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Essel Propack Limited

Q2FY11 Conference Call Transcript

Transcription

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Moderator:

Good afternoon ladies and gentlemen. I am Imran, moderator for this conference. Welcome to the conference call of Essel Propack Limited hosted by Emkay Global Financial Services Limited. We have with us today Mr. Ashok Kumar Goel, Managing Director and Vice Chairman, Mr. R. Chandrasekhar, President, Europe, America and PIPL, Mr. Ganesh Ganapathy, CFO, Global, and Mr. Vinay Mokashi, Finance Controller from Essel Propack Limited. At this moment, all participants are in listen only mode. Later, we will conduct a question and answer session. Please note this conference is being recorded. I would now like to hand over the conference to Ms. Pritesh Chheda of Emkay Global for opening comments. Over to you sir.

Pritesh Chheda:

Thanks Imran. On behalf of Emkay Global, I welcome you all for Essel Propack's quarter 2 FY11 earnings call. I welcome the management of Essel Propack on the call. We have the entire management team here, Mr. Ashok Kumar Goel, MD and Vice Chairman, Mr. Chandrasekhar, President International Operations, Mr. Ganesh Ganapathy, CFO, and Mr. Vinay Mokashi, Finance Controller. The order at first would be management will give their outlook on the business and also their take on quarter 2 numbers, and thereafter we open the floor for Q&A. So, over to you sir.

Ashok Kumar Goel:

This is Ashok Goel, good afternoon. I certainly appreciate your joining in this afternoon. I am sure all of you have received the snapshot that we had sent out. Basically the small note tells you almost what we think were the highlights of the second quarter, or shall we say September quarter in order not to have any confusion because of the year change from Jan to Dec to April to March.

The numbers, of course, are much better than the previous quarters and also sequentially as well as, as compared as to last year. But we believe that this is still not the full potential that the business is set out for. And we believe that going forward, the Q3, that is December quarter, in some geography we will see the upsurge in the volumes and those being India and China, but on the other hand, the Western world where the Christmas holidays will come in, and therefore there will be a shorter time of operation, in those geographies. But having said that, we still believe that Q3 numbers would be far superior than these ones. This of course has been helped by; the Q2 numbers has been helped by China and India growing rapidly. And not only growing rapidly in terms of numbers, but also India particularly focusing on high revenue customer categories, which means that we have been strong in oral care, we continue to be strong in oral care, but our focus also has been on pharmaceutical and cosmetics. So as a result in India we are significantly churning out our portfolio, which was primarily focused on oral care to adding the portfolio on the non-oral care sector, which typically comes at a much better sales price and therefore much better revenues, or EBITDA or profit. And, of course, India has grown double digits, China we had two plants coming up on stream, and both of them have ramped up to their full capacities. Poland had significantly reduced its losses and we are working hard to get this on EBITDA neutral situation. US operation also we have brought in a little more focus in terms of getting their efficiencies up. The business has, in terms of demand picked up to the capacity that we have in US, both in plastic and laminated tubes. Mexico has turned around, Russia has turned around, Colombia is doing good, and in this particular quarter we did have some extraordinary costs particularly in India and China where we made the laminates and those typically happened because of global shortage of a particular raw material. And as a result to air ship that particular material both into India and China, where we make our laminates, so had that not been there, the results would have been better and now that we have the assurance from the suppliers, that is Axon, Dow, and DuPont, that we will have our quantities that we require, we will not have those costs going forward. So, all in all, I see that the Q2 September quarter numbers are much better than what you saw last quarter, but going forward we see further improvement. I will now ask Ganesh, the CFO, to walk you through the numbers.

Ganesh Ganapathy:

Thanks Ashok and good morning to all of you. Quick run through the numbers. During this quarter, what I am trying to do is, we will basically compare last year we had the medical devices business, which we disposed off end of December, whereas this year, it is only the packaging business comprising of tubing as well as some flexible packaging. So, for convenience, we have given on the left hand side for publication the numbers for the quarter excluding medical devices in the previous year, so that you can see a like-to-like comparison of the results. Basically we will see that this quarter we have grown our revenue by almost 19.8%, the revenue of 368.8 crores compared to 307.8 crores in the last year. What is even satisfying to us is that our operating profit has grown by 48% compared to the last year. And the PAT, it was 5.7 crore last year, it has more than doubled to 13.4 crores. So that's the basic underlying performance is happening through two implements coming. One is that, in terms of the material cost, we are becoming far more proactive, and the models, which we were earlier informing the analyst group, they are all working quite well and therefore despite the continuous volatility in the raw material prices, we are doing our best to ensure that pass throughs are happening. So that helps us to keep our material cost in check. The second one is that a lot of focus has been given on improving the efficiencies of the existing capacities and that has changed in terms of the leverage of the operating costs, therefore causing a substantial increase in the EBITDA of the business. So, in terms of EBITDA margin, we are now close to 19% and we are on track with our aspiration to touch 20% in terms of EBITDA for this year.

The other major benefit coming into the accounts this quarter is on account of our interest cost management. Since last one year we have been working hard in terms of managing and containing our borrowings through more efficient capacity utilization. At the same time, we have also started working on the interest cost to overall reduce the overall average cost of borrowing. We are about 9% savings compared to last year in the interest cost and therefore together all this flow in terms of strong improvement in the PAT. What is even more satisfying to us is that, sequentially, we continue to grow. In the quarter 3 our top line has grown 11% compared to the previous quarter and the PAT has grown 50% and actually we have improved our EBITDA margin in these two quarters by a significant amount, so almost three points. So, in all, this performance has been helped by strong delivery in the Asian markets, specifically China and India, where we are growing in a very handsome double digit growth. And we are also seeing some significant improvement in our US operations compared to the previous quarter, on which our business Head will be talking to you on these matters. And we have been able to cut losses as Ashok mentioned in Europe significantly. We are well on way to ramp up correction capacity into a very profitable unit. We have been able to manage the capacity utilization in the EP UK and therefore stay afloat in terms of the profits. In Poland, our volumes are increasing and we are rapidly bringing down our EBITDA losses. So, all in all, this has been a good quarter for us. Thank you.

Ashok Kumar Goel:

Chandra, would you like to? Pritesh?

Pritesh Chheda:

Yeah, should we start the Q&A?

Ashok Kumar Goel:

Yeah Pritesh?

Pritesh Chheda:

Should we start the Q&A or Mr. Chandra wants to give some idea on the international operations.

Ashok Kumar Goel:

No, we will take it to the Q&A.

Pritesh Chheda:

Okay. Imran, we will start the Q&A.

Question and Answer Session

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. Sageraj Bariya from Angel Broking.

Sageraj Bariya:

Good afternoon sir.

Ashok Kumar Goel:

Good afternoon.

Sageraj Bariya:

Sir, gross margins, I believe, have come down due to some raw material, Mr. Goel said. Can you just repeat it again, I missed it.

Ashok Kumar Goel:

No, I didn't say the gross margins have come down, but I said the margins would have been better had we not had this glitch of certain raw material.

Sageraj Bariya:

Okay. Basically it was demand from your side was there, but supplier wouldn't supply.

Ashok Kumar Goel:

It was a global shortage of a particular co-polymer and there are three suppliers worldwide and all three had a shortage because of some polymer being diverted to something else. So as a result we were hand-to-mouth on that material, and so we had to shift the materials. So, that means we incurred extra cost on shipment of 20 tons material, 30 tons, 40 tons, India and China. So had that cost not been incurred, our costs that has gone in paying these extra costs would have been therefore lesser.

Sageraj Bariya:

Sir, any number, how much it has impacted our margins by?

Ganesh Ganapathy:

Yeah, anywhere in the region of about 1.6 to 2 crores.

Ashok Kumar Goel:

That is India alone no? The same would have had an impact on China as well.

Sageraj Bariya:

Okay, both put together.

Ashok Kumar Goel:

Yeah, so about 2-1/2 crores.

Sageraj Bariya:

Okay, fair enough. And sir, in terms of product mix, would you be able to give some idea, how are the sales mix like, sir, for the quarter?

Ashok Kumar Goel:

In India as I said that our portfolio of non oral care is over 25%, which used to be only 10%.

Sageraj Bariya:

No, sir, I was talking in terms of maybe lamitube, plastitube and flexible packaging, that way.

Ganesh Ganapathy:

Yeah, around our sales, about 76% is lamitube, about 9% in plastitube in terms of revenue and the flexible being around 15% for us.

Sageraj Bariya:

Okay. So plastitube is how much?

Ganesh Ganapathy:

15.

Sageraj Bariya:

Okay. Sir, how does it compare to same quarter last year?

Ganesh Ganapathy:

See, in terms of growth, plastitube obviously because of the small base, is growing at a higher rate, so there it is, lets say, typically it is growing today at around 27% over last year. We are picking up volumes in Poland and in the US, again, ramping up has started. So those two, and in India we are having a very significant growth in the plastic tube, like we are already reaching our capacity, we have to expand, which we will explain to you. So, in that sense, that is leading, but then it is a smaller base. The flexible packaging, again, we have two units, one in Uttarakhand, and one is in Pondicherry, these two of them we are again ramping up the capacity. We are growing almost 20% in that. So lamitube being the larger part of it, 19.8% growth, it is almost at that level.

Sageraj Bariya:

Okay sir. And sir, that 20% growth, just in packaging business we did this quarter, how much would be the volume and value a rough idea?

Ganesh Ganapathy:

Mostly our volume and values are very close, right? Because of this parcel mechanisms, etc., that is there to an extent, say, but volume growth will be a substantial part of it.

Sageraj Bariya:

Okay, so mainly volume growth.

Ganesh Ganapathy:

Close to around 18%.

Sageraj Bariya:

Okay. And sir, in terms of geographically, America is still kind of making losses, what's happening there? Because I think last quarter you mentioned that one client in particular had faced some product demand was less and something, so…what's happening on that front? Any recovery expected there?

R. Chandrasekhar:

Yeah, see as far as the US market is concerned, I mean, the Americas region is concerned, we will have to break it up into two parts, which is laminated tube and plastic tube. Now the laminated tube is a fairly profitable business as far as Mexico and Columbia is concerned and as far as the US market is concerned, it is, I would say, marginally profitable. Now, unfortunately, the loss which we make in the plastic tube is basically what is dragging down the entire region. And so there are two issues, which we are facing in that region. One is that, how do we increase the profitability of the US laminated tube business, for which as Ashok ji mentioned that there are certain actions, which have been identified and currently under implementation and quarter-on-quarter we are seeing improvement, but I think the big bang is still to happen in the next three months. And as far as the plastic tube is concerned, what has actually happened is that in terms of volumes, we have been able to substantially increase the volumes. Now, the efficiency of the business per se, in terms of the operations, is still lagging, which basically contributes to a loss. Today, our focus is basically on not getting volumes, because volumes have come in today for us, but how do we turn the operation into a much more efficient operation so that it starts contributing to the bottom line.

Sageraj Bariya:

So you are expecting 3Q to be better than the Q1.

R. Chandrasekhar:

In both the businesses, we expect a far better third quarter, sorry December ending quarter, compared to the September quarter.

Sageraj Bariya:

Okay. And sir, in terms of utilization, can you give us some idea region-wise how is the utilization level?

R. Chandrasekhar:

I think whatever numbers we give you on the utilization, you will have to also accept that there has been a capacity addition, which has occurred in India and China during the period of this quarter, so you have to look at it from that perspective. So, if you take for example, if you take the entire EAP, which is the North China and ASEAN countries, we are close to around 70% today.

Sageraj Bariya:

This is including even the new capacity?

R. Chandrasekhar:

Yes, including the new capacity, which has got added during the course of the period? And similarly, if you take India, India is almost again, close to about 70%, it is about 69 point something. In US, it is around 55, and it is Europe, which is bad, we have low capacity utilization, it is about 40.

Sageraj Bariya:

Okay, fair enough sir. Sir, lastly, how much CAPEX have we done sir, till date?

Ganesh Ganapathy:

Yeah, we have done about 55 crores we have spent till now. We are in line with what we had estimated for the full year, 85-90 crores.

R. Chandrasekhar:

85-90 crores is what we had indicated.

Sageraj Bariya:

Okay, fair enough sir, I am done, thanks.

Moderator:

Thank you sir. Dear participants, if you have any question, please press * and 1 on your telephone key pad. Next question comes from Ms. Grishma Shah of Envision Capital.

Grishma Shah:

Sir, just wanted to know about your tax rate, it has increased in the India side as well as on the international side.

Ganesh Ganapathy:

Okay, tax rate on the India side, in India we have a large operation in Himachal Pradesh (not sure), that's a tax holiday for five years and then the tax is 50% of the profits, this is entitled for the tax benefit. So we have crossed the 5th year and this is now we are running the 6th year, that is making an impact for our India profit. Then, as regarding the consolidated one, much would depend as we start reducing the losses in Poland. But in Poland we don't have a tax asset, it is entirely tax-free zone. So to the extent that our losses, it will come and sit on the PAT, therefore increasing the rate. And so, that is the reason for our higher tax rate at this point.

Ashok Kumar Goel:

And Mexico, will you explain the Mexico thing?

Ganesh Ganapathy:

In Mexico there is a new minimum alternate tax has come, which is linked to the resident payment, it is a very complicated methodology, so that adjustment has also impacted this quarter.

Ashok Kumar Goel:

That is a provision, not actual pay out.

Ganesh Ganapathy:

It is supposed to be offset against the tax liability.

Ashok Kumar Goel:

Yeah. So right now the Mexican thing is a provision, not actual pay out.

Grishma Shah:

That would happen throughout the year end, you would pay out or you are waiting for some clarification?

Ganesh Ganapathy:

Yeah, what happens is, the minimum tax can be adjusted against a normal tax, and because in the normal tax we have the benefit of the past carried forward losses, etc., so it is a way of calculation that we have to do it quarter by quarter, so we could expect certain swings in terms of the provisions in Mexico. It is slightly complicated; they are experimenting with a completely different type of alternate tax.

Grishma Shah:

Okay. And sir, going ahead then your tax rate would largely depend upon how Poland turns around, that would effectively bring your consol tax rate a little lower.

Ganesh Ganapathy:

Yeah, absolutely right.

Grishma Shah:

Okay. And how do you see Poland, you significantly reduced losses, so by Q3 you expect it to be in profit or is it the next year that we start pepping in.

R. Chandrasekhar:

NO, we don't expect our, see in Q3, one of the biggest challenges we have is that it is a 2-1/2 month period. Okay, so from 15th December to 6th Jan, there is really going to be a big shutdown. So we don't expect Poland to be in black in the next quarter, but we definitely expect that to happen in the Jan to March quarter of Poland.

Grishma Shah:

I see an increase in the raw material to sales, as a percentage of sales, so obviously you mentioned was the shortage of raw materials. With the assurance from the suppliers, you expect this to come down a little bit in sequential quarters or there is a price increase, which has also taken place?

R. Chandrasekhar:

No I think Ashok ji explained this that now we have got the assurance from the suppliers and so, going forward we expect this to get normalized.

Grishma Shah:

Which would be 43%, 44% of sales?

R. Chandrasekhar:

Yeah, we hope so. I mean, this normalization as Ganesh quantified the amount, it is about 2-1/2 crores, which is an exceptional item in the consumption, so that normalization should bring it back to that figure.

Ashok Kumar Goel:

I think you had two parts of the question; one part of the question was about that particular material. Now this particular material is one of eight materials that we use, okay, so that is what Chandra re-explained to you. Now your part of the question was the raw material cost related to sale, what was that question?

Grishma Shah:

Sir, RM2 sales is 47% on a consolidated basis for this quarter that is the Q2. Last year same quarter it was 43%. One reason obviously I could understand was the 2-1/2 crore swing that we experienced due to the shortage of raw materials, is there an inherent cost increase which has happened in the price of raw material on a year-on-year basis?

Ashok Kumar Goel:

Yes, as Ganesh explained that we have through…more or less passed through all the raw material increases, so that would have been part of it, yes.

R. Chandrasekhar:

Can I answer this question? I think ma'am you have to check the number, because June quarter it was 47-1/2% and September quarter also it is ma'am 47-1/2%.

Grishma Shah:

Sir, I am talking on a year-on-year basis and I take your point on the June quarter it would be 47%, that would be a sequential quarter.

Ganesh Ganapathy:

On a year-on-year basis ma'am it is 46% in September last year, because last year if you have seen the figure you have to see excluding the medical devices.

Grishma Shah:

Okay, I am seeing the consolidated.

Ganesh Ganapathy:

There is a slight increase of 1.4%.

Grishma Shah:

Okay, so there is no time lag between passing on the raw material prices for us or is…?

Ashok Kumar Goel:

There is always three to six months, yes, because when it goes up there is a time lag, when it comes down there is a time lag.

Grishma Shah:

Okay, thank you and good luck.

Ashok Kumar Goel:

Thank you.

Moderator:

Thank you madam. Dear participants, if you have any questions please press * and 1 on your telephone keypad. Next is a followup question from Mr. Sageraj Bariya of Angel Broking.

Sageraj Bariya:

Yes sir. Sir, just wanted to know if you can share the name of this particular raw material which was in shortage?

Ashok Kumar Goel:

It is called EAA, ethylene acetate, what is it Chandra?

R. Chandrasekhar:

It is Ethyl Aceto Acetate.

Sageraj Bariya:

And which are our other raw material sir for this Lamitube and Plastitube if you can share?

Ashok Kumar Goel:

Various grades of LLDP, MBP and aluminum foil and also there are some specialized barrier materials which I can't speak.

Sageraj Bariya:

Okay, not an issue sir. Sir, this EAA is how big percentage of our raw material?

Ashok Kumar Goel:

EAA is just about I think 6% or so.

Sageraj Bariya:

Okay, so LLDP could probably be one of the biggest one?

Ashok Kumar Goel:

Yes.

Sageraj Bariya:

How much sir, 40%, 50%?

Ashok Kumar Goel:

Okay, let me tell you. EAA if I said 6% and aluminum foil is about 10%-15%, so 21, right? Rest of all is other grades of ethylene. Now ethylene could be low density polyethylene, high density polyethylene, medium density polyethylene.

Sageraj Bariya:

Okay, got it sir. Thanks a lot sir, I am done.

Moderator:

Thank you sir. Dear participants, if you have any question please press * and 1 on your telephone keypad.

Pritesh Chheda:

I will ask a question. Could you run us through the incremental capacity expansion program that Essel Propack has over the next couple of years?

Ashok Kumar Goel:

Over the next couple of years? Well, that would be revealing too much at this stage.

Pritesh Chheda:

Okay. Second in the PIPL business, what is the status of that business, lot of the other packaging companies of the same sphere have actually grown faster, so a, what is the take on the growth rate hereon and also what is the take on profitability in that business from here on and would you like to retain that business within Propack's fold or it becomes non-core at a particular point in time?

Ashok Kumar Goel:

May I know your good name, please?

Pritesh Chheda:

Sir, this is Pritesh.

Ashok Kumar Goel:

Oh, Pritesh, Chandra you want to answer?

R. Chandrasekhar:

Yeah. If you look at the revenue growth on that business, quarter-on-quarter, that is last year same quarter compared to September end quarter this year it is about 20%. Generally the business if you take on a year-to-date performance also it is showing about 20%, which is more or less in line with what the industry growth is for flexible packaging. The challenge is basically coming at the operating margin, especially at the ex-raw material contribution level. We have seen a huge increase in polyester prices and polyester is the main source of raw material for any flexible packaging company. In fact it has gone up almost three times in the last nine months. So, there has been a big drag which is happening on the operating margins because of this increase and despite the fact that we have been effective in passing it through, but still there is a time lag which is dragging us. So, in terms of profitability, yes, the business is under pressure, but it is so for almost all the flexible packaging business if you exclude people who make substrates like polyester or BOPP. Now, as to the strategic intent of what we plan to do with this business, I don't think we can talk about it at this point of time, but yes, we will continue to look for all options and we will continuously evaluate the situation as it comes.

Pritesh Chheda:

Okay. What is the quarterly run rate in this business and what are the EBITDA and the net margins in the business currently?

R. Chandrasekhar:

On a quarterly basis our sales is about 28, 29 crores and in terms of EBITDA it is about 10%.

Pritesh Chheda:

Okay. I missed out on the…

R. Chandrasekhar:

I am sorry, I made a mistake. The revenue is about 58 crores and the EBITDA is about 10%.

Pritesh Chheda:

Okay. At the taxation level what will be the blended tax rate for full year, if you could tell us?

R. Chandrasekhar:

For PIPL you are asking or…

Pritesh Chheda:

No, at the company level consolidated taxation percentage figures what it would be?

Ganesh Ganapathy:

Pritesh, it will depend much on how much losses of EBP will come in the balance quarters, okay. See, we can look at anywhere, now we are in the level of about 46 or something, it could come closer around anywhere between 37%-40% for this year.

Pritesh Chheda:

So, ex-Europe what is the taxation percentage that we pay?

Ganesh Ganapathy:

Sorry?

Pritesh Chheda:

Ex-Europe and Ex-US losses what is the taxation percentage that we typically have in other countries, 30%?

Ganesh Ganapathy:

No, it varies. See, in case of China for example it is 22%. In the case of the US it is 38%-40% depending on any disallowance etc. In Poland as such there is no tax at this point in time and the rest of the things are actually between these two.

Ashok Kumar Goel:

But, Ganesh you will have impact of (not sure) merging, no?

Ganesh Ganapathy:

Yes, so that benefits I have factored in, that is why we will have to stop getting into the reduction. Because at one time the effective rate was as high as 48% there, now coming down from the next two quarters we will have the full benefit.

Pritesh Chheda:

Okay. On the longer term what is the scope of margin improvement at the consolidated level for Essel Propack because at one point in time we were making about 23 odd percent in margins and today we are at about 20%, not even 23, but about 27%, so if you could spend some time on the scope of margin expansion from here on, the level over the next couple of years and how you would achieve that?

Ashok Kumar Goel:

Yeah, 27% figure that you are referring to Pritesh is for India, right and…

Pritesh Chheda:

No, it is consolidated in 2003 and 2004 and then we had 24% in 2005.

Ashok Kumar Goel:

Right, because that was the time when we went west, right, so west typically would have lower margins. So, what I expect is that the exit of this year would be at about 22% or so on a consolidated basis. Ganesh, is that right?

Ganesh Ganapathy:

Yes sir, on the net basis including PIPL everything that project will be 10%-20%...

Ashok Kumar Goel:

Yeah, don't forget PIPL will never have this kind of margin so on consolidated basis that pulls down the EBITDA margin as a percentage.

Pritesh Chheda:

Okay, so exit should be about 20%-22% range?

Ashok Kumar Goel:

22%, yes, because we are already at 20% and there is only one way to go, which is improvement. So, 22% should be there including when PIPL is also consolidated.

Pritesh Chheda:

Okay. Thank you. Imran, can we check for other questions?

Moderator:

Thank you sir. Next question comes from Mr. Nehal Parikh of Vibrant Securities.

Nehal Parikh:

Hello?

Ashok Kumar Goel:

Hi, Nehal.

Nehal Parikh:

Yeah, good afternoon sir. I wanted to check sir, what is going forward our interest, can we actually, I think last time around we were talking about our borrowings being locally, so like are we actually now reducing local borrowings and borrowing from the international markets to reduce our interest cost going forward?

Ashok Kumar Goel:

Yes, Ganesh.

Ganesh Ganapathy:

Yeah, absolutely, that is what we are doing now and see, two things are happening, one is we are trying also to work on terms of reducing the interest cost through appropriate structure locally and second is we have raised couple of borrowings in the off shore market whose impact will start coming in the coming quarters in terms of the less borrowings on the Indian balance sheet.

Nehal Parikh:

Okay, so we would have a reduction in the interest going forward, I would assume?

Ganesh Ganapathy:

Yeah, subject of course to any increase in the local rates in India that impact will definitely be there, it will be subdued to that extent, because you know the interest rates are going up in India now.

Nehal Parikh:

Yeah, absolutely and sir in the AMISA region we have had a slight margin pressure I assume from the last quarter to this, because I think against the 157 crore sales we had a profit of around 21.8 in June and this time around we have had sales of around 166 and against that our I guess profits are around 21, so any specific reason for pressures in that AMISA region?

Ashok Kumar Goel:

Ganesh.

Ganesh Ganapathy:

I think part of it is what we explained because AMISA is the region where we also make laminate, which is shipped across, so there was a, earlier we talked about the increase in raw material cost because of the acid copolymer shortages globally and I think that is one definitive explanation for this.

Ashok Kumar Goel:

And also that we have expanded in AMISA for us it is India and Egypt, right. So, Egypt has been on expansion mode, India has been on expansion mode. So with lot of CAPEX going on and I don't know if that is impacting the interest cost also while it is not productive until certain stage, because your CAPEX is continuing, but other than that it is just this aberration of last month that we talked about, air shipments and all.

Nehal Parikh:

Okay, so going forward would we be able to pass that like the higher material cost to our…

Ashok Kumar Goel:

It will not have material cost per se; it is higher shipment cost because air shipments happened.

Nehal Parikh:

Okay and would the margins in the EAP be maintainable, like this time around we have had really good margins on the EAP in that region, so would those margins be like maintainable and along with that you also expect, like at least volumes to pickup in at least India and China in the next quarter?

Ashok Kumar Goel:

Yeah, in China volumes are for sure there. The margins are under no pressure in China if you compare the September quarter then December quarter is not going to be any different from margin perspective. India I think should only improve when certain expansions have come on stream and we start to produce, so what was the other part of your question?

Nehal Parikh:

I think that answers both my parts and what about America and Europe, like would we be able to breakeven for the full year, America, like it includes Mexico as well as Columbia?

R. Chandrasekhar:

When you are talking about breakeven I think I mentioned it, for the Plastic tube operations in the US, which is the biggest track actually in that region, that is where we expect turnaround to start happening in this quarter, quarter ending December and for the laminated tubes part of the business we expect a margin improvement to happen in this quarter. So, it should be much more profitable than what it was in the previous quarter.

Ashok Kumar Goel:

So, in all in all if your question is that will we be profitable in the US for the whole year, I don't think we will be, but exit, yes, could be profitable.

Nehal Parikh:

Okay, thank you sir. That's all from my side.

Moderator:

Thank you sir. Next is a followup question from Mr. Sageraj Bariya of Angel Broking.

Sageraj Bariya:

Yeah, thanks for taking my question sir. Just want to know on this RAS packaging you know, Essel has been digging some stake and everything, can you give us some idea on the roadmap, what is the plan for it going forward sir?

Ashok Kumar Goel:

Chandra/Ganesh.

R. Chandrasekhar:

Yeah, I will answer this Ashokji. See, currently we are in BAFR and the rehabilitation whatever commitment we made in the rehabilitation package is going on, which means that the tube lines are getting utilized better and more capacity utilization is happening and similarly we have spent some money to revamp the lamination process, so that we are in a position to produce the tubes made in the coming quarter. Now as a part of this process we will continue this process of whatever we have committed on the BAFR packaging. So, today what we are doing is basically integrating the operations much more closely with Essel and transferring all the best practices which we have into that business in terms of manufacturing. So, this is where the status is today.

Sageraj Bariya:

Okay, but I believe the company is running operations, it is generating some revenue?

R. Chandrasekhar:

It is generating revenue, I won't say at this point of time it will be not right for us to judge whether it is profitable or not, because invisible costs are absorbed by us as Essel Propack when we are doing these technology transfers, but I think it is steadily getting around to finding its peak.

Sageraj Bariya:

Okay, what kind of revenue it is doing right now, can you share some number sir?

R. Chandrasekhar:

I don't think we will be in a position to share any number with you at this point of time, because their board meeting for the accounts is scheduled in the next couple of days, so it may not be right.

Sageraj Bariya:

Okay and sir in terms of business wise it has got same kind of a business, I mean, it is in lamitube, flexitube, what?

R. Chandrasekhar:

Yeah, same. It is laminated tubes.

Sageraj Bariya:

Okay, fair enough and sir, what is the long term plan, do we plan to merge it with Essel or we still plan to keep it as a independent company where Essel has a holding?

R. Chandrasekhar:

See, I don't think honestly we can comment on anything at this point of time, it is too early for us, because the process of the rehabilitation itself is four months old.

Ashok Kumar Goel:

And we don't want to pre-empt at this stage.

Sageraj Bariya:

Agreed sir, right sir. Sir what is the current holding of Essel in it, sir?

R. Chandrasekhar:

It is about 30%-32%.

Sageraj Bariya:

Okay, thanks a lot sir.

Moderator:

Thank you sir. Next question comes from Mr. Paras Nagda of Enam Holding.

Paras Nagda:

Sir, congratulations on a good set of numbers.

Ashok Kumar Goel:

Thank you, sir. Coming from Enam makes a difference!

Paras Nagda:

Yeah, couple of questions on the balance sheet, we have loans and advances of around 253 crores which we have given, is there any group company loans or Group Company advances given?

Ashok Kumar Goel:

I don't know, Ganesh will clarify, but there is no new loans that are being given to any group companies. If at all the loans are being repaid by the group and last year or this year we had some substantial money coming in.

Paras Nagda:

Okay, got it sir and one more thing on the debt side, sir, we have already around net debt of 800 crores, what is the debt repayment schedule for like next six months and if you can give me for the financial year FY12 also, what kind of debt repayment can we see?

Ashok Kumar Goel:

Ganesh, are you there?

Ganesh Ganapathy:

Yeah. Okay, as far as debt repayment is concerned our DAFR is in excess of 1.2, so they have been scheduled in a way that, they are all long term loans, right and while we have contacted them, this has been factored in our cash flows, so there is no any major pressure or anything in terms of the servicing of that.

Paras Nagda:

Got it, so by exit quarter can we see a net debt of close to 750 crores or will that be still lower than that?

R. Chandrasekhar:

I think you will also have to factor the fact that there will be a certain amount of committed capital expenditure which we had said. As Ganesh has mentioned we spent up to 45, 50 crores and we have another 30 crores to go, so our plan is as we originally announced to keep the debt between 790 to 800 crores as we exit.

Paras Nagda:

Got it sir. Thanks a lot.

Moderator:

Thank you sir. Dear participants, if you have a question please press * and 1 on your telephone keypad. Dear participants, if you have a question please press * and 1 on your telephone keypad.

Ashok Kumar Goel:

Are there any questions now?

Moderator:

There are no further questions. Now I hand over the floor to Mr. Pritesh Chheda for closing comments.

Pritesh Chheda:

Thanks Imran. Thank you. On behalf of Emkay I thank everyone for attending Essel Propack's call. I even thank the management team for spending time and giving an update on quarter II FY11 numbers and the outlook of the company. On behalf of Emkay we wish the management team all the luck and also Happy Diwali.

Ashok Kumar Goel:

Happy Diwali to all.

Pritesh Chheda:

Yeah, if you have a closing comment Mr. Goel, please go for it.

Ashok Kumar Goel:

No, as usual greatly appreciate Emkay for organizing the conference call and all the participants we do wish you happy Danteras and of course happy Diwali and happy New Year.

Moderator:

On behalf of Emkay Global this concludes the conference call. Thank you for your participation and for using our service. Thank you and have a pleasant day.

Note: 1.This document has been edited to improve readability.

2. Blanks in this transcript represent inaudible or incomprehensible words.

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