

## Transcript

### Conference Call of Piramal Glass Limited

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#### *Presentation Session*

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**Moderator:**

Good evening ladies and gentlemen. I am Edwin, moderator for this conference. Welcome to the conference call of Piramal Glass Limited to discuss Q1FY11 results. We have with us today Mr. Vijay Shah, Managing Director, Mr. Sandeep Arora, Chief Financial Officer, and Mr. Chunduru Srinivas, Vice President Strategic Planning and Head Investor Relations. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press \* and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Chunduru Srinivas of Piramal Glass Limited. Please go ahead sir.

**Chunduru Srinivas:**

Good evening everybody and welcome to the conference call of Piramal Glass. It has been a very interesting quarter and we have with us the management team of Piramal Glass, led by Mr. Vijay Shah, the Managing Director, Chanduru Srinivas, and Mr. Sandeep Arora. We will start this call and I will invite Mr. Vijay Shah to give you a brief overview on how the quarter has been and what the business looks like, post which we will have Mr. Chunduru Srinivas who will walk you through a presentation, which we have mailed a little earlier in the day. In case you have not received it, you may definitely log in to our website [www.piramalglass.com](http://www.piramalglass.com) and access the presentation on the Investor Relation space. Mr. Vijay Shah.

**Vijay Shah:**

Good evening and thank you for being on this call today. I will give you a brief overview of this quarter's performance. As expected, our sales grew by 13.3% over the same quarter last year, to 283 crores. What is more important is that the EBITDA kept on track, we grew to 22.5% as compared to 18.3% last year, giving a profit after tax showing of almost 38.4 crores from a loss of 20.84 crores last year to 17.6 crores positive this year. It will give an annualized EPS of 8.8 rupees and what is more important is that the whole turn around, one of our major investments

that we had made four years back in USA, that has turned around significantly. USA has demonstrated strong performance with 20% growth on the top line and EBITDA at 14% and PAT positive at 6%. The annualized ROE for the company is 24%. What is important is that, this growth is led by our focus on Cosmetics and Perfumery as a sector, which was 41% of our total sales last year, it has grown by 35% and this year it is 48% of our total sales. So, we continue to march in the direction of gaining more and more share in Cosmetics probably across the globe and the company will continue reporting strong performance in the future. I request Chunduru Srinivas to take you through the presentation that was posted to you earlier.

**Chunduru Srinivas:**

Good evening everyone. I take your attention to slide #4 of the presentation with decent overview of our manufacturing footprint. In this quarter, 54% of our sales came from Indian operations. Within that, almost northward of 60% is exports to 44 different countries, and balance would be what we sold in the domestic market. USA accounted for 34% of sales, and the Sri Lankan operations accounted for 12% of sales. Just as a recap, the overall capacity that we have is 11 furnaces with 1015 tons, out of which 8 furnaces and close to 600 odd tons would be in India, balance in USA and Sri Lanka.

I take your attention to slide #5, where we give an overview of numbers of Q1FY11, vis-à-vis that of Q1FY10. The sales grew by 13.3% from 245 crores to 278 crores. The operating EBITDA grew by 40% from 44.9 crores to 62.7 crores, which is almost 430 basis points improvement in the EBITDA margin from 18.3% to 22.5%. Interest cost as a percentage of sales reduced from 15% of sales in last year same quarter to 6% of sales, which was on account of both reduction in quantum of debt, as well as the interest rates. As a result of which, the PAT swung by about 38.4 crores from a negative of 20.8 crores it has come to positive 17.6 crores. The annualized EPS is about 8.8 rupees and cash EPS is about 20.2 rupees. Annualized ROC about 13% and annualized ROE is 24%.

Taking you through the business highlights, on a constant dollar basis, the top line in India grew by 19%, in USA it grew by 20%, Sri Lanka grew by 8%. USA has shown a strong turnaround with an EBITDA of 14% and many of you would recall that when we acquired USA in FY06, in the first financial year, USA was at -15% EBITDA, so there is a swing of almost 29 percentage point from the day of acquisition to date, and it has shown a 1000 basis point improvement in EBITDA vis-à-vis that of last year same

quarter, we were in the range of about 4% EBITDA margin in the last financial year first quarter. This improvement was both because of top line increase as well as improvement in the productivity in USA and more and more integration with the Indian plant and procurements from Indian plants.

Slide 7 gives you a segment-wise sales revenue. As Mr. Shah has mentioned, the focus of the company has been Cosmetic and Perfumery and within that premium is the focus for the company, which should lead to higher EBITDA and higher ROC. Cosmetics and Perfumery forms 48% of our sales, which is 35% growth over quarter of last year compared to 41% of sales at C&P constituted in the last year. So the quantum of C&P as a percentage of our sales has gone up by about 700 bps. Pharmaceutical, the percentage is 31% and it grew by about 10%, mainly led by exports and leveraging the USA distribution network for the pharmaceutical sales. Speciality Food and Beverage, which we mainly cater from Sri Lanka and USA, de grew by about 15%. This de growth is mainly on account of the fact that last year and the year before, we used to manufacture some Speciality Food and Beverage, which were low yielding in India during the recession time, so we replaced that capacity of low yielding Speciality Food and Beverage in India to Cosmetic and Perfumery. Or in other words, this de growth is a planned de growth for higher margins.

Slide 8 gives you an overview of our sales growth journey that we have undertaken from FY04. Total CAGR till date is 38% for Cosmetic and Perfumery, which is both organic as well as inorganic. Organically we have grown northward of 20% in Cosmetic and Perfumery. Speciality Food and Beverage we grew by 21% and Pharmaceuticals by about 9%. As you would see that in FY04, 19% of our sales was from Cosmetic and Perfumery, which stands at 48% today.

Slide 9 gives you growth within Cosmetic and Perfumery, the premium grew by 28%, the mass grew by 39%, and therefore the overall growth was 35% quarter-on-quarter. In terms of geographical breakup in Cosmetic and Perfumery, BRIC countries constituted 24% of our sales, and rest of world, which includes other emerging economies, Asia, etc, constitute 20%, USA constituted 43% of our sales, and West Europe constituted 13% of our sales.

Slide 10 gives you broad outlook of the C&P that we have. We feel that the markets are looking very strong, especially

the BRIC countries Brazil, Russia, and India. We also find that in Europe and USA there is restocking and these levels of rate of growth in Europe and USA for Piramal Glass are sustainable. In this quarter we have added Coty as a customer and Coty as a customer is one of the largest consumer of glass and their annual consumption of glass is estimated at Euro 100 million dollars. They are one of the top 3 perfumery companies in the globe and own lot of prestigious brands in the market.

Slide 11 talks about the business highlights of pharmaceuticals. From a turnover of 78 crore last year same quarter, our turnover is about 86 crores. As I mentioned, this growth is essentially led by exports. In one-to-one interactions we mentioned that the domestic markets were seeing a negative growth from pharmaceuticals as some of the bottles are getting converted into PET, so part of the plant strategy, we have started exports to more and more countries. We are present in USA, and therefore the distribution network that we have in USA also helped us in improving the width and depth of the market and improving our penetration in pharmaceutical. Pharmaceutical, today, when we look at India, close to 40% of sales from India in pharmaceutical is exported, which used to be much lower in the previous year. In terms of our outlook for pharmaceutical, we feel that Indian markets have shown negative growth. However, because of our thrust on exports, we feel that it will grow at similar rate that it has grown, but driven by exports and therefore higher margins. We are pretty confident on the exports part, especially given the established distribution network that we have in USA.

Slide 13 gives an overview of Speciality Food and Beverage, which most of the production is out of the, out of 57 crores nearly 90% of the production is from USA and Sri Lanka catering to the local market. The de growth is essentially a planned de growth. We used to have some low yielding Speciality Food and Beverage catering to the liquor markets from India in the last financial year, which we have replaced and shifted to Cosmetic and Perfumery, and therefore this de growth is on account of plant shift to Cosmetics and Perfumery. On the Sri Lanka front, the good news is that we find that the domestic markets are picking up after a slow down in last couple of quarters. There was a lull in the market in Sri Lanka and Sri Lanka, as you are aware, that we hold close to 90% market share in the Sri Lankan market. And since the domestic markets are looking up, we find that Sri Lanka's numbers to stable and growing up from here. USA, the numbers are holding

on and we are holding on to the market share without much growth in that market.

Slide 14 is re emphasis of the strategy summary that we have been discussing. Last financial year 43% of our sales came from Cosmetic and Perfumery, which in this quarter is 48%. As we move ahead, we plan to get that to 50% mark. Within that premium accounted for 32% in FY09 and 43% in FY10, which also holds at 46% in Q1 of this financial year and we plan to move it to 63%, which would be a game changer in terms of EBITDA margins, etc. We are very confident of these numbers given the fact that 17 out of the 20 global customers who contribute 80% of this premium market that we refer to, have approved us and have a commercial relationship with us and lot of process are going on with these customers. The fact that we are the players from Asia with this list of customers who have approved us to procure, the entire manufacturing infrastructure is in place. And this whole growth numbers that we are referring to is in fact without any Greenfield project, in fact there is a reduction of some capacity in USA, which will be manufactured from India. Both in pharmaceutical and speciality food and beverage, we will hold on to our market share in India and keep exporting more to improve our profitability.

Slide 15 is broadly the guidance, which we have shared in the past. With this, we are now open for questions. I repeat myself, Srinivas I am there, Mr. Vijay Shah, Managing Director of Piramal Glass, and Sandeep, CFO of the company are there. We are open for questions.

#### *Question and Answer Session*

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**Moderator:**

Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press \* and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

First question comes from Mr. Raj Mohan an individual investor.

**Raj Mohan:**

Yeah, thanks for taking my call and congratulations to the management for continuing with the turnaround. I had a few questions. First is pertaining to this quarter, could you explain the slight slowdown in growth of the premium segment, this quarter has seen a 28% year-on-year growth. You did mention about your confidence on this segment reaching 63%, but still wanted to understand

figuratively whether will this segment move back to the 40% plus growth range in the remaining quarters of this year for you to achieve an operating margin target of 3% increase year-on-year?

**Vijay Shah:**

On the premium segment the growth rate at what we reported at 28% is pretty good. I think you are looking at the fact that mass grew at 39% that is mass grew faster than premium, that's because we want to grow in all segments of C&P, is our first priority, but within that yes, eventually premium will overtake the mass growth rate. So at 28% it is pretty good number I thought it was.

**Raj Mohan:**

Yeah, I understand 28% is pretty good, but historically you have been clocking in excess of 45% on the premium segment itself, so generally wondering whether there is any seasonality involved in this business that the first quarter is a bit muted and then it recovers in the second, third, and fourth quarter.

**Vijay Shah:**

There is no seasonality in the business. Only thing is that when some new customers, new products come in, there is a lead time before they go through the whole process and then suddenly we jump up. So the commercialization cycle takes a longish time. It would range between six months to 18 months. We got good pipeline of projects on hand on this. We are confident of achieving the virtual target of 63% of our C&P being from the premium segment of the market.

**Raj Mohan:**

Okay. What is the internal estimate on OPM for this fiscal and is the management confident of 28% next fiscal?

**Vijay Shah:**

The OPM we reported this quarter at 23%, we are thinking that we would move up to 28% by April '12. So we are well in line with that.

**Raj Mohan:**

Do you have any figures for this year in terms of expecting...

**Vijay Shah:**

We are not giving any projections for this year.

**Raj Mohan:**

Okay. I am trying to understand whether in the foreseeable future of say three to five years, the product mix will continue to change in favor of premium category, and it won't sort of exhaust the leverage to expand on the operating side. Or is it only till 2012 where you have stated your projections that you see...

**Vijay Shah:**

No, if you look at our presentation made earlier, we have only 5% share of the global market. But what is more

important is that we have only 3% share of the premium market. We are youngest entrant in this market and we are just three, four years young in this industry. So the headroom for growth is significant. What is important is that out of the top 20 customers, which form 80% of this market, with 17 we have established commercial relationship. So when we announced today that this quarter, that Coty has begun commercial relationship, the relationship began couple of quarters back, but this quarter we started billing to them. This is a beginning of a relationship and in this industry the project will move from one to the next and then to the next. So as they build the relationship, they will keep increasing our share of the this thing, so what we are sharing is the number only till we gain a perspective till 2012. But that doesn't mean that we are going to stop there. The whole idea of this business what we have got out of India is to, we have assets which are meant for premium market and we want to service the premium market out of India. So, we want to be leading player in this industry and with a low cost base, which is sustainable in the future.

**Raj Mohan:**

Okay. You have constantly talked about growth happening in the BRIC and emerging markets for premium C&P for the company. Can we assume that once you entrench yourself in the emerging markets, a huge potential opens up in the developed economies also with your cost and quality benefits.

**Vijay Shah:**

Yeah. I will use an example in this case. What happens is that, if you see my presentation, there are two segments of premium market, one is absolutely top, which we call select, which operates only out of USA and France, means that high-end perfumes are made in this country. However, there is a very large European mass market what we called in the presentation MNC mass. But this market refers to multinational companies like L'Oreal, like Unilever, like P&G, which are global in nature, which has got a very large area of products, which are skin care, after shave, and slightly lower end perfumes like Adidas, Puma, to name a few brands. Now, these companies, when I am referring to the second rung, MNC mass, these are growing very significantly in the emerging market and as they grow there, they set up manufacturing bases and they need packaging. And this is where we see the growth coming from the emerging markets. So take the classic case of India. Four years back my sales in India was 1 crore a month, today it has reached 9 crores a month, and out of which significant share is coming from multinationals in India, like Unilever, L'Oreal, Revlon, are those buying from us. You have already noticed in the market there is

new product launched by Unilever, which is one of the highest advertised product range of skin care cream, the Ponds cream that they advertised across India, on TV and on hoardings, that cream is 100 plus rupees, I think 299 rupees, Age Miracle and some whitening cream and this thing, all these products are packaged in glass bottles, frosted and printed glass bottles, which are supplied through only by us to them. The point I am trying to make is that, as we grow in increased emerging markets, multinationals operating in this market will mean good quality products. For instance, Nivea for Men is an aftershave, which is not launched widely in India, but it is there across Asia. Beiersdorf is a plant in Germany, but they also have a plant in Thailand, so the entire requirement of Asia, they are buying from us, Nivea for Men, aftershave bottle. So, that is what the emerging markets are going to drive growth for MNCs and we will be servicing that segment because we are placed in low cost country.

**Raj Mohan:** But in the future is there a possibility that you could even enter the select perfumes market category?

**Vijay Shah:** We are already a select perfumes category, if you remember when I keep saying 17/20 companies and in our presentation over the top and select our sale in the select is not significantly high, but we are supplying to (not sure), we are supplying to (not sure), we are supplying to Coty is completely select, what we are supplying to them, some part of L'Oreal, so all these companies are in the select market and we are catering also to select markets.

**Raj Mohan:** Okay, thank you so much, sir and congratulations on a good set of numbers.

**Vijay Shah:** For instance in US we have got Elizabeth Arden, Estee Lauder and L'Oreal whom we are supplying in a big way.

**Raj Mohan:** Yeah, thank you.

**Moderator:** Thank your sir. Next question comes from Mr. Abhijit Akella from JM Financial.

**Abhijit Akella:** Hello, sir thank you for taking my question. Sir, I take your point regarding the 28% growth in the premium CNP segment, which is very good, but I mean, what we are guiding to is 40% growth over the next two years, so I am just wondering, I mean, do we expect a significant pickup in growth over the balance of FY11 and what is going to drive that?

**Vijay Shah:** We will see growth in premium market higher than this and what is going to drive is that as the new product development cycle the pace picks up there will be more sale of premium products, so in the sense the backlog of products that are under development is pretty large. Now we cannot quantify directly because the timing of the development cannot be exactly predicted. So, I am very confident that this number can be achieved. I will give you a classic case in point, Elizabeth Arden was a new customer that we developed in US and within one year we achieved a 4 to 5 million dollars of sales with one customer. So, today we are beginning with Coty, so we are not able to predict exactly how it will develop, but the relationship can be developed into very large number in a short period of time.

**Abhijit Akella:** Okay. Sir, may be in the last quarter, if I remember correctly we had said that roughly a 145 customers with whom we are currently engaged in the product development process if I am not mistaken and could you just update us as to where that stands at today, I mean, is it higher or...

**Vijay Shah:** It is not 145 customers it is 145 projects under development. I think it is close to 150, 160 projects at the moment.

**Abhijit Akella:** Okay and just the EBITDA margins did seem to dip a little bit sequentially, may be a 120 basis points or so, so is that just an element of seasonality, or could you elaborate a little bit on that?

**Vijay Shah:** No, that's clearly the case of the currency fluctuation. If you recall last year the average rupee to dollar was at almost 47 rupees. April-May rupee was around 45 dollar I think and June it picked up, it weakened to 47 or 48 I think. So, on an average in the first quarter we had 45.3 as against last year 47 and last year the same quarter it was as high as 48.5. So, the exchange rate has contributed significantly to this debt

**Abhijit Akella:** Okay and regarding the shift of production from the US facility to India, we had said that our goal is to eventually shift 70% of which 15 has already been done and we had got approval for I don't know may be 30% or more in addition to that, so how much of that has been completed at this point?

**Vijay Shah:** At this point of time the US facility six lines are producing fully, so the shift has not been significant, but what we are doing is, the growth that is happening in US, the growth is

completely produced from India and supplied to them, so let's look at the quarter-on-quarter numbers, last year we had 15% of US sales supplied from India, this quarter it has moved up to 21% of their sales supplied from India. So, it is moving in the same direction.

**Abhijit Akella:**

Got it and I think we had mentioned rationalizing the US facilities by two more lines, I mean six going down to four, so any sense of the timeline on that?

**Vijay Shah:**

We are working on that, we have not yet crystallized the exact date. So, currently six lines are working in US. What is positive is that US market is doing pretty well and we grew 20% in that market in this quarter in spite of the uncertain environment conditions.

**Abhijit Akella:**

Right. That is my next question, how do you see the outlook in Europe, sir given talks of a double dip over there, I mean, how do you see the rest of the market?

**Vijay Shah:**

Actually it doesn't impact us because, one is we are a very small share of the market today and in this kind of environment it actually helps us because we are able to gain shares, because what we are offering to the customer is a better power point. In fact last year during recession in Europe market shrunk by 20%, we have grown last year.

**Abhijit Akella:**

Yeah, we currently have a 3% share of the high end CNP market, could you tell us how much that has moved up over the last six to 12 months?

**Vijay Shah:**

It is too small a share to look at the movement there, it is approximately 3% of the premium, so another way of looking is that market is kind of stagnant and we have grown by, let's say about 30%, so the 3 would have moved little northward between 3-1/2 and 4%. So, what I am saying is we don't have precise basis to do this calculation, in fact last year when actually the Europe market shrank by 20% and most of our competitors were down on capacity utilization itself, we were growing in this market.

**Abhijit Akella:**

Okay. Just two more questions, sir and I will jump off back into the queue. How much of debt was reduced in the quarter, could you give us the number there?

**Vijay Shah:**

No, it is more or less level in this quarter where there is no major reduction in debt because we had to pay 10 crores dividend, there was some restating because of the exchange fluctuation from March end at 45.92 to June end was 46.90 and there was some advance payment for some

CAPEX and so there was no significant change in debt position.

**Abhijit Akella:**

Okay and finally there have been these rumors, I don't know what to call them about yourself being in talks with Hindustan National Glass, any comments that you...

**Vijay Shah:**

Absolutely baseless.

**Abhijit Akella:**

Okay, that's it from me, thank you so much.

**Moderator:**

Thank you sir. Next question comes from Mr. Harshit Jitendra from NVS Brokerage Private Limited.

**Harshit Jitendra:**

Sir, I am thanking for taking my call. Sir, I have two questions, what is the expected debt to equity ratio for this year and currently what is the interest cost in percentage terms in July month?

**Vijay Shah:**

I will take the second question first. The interest cost on the debt that is on our books is I think 7.2% and interest cost to sales this quarter has been as I mentioned earlier 6% as compared to 15% last year. The year end debt equity, I am not able to predict the exact number at the moment.

**Harshit Jitendra:**

Could you say around 3:1 or 2:1, 2.5:1, somewhere around?

**Vijay Shah:**

No, I don't think it will go back to 2:1. It depends on the timing of the CAPEX that we have mentioned earlier, that we would have between this and the next two years, around 160 crore CAPEX, the timing depends on the life of the furnaces that are yet to undergo designing. What we are saying is that by FY12 the debt should be 2:1.

**Harshit Jitendra:**

Okay and sir one more question from my side, sir what strategy you have insulated against depreciation of Euro currency or the US dollar against the Indian rupee, so that it does not have an impact on your financials, sir?

**Vijay Shah:**

Good point. I export out of India 56% of our sales; they have an exposure to foreign currencies almost out of that 45% is against dollar and almost 9% against Euro. Now, with our past experience in the first quarter we were not covered and it did impact us directly when the rupee fell in. We have been, in the last one month looking at the whole year and doing some 4 crores in installments, so let me say that on dollar we are covered to the extent that at 46 rupees to a dollar. If the rupee weakens then we will stand to gain up to 48, in that range, but if it strengthens then we

are protected at 46, that's the learning from the first quarter.

**Harshit Jitendra:** Okay and sir, congratulations for a good set of numbers sir.

**Vijay Shah:** Thank you.

**Moderator:** Thank you sir. Next question comes from Mr. Apurva Doshi from Kotak Securities.

**Apurva Doshi:** Yeah sir, congratulations on the good set of numbers. I think most of my questions have been answered, but just wanted some numbers. See, US business, can you give me the PAT, I think revenue is 96 crore, EBITDA is 13.1 crore, so what would be the PAT?

**Vijay Shah:** Just a moment, I will tell you the PAT. You have any other questions?

**Apurva Doshi:** I wanted the number for Sri Lanka and India.

**Vijay Shah:** 6 crores, PAT is close to 6 crores, Apurva.

**Apurva Doshi:** 6 crores and do you have the YOY numbers, yeah Q1 FY10, the revenue, EBITDA, PAT?

**Vijay Shah:** Negative 6 crores going up to positive 6 crores.

**Apurva Doshi:** Okay and revenue?

**Vijay Shah:** Revenue shows a 20% growth, so currently it is at about 21 million, so last year would have been 20% lower than this year.

**Apurva Doshi:** Okay and EBITDA was 3.1 crores, right?

**Vijay Shah:** Yes.

**Apurva Doshi:** Okay. Similar for Sri Lanka, I think top line is 34 crores; EBITDA is 9.5 crores, so PAT?

**Vijay Shah:** PAT in Sri Lanka for the current year would be about 2-1/2 crores.

**Apurva Doshi:** Okay and similar YOY?

**Vijay Shah:** Previous year would be negative 6 crores.

**Apurva Doshi:** Okay, top line growth I will take and the Indian business?

- Vijay Shah:** In the Indian business top line grew by...
- Apurva Doshi:** Yeah, top line is 152 crores, hello?
- Vijay Shah:** One second. Yeah, 163 crores top line current year.
- Apurva Doshi:** Okay, no because if you take 54% of 282 crores, it will be 152 crores?
- Vijay Shah:** No, it may not be arithmetic total, it will be...
- Apurva Doshi:** Okay, correct. Okay and EBITDA and PAT?
- Vijay Shah:** EBITDA would be about 24%.
- Apurva Doshi:** Okay and PAT?
- Vijay Shah:** It will be about 5-1/2-6%.
- Apurva Doshi:** And YOY?
- Vijay Shah:** YOY would be negative 3% PAT. I think India has the biggest impact of the exchange rate fluctuation.
- Apurva Doshi:** Okay. Sir, I mean, we have spoken in terms of this value growth. In terms of volume growth can you give me some numbers?
- Vijay Shah:** Last year's capacity is fully utilized, so...
- Apurva Doshi:** Okay sir, volume, okay capacity is absolutely fully utilized.
- Vijay Shah:** Volume has no meaning; the whole thing is about product mix changes.
- Apurva Doshi:** Okay, great and sir, I believe, can you give some roadmap for reduction of debt?
- Vijay Shah:** The whole focus should be to reduce debt as we go into the future. There are a couple of upsides there, there is a land sale in Sri Lanka, which could add some free cash flow and also out of the operations in India, so we would use it for reducing debt. As I said, I cannot predict exactly, but we have given the roadmap is by 2112 we should be close to 2:1, but the precise date of the CAPEX cannot be determined, it depends on the furnace life. So, out of this 11 furnaces we have, which one comes for realigning, two or three are predicted to come for realigning, when it will come up we don't know exact dates.

- Male voice:** See, in a block of three years if somebody talks may be 55% of depreciation would be CAPEX, balance of that would be added to free cash flow. It is a question of timing the issue as Mr. Shah said, that will also be used for debt reduction.
- Apurva Doshi:** Great, sir apart from that last question on this, this new customer Coty, as you said the volume of business that Coty does is around 100 million Euro, so in terms of what we could start with and how we could see ramp up in terms of other companies of similar experience, I mean?
- Vijay Shah:** If you look at our competitive map, the companies whom we are competing, each of them are more than 100 years old. Now the point is that the ramp up, I gave an example in US, we have a new customer called Arden and within one year they ramped up to 5 million dollars, so the pace would depend on the relationship, how do they go, what is the thought on closing home LCCs, so it depends on many factors, but what we are just trying to say is that, yes, here is one more biggest company which has joined us. It is very difficult to predict the exact pace at which will they ramp up.
- Apurva Doshi:** Okay, sir. Thank you very much and best of luck.
- Moderator:** Thank you sir. Next question comes from Mr. Bikram Mahajan from Bay Capital.
- Nikunj Doshi:** Yeah, hi good evening, this is Nikunj Doshi here, just wanted to understand this, if you look at Q4 FY10 employee cost it was around 54.9 crores and employee cost in Q1 is 58.2, whereas we are talking of reducing manpower in US and all, so why employee cost has gone up sequentially in the current quarter?
- Vijay Shah:** I will explain that. Basically the incentive payment comes, performance variable payment comes in the first quarter and increments also come around this time. There is no reduction in the first quarter in US at all, that is going to be a future reduction.
- Nikunj Doshi:** And in terms of the other expenditure also we are noticing a jump on sequential basis, so is there any one-time in other expenditure in the current quarter.
- Vijay Shah:** I don't think so there is any one-time expenses. I just need to share with you that yes, in Indian numbers as I explained earlier there is a huge impact of foreign exchange, as I said 48.5 to a dollar was the exchange rate last year in the same quarter and currently this quarter we

ended at 45.3, so that is one major impact. The other is some input costs are rising and from this quarter we have taken price increases ranging from 7% to 10% across different markets excluding the premium end of the market. So, that would compensate for some other input cost that had gone up in the last quarter or going up.

**Nikunj Doshi:** Okay and last one in, there are rumors time and again in the market that company is looking to do a QIP, so can you clarify on that, sir?

**Vijay Shah:** No, we do not have a view at this point of time on that.

**Nikunj Doshi:** Okay. Thanks.

**Moderator:** Thank you sir. Ladies and gentlemen, please press \* and 1 for your questions. Next is a followup question from Mr. Raj Mohan an individual investor.

**Raj Mohan:** I heard that you are getting from your existing and potential premium CNP customers and currently you said you are at 3% of the total market, what kind of a market share can be targeted by you in the premium segment?

**Vijay Shah:** As I explained, there are only five companies in this market, any of these companies are enjoying market share more than 10%, the largest has a 25% market, however all of them are European players. We are the only company coming into this market from Asia. We are as young as three years to four years in this premium segment of the market; we are as young as just 10 years in the cosmetic and perfumery market. Just to recap when we entered the nail polish segment of the market, which was the lowest end of the market within three years we are world leaders. Today we are one-third of the global market. Every third nail polish bottle in the world is made by us. Whether it is a top end customer like OPAI from USA or Del or L'Oreal or the regional companies across the world. So, we are very, very young in this market and the headroom for growth is significant. So, it is very difficult to predict what kind of market share we will get into.

**Raj Mohan:** Okay, thank you.

**Moderator:** Thank you sir. I request the participants to press \* and 1 for your questions. There are no further questions, now I handover the floor to Mr. Chandru Srinivas for closing comments.

**Chandru Srinivas:** Thank you so much for the questions and thank you so much for coming on to the con call. In case you have any

further questions etc you can feel free to contact me and the details are mentioned on the last slide of the presentation. We look forward to talking to each one of you quarter after quarter. Thank you so much.

**Moderator:**

Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you, have a pleasant day.

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**Note:**

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.