November 5, 2012

Moderator

Ladies and gentlemen welcome to Q2 FY13 results call of Essel Propack Limited hosted by Emkay Global Financial Services Ltd. We have with us today Mr. Ashok Goel, Vice Chairman and Managing Director, Mr. A. V. Ganapathy, CFO, Mr. M. R. Ramasamy, President, Mr. R. Chandrasekhar, President, Mr. Vinay Mokashi, Financial Controller of Essel Propack Limited. As a remainder all participants' lines will be 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 assistance during this conference, please signal an operator by pressing * and then 0 on your Touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Prashant Kutty, Research Analyst of Emkay Global. Thank you and over to you Mr. Kutty.

Prashant Kutty

Thank you. Good afternoon everybody thank you for joining us today. We would like to welcome the management of Essel Propack Limited and thank them for giving us the opportunity to host this call. I would now like to handover the call to Mr. Goel for his opening remarks. Over to you sir.

Ashok Goel

Yes, thank you Prashant. Ladies and gentlemen welcome to this call. The numbers I believe all of you have been sent the Q2 result dossier. Just a little correction from the people present here. A. V. Ganapathy, the CFO today because he had some family function, he has not joined us. But we do have with us Roy Joseph who is the AMESA as we call it Africa, Middle East, South Asia, which includes India and Egypt for us, he is the Business Head of that region. And we have Neeladri Nandi, who is our Analyst. Now while I welcome all of you to this conference the numbers are there for you. Just few things that I would like to make here before we go on specific numbers is that our clear strategy of Essel Propack to rather than chasing the volume numbers we have our policy or our strategic direction where we are saying that 50% of our revenues in the next couple of years must come from Non-oral care tube sales. Now when we say Non-oral care tube sales that means of course pharmaceutical toiletries, cosmetics and food products.

So therefore we are not necessarily chasing the volume growth but we are chasing the value growth. And this Non-oral care that does not mean to say that we are not going to grow in oral care, of course we will grow in oral care but to that extent as we grow in oral care as well our target numbers of 50% of revenue from Non-oral care does not change. That means that we will have to put more impetus on more value added products and by the natures that they are more value added products because of the high decoration content and the way the dispensing system works in these products. Therefore they are in those terms are value added products and therefore margins in absolute terms tend to be much better than oral care tubes.

Now oral care as you all know does provide us the critical mask and that helps us to cover our fixed costs, margins are there of course but they are not as compared to Non-oral care tubes. So that is one over arching matches that I want to reinforce and take this opportunity here.

Second thing is I recognize that the organization it to be much more agile than what we have been and there are lots and lots of tough decisions that we will take going forward. Those include at the organization level as well as on the geographic level in terms of moving across the capacities where we can better utilize them reducing our cost structures, improving our efficiencies, reducing scrap levels, and improving our overall working capital and challenge the status quo in almost everything that we do. Now this is not merely a statement. The entire top team of this company has been aligned through multiple exercises that we have recently conducted and there is no other go that this company has to start taking tougher decisions than as compared to what we have been in the last couple of years.

So these messages are very clear, it understood by at least the top team and the top team is in the process of drilling this downright through organization.

With that I would say that the numbers for this quarter since Ganesh is not there I will delve a little on to this, of course we will answer your specific questions. The numbers as you can see on a global level the sales have increased by 20.3%, operating profit has improved by 47%, all these are as compared to last year same period and the net profit of the quarter has been Rs. 23.2 crores, which is higher by 155% point.

When it comes to India's standalone the net profit for Q2 has been Rs. 13.2 crores which is 43.5% over the previous period helped by sales growth of 20.2% which is Rs. 15.04 crores. Operating profit of the quarter is at Rs. 24.6 crores, which is 43% growth over previous period and sequentially also we have grown. I am sure in the published results you have also seen the segment growth were the sales have grown in AMESA that is India mainly which also include Egypt of course as the region but this growth mainly came from India which is 15.9% in revenue terms in East Asia Pacific 17.1%, Americas which include US, Mexico and Columbia 21.3% and Europe 57.8%. Europe in this case for us is Russia, Germany, Poland these are the three countries where we operate. The operating margins have improved by 210 basis point over the previous period and of course the most important thing is what I mentioned that instead of chasing the volume growth we are chasing the value growth and therefore the oral care and Non-oral care share in our case in September quarter has improved that is for Non-oral care from 35.4% to 40.2% that is in value terms but in volume terms it has grown from 25.1% to 28.6%/

Now Vinay, would you like to walk in through the numbers?

Vinay Mokashi

Yeah.

Ashok Goel

So Vinay will attempt to walk you through the specific numbers.

Vinay Mokashi

Mr. Ashok Goel had already explained the overall summary of the performance for the quarter compared with the previous quarter. I will walk you through quickly between the regions as to how the performance has been improved. In case of revenue growth in AMESA it is about 15.9% but East Asia Pacific is 17.10% and Americas by 23% and Europe is 57.8%. So overall basis we have grown by 20.3%. If you compare the sequentially we have also grown in AMESA by 5.5%, EAP 20.9%, Americas 17%, Europe is flat at 5.5% and overall basis it is growth of 10.7%. This growth has been achieved in terms of volume also we have grown sequentially as well as compared to last year. We had little bit of dip in East Asia Pacific but otherwise it is a strong performance in all the regions.

Anyways the publication numbers are with you so if you have specific questions we would like to take them at this point.

Moderator

Thank you sir. We will now begin the question and answer session. Our first question from the line of Ruchita Maheshwari from Nirmal Bang Securities. Please go ahead.

Question and Answer Session

Ruchita Maheshwari

I just wanted to know what are the reasons for the geographical growth?

Ashok Goel

What are the reasons for the geographical growth?

Ruchita Maheshwari

Yes, like every geographies have grown above 15%, so what was the reason for every geographies?

Ashok Goel

Well, we have a couple of reasons. One, of course that we have chased the value growth rather than volume growth but of course volume are important but what we have tried to do is that we have rationalized our customer portfolios which essentially means that in case we had the limitation of capacity in certain geography, so rather than expanding the capacity what we have done is that we have looked at the profit margins against each customers and therefore as we call it cutting the tail is something that we have resorted to and of course we have done some price corrections and some of it is also translation effect of the foreign exchange.

Ruchita Maheshwari

Okay sir. Sir, if we talk about specifically to Europe, have we achieved, or are we in the process of achieving whereas in the last con call you said that by the end of FY13 will be achieving breakeven at Poland and Russia, so what is the scene in that area?

Ashok Goel

Well, Russia I think is on the growth path and in the EBITDA terms we have so in EBITDA terms we continue to breakeven. In Poland in EBITDA terms more or less at the breakeven but still not there and Germany of course is improved its performance over the previous quarter if you are referring to from 8% -- sorry, from 7.7% EBITDA margins it has grown to 10.8%. This is one geography where we continue to look at with magnifying glass and when I refer to in my opening remarks that we do have to take some tough decisions and if the performance still does not come up to the expectation we will not shy away taking some tough decisions Those tough decision in specific terms could also mean shifting of capacities from those geographies to where we can productively use and also realigning the organization and bring the cost structure -- overall cost structure down to their current level of performance so that they do not bleed us going forward.

Ruchita Maheshwari

Sir, in AMESA last time you guided that we will be achieving a big profit in Q2 for Mexico, so have you achieved?

Ashok Goel

You are referring to Americas rather than AMESA?

Ruchita Maheshwari

No, Americas only. I am saying.

Ashok Goel

Yeah, okay.

Ruchita Maheshwari

The America you guided that Mexico unit will achieve a big profit in Q2 FY13, so have achieved that?

Ashok Goel

One second let me look at the papers. Mexico we have the, this is what really right and so EBITDA levels she is asking so – yeah for the quarter there is positive EBITDA, it is about Rs. 4 million in Mexico. And in Mexico since we have done little bit of reorganization in terms of shuffling of some portfolios at the corporate level and we are brought about some changes in the regional level and therefore we expect that Mexico has no choice but to continue to perform at this level or even do better. So now Ramasamy is the Director, President for Americas, he is kind of stationing himself over the last couple of months and now he is going back again will spent couple of weeks sitting out there and we are making sure that what we are promising or what they are promising is being delivered.

Ruchita Maheshwari

Sir, under EAP region we saw some volume fall in the last quarter due to some problems with customer in China and this quarter we have seen 17.1% growth, so can you explain what is the situation in China?

Ashok Goel

Yeah Ruchita as I said we are not too much focusing on the volumes but yes it is not unfair of a question, yes volumes are also important. So this was a particular customer I and Ram had a personal meeting with that customer in China two weeks ago and they are saying that it was an impression and they are already peaking up their sales and now they are emptying their pipeline and as a result we should see the volume picking up back again. But last time what we did not tell you is that that volume drop is going to allow us the compensation in terms of price from that customer which is not been provided for in the books as of yet, which we will provide at the end of the year so even though the volume might be lower but financially we will be compensated.

Ruchita Maheshwari

Sir, what will be the amounts sir if you can quantify?

Ashok Goel

That will be about $300,000.

Ruchita Maheshwari

$300,000?

Ashok Goel

Yes.

Ruchita Maheshwari

Okay. Sir, like in this quarter we have seen our significant jump in our operating margin, so do we expect such kind of performance in the next couple of quarters?

Ashok Goel

Yes Ruchita. These numbers that you have seen in September quarter we expect to maintain this levels if not improve, yes.

Ruchita Maheshwari

Okay. Sir what kind of margin then we will be looking for FY13?

Ashok Goel

You are talking in terms of?

Ruchita Maheshwari

In terms of consolidated levels?

Ashok Goel

No, that is at which level it EBITDA or PAT?

Ruchita Maheshwari

EBITDA level.

Ashok Goel

At EBITDA level are at -- 18.3% is the level currently and we will maintain that level.

Ruchita Maheshwari

Sir overall it will be somewhere around 17% - 17.5%?

Ashok Goel

Yeah around in the region of 18%, yes. While people are preparing for their questions let me also mention that we are seeing a constant growth in FMCG sector in the emerging markets that is mainly for us if you look at AMESA and EAP and we have the right capabilities to cater to those markets, those categories of products and therefore we see that our value growth is in line with the way the market is growing and therefore we do not – we see a good traction going forward in the Non-oral care category.

Prashant Kutty

Hi sir, Prashant here. Firstly sir, I do understand you just mentioned about the fact that you probably going to be focusing more on value growth but for the sake of our participants could you just have probably what is the volume number on a blended basis and also probably the segment volume numbers, or the reason why this volume numbers?

Ashok Goel

Region wise Vinay just look at but overall number Prashant I mentioned that in volume terms the non-oral care globally as an average is 28.6% which was as against 25.1% last year.

Prashant Kutty

Was that the volume growth or was that the extent of volumes contribution by the non-oral care?

Ashok Goel

No, I am telling you in terms of volume that was your question as the way I understood it. So last year the non-oral care in terms of volume was 25.1% as a global average which is gone up to 28.6% this quarter but if you look at different geographies are at different levels in terms oral and non-oral care. In India in terms of value I think we are already at 41%. In India we are already at 41% in terms of value. China probably is largely on oral care as of yet and Europe is mostly non-oral care but that can change. US we do have a mix of US I think should be around 20% or so.

Prashant Kutty

20% will be oral?

Ashok Goel

Non-oral.

Prashant Kutty

Non-oral, I am sorry 20% non-oral. Okay.

Ashok Goel

Yeah.

Prashant Kutty

And the 41% that you mentioned is again non-oral, right?

Ashok Goel

Non-oral in India, yes.

Prashant Kutty

Okay. And could I have what is the blended volume growth of the company?

Ashok Goel

Prashant what you mean by blended?

Prashant Kutty

Sir, basically what I am trying to ask you is that sir we saw a 20% increase in our revenues so that will be a mix of my volume growth, my price growth and my production mix changes. So what I am trying to ask is what is the volume growth or rather you can say the total tubes?

Vinay Mokashi

See total volume growth is about 8% in the current quarter.

Prashant Kutty

And in terms of laminates sir, could we have what is the region wise volume growth again over here.

Ashok Goel

That was the total growth of 8%, now I assume you are asking for break-up…

Prashant Kutty

As per segment, yes, that is right. I am asking the geographical break-up.

Ashok Goel

We can give you later Prashant. We do not have those numbers ready here.

Prashant Kutty

Sir, my next question is regarding the capacity utilization. What was the blended capacity utilization and probably the region wise capacity utilization as of Q2?

Ashok Goel

I think we continue to have upwards of 65%, overall capacity utilization. That is global average, but different geographies again are at different levels. But then if we dissect that further then you will see laminated tubes verses plastic tubes, so it will little be I think kind of known value add information. So what we are trying to do is we are seeing some geography which needs growth capacities and we are going to withdraw some of those capacities where they are under utilized. And this process is only going to increase as we go forward.

Prashant Kutty

I just need a bookkeeping number over here. We just mentioned that in AMESA 41% was non-oral care as of this quarter, right. What was it the corresponding last year quarter? Just to know what the kind of increase was, actually it has happened in each and every segment.

Ashok Goel

I can give you absolute number 595 was oral care, 550 was non-oral care. This year we have 643 oral care and 749 is non-oral care.

Prashant Kutty

Here the maximum traction that we are seeing is majorly in the AMESA region and the European region as far as non-oral care is concerned.

Ashok Goel

Yes, but we are increasing that in America's as well.

Prashant Kutty

Okay, so probably this 20% was say last year was how much in America's if you are saying the increase which we are talking about. I mean have the seen the increase in this quarter or has it been in the same level, the non-oral care?

Ashok Goel

The non-oral care growth is, revenue terms is 15% - 20% over last year.

Prashant Kutty

This is for America's?

Ashok Goel

Yes.

Prashant Kutty

Sir, could we have a similar number for probably other regions as well?

Ashok Goel

We will have to dig out Prashant.

Moderator

Thank you Prashant. We have got a follow up question from the line of Ruchita Maheshwari from Nirmal Bang Securities, please go ahead.

Ruchita Maheshwari

In this quarter our tax rate is 35.2% whereas in Q2-FY12 was 52.7% and Q1 was 51.6%. If you can throw some light on this?

Ashok Goel

First of all we do have remnant effect of RAS Group merger with Essel Propack. So we do have some adjustments of carry forward losses there. So that is one reason why the tax rate is down plus some non-performing geographies in the past quarters. That means loss making in any case was impacting the tax as a percentage, they are now kind of performing so to that extent it reduces the percentage of tax.

Ruchita Maheshwari

Sir in Q4 con-call you said that you have taken some price hike in Q3, but the effect of that price has not been registered in Q4 because we have a price lag effect. So the revenue has fallen in Q4 so has that price increased benefit we have achieved in this quarter?

Ashok Goel

Yes, that full effect has flown through, you are right.

Prashant Kutty

Sir just wanted to know, we believe, we spoke about the exchange gain benefits as well. I believe large part of the growth in the EAP region was also because of the exchange in benefits. Would we know, what is the actual extent of the impact which is the positive impact that we have had from the exchange games into our margins as well as our revenues?

Vinay Mokashi

See over-all revenue growth in the current quarter compared to previous quarter is about 20% but as per the constant exchange rate, it comes to about 10%.

Prashant Kutty

So 10% was the impact of currency and what was the number corresponding….

Vinay Mokashi

Yes, if you adjust it for EBIT level then it is about 25% growth and at PAT level it is about 56% growth for the current quarter, over the previous quarter last year.

Prashant Kutty

Sir, we can say that a large part of the growth is largely led by the exchange gained benefits actually. The reason why I have been asking is: is this growth sustainable in the ensuing quarters especially when you are talking about the exchange gained probably playing such a large role over here.

Vinay Mokashi

You see Prashant what growth rate I told you they are at constant exchange rate. So revenue has grown now 10% over the previous quarter and EBITDA has also grown by 25%. That is all because of the value selling as well as the tight control on the operating cost. That is getting reflected there. And my PAT growth is also quite higher 56% at constant exchange rate and if you look at our EBITDA margin that has also gone up by 200 basis point over previous quarter. So that reflects that there is a strong growth in the underlying business even if you do keep aside the exchange rate impact.

Ashok Goel

Just keep in mind constant exchange rate when Vinay says is compared to the exchange rate prevalent same period last year.

Prashant Kutty

Yes, I understood that.

Moderator

We are going to take our next question from the line of Sumeet Rohra from Silver Stallion, please go ahead

Sumeet Rohra

Just wanted to get your sense on the overall business not per se per region or per oral-care or non-oral care but since we cater to a large extent of the FMCG sector and FMCG sector is booming globally as well as locally. So what is your take on the outlook for the business Sir, going ahead, given a year or year and a half down the road?

Ashok Goel

We have looked at the numbers from various perspective and we knew that this question is going to be in everybody's mind. So we looked at these numbers, I am reasonably searching that we will maintain these numbers in subsequent 2 quarters.

Moderator

We have got a follow up question from the line of Ruchita Maheshwari from Nirmal Bang Securities, please go ahead.

Ruchita Maheshwari

Sir, I just want to know have we added any new customers in this quarter in any of the geographies?

Ashok Goel

Yes, in almost all geographies but I cannot tell you the names of those. Now let me just expand on this question. If you are saying large customers or small customers we are not distinguishing because the moment we talk about non-oral care it will be agglomeration of many customers and then only we can grow, so obviously we would have added more than tens of customers particularly in the growth geographies, India, China, possibly also in Europe and few more in America's.

Ruchita Maheshwari

Sir, you had mentioned that in China you will be compensated some $300,000 so when can we expect this?

Ashok Goel

That will be at the end of 3 quarter because even though in terms of cash flow that money is coming into us and we are holding that money but we are not taking it to our P&L we are treating this as a liability as of now. But this will be done in the 4th quarter only.

Ruchita Maheshwari

Sir, is there any repayment of loan in this financial year?

Ashok Goel

Okay, there again Ruchita, let me explain that our DSCR ratio we intent to maintain at 1.5 and that is our stated objective and we will maintain it at that. Now if we look at the absolute amount then probably because then your questions will keep coming every quarter. If we are chasing some growth, if we are looking at some expansions, and if we took some fresh loans then what happens the absolute number in that sense it is not really relevant. As long as we maintain our DSCR at 1.5 is what we are looking at, but for this time I can answer your questions, debt level is same as last time you discussed at length, which was 999 at constant exchange rate which is the same as of now as well, a few crores here and there of courses.

Ruchita Maheshwari

Sir, you mentioned in the last conference call that the CAPEX will be somewhere around Rs. 90 to Rs. 100 crores. So are we maintaining that CAPEX level?

Ashok Goel

Yes, I can tell you that so far we have for the first half of the year we spent about Rs. 65 crores and balance 6 months we will have about another Rs. 31 crores coming in.

Ruchita Maheshwari

Sir, what will be the CAPEX for FY14?

Ashok Goel

FY14 Ruchita on a normal kind of trajectory as we have been in the current year will be different but if we have some big wins, big contracts then of course will be additional. So in a normal year our CAPEX would be about Rs. 90 crores but if we have some big contracts coming in and as a result we expand capacities, those would be additional.

Ruchita Maheshwari

Sir our loss in the Europe has reduced as a percentage, so if you can throw some light, how the Europe is panning out and what kind revenue or what kind of profitability or reduce in losses we will be seeing in this area?

Vinay Mokashi

See in case of Poland we have already seen losses have been reduced drastically as compared to the same quarter of previous year and we can see improvement of about 81% in EBITDA and about 24% at the PAT level. Russia is also showing the improvement at 53% in PAT level and Germany as I have explained also shown quite an improved performance in the current quarter. So looking at this current performance as well as coming quarter where we are expected to grow as per our target we should have an EBITDA positive as the last quarter.

Ashok Goel

Ruchita again this is business as is, and also redid with some tough decisions that we have to take that may alter the situation significantly for the positives.

Prashant Kutty

I have a question over here. See if you just probably this CAPEX of Rs. 65 crores in the first half, what was this basically utilized towards?

Ashok Goel

This was some capacity expansion for existing customer in India, then we had some operating lease assets we had in US which we over took and then we had some balancing equipment's in China and packaging in India.

Prashant Kutty

So I believe that is one of the main reasons as to why we have seen the capital employed increasing in each and every region, right?

Ashok Goel

Yes.

Prashant Kutty

So now coming back to the margin front, sir, if we look at the H1 EBITDA margin we are at about 17.2% and our Q2 number was about 18.3. You just spoke about having an 18% EBITDA margins for the FY13 period. Just wanted to know because the employed number for H2 FY13 was it almost was 19%, in order to achieve the 18% margin. So could we know probably what would be the drivers to achieve this 18% margin and secondly is this 18% margin sustainable in the next 2 quarters?

Ashok Goel

First Prashant, it is not 18% for the whole year, my answer was for the next quarter should we have the same margin as this quarter, so my answer was in the region of 18 which could be 17.5 it may be 18.25. So average for the year of course the 1st quarter has to be adjusted accordingly. And what are the regions of course we are challenging the status quo in almost everything. So we are looking at our cost structures, we are looking at our efficiencies, our scrap reductions, asset utilizations and some more decisions we might take on some business which are not in that region in terms of EBITDA presentation.

Prashant Kutty

Because sir, actually if you look at the other overheads we almost seen a 180-200 bps decline as a percentage of sales as far as other overheads are concerned. So do we witness a similar kind of number going forward as well, because that is a pretty steep correction and this has actually been visible this quarter itself as compared to the earlier 4-5 quarters or so. Because I believe once you do that, you obviously would be able to increase your margins as you have seen in this quarter.

Vinay Mokashi

Prashant, let me answer this question, and I think Ashok touched upon it in the beginning that we are refocusing heavily on playing the value game. So when you compare all the other operating expenses as a percentage of the revenue this will be very evident and it will be seen in this manner. You get it, because your value is increasing much faster, the volume being what it is your material cost is there, correct, because your revenue is outstripping your volumes you will always have operating cost, then you will look at it as a percentage of sale it will always show a lower number. That is why you are seeing this quarter 17.7% compared to 19.5% in the similar quarter and even if you would compare it with the running quarter and as you mentioned that you are seeing slowly a declining trend. That is exactly coming out of that balance stripping.

Ashok Goel

And of course cutting the tail in terms of….

Prashant Kutty

This is very much expected to follow as well?

Ashok Goel

Exactly.

Prashant Kutty

Sir, as per the revenue growth is concerned what is the guidance that we are giving for FY13 and FY14?

Ashok Goel

FY13-14 you are saying?

Prashant Kutty

I am talking about FY13 and I am talking about FY14, both the years. Because as of now our H1 run rate is at about close to 18% to 20%.

Ashok Goel

You are talking in revenue terms, right?

Prashant Kutty

I am talking about revenue terms, yes?

Ashok Goel

I think we should maintain this growth level, I do not know, our average is not 20%.

Prashant Kutty

The first quarter, sir, we saw a growth of about 18%-19%, if I am not wrong and the second quarter we have seen about 20% YoY increase, so just wanted to know.

Vinay Mokashi

Prashant, the run rate for 2012-2013, if you recollect we had mentioned in the last call also, it is about 14% - 15% maintaining, and we will stand by that number as of now. For the year 2013-2014, we are still to go through a very intense process of looking at an annual operating plan but we presume it should be in the same range of around 12% - 14%.

Ashok Goel

I think it will be hazarding a guess at this stage because we have to go through our process, which will start sometimes in December and before the next year starts we will of course know the numbers and I think we should leave it, at that for the moment but our internal target is much aggressive growth.

Prashant Kutty

Just a clarification I had, one of the first remarks which you made was that we are looking at 50% of the revenues to come from oral care by FY14, if I am not wrong?

Ashok Goel

Yes, end of 2014-2015.

Prashant Kutty

Okay, how much would this actually be looking at in volume terms? Would it be a similar number?

Ashok Goel

As I said I stopped looking at volumes, I am chasing the value and that is what is important and that is what I am driving…

Prashant Kutty

No, I am talking about the non-oral volumes in overall volume.

Ashok Goel

Yes, I understand, because if I do that it is always a moving target, Prashant. I am not trying to dodge your question but the point is that we will also grow in oral care. So the moment that happens then our target for non-oral care is always a moving target. Therefore it will be unfair for me to pin-point the volume numbers.

Prashant Kutty

Sir, similar to that I just want to have a question regarding the EAP region as well because again in EAP we have majorly oral and we just spoke about that, we are probably doing some arrangements with the customers, do we feel this growth in EAP would be sustainable, the 17% growth which you have seen because I believe a large part was due to the exchange gains which you have got?

Ashok Goel

See for EAP our strategy is very clear while we will have this oral care business, we are chasing aggressively the non-oral care and Ram and I were there as I mentioned and we are getting some business in that geography and it is simply a question of gaining that traction, of course we want some critical mass to build and that is what we are chasing at this moment. Once that happens this will built the traction and then would probably necessitate some capacity expansion.

Prashant Kutty

Just one question over here, just wanted to know what is the potential of non-oral care in these markets like the EAP region and rather for that matter in each and every region because you said that we have only Oral in EAP region. You have bought 20% non-oral in America's region. So just wanted to know what the potential is over there, I mean to what extent we can actually….

Ashok Goel

Let me explain to you the China market. The China market in terms of oral care penetration is north of 83%

Prashant Kutty

Penetration in oral care-

Ashok Goel

Oral care to the population is north of 83%. Which means that the growth in oral care in China has to come from people changing their habit from one time brush to at least two time brush but per capita consumption still of oral care is substantially lower as compared to any other market which is established market or mature markets as we call them. So therefore to that extent that opportunity does exist and that is one trend. Second trend is that the pack sizes are changing that means the smaller pack size are getting converted into family pack sizes. The third thing that is happening is that because the penetration level is already high the premium segment of tooth paste is getting more popular. So that is the situation for oral care in the Chinese market. So we, in terms of oral care growth we do not expect much growth to come from China except 3% or 4% growth in oral care. What we are certainly looking at is non-oral care which is booming and the numbers are kind of let Roy speak about it.

Roy Joseph

In terms of the cosmetic market in china it is almost 3 times the size of India, so it is around 1.3 billion tubes for cosmetic market there in china. The potential is much higher in China and our revenues from cosmetic is around 7%, so the opportunity to grow in the China-EAP market for us which is opportunities are there is significantly higher and similar opportunity lies even in the pharma space we have a dedicated facility there and the size of the market for pharma tubes is around 1.1 million. So these are the 2 focus areas were the revenues growth in China will come from.

Prashant Kutty

So this 1.3 billion is basically it would be the completely non-oral right?

Roy Joseph

Only cosmetic and similar number on pharmaceutical.

Prashant Kutty

And how would it be the same case in America's?

Ashok Goel

The non-oral care the plastic tube market in America's is about 2.5 billion or 3 billion tubes. Let me also mention here, there is another trend that we are seeing that is for everybody's consumption that in cosmetic sector which traditionally has been in plastic tubes, we are seeing a market churn and in fact we can credit ourselves to kick start this change by introducing the Inviseam Technology globally which is converting from plastic tubes to laminated tubes. What is happening is the moment a particular brand or SKU gains a critical mass in terms of volumes of tubes, those are the customers who are very actively pursuing, converting those plastic tubes into laminated tubes and this of course necessarily requires high decoration which we have equipped ourselves in all geographies. When I say all geographies in terms of regional geographies not country wise. So we are seeing a huge shift and therefore the companies which were pure play plastic tube companies they are kind of nervous and they are looking at also finding an alternative to protect their business. On one hand we will see an increased competition but on the other hand it is not very easy and therefore we are already well-positioned in terms of our capabilities and we are going to see a huge shift from plastic to laminated tubes. Does it mean the plastic tubes business will get killed? No, of course not. There are huge amount of business which still have not crossed critical mass and there are more and more newer players that are coming in therefore they would necessarily go with plastic tubes and which is where our confidence comes from because we are seeing that shift and we should be in a position to capture that opportunity.

Moderator

As there are no further questions now I hand over the floor to Mr. Prashant Kutty of Emkay Global for closing comments. Thank you.

Prakash Kutty

On behalf of Emkay I would once again like to thank you all for joining the call, have a great day and sir, if you have any closing remarks to make?

Ashok Goel

Thank you Prashant, Emkay and all the participants, greatly appreciate your time as always. As I said that it is not an aberration this quarter because I also reckon the fact that we have not been coming to the expectations of the investors in the past many quarters but things are bound to change and now they are going to change. We aligned and we will deliver those numbers which is in line with the September quarter this year and I have explained the reasons, I have also given some hints for obvious reasons I cannot talk too much in details of those changes, those tough decisions and also on the specific new wins that are in pipeline that probably we will talk about in December quarter. So thank you all again for your patience and of course when we have provided the investor's brief, also look at the last page where we have compared ourselves with the global peers in packaging space. So I hope you will take notice of that as well. So thank you once again and wish you all a Great Festive Season and Happy Diwali in advance.

Moderator

Thank you. On behalf of Emkay Global Financial Service that concludes this conference, thank you for joining us you may now disconnect your line. Thank you.

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

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

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