation, you dig in anything so long as it contributes to the cost. And then you start tweaking to improve the product mix. It is very rare that you shut a line which we have done today. So in my career, this is the first time that we are shutting lines because the local market pricing is even below the cost. So what you do is, so long as it contributes you take the product and then you keep trying to grow the share of the **premium** C&P market. Now, coming back to mass market, we have been going quite rapidly. If we try to grow faster than that it will bug the market and unnecessarily you have to give people, desperation and give you lower prices. So, we have to win customer-by-customer, product-by-product and that is the pace that at which we are going.

AliAsgar Shakeer: So the point is basically that we do not have sufficient customers at the price we want actually which is why the mass market is not operating to the capacity?

Vijay Shah: Or the share of wallet of the customers, because they have to switch from current source to us, so they have to switch from current neighboring plant or Chinese plant or Firozabad plant to us. So that 50.20 it is not as what as far as we are expecting

AliAsgar Shakeer: So basically it is a excess supply in the market which is actually…..?

Vijay Shah: That I would say more for the liquor or the premium liquor market that has impacted us and partly because of the Pharma market. There is an excess supply in this but we are talking on supply from China, we are talking on supply from India, smaller players. So I am talking about the mass market. In the premium market if we were to say the competition from European players.

AliAsgar Shakeer: But then what is not allowing us to take the price increase in the mass market? It is basically because the customer is going to a low cost Chinese vendor, correct?

Vijay Shah: I also feel that in the mass market we can take the price increase because there is a very small impact of the Indian other manufacturers having excess capacity. So, China was never our consideration, because it was always there, it was there in the past and this thing. So, we should be able to take some price increase in the near future but currently, what is happening is between price increase and market share I want market share, because I am rapidly increasing market share. Earlier, what used to happen, when I had limited capacity, as premium grew I was telling mass market customers, please vacate capacity. So I would tell somebody, no, and I would tell somebody else, no, and something. I had an upper hand. Currently, what is happening, I am wanting 10, 20% growth, so I want more of their production coming, so the marketing people are diffident of the prices while we are trying to gain share with them. I said, okay, let them come, let them enjoy quality and services and then we up the price.

AliAsgar Shakeer: And our competitors are basically Indian capacity right?

Vijay Shah: In the Perfumery mass market, there is a small player in India called Pragati Glass in Kosamba and there are a few players like something called unorganized sector in Firozabad. Then the remaining are in China. I am referring only to the mass market which I am referring to the Perfumery market of the Middle East.

AliAsgar Shakeer: So basically I can assume on a normal run rate, basically if our product mix improves actually and a couple of lines also improve, then we should be able to do about 15, 20% kind of growth on a stable state basis and slowly and steadily margins should improve though not right in the next year?

Vijay Shah: As we stand today, we are saying that the growth will be there, should be in the region of mid-teens. So we are quite confident of that. The issues on the margins we are, as we stand today, we feel that should be similar to the current years. Yes, as we improve things, it should improve in the future.

AliAsgar Shakeer: Either a product mix change or a hike can probably move us in terms of stable Margins

Vijay Shah: Product mix change, price increase and of course dollar/rupee exchange, any of the three factors. We never know, cost could come down in India, the way things are looking in.

Moderator: Thank you. The next question is from the line of Biren Shah from Natwarlal & Sons. Please go ahead.

Biren Shah: You sold some land in Sri Lanka, for which you are getting Rs.15 crores. What is the balance value of land?

Vijay Shah: The balance, minimum is similar.

Biren Shah: Another 15 crores or 20 crores?

Vijay Shah: As a minimum, Yes.

Biren Shah: And it will reduce the debt ?

Vijay Shah: Yes, it will reduce the debt.

Biren Shah: Debt by around 15 crores?

Vijay Shah: Yes.

Biren Shah: You are planning to sell the balance land?

Vijay Shah: Idea is to try and get higher price.

Biren Shah: That means it will reduce the debt by around 30-35 crores overall out of what I think 1,000 crores debt payout.

Vijay Shah: Yes.

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

Sagar Parekh: You mentioned that for FY14 your average cost of gas would be about $11.5. So are you taking the APM gas price hike into consideration in this, as there are talks in the market that APM gas price might increase from $4.2 to $4.8, so what if that happens?

Vijay Shah: No, we are not taking that into account. We are taking as of now.

Sagar Parekh: But if the APM gas price increases, then what would happen?

Vijay Shah: It will be more like $13.5, but do not forget one more thing, there are a lot of repercussions in APM. If APM gas price goes from $4 to $8, every small glass plant will shut down. It is good for us. But I cannot predict exactly what will happen. Every small glass player will shut down because they all playing on gas for the survival. Second, people say that if this happens, then the average price of the other players like Gujarat Gas and GSPC and other may also come down. But I am not into the gas business, so my point of view is that average may go by $2.

Sagar Parekh: If the smaller players shut down, then it will be easier for you to increase the prices to set off the cost?

Vijay Shah: Absolutely.

Sagar Parekh: And when do you see the market improving for C&P mass because for FY14 also you are not factoring in whether this 160 TPD would be utilized for the purpose it was initially built or you would still continue?

Vijay Shah: In-built in this when I am saying that is out of 8, 2 lines are shut, 6 lines are running, within this 6 also, I am tweaking the product mix all the time and that is how I am showing that the losses of this furnace will come down to 10 crores.

Sagar Parekh: But then you are still not going to the level where you want 7 lines running with mass?

Vijay Shah: We would not be. So this is as we see today but it could change. I have done this to restart the line as early as possible.

Sagar Parekh: But then do you see it going somewhere in at least in the next 2 years?

Vijay Shah: No, I would not wait for 2 years, because it will be bleeding. So yes, we would like to get this line restarted as early as possible. It would not be that kind of a timeframe.

Moderator: Thank you. We have no further questions. Would you like to make any closing comments?

Vijay Shah: We would thank you for all the questions and thank you for joining the conference.

Srinivas Chunduru: In case of any further queries my id is on the last slide of the presentation, feel free to send me mail or any further questions.

Moderator: Thank you. Ladies and gentlemen, that concludes this conference call.