"Piramal Glass Limited Q2 FY2011 Earnings Conference Call"

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Moderator Ladies and gentlemen good day and welcome to the Piramal Glass Limited Q2 FY2011 Earnings Conference Call. As a reminder for the duration of this conference, all participant lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during this conference call, please signal an operator by pressing "*" then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Srinivas Chunduru from Piramal Glass Ltd. Thank you and over to you sir.

Srinivas Chunduru Thank you so much. I welcome all of you for the Q2 Earning Call of Piramal Glass. To introduce the team, I have with me Mr. Vijay Shah, Managing Director of Piramal Glass, Sandeep Arora, Chief Financial Officer of Piramal Glass, and myself Srinivas Chunduru, Vice President Strategic Planning & Investor Relations. We have emailed the presentation part to all of you, just in case you have not received that, it's also put up on our website under the investor relation section, if you want to download that. Post the call over next couple of days, transcript of this discussion will be put up on the website and individually emailed to all of you. With this introduction, I will hand over to Mr. Vijay Shah to take all of us through the performance of Piramal Glass in Q2 and H1, over to Mr. Shah.

Vijay Shah Good evening and thank you for being on the call. I am happy to announce the quarterly results of Piramal Glass.

For quarter two, we have recorded a rise in net profit to 23.4 crores compared to 0.6 crores for the same period last year, which is a growth from 2% to 7.7% of sales. For H1, net profit was 40.8 crores as compared to -20.2 crores, so from the -3.7% to sales last year to a positive 7% of sales this year. The EBITDA grew by 26% to Rs. 70 crores with a margin of 23.5% to sales as compared to 19.1% to sales in the corresponding period last year. For the first half, EBITDA grew by 41% to Rs. 131 crores with a margin of 22.7% of sales from 17.3% of sales last year. For quarter two, we have touched the sales of Rs. 301 crores which is a growth of 3% over last year. This number is corrected for constant foreign exchange would have added further growth of 4% and a one-time French subsidiary effect, another 1.7%, the sales would have grown by 8.4%.

Similarly for first half, the sales touched Rs. 579 crores, a growth of 7.5% again if we were to taking account this two factor, it would be a growth of 13.4%. The improvement in profit has been primarily contributed by change in product mix towards C&P as well as deduction in interest cost. The C&P segment grew by 16% in quarter two and 24% in the first half and now contributes to 49% of our sales. This is in line with our long term strategy of focusing on C&P as the growth drives up. In addition, there is a significant reduction in interest cost from 10.6% of sales year same quarter to 5.7% of sales. Our annualized EPS stands are Rs. 10.2 and cash EPS stands at Rs. 21.6. Our ROCE is at 14% and ROE at 27% annualized. So C&P will continue to be a growth driver and Piramal Glass is the only Asian player challenging the global players in the segment of the market and we continue to stead fastly on this strategy that we have indicated in the past. The entire presentation for this quarter 2 as Srinivas mentioned earlier is put up on the net and emailed also. Srinivas will take you through a few key slides of this presentation and then we will open it for question and answer. Over to you.

Srinivas Chunduru Thank you Mr. Shah. I will take your attention to Slide 6. As Mr. Shah mentioned, I have selected few slides, I will take you through before the questions. Slide 6, the title of the slide is Piramal Glass Group Sales.

The sales in quarter one is 301 crores, as all of us are aware that Piramal Glass caters to three segments, cosmetics and perfumery, specialty food and beverage and pharmaceutical. Cosmetic and perfumery being the growth driver for the organization, contributed to 48% of overall sales. In H1 period April to September 11, the sales was 579 crores, again cosmetic and perfumery was 49% of sales. You may recall that cosmetic and perfumery was about 38% of our sales in FY09 and 43% of our sales in FY10, so this is in line with our long term strategy of focusing on cosmetic and perfumery market.

If we look at growth, on a constant dollar basis, we find that the Indian growth in quarter two was 8.6%, US grew by about 13%, Sri Lanka grew by about 8%, and on aggregate basis grew by 7.5%. However, on account of adverse exchange rate, we had exchange rate closer to 48.5 rupees in the same period last year compared to about 46 rupees on an average in this financial year that has actually contributed to loss of sales of about 4% or in other words on a constant dollar basis, the growth would have been more higher by 4%. There is also a one time impact of sales which contributes to about 1.7%.

As you would be aware that Piramal Glass focuses on premium of cosmetic and perfumery and to get closer to the customers who are essentially based in Europe, Piramal Glass has started a subsidiary in France to some the material which in earlier days would be supplied from India to customers directly has been routed through French subsidiary, so there is a slight delay in terms of sales in terms of timing, impact of that is about 1.7%.

So the overall sales growth in terms of net growth of sales would have been 8.4%, but for the FX impact and the French subsidiary which is a question of timing compared to Q2 probably the sales is postponed to Q3. On the similar level on H1, the sales growth is 7.5% with a constant Fx and with French subsidiary impact, it would have been at 13.4%. This is on the sales front. I take your attention to Slide 7. The EBITDA is at 70.6% depicting 23.5% EBITDA margins compared to 19% in the same period last year.

In terms of PAT, we are at 23.4 crores compared to 0.6 crores, so PAT is contributed essentially by increasing operating margin by about 440 bps and reducing interest cost. Interest cost was about 11% of sales and currently is at 6% of sales, this reduction in interest is on account of both quantum as well as rates. Apart from last year the rights issue came in towards end of September, so if we factor in rights issue, closer to 320 crores of debt has been reduced and if we nullify rights issue, about 128 crores of debt has been reduced as compared to September last year same period compared to the current period that you are talking. So EBITDA grew by 26%, EBITDA margins improved by 440 bps, PAT margin improved by 758 bps. I will take your attention to next slide, Side 8, which is the half yearly numbers. The sales grew by 7.5%, EBITDA grew by 41%, and EBITDA margins are around 23% and PAT is about 41 crores compared to a loss of 20.2 crores in the last financial year same period, so a positive swing of 61.2 crores in terms of PAT. Now including minority interest, if we annualize the EPS, it is about Rs. 10 northwards of Rs. 10 and the cash EPS is about Rs. 21.6.

Now Slide 9, the debt has been reduced and currently is at about 940 crores. Without rights issue, we should have been at 1256 crores last year same period, with 185 crores of rights issues, the amount is 1067 crores last September, so a reduction of about 128 crores from operations. The debt equity is at around 2.9:1. As of March 31st this FY10, the debt equity was 3.4:1 and you may recall that FY09, our debt equity was northward of 15:1. The focus on working capital continues, in FY09, the working capital was 47% of sales which came down to around 40% of the sales in the last financial year, is currently at 37% of sale, so the focus on working capital also continuous. Slide 10, which gives the key ratios, annualized ROCE is at about 13.5%, return on equity is at about 27.4%, debt to EBITDA is about 5.5 times, debt to equity is 2.9 and the annualized book value per share is about Rs. 35. And we also find that one of the drivers for ROCE apart from increasing operating margins is net fixed assets turnover ratio which is moving up from 1.1 to 1.4 currently.

With this summary, I will take your attention to Slide 22, which we have been consistently communicating essentially talking about our strategy and focus on cosmetic and perfumery and cosmetic and perfumery being the prime growth drivers of the organization as we move ahead. With this, I open the Forum for questions. It's opened for questions. I repeat Mr. Shah, MD of Piramal Glass, Sandeep Arora, CFO and myself Srinivas, all three of us are here to answer any of your queries. Thank you.

Moderator Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Bikram Mahajan of Bay Capital. Please go ahead.

Bikram Mahajan I just wanted to check whether you have taken any price increase in this quarter.

Vijay Shah We have taken price increase, different quantum in different markets, so we have taken prices increase in pharmacy market, we have taken price increase in mass market.

Bikram Mahajan So what is your average realization per ton for this quarter and whether the effect of this price increase is still over in the upcoming quarters also?

Vijay Shah Yeah we don't look at average realization per ton as a criteria as the product mix impacted tonnage significantly. We look at in terms of our profitability per line day, so this target defers from different lines, these are configuration of the lines. We really look at EVA for the line, that's why I am not answering the first question, but yes the price increase mainly came in this quarter and then the impact would be felt right through the next three quarters.

Bikram Mahajan Yes, so in terms of EBITDA margins, we are right in track and recorded EBITDA margins of 23.5, but as you mentioned earlier, we have a target of achieving 28% to our operating margins by FY12. So from here on, what will be the levers of margin improvement?

Srinivas Chunduru It continues to be the same levers as was mentioned earlier, more focus on C&P, more focus on the premium segment within C&P, the price increase impact as you rightly pointed out.

Bikram Mahajan And sir, pharma segment, we have increased exports from India, has that also resulted into better profitability?

Vijay Shah If you notice, actually the entire accretion to margin is through two factors, one is product rationalization, and the second is interest cost reduction. The interest cost reduction is clearly evident to you on the numbers that we have shown and the balance is come mainly through product rationalization, so both within pharma gradually we are asserting capacity to C&P and a major change will happen toward the end of the year when we will shift one furnace itself to C&P. And so the movement of capacity to C&P is one reason and then within the pharma also we are rationalizing the product mix towards exports, so that is adding to the profit improvement there.

Bikram Mahajan Right sir, I believe that the strategy of modifying the product mix in favor of premium products has been executed very well and definitely it's going to translate into higher growth and margin and also enhance our competitive advantage in the glass industry with sustainable manner. Sir, I wish you all the best for the future, thank you so much.

Thank you.

Moderator Thank you Mr. Mahajan. Our next question is from the line of Apurva Doshi of Kotak Securities. Please go ahead.

Apurva Doshi I just wanted to know the EBITDA performance of the US and Lankan subsidiary.

Sandeep Arora We are not sharing the EBITDA performance separately geography wise actually for the end of the year.

Apurva Doshi Just to understand, I mean I know they have turned around, but just to understand the magnitude.

Sandeep Arora So let me indicate, for Sri Lanka they have turn around completely that in fact has done exceedingly good quarter and similarly in US, so we are in track what we were expecting out of them.

Apurva Doshi Okay, so both are PAT positive also?

Sandeep Arora Yes.

Apurva Doshi So EBITDA and PAT both are positive?

Sandeep Arora Both were PAT positive in last two or three…

Apurva Doshi Two quarters, yeah correct, so the trend continues, because one of the slides just mentioned that there is some impact of recessionary trend in US for the specialty bottle segment, so I wanted to understand has that impacted US subsidiary and what is your view going forward?

Sandeep Arora So I will explain that, there are several brands, it depends on 4 or 5 brands in US and we found that on specialty food and beverage, there is some impact in terms of growth numbers and that's why it is de-grown by 15% in this quarter. Within those 4-5 brands, the media impact has come to one brand which has been undergoing change of ownership. So leading company, spirits company of the world has acquired this brand from us, from a promoter driven companies, it was buying complete requirement from us. So the end customer has freehand and because of which they are going through a restructuring of the supply chain inventory audit and stuff like that including our planned audit, but we will continue to supply to them and I think it will be restored from the exporters.

Apurva Doshi Okay so that should materialize on next quarter onwards?

Sandeep Arora We feel that brand chain, but yes there is an impact of the recessionary trend on this as sir indicated.

Apurva Doshi Okay. And one more thing, we had some surplus land in Sri Lanka, any update on that?

Sandeep Arora There is a surplus land of 21 acres in Sri Lanka and you know the Sri Lankan market, the stock market is looking positive since last three months of this whole quarter. I am waiting for that impact to flow on to the real estate which normally follows, so I am holding back the sale till I get the price that I want, so there is nothing to materialize as of now.

Apurva Doshi Okay. Let's put it in a different way what is the price that you are expecting?

Sandeep Arora I would like something in the range of 30-35 crores.

Apurva Doshi For the entire piece of land?

Sandeep Arora Yeah 35 crores…

Apurva Doshi And this would be used to repay the debt?

Sandeep Arora Yes, there is specific debt against the land.

Apurva Doshi Okay. Question to Mr. Srinivas, slide 12 says the growth 18% in India, 16% in US and 7% in Lanka, and the Slide 6 or 7 says something else, so what am I missing see here? Slide number 6 and Slide number 12.

Srinivas Chunduru Now this is for H1 period, period of H1.

Apurva Doshi Which one? Slide 12?

Srinivas Chunduru Slide 12 what you see growth of 18, 16, and 7.

Apurva Doshi But QoQ is mentioned, no?

Srinivas Chunduru The QoQ is 13, 12, and…

Apurva Doshi 13, 12, 6.

Srinivas Chunduru Because in India, the major inter-company sales happens out of India 8.6 versus 13, US has almost seen 12%, Sri Lanka I can't understand, there is hardly any intercompany sales.

Apurva Doshi So it's on the currently, because it's mentioned over at constant dollar basis.

Srinivas Chunduru So there is a difference, here it is in Sri Lankan Rupee, it's like 6, whereas in Slide 12, it is constant dollar, so it must have been the dollar last year the same time and…

Apurva Doshi Okay sir, if you want to understand the performance, the Slide 6 is the good benchmark?

Srinivas Chunduru Yeah, Slide 6 is better.

Apurva Doshi Because we have to understand from that country perspective rather than what is translated or not.

Srinivas Chunduru I think this is very important to understand that if you look at local currencies and before inter-unit sales, the growth is 8.6, 12.6, and 7.9.

Apurva Doshi So these are the figures you track.

Srinivas Chunduru Then convert it to Indian rupees, it is showing 7.5, then you knock off from the inter-company sales, which has been significantly higher in this quarter, and that’s not a reason to worry at all, because this is the sale which will be eventually converted into sales from that location.

Apurva Doshi Correct and any new customer that you have added, in the premium C&P segment, 17 out of 20, the number remains the same?

Srinivas Chunduru Coty was added…

Apurva Doshi That was last quarter, yeah.

Srinivas Chunduru As we mentioned, but after that nothing, not a single new customer in sense and we are growing with existing customers.

Apurva Doshi Okay, in terms of product pipeline or something, can you give some guidelines?

Srinivas Chunduru See we are growing with each of these customers, all of them have added more and more new products and even with Coty, we are getting some leading drivers of world in fact the pace is dictated more by us than them, because they are wanting more from us. So if you see the space of premium work is more dictated by our ability to deal with new product developers and process and keep converting them.

Apurva Doshi Okay. Again lastly we are talking of reducing capacity in US by 80 tons, when you get likely?

Srinivas Chunduru Currently the furnace is running, so we are allowing it to run, so we are waiting for it to, what is the end of this life on it own or live its life. In fact, we had scheduled by end September. So by this quarter, it should have been out of its life and would have moved in a way major to India, but because it is running we have continued to run it so that it absorbs the cost, so the profitability is better while it continues to run.

Apurva Doshi So, would you change the strategy?

Srinivas Chunduru No, we would not change the strategy.

Apurva Doshi So it ultimately will be brought to India or what is going to happen?

Srinivas Chunduru It will be brought to India.

Apurva Doshi But after some time?

Srinivas Chunduru Yeah, I don't know if you are aware of that any furnace life, anybodies guess some and it could be in quarter two or quarter three, so it's running its life, so we are allowing it to run till such time it runs on its own life, which we estimated initially to be end of Q2, but in this upward running.

Management I would be happy if it runs like, profitability improves.

Apurva Doshi Correct, definitely.

Srinivas Chunduru But in terms of a long term strategy, it remains same that we would transact a product to India, last year when we were discussing 15% of our sales.

Apurva Doshi Yeah now you are 21, which is a good figure.

Srinivas Chunduru We are 21%, right.

Apurva Doshi Correct. And in India one is shifting one line to C&P, when is that happening?

Srinivas Chunduru On furnace?

Apurva Doshi Yeah.

Srinivas Chunduru That in fact was not budgeted, but we are now scheduling what we say as some work to be done on the furnace on 1st February.

Apurva Doshi Okay. So by basically from April onwards you will get that?

Srinivas Chunduru Yes you should get that.

Apurva Doshi So next year margins could further move up because of this?

Srinivas Chunduru Yeah that's the whole idea.

Apurva Doshi Okay sir, thank you very much and best of luck.

Moderator Thank you Mr. Doshi. Our next question is from line of Shamik Paul of Financial Technology. Please go ahead.

Shamik Paul could you give us an idea of your margins in the next fiscal, do you see further improvement?

Vijay Shah As we have held our projections or whatever we have in our forwarding looking figures is that the EBITDA margin will continue to improve quarter-on-quarter.

Shamik Paul What levels you see margins by the end of this fiscal and to the next fiscal.

Vijay Shah We are not giving any precise number to this effect, but we are seeing the margins keep on growing in the positive direction as we keep focusing more on C&P and within C&P more on premium segment of the market.

Shamik Paul And sir, do you look at further reduction of debt, because in this quarter you have reduced it that too an extent, so are you looking at further debt reduction?

Vijay Shah This year, no, because we had some CapEx which is coming in this part of the year, because some relines are coming.

Shamik Paul Okay, so this year we are not looking at any further debt reduction?

Vijay Shah Debt cost reduction, we have looked at and we are looking at it further, but debt reduction may not be any further on this quarter.

Shamik Paul Okay. So there could be some refinancing of the debt that you have?

Vijay Shah That we continue doing, and we have done a good job on that and continue to doing on that.

Shamik Paul And sir, what kind of deduction on the cost of debt would you see by the end of this fiscal?

Vijay Shah I cannot estimate that because it's a negotiation going between various banks and stuff like that, but I can tell you what we did, I think some period last year the debt was costing around 11%, now it's closed to somewhere around 7% and this has been done not at one location, Sri Lanka we have renegotiated reshuffled it US and as well as India. I think there is group plot and group funding, the group treasury is helping us with this, I am sure if they can help us with doing anything forward on this.

Shamik Paul And sir, what kind of CapEx you are looking for this fiscal?

Vijay Shah This fiscal, I think in the range of 80-120 crores, depending again as Srini explained earlier that couple of furnaces, and this is coming for relining, now the exact date of that cannot be depending. So we sometimes push the life and stuff like that.

Shamik Paul Okay. So basically the CapEx would be on relining of furnaces?

Srinivas Chunduru I mean in that case, in nature of these cases where it's just the type 1 furnace which is going to, we would set by another 15 days now, mid November, when this reline will increase from 25-45 tons. When a furnace of 65 comes to reline next year, early next year, it will go up to 95 tons. There is 230 tons furnace which is coming again next year that may stretch up to 250-260 tons. So we do around at the time of relining some, tweaking up capacity. So CapEx is essentially for not just maintenance but also for up-gradation of capacity.

Shamik Paul Okay thank you so much sir.

Moderator Thank you Mr. Paul. Our next question is from the line of Pritesh Chheda of Emkay Global. Please go ahead.

Pritesh Chheda Couple of questions, one clarification, this C&P, how do C&P shift in India in terms of production capacity? When should that happen, do you have a timeline for that?

Vijay Shah That one, we have a timeline, we said that we might do next year, but when we leave up the number, the earliest we can do is February-March this year.

Pritesh Chheda February of 2011?

Vijay Shah Yeah, but that means I will shut the furnace to carry out the necessary changes for getting it ready for C&P, so I may not get production out this year. In mid February-March, some time we will shut the furnace, but we should get it up and running early April.

Pritesh Chheda Okay, restart in April?

Vijay Shah Yeah.

Pritesh Chheda Okay. Second, I got bit confused in the US 80 tons per day capacity shift to India, does it mean that the furnace now gets shut eventually whenever it has to in US and the corresponding 80 tons per day capacity goes live in India, that's how it is?

Vijay Shah No, let me explain this, there are two furnaces in US, their rated capacities are roughly 100 and 110 tons each. Both have got four lines. This last one year, we have reduced US production to 6 lines. So we are not utilizing the full furnace capacity, we are letting it idle. So 80 tons, if you convert the American tons, 100 tons, to Indian tons, it becomes roughly 90 tons I am told, so that 90 to 180 tons is roughly the capacity. The idea going forward is to reduce one furnace there which is coming to the end of its life.

Pritesh Chheda Means it will be no more exit?

Vijay Shah It will be no more exits, it will be standing there, but we are not planning to do a relining, which means out of the 6 lines, 4 lines will be working, but 2 lines will come down.

Pritesh Chheda Okay, so 4 lines would be equal to about approximately 100 US tons?

Vijay Shah No, it will be much lesser than 100 US tons. 4 lines is yes, 4 lines is equal to 100 US tons, 2 lines will be around 50-60 tons. And the idea is that as the market is growing in US even today we have touched a figure of 21% of sales out of India. As we go along, we are in readiness to shift the 2 line equivalent of production, but it's best to stretch the life of the furnace and hick out whatever we can from it. The day it stops production, we will just shut it down and then move it to India. Now for that I don't have to set up any new capacity in India.

Pritesh Chheda That's pharma to C&P conversion in India.

Vijay Shah No, not exactly that, that is happening irrespective, it will be actually more in shifting from the mass capacity that we are offering currently in the market will be reduced.

Pritesh Chheda Okay. So that means eventually for that 1115 tons per day capacity figure, there would be a reduction of 80 tons per day in US for an addition of 80 tons per day in India?

Vijay Shah Not really. Again let me say, the 75 tons furnace of pharma is being replaced by a 55 ton furnace of C&P on one hand, so there is further 30 ton reduction. On the other hand, 65 ton furnace is going up to 95 ton as I told you, 230 is going up to 260 something, so there is a capacity addition happening as the relining happens and 25 ton furnace is going up to 45, so the number eventually comes to more or less the same, the important thing is that the capacity shifting to higher value added production.

Pritesh Chheda Okay. Today what is the capacity and after this shift that is pharma to C&P and closure of line in US and….

Vijay Shah Currently, the capacity is 1115 in the presentation which is already on the site, we gave the split, pharma is 440 tons.

Pritesh Chheda Yeah that I have, what it eventually becomes…

Vijay Shah Eventually, the way it will become is that net it will be around same number, it will be about 11 million tons and cosmetic and perfumery will be moving more closer toward 400 and pharma would be southward of 400, so that's the shuffle we will have.

Pritesh Chheda Okay. Can you tell me the production run rate currently and what would be the targeted production at composite level for the company?

Vijay Shah Now what do you mean by production run rate?

Pritesh Chheda Production run rate for the quarter in terms of tons, what was the volume growth in the quarter?

Vijay Shah I didn't understand the question.

Pritesh Chheda What was the volume growth rate in the quarter and the absolute volume sold in the quarter?

Vijay Shah Very difficult to answer that…

Pritesh Chheda Is it possible?

Vijay Shah No, once again since you asked the earlier question in tons, I replied to you, but our monitoring is not in tons. Furnace may draw lesser tons, but get more money out of. Eventually after you set up a furnace, suppose there is a furnace with 5 lines then we shift to looking at EVA per line, which product will give us higher Economic Value Added for that line because we are clear about the CapEx there on that line. So even if the draw of tonnage is lower, the profit may be higher. Say take a nail polish line, it may run triple block in our multiple section, the draw will be lower in the perfume, but the profit may be equivalent, so tons is not a reference point once the capacity is set up. So we are at surge to think through and set up the capacity, how we set up the capacity, what we roughly do is monitor or try and optimize the EVA vis-à-vis the capital cost of that line.

Srinivas Chunduru Pritesh what happens is the realization per ton, etc., is varied number and it is so varied that the absolute number whether it's X thousand or X+Δ thousand, doesn't make much sense. So in terms of tallied sale is not important but product mix, which one is being sold more is what determines the profitability.

Pritesh Chheda Directionally, we are moving towards the targeted margins.

Srinivas Chunduru Absolutely.

Pritesh Chheda So there is certainly improvement. What is the take on the cost side especially on.…

Srinivas Chunduru Pritesh, I think I will draw your point on this, but let me answer the first question. If you see the sales analysis, the top line has grown just 3%, there is a permanent loss of 4% because exchange rate has fallen from 48 to 46 average. In spite of that the profit is what it is. Now if you were to look at exchange rate of 48, it could have been higher by almost 3%, so EBITDA of sales from 23 would have been 26%, so that is also having an impact on the numbers, so there is a correction in prices and stuff like that, but that follows slightly later, there is a lag.

Pritesh Chheda Is there any input cost inflation currently in some of your key inputs and how are you placing it on the energy front?

Srinivas Chunduru Not really, if you look at vis-à-vis, as I said, whole improvement is coming by increase in the product mix to some extent prices. The cost increase was very marginal in energy during this last 6 months and marginal in our overheads.

Pritesh Chheda And your outlook on both these sides on overheads?

Srinivas Chunduru Nothing is changing during most of the year significantly.

Pritesh Chheda Nothing substantially?

Srinivas Chunduru No, nothing substantially.

Pritesh Chheda Okay. And lastly, you gave 120 crores CapEx figure, that's for 11 and what it would be for FY12?

Srinivas Chunduru Though we gave for FY11, it could stretch into FY12, as it depends on the life of the furnace.

Pritesh Chheda So 120 crores, should I take it as FY11 and FY12 both taken together?

Srinivas Chunduru No FY12, we are not concrete as the figure, but FY11, the remaining part of the year, I don't think we have done significant CapEx yet, so this year based on the two furnace coming for relining and so this year could be anywhere between 80-100 let's say and next year could be different figure which we will share with you later.

Pritesh Chheda Okay many thanks to you all and the best wishes.

Moderator Thank you Mr. Chheda. Our next question is from the line of Natesan B of SPA Capital. Please go ahead.

Natesan B Sir, a couple of questions, one is what is your draw and the PAT ratio? And second is quite a structural question in terms of how do you see the demand from pharmaceutical segment coming for glass, because our interaction with some other pharmaceutical companies we were guided that there is lot of substitution happening towards other packaging materials, so if you could throw light on the first and the second question that would be really great?

Vijay Shah Good evening, first of all on PAT-to-draw ratio, we are in several different product mix and at different locations and PAT-to-draw is not like commercial glass company like S&G which is consistent across product mix. In the pharmaceutical long run product, it could be as high as 90%-93% also in some furnaces. In the high-end, perfumery could be as high as 60% and the mass perfumery would be in the region of 80%-85%, nail polish could range between 85%-90%.

Natesan B This is a PAT-to-draw ratio, right?

Vijay Shah Yeah PAT-to-draw ratio.

Natesan B Why is it lesser in high-end perfumery like it's 60%, so that is..

Vijay Shah It is not higher because they are buying asthetics, they are not buying functionality. So globally when you do high-end perfumery, your PAT-to-draw ratio is lower, but with experience it keeps going up. But every time you make the bottle again, it moves up.

Natesan B Okay. Sir I just wanted to confirm or clarify rather, how has this PAT-to-draw ratio moved over a period of time?

Vijay Shah For our product, it will always move up, the more repeat number of times we make it.

Natesan B Okay. And the second question in terms of how do you see the demand from pharmaceutical segment?

Vijay Shah We see demand degrowing, that’s why we have been saying since last several quarters that we are shrinking our capacity and offering to the India pharma market focusing more on high value added exports as well as shrinking capacity in favor of favor of companies perfumery. So we are planning for the degrowth.

Natesan B Sure, sir.

Moderator Thank you sir. Our next question is from the line of Raja Mohan a professional investor. Please go ahead.

Raja Mohan Yeah thanks for taking my call. I just had a couple of questions. You mentioned all about tweaking up and furnace shifting to C&P, I was just wondering whether we will be getting a full fiscal next year of the targeted product mix in terms of after all the tweaking up and furnace shifting happens?

Vijay Shah From that pharma furnace, we are expecting to finish the work by March end, so it will be available for the full year next year.

Raja Mohan Okay, and what will be the capacity of this pharma furnace?

Vijay Shah 55 tons per day. Don't forget also one other furnace was 65 tons for day to day, will come up for relining maybe mostly next year, so we will leave some time for relining say 60 days for that furnace of relining. When it comes back it will do 95 tons per day, though the capacity addition is up to 55 here and 30 there, almost 85 tons more coming in, and that will set up the tonnage.

Raja Mohan Okay. And that will probably be happening in the, do you have any specific time in that when it will happen?

Vijay Shah We want to do in conversion from pharma to C&P as 80, but the earliest schedule that we are getting is between February and March, so sometimes early February or mid-February to stop the furnace for that and that should be available for ready for production say from 1st April. The second furnace, we are planning some time in April-May period. Let me tell you, we have a very good order backlog, so the demand is very good, it's our ability to supply.

Raja Mohan Okay. So essentially, what we are seeing currently in last two-three quarters, we are seeing significant quarter-on-quarter improvement on the mass C&P side, while the premium has been more or less around that level, so which obviously indicates that there is a capacity constraint on the premium side. Am I right in that assumption or is it ….?

Vijay Shah Now let me say that, if you look at this quarter, the premium has grown 16% same as mass, last quarter it has grown much higher and then overall it has grown around 26%. Mass is always is given a second priority. In terms of physical capacity, we have large capacity for premium. The entire mass capacity so far that we have is completely convertible to premium. So it's not the correction of physical capacity, it's the pace of new product development and the commercialization. So there is an order backlog even for premium, but the pace of new product development as I explained to earlier it goes to, some cycles are shorter, some are longer. When you develop a new product, there is a trial phase, there is sampling phase, somewhere it takes longer time, somewhere it takes shorter time, so that is dictating the growth rate and that's how we have estimated the growth of premium and mass.

Raja Mohan Okay. So continuing all the dynamics, are you still comfortable with your earlier target of 28% of premium margin for the next fiscal?

Vijay Shah As I mentioned earlier, corrected for exchange, you look at even this quarter, 23% and 6% more had I got that 3% more, I would be 26%, but it is 0.5 in fact.

Raja Mohan Okay. So you are truly confident of achieving 28%?

Vijay Shah In this thing, and to some extent, exchange rate may have an impact, but other than that operationally we are in the right direction.

Raja Mohan And you have seen beyond 28%, also you have room to improve your operating margin?

Vijay Shah That's why we are not talking beyond next year, but being fact, I cannot tell my numbers, but let me tell the best in the industry has 40% in Europe in spite of being Europe cost. So there is lot of room for margin expansion in this process because it makes money not only on glass, but also on decoration if we are doing out, now the point is that today as you do more new premium bottle, your rejection rate is higher, but as you repeat them, your rejection rate falls. So it is the first run rejection rate can be as high as 40%-60% because we not only manufacture the bottles, something like CK1 or Eternity , you also have to decorate them and inspect at every stage of the cycle, so learning through is very important here.

Raja Mohan Okay thank you sir.

Srinivas Chunduru Raja Mohan if we actually draw a P&L of the industry for premium players, probably the average being in outside India could be in northward of 30% in terms of EBITDA, so in terms of potential there is scope.

Raja Mohan Okay. Thank you so much and wish you all the best.

Moderator Thank you. Our next question is from the line of Apurva Doshi of Kotak Securities. Please go ahead.

Apurva Doshi I have just one follow-up question. You have said that in nail polish, we have 26% market share, is that number same or any improvement?

Vijay Shah You know what there is no scientific data to…..

Apurva Doshi Roughly just to understand.

Vijay Shah No, I can only tell you our full capacity is utilized by nail polish, we have converted some of the wireline to nail polish as we have got a backlog of all this. Now in growing nail polish, I think easily 15%-20% in volume terms.

Apurva Doshi Okay in terms…

Vijay Shah Very, very strong demand for that and in fact we are considering re-looking at the capacity, that's why when we converted one pharma furnace, we are converting all the three lines in nail polish. So it's a very, very strong growth happening.

Apurva Doshi Okay. But typically nail polish is not that high value added item?

Vijay Shah In terms of ROCE, it's pretty good. It may not have the, what do you say, the realization pattern in some of the way, but ROCE is pretty good and for us it is no sweat effort, what do you call, we are so good at it, we are almost now 1.2 billion pieces a year, we are by far the dominating player in this. So it keeps growing without much effort, the demand keeps coming in the market, the whole machinery works on its own.

Apurva Doshi Okay. And in terms of this global C&P market of $2 billion, what would be our market share on, 5%-6% or it has improved?

Vijay Shah No, I think it stays about 5%-6%.

Apurva Doshi Still around 5%-6%, so the scope there is very much higher. And what is the French subsidiary, what is exactly…?

Vijay Shah I will explain that also. French is a major market for us, very high value added product, companies like Louis Vuitton, Bogart, Popular, and several others are based in France. So far we had a French office with two employees, but we were billing from India. So it was a little bit competitive disadvantage because they did not like it, because when you bill from India you have to give an extended credit period, there is a shipping time, and that will land there, sometimes we used to warehouse outside and then we supplied them. So the revenue recognition point was India. So there is a cycle which is going on, on that. We were supplying out of India. With pressure from customer, we decided to open up French subsidiary from which we would bill directly to the customer, we will warehouse in France and supply to the customer almost as if we are a local company.

Apurva Doshi But is it 100% owned by us?

Vijay Shah Yeah it's 100% subsidiary.

Apurva Doshi No, I thought it's some JV or…

Vijay Shah No, not at all, it's 100% subsidiary. The objective is that we should bill locally and follow local credit terms.

Apurva Doshi And how does it taxation and all?

Vijay Shah It's just next to one-time impact on the sales number and that's why we are still 1.7% of the sales of impacted because of that.

Apurva Doshi Is there any additional warehousing, packaging or taxation or…

Vijay Shah No, nothing, we just put the palette there which we were warehousing earlier, would warehouse that but will bill from there as per the customer needs.

Apurva Doshi Okay. Only the name of the bill says the French company then the Indian company, that's it.

Vijay Shah Yeah and the French company is also Piramal Glass.

Apurva Doshi Yeah 100% owned by Piramal Glass.

Vijay Shah Yeah, and also name that Piramal Glass.

Apurva Doshi Okay thank you. No, I thought there is some strategy over there to increase this 5% share largely through this company or anything…

Vijay Shah No, not at all, it's more in servicing the customer and being at its proximity.

Apurva Doshi Okay sir thank you.

Moderator Thank you Mr. Doshi. Our next question is from the line of Alisagar Shakir of Elara Capital. Please go ahead.

Alisagar Shakir Yeah actually most of my questions have been answered, so yeah just a couple of queries, one thing on the tax expense, I think we have not been paying tax for in the previous quarters maybe because of the accumulated losses, but this quarter we have accounted some tax expense also. So can you just throw some light on that component?

Srinivas Chunduru Yeah even I don't like paying taxes when I wasn't happy with this number, it was not in my budget, so I tell Sandeep to face you.

Sandeep Arora Actually this is not the tax expense, because we are still under MAT and we have some carry forward, this is more of the deferred tax accounting that has happened and we have some carry forward losses which should take us through this year.

Alisagar Shakir So in the next coming two-three quarters, we should not be paying any tax?

Sandeep Arora It will be MAT which you get a credit eventually, so this is more of the deferred tax working that takes place and comes there, but we are still under MAT as of now.

Alisagar Shakir Okay, so we do not pay as such any…?

Sandeep Arora Yeah not a full tax and as I said, we have some carry forward which should take us through at least this year.

Vijay Shah Yeah and Ali, pertinent to note that Sri Lanka, we have a tax holiday till FY12 and 10% from FY12 to FY14 because of the sheer location that we have presented and US would also continue to be zero tax. So this deferred tax will be pertaining to Piramal Glass India.

Alisagar Shakir Okay. On the FOREX part, I believe there has been some negative FOREX component in some statements, so can you just explain me I mean how is that amount being devised?

Vijay Shah I think Sandeep will explain this.

Sandeep Arora I think it's a gain if you see this quarter, there is a gain.

Vijay Shah There are negatives, positives. It's not negative.

Alisagar Shakir Yeah I understand it's for gain that we have derived.

Vijay Shah It is a gain for us. This comes from many angles, it's debtors that we collected. Also the loans, foreign currency loans that you have and so they get restated on a MTM at the end of the quarter. It all depends on the existing rate as on that day. It's a combination of all that.

Alisagar Shakir So how are we placed on the hedges at the moment in terms of FOREX?

Srinivas Chandru For this year, for the first year, first quarter we were uncovered, I mean we had not covered and we saw that the exchange rate is pretty volatile. If you notice that though we are saying that 48-46, the actual rate is around 44. So for this year we have covered in the range of 46 plus.

Alisagar Shakir Okay, so appreciation from hereon.

Sandeep Arora Auto and partly we are dependant on PCMC.

Alisagar Shakir Okay, so appreciation from here should take a hit because we are at 46 and further appreciation should take a hit on the….

Srinivas Chunduru We should benefit. If it is a depreciation beyond, what is it that goes to 47-48 then may be it will be hit, so some of them I have got a band also, the cover. So if rupees appreciates we would not be a loser in that sense.

Alisagar Shakir Okay, yeah exactly that is what…so I mean till what extent secured in terms of appreciation?

Srinivas Chunduru Of the rupee as I said that we have covered at 46, whatever it goes down to 42 or 44 or whatever it's going to impact us for this year at least.

Alisagar Shakir Okay, alright. Can you just throw some light, I mean how we are seeing the revenue visibility in terms of I mean I believe you already that said you know although there have not been any new client acquisition, but the existing clients have been giving good amount of orders, so can you just sort of quantify, I mean how we are seeing the revenue visibility in the next two-three quarters?

Vijay Shah Actually the revenue would grow in the range of 8%-10%. And there is decent backlog of orders, so that's not an area of concern.

Alisagar Shakir So you are seeing quarterly, it should grow at 8%-10% and obviously as we have the strategy that you know large part of that should come from cosmetic and perfumery.

Srinivas Chunduru Yes I think Ali, Srinivas here, a correction we are not referring to sequential quarter 8%, quarter-on-quarter, we are saying on a base of last year sales, with the same capacity, we are talking about 8%-10% growth in this financial year.

Alisagar Shakir Okay alright.

Srinivas Chandru Which is what we have got in the first six months around 7.5%.

Alisagar Shakir Okay. Can you segment wise, I mean would it be possible for you to either give me what has been the, either TPD, I mean what we have done in terms of sales volume or probably what has been the sales-to-production ratio.

Vijay Shah Sales to production ratio, you see our working capital has come down, so inventory has not gone up, so sales to production ratio is not an area of concern. If you are looking at segment wise sales, I think somewhere we have shared it that C&P has grown by 16% for this quarter, 24% for six months, pharma I think cumulative has grown by 5% and specialty and food and beverage I think has degrown and that is mainly because of recessionary hit on the US operation.

Alisagar Shakir Right, I just wanted some idea on the volume side if possible, sales volume.

Vijay Shah As I have been trying to mention earlier also, that is very difficult in our business because of the product mix, we try and optimize line wise profitability as we set up the line, so though we have no love for tonnage in that sense you look at what is the per day, how much more contribution can I get per line, having set up the facility.

Alisagar Shakir Would it be possible for you to give me rejection ratios in that case, I mean for the 3 segments.

Vijay Shah It has been answered some time earlier as that each segment has different rejection ratio.

Alisagar Shakir Exactly.

Vijay Shah Pharma, it could be ranging from 7%-15% in pharmaceuticals. In high-end perfumery, it could be 45%-50% also. It's got an average ratio because as you develop new probably initially you come at higher rejection and then it keeps reducing

Alisagar Shakir So would you have rejection ratios for this quarter?

Srinivas Chunduru No, then you will have to look at multiple segments and we don't share all and we don't share all that information you know is different. Pharma embelled product is different, nail polish is different in the range of 85% of PAT, Mat perfume is around 85%-90%, but premium perfume is ranging very widely, depending on the experience we have in each brand.

Management So Ali, it would be very confusing that your firstly segments within that subsegments, may be little confusing, but directionally what Mr. Shah said is….

Vijay Shah If I was in the straight commercial glass operation like our competitor Hindustan National Glass in India, then I can give a precise number because day in day out I make similar type of bottle, there are beer bottle or liquor bottle or soft drink bottle. In a business like this, where you are making a variety of products and in fact we price often as per the customers quality requirement and our assumption of the….. So if find that this shape of the bottle is very difficult to make and it's expecting lot of glass in the shoulder, and the year the recession goes up and it's wanting more glass on the bottom then the recession is lower so we price accordingly.

Alisagar Shakir Alright sir, thanks a lot for the time and congratulations once again for the good set of…

Moderator Thank you Mr. Shakir. Ladies and gentlemen, that was the last question, I now hand the conference over to the management for their closing comments.

Vijay Shah Thank you very much for being on the call and supporting us with all your good wishes so we will continue to grow form quarter-to-quarter on a profitability performance. Thank you

Srinivas Chunduru As I have mentioned the transcript will be on the website and we will also personally email to you over next couple of days. Thank you so much.

Moderator Thank you sir, thank you members of the management team. Ladies and gentlemen on behalf of Piramal Glass Limited that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.