Essel Propack

Q2FY15 Conference Call Transcript

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Management:

Mr. Ashok Goel – Vice Chairman & MD,
Essel Propack Ltd

Mr. A. V. Ganapathy – CFO,
Essel Propack Ltd

Mr. M. R. Ramasamy – President,
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Mr. Roy Joseph – Regional VP, AMESA,
Essel Propack Ltd

Mr. Vinay Mokashi – Financial Controller,
Essel Propack Ltd

Mr. Amit Jain – Head Treasury,
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Mr. Ashok Vashisht
Regional Finance Controller, AMESA,
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Operator:

Ladies and gentlemen, welcome to the Q2 FY15 Results Call of Essel Propack Limited hosted by Emkay Global Financial Services. We have with us today on the call Mr. Ashok Goel, Vice Chairman and Managing Director, Mr. A. V. Ganapathy, CFO, Mr. M. R. Ramasamy, President, Mr. Roy Joseph, Regional VP, AMESA, Mr. Vinay Mokashi, Financial Controller, Mr. Amit Jain, Head Treasury and Mr. Ashok Vashisht, Regional Finance Controller, AMESA of Essel Propack Limited. As a reminder, all participant 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 the conference call, please signal an operator by pressing *, then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Prashant Kutty, Research Analyst of Emkay Global. Thank you and over to you, sir.

Prashant Kutty:

Yes. 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 hand over the call to Mr. Goel for his opening remarks. Over to you, sir.

Ashok Goel:

Thank you, Prashant, for hosting the call. Ladies and gentlemen, welcome again and appreciate your time today. As you have already seen the results for the Q2 FY15 the revenue growth has been 13.1% for the quarter as compared to same quarter last year ; PAT growth of 34.1% which takes the half year number to 13.7% sales growth over the same period last year and PAT growth of 24.2%. We are reasonably satisfied with these results and, as I've been saying, t our PAT should grow at the rate of 20% which is evident from these numbers. Almost all geographies for us have done well and we expect them to continue to do well; starting from Europe where it was loss-making has turned into profit-making. America's-South and North, - Mexico unit was the major pain which has turned around apart from improved efficiencies in the North America, particularly business coming from non-oral care. East Asia Pacific headed by China has also done significantly better as compared to same period last year basis some premium oral care business. This t category which is emerging in China has helped us to get the numbers; however our focus on non-oral care growth in China continues and the efforts in that direction are accelerated We hope and expect that the future quarters will give us continued better results. When it comes to AMESA that is Africa, Middle East, South Asia , India and Egypt are the geographies where we have our operations. Egypt continues to be a high growth geography for us and we continue to expand our capacities. India has grown also quite well even though the numbers that you see are kind of muted , partially because last year we did have some exceptional items in the same period. The best part is that this year we have been able to bridge that from the operations itself.

In terms of our growth, as I mentioned, we are building our capabilities as well as capacities in Colombia. Mexico we have done for this year. We will improve our capability and capacity mostly capability in US. In Poland we are doing both capability and capacity expansion; , same is the case in Germany. In Egypt also we are doing both capability and capacity building. India, we are expanding our capacity. China, as you all know, Southeast China site , is under commissioning right now. So in a nutshell, I can say that, yes, these results are satisfactory even though they are lower than our internal targets. As a practice, we always have internal targets which are higher,. I will now open the floor for discussions and any questions.

Operator:

Thank you very much,sir. Ladies and Gentlemen, we will now begin the question and answer session. We have first question from the line of Ritwik Seth from Span Capital. Please go ahead.

Question and Answer Session

Ritwik Seth:

Hi, sir. Good afternoon. Sir, I have few questions. Sir, first question is regarding the COCO model. Have you won any contracts this quarter?

Ashok Goel:

COCO model it's not something that can be won in short span. It's the result of protracted discussions. COCO model that we have started in India which is working very fine. We are getting good results. We are running full capacity. As a matter of fact, that capacity is being expanded. Now, the fact that it is a COCO model, Customer-Owned Company Operated, means the CapEx is done by the customer and that capacity as we speak is getting added. The new installation is happening. There what happens is we are supplying the raw materials, mostly the printed laminate and caps, and we provide our people and knowledge, so that is running very fine.

Ritwik Seth:

And, sir, what is the difference in margin in this model versus when we use our own set up?

Ashok Goel:

There, Ritwik, the lines get a little blurred, but if you take just the bottom line, bottom line margins are the same as what it would have been if we invested ourselves.

Ritwik Seth:

Okay. It is the same?

Ashok Goel:

Yes.

Ritwik Seth:

Okay. And, sir, on the pharma, I wanted to get what percentage of total volume or value we are selling to pharma companies like suppose you've sold 100 tubes in Q2, then what percentage of that will be going to pharma companies?

Ashok Goel:

We have not progressed tracking beyond oral and non-oral; we do not normally track the breakup of non-oral care. I cannot give you exact volumes, i.e. absolute volumes.

Ritwik Seth:

Yes. Just percentage-wise like, you know, what kind of?

Ashok Goel:

In terms of volumes it is 11%.

Ritwik Seth:

11%?

Ashok Goel:

Yes.

Ritwik Seth:

Of non-oral care or the total?

Ashok Goel:

Pharma as a percentage of total sales.

Ritwik Seth:

Total sales? Okay. Great. And, sir, standalone margins have dropped like 150 to 200 basis points, is there any specific reasons for?

Ashok Goel:

You mean India numbers?

Ritwik Seth:

Yes.

Management:

Yes. As Ashok explained a while ago, there are 2-3 things which have impacted the India standalone numbers. One, of course, is that there were some exceptional items in the last year and also some one-off benefits we had following that merger we had done with Ras, if you recall.

Ritwik Seth:

Right. Yes.

Management:

So to that extent, you know, that it's a one-off benefit.

Ritwik Seth:

Okay. Sir, it's just an apparition for this quarter, next quarter will be around 21% again?

Management:

No. That is only one of the reasons. There are some other reasons as well the mix; the capacity now being rationed between oral and non-oral care. So it is because of the product mix variation which we are taking action to de-bottleneck the capacity. In the next quarter or two, once the capacity bottleneck is removed, our ability to get the full benefit of the mix also will kick in.

Ritwik Seth:

Okay. And one final question, sir, last year if we look at our top line, in the first half we had done around 46-47% and second half was the balance, so can we expect the similar amount this year, similar figure this year?

Management:

Just can you explain once more?

Ritwik Seth:

Yes. Sir, last year first half top line was around 46-47% of the total sales FY14, so can we expect a similar H2 performance in FY15?

Management:

Yes. It will be in line with last year.

Ritwik Seth:

Okay. Okay. That's it from my side. All the best. Thank you. Hello?

Operator:

Hello.

Ritwik Seth:

Yes. I am done.

Operator:

Thank you, sir.

Ritwik Seth:

Thank you.

Operator:

It's a reminder to all the participants. We have the next question from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal:

Yes. Hi, sir. Sir, looking at your first half results you have done around 17% kind of EBITDA margins. And, sir, according to your stated plan, you want to achieve around 18% for the full year, so, sir, just wanted to understand are you on track to achieve 18% for this year and 20% for next year?

Ashok Goel:

Yes. I think we will meet 18% EBITDA margin, Dikshit.

Dikshit Mittal:

Okay. Okay, sir. So that means by the end of Q4 you should be touching around 20% kind of EBITDA margins, am I right on that?

Ashok Goel:

18% EBITDA margin, right.

Dikshit Mittal:

No, sir. By the end of Q4 because if you want to achieve 18% for the full year that means Q3 and Q4 should be much higher than 18%, right?

Ashok Goel:

You are right. Yes.

Dikshit Mittal:

Okay. Okay. And, sir, secondly this China non-oral care plant have we commissioned that or is it yet to be commissioned?

Ashok Goel:

It's under commissioning. That means if there were two sets of machines, one set of machine is commissioned. Trials are ongoing and second set of machines are under commissioning.

Dikshit Mittal:

Okay. So that means impact of this new plant will be in the third quarter and…?

Ashok Goel:

It will be in fourth quarter.

Dikshit Mittal:

Okay. Most of that will be in Q4?

Ashok Goel:

Yes.

Dikshit Mittal:

Okay. And, sir, finally you have mentioned your CapEx spends on Columbia, Germany, India as well as China, so earlier you have guided that your CapEx wouldn't exceed the depreciation, so will it remain that way or you plan to increase your CapEx going forward?

Ashok Goel:

Yes. It will still be the same, Dikshit, same as our depreciation.

Dikshit Mittal:

Okay. Okay. Thank you, sir.

Operator:

Thank you. We have next question from the line of Hitesh Taunk from ICICI Direct. Please go ahead.

Hitesh Dong:

Hello, sir, and congratulations on a good set of numbers. Sir, I mean, just wanted to why our tax rate during the quarter was, you know, lower than on a Y-o-Y basis? The first question is that. The second question, sir, on a six months basis our capital employed for EAP region hasdeclined and whereas in European region it has increased significantly, can you throw some light in these two matters, sir?

Management:

Okay. First on the tax front?

Hitesh Dong:

Yes, sir. Hello?

Management:

You would have read from the investor note that our Poland operations are getting profitable now. The benefit flows in terms of tax because it is in a tax-free zone now.

Hitesh Dong:

Okay.

Management:

Overall, as our mix is improving, for us the tax rates are coming down. Now, your question can you just repeat the capital front?

Hitesh Dong:

Sir, on a 6-month basis the capital employed in European region has increased significantly whereas in EAP region it has declined, what is the reason?

Management:

See, because this capital employed includes both the net fixed assets and the net current assets, so to the extent the stocks and the receivables are controlled. that benefit will flow in to us. I am talking of the half year.

Hitesh Dong:

Yes, sir. Right. Half year only.

Management:

We have 377 crores for December 2014 and 414 crores for the last year. That is what you are comparing?

Hitesh Dong:

Right, sir. Right.

Management:

So it's basically the improvement on account to the working capital management.

Hitesh Dong:

Okay. Okay. Okay. And, sir, on a y-o-y basis looking at employee cost as a percentage of sales have declined during the quarter on a consolidated basis, what is the reason, sir, for that?

Management:

Consolidated?

Hitesh Dong:

Yes. Consolidated, sir.

Management:

Yes. It's clear, as I said as our volumes have grown sequentially and revenue growth if you notice, it has grown about 8.5% sequentially.

Management:

Partly because of volume – Some of the capacities which were installed and were under ramp up, People were under training. Now that the capacities have ramped up, so the sales are coming in from the same number of people, so that must be the arithmetic.

Hitesh Dong:

Okay. Okay. Okay. Got it. Got it, sir. And, sir, one more thing if I can ask. Sir, in American region we have grown on a very muted basis on y-o-y basis during the quarter on a consolidated basis I am asking, sir, what is the reason, I mean, are we not getting any traction on volumes or what is the reason, sir?

Management:

See, last year in America region we had some benefit in the top line because one of the customers was relocating his factory. So as a preparation they were also doing a bit of a ramping up of the stocks.

Hitesh Dong:

So, I mean, what kind of growth are we looking for American region? Will it be a muted on what we have, you know, during the quarter our ability improve from here after, sir?

Management:

To improve we should get around 4 to 5% growth.

Hitesh Dong:

Achha. Okay.

Management:

And it's the revenue growth

Just revenue or volume growth?

Management:

Revenue growth.

Hitesh Dong:

I am asking about revenue, sir. So will it be same what we have during the quarter, right, sir?

Management:

Full year it is talking of 4 to 5%. Half year we are 3. So the full year we are proposing 4 to 5.

Hitesh Dong:

Okay. Okay. And, sir… Hello?

Management:

Go ahead.

Hitesh Dong:

Sir, just one more question is there. For AMESA region, sir, during the quarter our EBIT margins have declined significantly. One is the reason of Indian performance where we have an exceptional item and is there any other thing, sir?

Management:

See, AMESA region you are comparing looks like.

Hitesh Dong:

Yes. AMESA region during the quarter two.

Management:

In AMESA you have the flexible packaging business also, right?

Hitesh Dong:

Okay, sir.

Management:

So that obviously has not performed as the plans were, but better than same period last year, so that depresses the margins a little bit.

Hitesh Dong:

So what are you looking at in future here after, I mean, will it improve going forward, sir, from here?

Management:

Yes. So we are working on the flexible business to track as planned. And if that tracks, then the average for AMESA will improve.

Hitesh Dong:

Okay. Okay. That's all from my side, sir. If I have any other question, I will come in the queue, sir. Thank you.

Management:

Thank you, Hitesh.

Operator:

Thank you. We have next question from the line of Sunil Jha from Axis Securities. Please go ahead.

Sunil Jha:

Yes. Thank you for taking my question. This is Sunil Jha from Axis Securities, sir. Sir, just wanted to know in terms of growth from the US market, although it has not been very significant this quarter. In terms of margins we have seen very strong traction. Sorry, if I have missed the answer before, but can you just throw some light on why the margin from the US region particularly are shaping up so well and is this sustainable?

Management:

Yes, Sunil. There are couple of things happening in that region.

Sunil Jha:

Right, sir.

Management:

One is that the unit in Mexico is turning around. They are picking up the volumes because they have already the capacity. And as you would recall at the last con call also we had mentioned, there is a focused action going on and that is yielding the results in terms of profitability improvement. The second one as we mentioned last time also that Columbia i's a strong growing market for us. In fact, sequentially we have already grown close to 25% plus and that's the market where we have more potential and we are planning to invest more capacity in this quart. That apart, we continue to thrust on the non-oral care in our flagship business in US.

Sunil Jha:

Okay, sir.

Management:

All these are actually contributing to us in terms of the margin improvement.

Sunil Jha:

Right, sir. Sir, can we then say that this margin going forward can be sustainable in double-digit trend because historically over last 4-5 years if I have not mistaken US region margins have been in the 5-7% range probably or a bit more and this quarter we have seen a very strong jump, so can we take this as an example which could be repeated again ahead?

Management:

Yes. Our half year margin is now 10.6% for the Americas.

Sunil Jha:

Right, sir.

Management:

And we still see a potential to grow. I am not telling you in terms of a 50% improvement in the operating profit. The margin itself, you know that our overall strategy is to improve our EBITDA margins closer to 20., means that we are focusing on all the regions to improve our margins with appropriate strategy.

Management:

So I expect the US – US I am talking about, not America, US to start tracking the profit margins of India and China.

Sunil Jha:

Oh, that's really very encouraging, sir.

Management:

Yes. So that's the direction we are heading in US.

Sunil Jha:

Fine, sir. Sir, secondly, last quarter we were seeing some kind of pain from the Chinese regions and I see that that's totally eluding this quarter, so can you just throw some light what happened from our last call to this call what changes have happened? Is there some structural change in the market that we are seeing or the measures that Essel took are paying dividends now?

Management:

Little bit of both I think I. One, in China what's happening is that people are buying more of family packs, which means that that the tubes that gets purchased are for higher grammage. So as far as our customers are concerned, their tonnage is same or growing, whereas for us the number of tubes are declining.

Sunil Jha:

True. True, sir.

Management:

Right. So that is the reality. I spoke about the premium toothpaste - because the market in China is going towards premiumization of oral care, we have got some contract from them and we also continue to grow in foods and cosmetics.

Sunil Jha:

Right. Right. Right, sir.

Management:

So we expect that with this, and Southeast China site coming on stream we will have better traction in terms of non-oral care.

Sunil Jha:

Sir, sorry if I have missed, but when do you expect this new facility to be on stream?

Management:

As I mentioned, December end.

Sunil Jha:

December end?

Management:

Yes.

Sunil Jha:

Fine, sir. Thanks for the answer. I will jump back in the queue.

Management:

Right. Thank you.

Operator:

Thank you. We have next question from the line of Jagdish Bhanushali from Advisors. Please go ahead.

Jagdish Bhanushali:

Hello?

Management:

Yes, Jagdish.

Jagdish Bhanushali:

Yes. Hi. I just wanted to understand when we are giving a guidance about 20% EBITDA margin, how do we see the gross margin shaping up for that?

Management:

See, EBITDA margin guidance is not for this year. That 20% that is for next year. For this year it is 18%.

Jagdish Bhanushali:

Okay. All right. And the second question is how do we see the gross margins moving anyways?

Management:

Gross margins?

Jagdish Bhanushali:

Yes.

Management:

Yes. See, when EBITDA margin improves, when we are talking our plan of getting into 18% this year or so, it will obviously be partly contributed by an operating leverage, partly because of the mix variance between oral and non-oral care. There could be some improvement in the gross margin also.

Jagdish Bhanushali:

Okay, sir. If I wanted to understand, what would be the margins between the oral care and non-oral care if you could give some light on that?

Management:

Yes. At this point in time, we don't have a separate information to disclose as such but definitely considering the fact that these are different categories at different pricing, there will be a margin difference between them.

Jagdish Bhanushali:

Okay. So if I were to understand which margins would be higher from the oral care?

Management:

In the case of non-oral care, the realizations are also higher. Costs are also higher, but the margins and the profit will be better for non-oral care.

Jagdish Bhanushali:

Okay. All right. And another question is what impact does crude prices play on our gross margins or on our raw material cost?

Management:

See, crude basically has an impact on the raw material prices. This impact becomes actually real when the price movement is in single direction. That means if the prices are moving in north direction constantly and we are always doing the catching up in terms of price correction. So that does impact momentarily or with the lag effect on our profit margins. When it comes down, and we hope that it will come down, then we will see some benefits start to come in terms of raw material prices. Now, in both the cases as we have always said that it's a pass-through, so pass-through to the customers that may happen with a lag effect when it goes up and we expect the same trend to continue when it comes down.

Jagdish Bhanushali:

Okay. All right. All right. Thank you. That's it from my side.

Operator:

Thank you. We have next question from the line of Paresh Jain from Max Life Insurance. Please go ahead.

Paresh Jain:

Yes. Good afternoon, sir. Sir, I just missed a part on why our margins in AMESA and EAP are down y-o-y basis?

Management:

We just explained regarding the AMESA margins now. As I said, there are two aspects to it's One is that there are one-off benefits which we had in the last year during the merger with RAS and other things. The second part as I said that it has also been impacted by the product mix because we had a bit of a constraint in our capacities which we are now working to de-bottleneck. We had to prioritize for certain product categories.

Management:

So in other words we have been able to recover some of the last year's extraordinary positive recovered through the operations and some of it is impacted by the product mix change due to capacity issues, now that will be de-bottlenecked.

Paresh Jain:

Okay. And in EAP?

Management:

Yes, we explained that time also. Paresh, see, in EAP we have also invested for new capabilities and therefore there is the operating cost which has gone up there. Our volume has been trailing some, I mean, our revenue growth has been trailing there. So therefore it has impacted the margins. If you really notice compared to the previous quarter, quarter one, our margins have already improved. We are cumulatively at around 10% at the end of first quarter. We have already improved to 13.1 this quarter. So as the revenue picks up the, margins will improve.

Paresh Jain:

Okay. Fine. Thank you.

Operator:

Thank you. We have next question from the line of Shivani Viswanathan from Bidwell. Please go ahead.

Shivani Viswanathan:

Good afternoon, sir. Sir, I have just one question on the raw material front. Like you said, there is a pass-through, sir. In the second half of the year are we going to see some growth slowdown in to top line, sir, with the pass-through coming in?

Management:

Very fine point, Shivani. Well, we will have to see because the last price increase that we have got versus the actual spend vis-à-vis the reduced raw material prices, I don't think it will make any significant difference.

Shivani Viswanathan:

Okay, sir. That was helpful. And, sir, I just wanted one clarification on these inter-segment revenues which have gone up by 86%, sir, in the segmental, if you could just explain that, sir?

Management:

Okay. In the segment revenue what is basically the sales between regions they get eliminated.

Shivani Viswanathan:

Yes, correct.

Management:

Now, you are aware that we have only two regions which are supplying laminates to other regions, which is basically EAP and AMESA.

Shivani Viswanathan:

AMESA, yes.

Management:

So as our growth has improved in some other regions, the uptake also increases. That's the reason for this.

Shivani Viswanathan:

Okay. Thank you, sir. Thank you. That's all.

Operator:

Thank you. We have next question from the line of Umesh Patel from Sharekhan. Please go ahead.

Umesh Patel:

Hi. Good afternoon. Congratulations for reporting good set of numbers. Sir, couple of questions. Just wanted to know how the things are panning out if in China as we have discussed in last con call that we have tied up with two local manufacturers to supply the products in local market and what is the status of our two operations that is making loss particularly for Germany and Russian operation?

Management:

Umesh, can you repeat it because it's a bit confusing? You are talking of China or Germany or Russia?

Umesh Patel:

I am talking about China that we have tied up with the two local manufacturers, so how the things are panning out in that area and also if you can throw some light on the two operations Germany as well as Russia?

Management:

Okay. China we tied up with two manufacturers meaning what? You are referring to customers?

Umesh Patel:

Yes. Right.

Management:

So we have already mentioned that China is – Given the fact that the growth in oral care is not coming through because of the consumer behavior changing from buying individual pack to family pack; so that is reducing the number of tube sales which we are able to recover partially through other category of sales coming in. So that is as far as China is concerned.

Umesh Patel:

Okay. So where we have, I mean, what kind of, I mean, you know, steps that we have taken, I mean, in terms of product mix?

Management:

My friend, this is what I explained to you, right?

Umesh Patel:

Sorry?

Management:

This is what I explained to you.

Umesh Patel:

No. No. You said that we have changed our product mix, so I just wanted to know on that front.

Management:

We are getting into premium oral care category and also into cosmetics and pharmaceutical foods, so there are lot of other categories available in China. And we are going through extensive customer development in these areas.

Umesh Patel:

Okay.

Management:

Does that answer this question?

Umesh Patel:

Yes. Yes. Yes. And what is the status of Germany and Russian operation as of now?

Management:

Germany is doing well. We are growing the capacity there and capability as well. And because any time you expand the capacity there is a cost associated with it in terms of training our people, etc. before you start to get the sales from the expanded capacity, so in this quarter we will start to get the sales. So Germany is by and large tracking well.

Umesh Patel:

Okay. But at EBITDA level we are making loss, right?

Management:

No. No. No.

Umesh Patel:

No?

Management:

No.

Umesh Patel:

Hello?

Management:

I think you've mixed up, Umesh.

Umesh Patel:

Okay. Okay.

Management:

See, Germany has been a profitable operation for us, Umesh. And as far as Russia is concerned, you are aware last time we mentioned there was a customer attrition, consequently the volume dipped and the unit was in loss. We are implementing a policy to recover the volumes and we are seeing some results starting to come in this quarter. And, however, considering the fact that the Ruble is under pressure against the dollar, there have been some impact on foreign exchange there, so therefore our operating profits have not recovered to the extent of the top line.

Umesh Patel:

Okay. Okay. Thank you very much, sir. Got it.

Management:

Thank you.

Operator:

Thank you. We have next question from the line of Jagdish Bhanushali from Advisors. Please go ahead.

Jagdish Bhanushali:

Hello?

Management:

Yes, Jagdish.

Jagdish Bhanushali:

Yes. My question comes is what is the CapEx plan coming for two years and what sort of capacities are we running in different regions as of now?

Management:

Jagdish, we explained. As we have been saying, the stated policy is that we will do equal to our depreciation. So that policy remains unchanged.

Jagdish Bhanushali:

Okay. And what sort of capacities are we running currently at various regions?

Management:

So if you are looking for headspace and therefore trying to do your model that may not help you much because in almost every geography we are running to the full capacity. Now, when we say full capacity, what does it mean? That if we are producing, let's say, one factory which is predominantly selling oral care, then the efficiency on those is high – why? Because in the oral care business you get continuous runs for the same product, so therefore you get better efficiencies. When you have another plant which is doing oral and also cosmetics, then they are somewhere in the mid-range of efficiencies. And then when there is a plant which predominantly does cosmetics or non-oral care, then their efficiencies are the lowest because you don't get continuous runs in that business, which is why we say that the cost is higher in non-oral care, but the realization is also higher. So let me again for the sake of clarity for everyone, at the cost of repetition, mention that if we sell oral care at X price, then pharmaceutical sales at 2-2.5X and cosmetics sell at 3.5 to 4.5X. So that should help you to do your modeling better.

Jagdish Bhanushali:

That's right. Okay. Thank you very much. That's it from my side.

Operator:

Thank you. We have the next question from the line of Riken Gopani from Infina Finance. Please go ahead.

Riken Gopani:

Hello. Sir, wanted to understand two things. One is in case of China which you mentioned that there is an impact because of higher grammage packages being used in oral care, how different is the, say, X is the price of the smaller pack, how large is the change in the price of the larger pack and is there a differential market share that we have in the two products?

Management:

Let me answer the first part of your question. The first part is what is the price difference between our individual pack versus the family pack. Whatever the raw material increase you use, increases, that is the price difference between the individual pack versus the family pack. The number of tubes produced per minute or per hour is the same whether you make small or big. So therefore the only difference that comes between the two is the increased usage of raw material in the big size or decreased usage of raw material if it is a smaller size.

Riken Gopani:

Okay. Okay. And hence the price differential would be what based on that?

Management:

My friend, it's a very difficult question.

Management:

We will track the raw material, nah?

Riken Gopani:

Okay. Okay.

Management:

That's what we explained. We don't have just two sizes, my friend. There are 5-6 sizes, right?

Riken Gopani:

Okay. Okay. And the other point is therefore because of this change that is going on how much is oral care de-growing in China or how is the picture in oral care in China y-on-y first half?

Management:

We don't give numbers based on volumes here.

Riken Gopani:

No. No. Revenue. I am not answering volume

Management:

See, let me put it this way. We have increased our non-oral care share of the total revenue to compensate for any sort of a stagnancy in the oral care. If you see overall, EAP increase in the growth in terms of top line is about 14.9% over the last year for this quarter. Cumulatively it is 11.5%. So what does this say? Earlier the oral care used to be a very dominant growing category there. So today because of the recent change in consumer behaviour that growth is not coming as it used to be before in China and that is why we are pursuing the other categories there. That is the China strategy.

Riken Gopani:

Okay. Sure. So actually the reason for asking that question was more from the perspective of figuring out whether it is trough in some form in the oral care part. Has the trough according to you in terms of whatever shift should have happened or you think there is a possibility that this business could be stagnant for

Management:

Yes. That's what I am saying that when you say oral category, it is not like a one group. See, in oral care category even as the mass market products are subjected to this sort of, what you call, larger quantity banks. China is also developing the concepts in the premium oral care market. So that consist of therapeutic, cosmetic and they are also encouraging to brush twice a day ----

Management:

So that market has become more creative and those things we can see coming forward but in what proportion that is hard to predict at this stage.

Management:

So being an emerging market you cannot simply rule out that any category will start de-growing. So the whole point is what he mentioned earlier in the address also, that we are getting some interesting customer wins in the premium oral care category because we have enough capability in place to produce high quality tubes for that purpose and those compare very much to the normal cosmetic category tubes in terms of look, feel, realization, et cetera. So therefore those will continue to be reported into oral category, nah?

Riken Gopani:

Yes. Got it. Got it. Got it. And one last point. You mentioned that one of the reasons why the margins in China are down is also due to the fact that there is an unutilized capacity or is that understanding right that it is because of more so that the new capacities have come in?

Management:

Yes. Because we are investing for the non-oral care growth there. We can't go and solicit business without capability on the ground.

Riken Gopani:

Correct. Correct. So is there an inherent benefit already in the margins given that you have also seen a mix change between oral to non-oral care that is already happened?

Management:

Yes. That's what I am saying. So to the extent of the mix the benefit comes in. And to the extent, the oral care has not grown to the extent of our plan in China.it will pull it down, so it is a mix of both, nah?

Riken Gopani:

Okay. Okay. All right. Thanks a lot, sir. That's it.

Management:

Yes.

Operator:

Thank you. We have next question from the line of Sunil Jha from Axis Securities. Please go ahead.

Sunil Jha:

Yes. Thank you for taking my repeat question. Sir, it was very encouraged to see the European business turning around so well. My question pertains what are the peak margins that we can see from this region because you gave us a very encouraging statement in terms of the US business margins which can start tracking profit margins similar to India and China going forward, so can you throw some light about the European business and considering it is already turned around what are the plants that we are now focusing upon for this region for a sustainable growth, although our oral care business that we had won the contracts are for a longer period, but on a much better visibility that we can have?

Management:

It's too early for me to give you a guidance on margins in Europe because as we had just come out of the losses and tracking on the profitable part. But we also need to keep something in mind that the benefit of economy of scale is not yet there in Europe. And we have been saying that our market share in Europe has been not so high as compared to other geographies. So unless we reach some sort of a critical mass in terms of capacity in Europe, the margin traction will have to be in line with the capacity build up. So therefore we are always keen to grow in Europe which is what we said that we are expanding our capability and capacity in Poland, we are doing in Germany. So therefore as we keep building the capacity, the margin improvements will happen.

Sunil Jha:

Right, sir. And, sir, for the AMESA region specifically for India the flexi packaging business are we planning to turn it around or at any given point of time we are even thinking of hiving it off considering it is a marginal entity to our overall business? If all our businesses are doing well, we have this part of a business which is in at if it performs well, it's margins would that be lower than the consol business that's what I understand. So are we planning some measures to pump up this business or any point of time maybe 2-3 years down the line you might give it a thought of just excluding it out?

Management:

See, first of all, it is not a loss-making business; obviously the profits are much lower in this business than the tube business. So obviously your question is right that we need to do something about it - either we put our rocket booster behind it and grow - not the Virgin Galactic type of boosters - but, yes, so we have to take a decision either way.

Sunil Jha:

Okay. Fine, sir. But as of now we are planning to reshape it up. That's what I understand from.

Management:

Yes. So that's the constant effort that business actually at least delivers what it is capable of. That's what the focus is. Once we are confident of that, then we will take a decision either way.

Sunil Jha:

Okay. Fine, sir. Thanks for the answers. That's all from my side.

Operator:

Thank you. We have the next question from the line of Mr. Prashant Kutty. Sir, please go ahead.

Prashant Kutty:

Yes. Thank you, sir. Sir, if you could firstly give us what was the growth rate in the oral care and non-oral care segment in AMESA region, would you give that number?

Management:

AMESA non-oral care is 52.17% non-oral care revenue.

Prashant Kutty:

No. I am asking about the growth.

Management:

One second. So oral care for this quarter has been 10.2%.

Prashant Kutty:

Okay. And non-oral care would be?

Management:

Revenue growth has been 13.8% on non-oral care, 10.2% on oral care.

Prashant Kutty:

10.2%?

Management:

Yes.

Prashant Kutty:

Okay. Okay. And, sir, secondly just to ask as far as the EBITDA margins are concerned, you said that for FY15 you are looking at 18% EBITDA margins and FY16 you are looking at 20% EBITDA margins, am I correct by this when I heard the statement?

Management:

Yes, sir.

Prashant Kutty:

Okay. So, sir, here I am talking about I am looking at more than a 20% earnings category, am I right if I am saying that?

Management:

More than 20% in some geography, less than 20 in some geography. Yes, you are right.

Prashant Kutty:

Okay. Okay. Okay. And, sir, as far as the EAP margins are concerned, last question, sir, you just obviously highlighted the reasons as to why we are seeing that the deceleration, but if you look at the last year numbers and probably the year prior to that, we are somewhere in the range of about 17-18% kind of margins, so what do you think could probably the drivers to get back those margins and track?

Management:

We indicated last time also on this one that we will try and at least close up on the gap compared to last year. Last year we did about 16.7%. See, we are already recovering. this quarter . e did 15.4. Cumulatively we are still 13.1. I think we will continue to close that gap.

Prashant Kutty:

Okay. Okay. Fine, sir. Thank you. I think that's it from my side.

Operator:

Thank you. Mr. Kutty, would you like to add your closing remarks before we conclude?

Prashant Kutty:

Yes. So on behalf of Emkay, once again I would like to thank you all for joining the call. And Mr. Goel if you would like to have any closing remarks?

Ashok Goel:

Thank you once again to all who spared time to join with us and to Emkay. And if you do have any questions, we are always available offline. You can get in touch with Amit Jain in the company. Thank you very much.

Prashant Kutty:

Thank you.

Operator:

Thank you very much, sir. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

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

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

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BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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