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# Essel Propack

## Q3FY11 Conference Call Transcript

7 February, 2011

Transcription

### Moderator

Ladies and gentleman, good day and welcome to the Q3FY11 Results Conference Call of Essel Propack hosted by Emkay Global Financial Services Limited. As a reminder for the duration of this conference 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. If you 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. I would like to hand the conference over to Mr. Pritesh Chedda of Emkay Global. Thank you and over to you sir.

### Pritesh Chedda

Thank you Marina. Good afternoon everybody. On behalf of Emkay Global I welcome all the participants to the Q3FY11 Earnings Call of Essel Propack. I also welcome the management of Essel Propack. Today we have Mr. Ashok Kumar Goel, MD and Vice Chairman, Mr. **R. Chandrasekhar, President International Operations, Mr. M R Ramasamy, President in International Operations and Mr. Ganesh Ganapathy, the CFO. First the management should begin with their analysis on the Q3FY11 results and also share the future outlook and strategy of the company and thereafter, we will open the call for Q and A. Over to you Mr. Goel.

### Ashok Kumar Goel

Yeah, thank for you Pritesh. I am happy to say and I am sure that all of you have noticed that in December '09 we did have a medical device business.

So for that particular quarter the revenue from medical device was about 45 crores. So if you see just the packaging business we have definitely grown the mainstay business which is packaging business and have kind of recouped the lost revenue due to the sale of medical device business. And of course medical device business sale did bring in during that quarter that is quarter December '09 about 32 crore rupees of profit. So we have recouped all of that which is one of the major highlights of this quarter's results. If you see the sales has therefore if you don't count medical device business which is no more there with us. The sales have grown by 19% the operating profit has grown by 36% and the profit after that have also grown significantly if you exclude the profit from the medical device business.

The highlight of the business is in broader at macro level that we had huge spurt in demand from China and India regions. As a result India and China had to outsource some of the inter mediatory process and those being the blown film as well as the printing services. Therefore our EBITDA margins to that extent are depressed. But going forward some of the capacity particularly on the printing line will come on stream. We yet have to decide on the blown film investments whether we do the investments ourselves or we outsource that. But barring that I think the material cost in China and India have stayed on course. Some of the material cost increased that have come from America and Europe is primarily because of one increase in raw materials price. Two, we have taken certain write offs of the old materials, which is again unique for this quarter. Therefore we have stayed on course more or less with the raw material fast price **past two. The part 04:45** two in our case as you all know happens in the subsequent quarters.

I have already explained about the growth in terms of capacity expansions India and China have undertaken major capacity expansions or making the plans ready to- more business going forward in India particularly. In China also we expect the same growth but our current plants that we have, are running to the full capacity and has no place for more equipments to be received.

As you also know that we as a policy have decided not to invest in land and building therefore it will not be a major CAPEX from that standpoint. We have expanded our capacities immediate; we are in the process of expanding our capacity in Mexico. Russia is also running to the full capacity and I am happy to state that the plastic tube business which has been the pain over the last one and a half, two years. More so in US and in Poland so as far as US is concerned, US plastic tube has started to sell to its full capacity. Therefore, there is no major concern on that side. In Poland we have a steady stream of a threshold of the volumes which means that we have still not reached the breakeven point which in next quarter or two we will reach. But it's certainly assure us that there are not going to be any surprises there, keeping cost in Poland under control. That's generally the macro level. Ganesh, who would love to explain further.

### Ganesh Ganapathy

All the regions have performed cumulatively.

### Ashok Kumar Goel

Why don't you say, lets introduce yourself.

### Ganesh Ganapathy

Hello this is Ganesh here, the CFO. Just to add to what Ashok had mentioned that two aspects **then it was also likely 07:26** to highlight and apart from our performance compared to the last year has been significantly good underlying business, cumulatively also has recorded a growth I am talking about the continuing packaging business.

We have actually grown our revenue over this nine months by 18% compared to the last year contributed by almost all the regions in AMSA and EAP have grown 20% plus for this nine months period. In Americas we have grown 10% and in Europe we have grown 13%. So, essentially this growth has been coming for us across all the four regions for us.

In terms of that sequentially you have been noticing that there is a some amount of reduction in EBITDA which Ashok has explained arising on two accounts. One is the, slightly higher material cost which has happened in the Europe and America for the regions we explained and outsourcing cost which is happening in the other expenses. But equally what you like to highlight is that between September quarter and the December quarter we have continued to hold on to our volumes and these are running certainly at the high level. To the extent that certain volumes the mix was more in favor of AMSA regions compared to the previous quarter. It reflects in a slightly lower sales **civilization 08:50**. Because of the currency weightage, but otherwise in terms of the top line we have been able to sustain the volumes during this two quarters. And so that explains why the EBITDA impacted and there is differences outsourcing as well as other issues are corrected the EBITDA seeing the benefit coming arising out of that.

### Moderator

Thank you very much. The first question is from Sanjay Shah from KSA Shares and Securities, please go ahead.

## *Question and Answer Session*

### Sanjay Shah

Sir I would like to know why our Europe division is not doing well in this quarter also we have not performed well number one. Number two, which of the regions do we feel looks promising for future and where we our company has a good plans and looks also challenging. And number three, which are the applications where our product **goes reach management fields 10:15** very promising for next future?

### Ganesh Ganapathy

I will start with Europe.

### M R Ramasamy

Okay. In Europe we basically have four operations. One in UK, one in Germany which is a joint bench, one in Poland and one in Russia. The operation in Poland is both are laminated and plastic tube operation and the other three are mainly laminated tube. If you are referring to the performance during the last quarter alone I agree with you that Europe has suffered both in terms of revenue as well as in terms of profit.

### Sanjay Shah

Correct.

### M R Ramasamy

The losses in Europe mainly are contained way to only two units. One is the unit in UK which is a laminated operation and the unit in Poland which is basically a plastic tube. There are two or three reasons as to why we under performed in the last quarter in that region. The first reason being that typically in the last quarter of the year which is October to December quarter, Europe works for only six and a half months. From 15$^{th}$ of December most of the customer sales come to an end in the anticipation of the Christmas and subsequently the orders, the deliveries again start from 6$^{th}$ of Jan. So usually the last quarter is a very dull quarter in that region. So that mainly is for the sales deduction. In spite that you will also add a very peculiar situation this time in December that we actually lost about four to five days of operations because of the heavy snow storm which hit the European continent.

### Sanjay Shah

Right.

### R. Chandrasekhar

And consequently most of our deliveries were highly disrupted. Deliveries to customer because even customers were force to shut down. So most of the losses which seem to emanate in Europe are coming from two for two reasons. One is that a lower production and the lower sales and consequently this hits you both the EBITDA and at the profit level. And as Ashok earlier mentioned that we have written of some old and non moving profit, which were lying in Europe in this quarter to clean up the balance sheet. And these are the two primaries reasons as to why Europe underperforms.

### Sanjay Shah

And from subsequent quarter we see better performance, because none of these reasons could be there in the…

### R. Chandrasekhar

The season for the quarter Jan to March shows a sharp recovery compared to the preceding quarter for Europe as the region.

### Ashok Kumar Goel

The second part of your question was that, which are the promising regions for Essel Propack? Promising region for us right now as we see is of course East Asia Pacific and AMSA where we will continue to grow double digits and we also see some good growth coming from Latin America. So these are the region basically the story is emerging market not to say that the plastic tube business which has been the problem in US it is recovering well or more or less already has recovered. Poland has contended itself, wherever the worst therefore is over. So that is as far as the regions are concerned. Do you have any questions on the regions further?

### Sanjay Shah

No, nothing. Regarding the application?

### Ashok Kumar Goel

Yes. That's a great question actually. If you see historically I am talking historically that is three years ago Essel Propack was predominantly a tube supplier for oral care market which is called **dentifies 14.40**. Now we had taken a cautious position that while the oral care does provide us the significant volume and therefore certainty of the business we also have to simultaneously develop the non oral care business. Non oral care for us essentially means hair care, cosmetics and toiletries and also pharmaceuticals or which some of you may recollect that we had introduced three different technologies in last three four years. One was for, of course, plastic tube it self goes for non oral care most of it. But besides that, within laminated tubes we had introduced a technology called inviseam that is the side seal is less visible or practically invisible. That technology has been deployed in US and now also in China and that technology can make bigger diameter tubes, which means that we have expanded our market where even the plastic bottles can be – certain size of the bottles can be replaced. There for the horizon the total eco-systems for the tube gets expanded. Then we also had introduced the technology where we can make smaller diameter tubes at an economical costs and which essentially meant that we would focus on pharmaceutical, also price point segments. And I'm happy to say that in India, we have about 25% of our volume is non-oral care right now. In china we have now received a license to manufacture the tubes for pharmaceuticals. Now this is significant from the background that if you recollect the China had huge controversy around led based paints on toys as well as melamine presence in milk products. As a result Chinese authorities did hang the two senior most officials of that authority. As a result the license was not forthcoming, now we have got that license. So for us in China we will see a significant increase in sale of tubes for pharmaceuticals. Essentially what I'm saying is that, the non-oral care tubes, does bring more revenue to us and therefore more profits. And that's what our focus is, also does not mean that we are going to neglect the oral care because that is basic pillars, bread and butter for us. But we also significantly want to shift our portfolios to non-oral care as well.

### Sanjay Shah

Right. As regard to our products, we introduced certain new other products like Etain and Egnite that is a recycle packaging from what I understood. So what's the growth in that segment in that product?

### Ashok Kumar Goel

Egnite is premium product which essentially goes for products which are high-end cosmetics. We have seen good success in India. In China, have we got commercial orders? Not yet so in various other geographies we are in the process of, I mean, I'm sure you also understand since you know the background of the company, that any product that get introduced must go through vigorous, what you call a stability trials. Of those stability trials of course we do not introduce into the market unless they are tested in our own laboratories. But customers do have their own protocols. So as a result while we introduce a new product, it is fair to say that the real commercialization happen after a year of introduction of the product. As far as Etain is concerned, Etain was basically the brand name we introduced for the plastic which is part of the plastic up to 40% which is either post industrial grind or post industrial consumer grind, PIR or PCR. Those products obliviously are introduced and therefore we are seen as an innovative company and the customers therefore like it. Now as you know that the recycled plastic unlike the normal wisdom that we have in India, that anything recycled has to be cheaper, which is not actually the case because it is normally more expensive. So we do have the product on offer, various customers are excited about it, again the commercial benefit we will see after some time.

### Sanjay Shah

So we can see that product can kick at foreign markets I suppose where the demand of this type of social responsibilities they understand.

### Ashok Kumar Goel

Yeah they actually cost much more than the Indian companies do. So what it essentially says is that yes, your company is ready, go for any such products and we are proactive and we are offering these environment friendly products.

### Sanjay Shah

Okay now with all these products, all these geographies, everywhere now we are settled I suppose. Even Europe started looking upwards even US. How do you see the next years up, can you give us some guidance?

### Ashok Kumar Goel

You mean, financial year 11 and 12?

### Sanjay Shah

Right sir.

### Ganesh Ganapathy

Yeah let me answer your question now, as we look into the next year we do see that delivering a growth of 12% to 14% is more or less an opportunity which we will be able to, it is there and we should comfortably deliver the type of a growth. We don't see that as an issue. The other challenge that which we seem to have is how do we improve our operating margin?

### Sanjay Shah

Margins, true sir.

### Ganesh Ganapathy

Historically we have been having very high operating margins in certain markets like India. Somewhere – which is our traditional market. And most of the newer markets especially in the west have delivered lower operating margins.

### Sanjay Shah

Right.

### Ganesh Ganapathy

So the focus next year is going to be on basically delivering about 12% to 14% growth and further improving the operating margins to take it to as close to about 20+ levels by for the time being entered to the second half of the next year. So these are going to be the two prime strategies on which we are going to work.

### Sanjay Shah

Thank you for replying my questions. Congratulations and good luck for future sir.

### Moderator

Thank you. The next question is from Sageraj Bariya from Angel Broking, please go ahead.

### Sageraj Bariya

Just want to know in case of this quarter 19% growth how it would be in terms of volume and value wise break ups if you can give some idea.

### Ashok Kumar Goel

For the quarter?

### Sageraj Bariya

Yeah for the quarter. Mr. Goel mentioned that there was a write off of inventory in new regions. Any rough cost estimate how much that amount would be?

### Ashok Kumar Goel

Two hundred fifty thousand dollar or Euro. Was it euros or dollars? Two hundred and fifty thousand dollars roughly.

### Sageraj Bariya

Dollars okay. Okay sir and, you know, for I think last two quarters also we been seeing this raw material prices have been kind of creating a havoc for us. So what's your outlook on that, because I think that gross margins are mainly getting hit. So what's your outlook on that front sir?

### Ashok Kumar Goel

See for this particular – the growth margins having these – the gross margin or, the euro related question, is primarily because of outsourcing in India and china. Okay, and some of this write offs that we have taken in Poland and some of it has also- in US, that is some small amount that is being impacted. But generally speaking, we have had all the successes so far in passing through the raw material price increases. But you must also understand that this is always or this always comes with the time lag which is about three months. So next price increase, we are obviously going to going for after this month end particularly in the Indian and Chinese markets. In other markets for example, of course in US it is automatic pass through and with some customers you have to go through negotiations. We are unduly concerned about this raw material prices as such. Yes, we have to now see how we are going to reduce our outsourcing. There are two ways of, reducing our outsourcing. One is, pushing up our own efficiencies. Second, we will see if there is a better outsourcing model than we currently are using. Currently obviously because there was pertinent demand so we have to meet the market needs. So we went ahead with whatever is best possible. Now we are going to review the outsourcing model, in fact we are in the process of reviewing it and we hopefully will find a better solution for that.

### Sageraj Bariya

I know, because you mentioned India and china only are running at kind of a full capacity right? So how would be utilization levels be in America?

### Ashok Kumar Goel

In America we currently are running at 65%. In Indian and china, about 75% and this you must understand that these are all indexing type of machines which means that – and the order size at the market is so dynamic. The order size keeps on shrinking, that means every order size is a smaller quantity that **requires tool 26:25** change and stuff. Therefore 75% is not necessarily a bad number, but not to say that we are not looking at improving it further, we of course are. And there are programs in place to push it up. Going back to your original question, Ganesh?

### Ganesh Ganapathy

Business for that sector, it says volume increased by 12% and value increased by 19%.

### Sageraj Bariya

Okay so 7% was the price driven**?**

### Ganesh Ganapathy

Yeah so it really shows that pass through that Ashokji was mentioning, we have a robust process all that. There will be some lag but then we always get it, so that's not an issue.

### Sageraj Bariya

Okay. And, this 12% to 14% guidance required and what is the industry growth rate like?

### Ashok Kumar Goel

It depends with geography, you are talking Sageraj. Indian and China, there are both cases where the natural growth is there and the market share gain is also there. And don't forget that we introduced two new technologies so we have expanded the entire ecosystem for the tube market. So it's a combination of all **of it 27:45**.

### Sageraj Bariya

Okay fine and just again in the raw material, it's a crude derivative. So once if it crosses $.100 barrier, do you think this 12% to 14% then come down, do you still think it can be maintained?

### Ashok Kumar Goel

No I don't think raw material prices will have any impact on our growth numbers at all, because we have seen that with the right reasoning customers are willing to look at it. Let me give you an overall perspective, the competitive landscape, I think probably we are saying for the first time, globally if you see in laminated tubes there were only three large global companies. One was Alcan second was Betts - was Essel, not saying in priority of the market share. I'm just giving you these three names. Alcan as, you know, was acquired by Rio Tinto. Rio Tinto did not want to keep the packaging piece. So in the packaging piece they had multiple pieces. So finally the tube piece got sold and was acquired by Sun Capital okay? Betts in the meanwhile had shrunk their geographical spread. As a result the company was has been perennially in rates so as been the case with the tube division of Alcan. Essel was the only profitable company. Now Betts has also been acquired by Sun capital. Now if you see from the customer's perspective, there are only two global companies left that they can talk to. So Essel therefore is the second, now when I say second again not in priority of market size etc. So as a result, we are seeing that there is an increased amount of engagement with customers globally, with Essel, even with customers who have predominantly vertegrated. So therefore we are seeing good amount of traction, in terms of receiving information, in terms of getting the invites from the customers, so we are seeing a benefit of this happening across the geographies which is a very positive development as we see it.

### Sageraj Bariya

I missed the name of the company that acquired Alcan, division and **Syntex 30.52**.

### Ashok Kumar Goel

Alcans division was acquired by Rio Tinto in turn sold to Sun Capital.

### Sageraj Bariya

Okay, Sun Capital.

### Ashok Kumar Goel

Yes, so is the Betts was also sold to Sun Capital. So the customers see these both companies as one company now.

### Sageraj Bariya

Right, so sir, any idea on what kind of evaluation was Betts sold?

### Ashok Kumar Goel

No, these are all hazy stuff.

### Sageraj Bariya

If you can give us some indication?

### Ashok Kumar Goel

Absolutely no idea about that.

### Sageraj Bariya

Okay, not an issue. Actually, I just wanted to know what was the sales breakups or in terms of product your lami tube, plastic tube, and for the quarter.

### R. Chandrasekhar

Product breakup is very similar that we have laminated tubes about 76%, plastic tube is about 10% and 14% is specialty packaging that's packaging India, that's flexible packaging.

### Sageraj Bariya

Okay, I think the EBITDA margin you are saying is the 20% to 22% you'd be doing by second half of FY12?

### MR Ramasamy

Yeah.

### Sageraj Bariya

Fair enough. Thanks a lot, I am done.

### Moderator

Thank you. If you wish to ask a question at this time, you may press * and then 1.

### Ashok Kumar Goel

While the others are thinking, let me just reflect on the last question that was asked as to what was the **Betts rate 32.31**. Now you must recognize that Rio Tinto was desperate to sell the division because this was the last piece that they could not sell. So I assume the evaluation would reflect and Rio Tinto has been in the market for two years to sell this business, so I am sure that any buyer would have sensed the desperation. Betts has been shrinking geographically, they closed shop finally in china, they closed shop is U.S., they closed shop more or less not entirely in Poland, India of course is a strong hold for them and U.K. These are the two strong holds that Betts are left with and Indonesia and some part in Mexico. So these are the four locations Betts had so they have also so they also sold themselves while they were shrinking. So I assume that they would also have sold in some sort of desperation.

### Moderator

Thank you sir. The next question is from Danesh Mistry from Tata Mutual Funds. Please go ahead.

### Danesh Mistry

You mentioned that India and China are running at utilizations of about 75%. So these are two markets where you are seeing good volumes. So what is your take on the coming year which is FY12? Would you see similar volumes and therefore would you need to expand utilization further and some guidance on what you see sales happening in these two markets?

### M R Ramasamy

General utilization in this industry will be anywhere between 75% to 80%. It depends upon the sizes because there are many tube diameters you supplied from out of the same machine plus you also have a lot of product changes in terms of that. So what we see over a period of time is that that kind of mixes increased more, every customer introduces many more SKUs in the market. So idealistically we can go up to 80%. Whereas there are few plants that we operate exclusively for one customer those plants we still do about-, when you talk about 75% on average, but a few plants we operate even at 85 - 87% utilization level. That is where we are very specific to our customer, and specific to our product there. Yes, the average utilization can go up to 80 and anything more than 80 that we need to actually place part. You also need to know because this is this market has a lot of demand flexibility. Most customers we agree certain pre-space for their growth that’s a compulsion in the business. So if a few customers want us to keep 10% idle space, some customers want just to keep 15%. So we have to expand we reach anywhere above 75% in this market, that is the plan.

### Danesh Mistry

And in terms of next year's volume in these two markets?

### M R Ramasamy

We will continue to grow around 12 to 13% in India, slightly higher in China, say average of 12 to 14% in these markets that…..

### Danesh Mistry

And in **this market, should it 36:15** be across both dental as well as non-dental?

### M R Ramasamy

Yes, even though our primary focus in India will continue to be on plastics and pharma, because this is a higher margin business for us, we will continue to grow aggressively on this. In china, predominantly we are in so far in toothpaste market but we are putting lot of efforts to grow in pharma and recently got a license explaining area, now we will work closer on that. We also have introduced a new technology in china, which is inviseam where most of the cosmetic products can get into. China market traditionally is a plastic tube market for cosmetics. It is a very small, small niche players and since we are going to be the larger in terms of supply chain ability, we see once the technology is proven in the market place, one lead customer we acquire, I think the growth will also be much larger.

### Ashok Kumar Goel

And in the overall terms, don't forget that the large volumes are still oral care therefore the page number for pharma and for cosmetic for Chinese market is still small so therefore we see a great potential there.

### Danesh Mistry

Got it. Thank you so much and best of luck.

### Pritesh Chheda

I have a couple of questions.

### Moderator

Please go ahead sir.

### Pritesh Chheda

We have targeted to enhance margins in FY12 at the EBITDA level, if you could throw more light in terms that these margin expansion plans have to do with better utilization of operations or it is do with few cost areas which can come under tight control hereon whereby the margin expansions can happen, that's the part one of the question. Second, in the America's business we gave a data point that utilization is closer to 65% now and plastic tubes utilization is almost peak. When do you think that the EBIT movement will start happening because for the last five odd quarters there was hardly any EBIT movement in the America’s business.

### Ashok Kumar Goel

Yes as far as the overall general marginal improvements are concerned, there is clearly a multiprocessing strategy. One is clearly improve our efficiency then we have seen that in just this quarter itself in September quarter our efficiency in U.S. was much lower. We put a program in place and we already are seeing good improvements. So that was the lowest hanging fruit so therefore it is so very clearly visible. So this initiative of course on the efficiency improvements will continue to happen plus we are much more aggressive in passing through the raw material prices and we have seen the result of it. Third, you must recognize that the India and China continue to have the high EBITDA margins whereas in the western markets have lower EBITDA margins even though they have improved a little and you also have flexible packaging which there for averaging out. So now those who are used to of seeing Essel Propack EBITDA margins close to 26% - 28%, they are not wrong in asking this question but you must also appreciate that these two geographies added, that is Europe and Americas on average, it has pulled down the average, so is the case with flexible packaging business where EBITDA margins are typically lower. So what I am saying is that India and china continue to hold on to their EBITDA margins more or less which is around what percent, Ganesh?

### Ganesh Ganpathy

24%

### Ashok Kumar Goel

24%, India and china are in that region so therefore when we average out it looks lower but that's the nature of the business in terms of geographies. The second part of his question, the question when you will see the movement in the EBIT happening in the U.S.?

### Pritesh Chheda

Despite that, the plastic tubes business is at a high utilization and overall utilization is at 65% in general average is 75% so I am just correlating with those figures.

### R. Chandrasekhar

Yeah, let me answer your question, does any movement on the EBIT in the plastic tube business in the U.S. has its mainly internally program for it in the sense that efficiencies today is running those plastic tube line despite higher capacity utilization lead must to be desired. We have a long way to go to improve either in terms of staff reduction for the way in which we get the output from these initiatives. So we've begun a couple of steps. The first step we have done is that we are integrating both the plastic tube and the laminated tubes plants in US. Earlier we used to have two plants, one plant was laminated tubes and there was another facility which was plastic tubes. So we have said to save on the overheads we need to integrate both the plants together at the same location. So we are shifting the plastic tube plant into the laminated tube facility that process is currently on. It will be completed by March end. So that is bound to be some overhead _____ **42.30** which will come as a part of this integration. The second thing which we have also done is we are slowly now changing the product mix which we have in the US plastic tube business and this means that despite that fact that we have a very high capacity utilization, some of the products may not be giving us the same amount of gross contribution which other products are given. So products where we have **though 42:49** gross contribution, we are bring-in for significant adjustments on the price. And becoming more aggressive as what we are choosing the customers right. We are not carefully shifting through the customer based plan. Both these combined, you will see the first significant movement happening on the gross contribution margin during the quarter April - June, that is whatever modeling we have done seems to be shown the benefit of first quarter where you will see a significant change which will happen in the EBIT margin in the plastic tube business in US.

### Pritesh Chheda

Okay. On the data points, plastic tubes are operating at good utilization right and what is suffering are lami tubes?

### Ashok Kumar Goel

Yes, plastic tubes capacity in US is not so big. The capacity there is only 3.5 million tubes a month.

### Pritesh Chheda

Okay, okay so what drives business and the changes will be lami tubes?

### Ashok Kumar Goel

We have been careful because the business has been underperforming in the past quarter, so we have now a situation where we either expand the capacity that means invest more money before the units has earned, which we don't like of course, therefore what we are first attempting is that you go after the high margin products and leave out the low margin products. And therefore we see that the plastic tube business with the current capacity and therefore the overheads, will be only at EBITDA breakeven and then we are happy about it. Once it sustains the EBITDA breakeven that we will see in the next two three months happening, or next one quarter, we will see that happening after that we will take a call whether we have some capacity that we can shift for example, Poland to U.S., rather than investing upfront. So that is also something that we are constantly monitoring.

### Pritesh Chheda

So, when the utilization start improving in lami tube and the strategies are in the place, what should be a margin assumption that one should look at in the US business and second, do you forecast for the next two years any absolute increase in your expenditure heads at the company level other than obviously raw materials available in nature but any other expenditure head likely to move up?

### M R Ramasamy

Okay, let me answer your first question on the laminated tubes EBITDA improvement in the U.S market. When we started the year, we were about 11.5% EBITDA in the U.S. and at the exit December we are close to 14%. And we still hope to push this up to 15% by April. This is the Stage-1 of the entire process. So we will continue to work on getting it to north of 15% by the June quarter of this year. So the focus on April to June is going to get it to that 16% level by April to June. We still see an opportunity to take it up to about 18% and we will run a program to take it up to 18% levels in U.S. market. Do we see an increase in the expenditure heads going forward for the company, Ganesh; would you like to answer this question?

### Ashok Kumar Goel

There is one obvious increase that will happen is in the people cost. But then we are also introducing an amendment or a KPI for ourselves that we are now going to monitor per head revenue and per head EBITDA. This program we are going to introduce globally. So we are going to monitor that index also and see how we will keep a watch on that. Other than that, I can see the power increases are normal, there is hardly anything that we see that only thing is that this can only go down in terms of finance cost, efficiency is getting better even better further and we don't see any major surprises now.

### Pritesh Chheda

Okay so one clarification, I was bit confused on the America side, when you gave the EBIT margin of 14% moving up to 18%, was that EBIT only for America and here you all typically report Americas?

### Ganesh Ganapathy

It is EBITDA.

### Pritesh Chheda

Okay when you gave those numbers it was EBITDA?

### Ganesh

Yes, not EBIT. EBITDA of U.S.

### Moderator

The next question is from Sarika Kukshya from Prabhudas Lilladher PMS, please go ahead.

### Sarika Kukshya

What would be the share of top ten clients of yours in the overall revenue?

### M R Ramasamy

Let me answer your question; I presume you are referring to the consolidated global revenue.

### Sarika Kukshya

That's right.

### M R Ramasamy

We don't track on a top 10 basis but definitely we do track it on a top 5 basis and today 5 of our top customers would be possibly accounting for about 60% - 65% of our total revenue.

### Sarika Kukshya

Okay, Could you name some of them?

### Ashok Kumar Goel

You want the names. That's something we will be stepping little over the confidentiality stay with our customers. But you know typically all FMCG are who, Colgate, Unilever, Glaxo, L'Oreal, P&Gs of this world.

### Sarika Kukshya

Yeah, I understand, to give a broader sense if there has been an addition or deletion in the top 10 clients in the last two quarters.

### Ashok Kumar Goel

There would certainly be additions my friend, particularly in the plastic tube stage, we would have added L'Oreal, we would have added Marico, may be would have Avon, we would have certainly added, but I do not recollect that we have dropped any customer. The ranking may have shifted yes, but that's exactly where our concern comes from if we start sharing this then, the customers would get at us which we don't want.

### Sarika Kukshya

Okay. So if the base is so large, isn't the 14% of revenue growth guidance on a lower side?

### M. R. Ramasamy

Need not be so, the way in which looking at it and let me explain to you why it need not be so. First of all when you look at global customers, each of these customers has a different growth trajectory in each of the markets. If you take for example the US market, or the European market, historically these companies don't have a very high growth rate. Where you really see a very high growth rate, is mainly in the emerging market which is primarily India, China, Egypt, and Mexico. These are the markets where you see a very large growth rate for FMCG companies. Now the numbers which you see often on the public domain for these companies is a number which you keep for that total business whereas we are only present in one segment of the business and the tonnage we are only present in one which is basically all around packaging of creams, whether they are oral care or cosmetic. So by and large we do track those numbers and we feel that when we are saying we will grow 14% we not only grow with the customer, but we also take some part of the market share also.

### Ashok Kumar Goel

And the tonnage growth doesn't necessarily reflect on the packaging growth because of the size of the pack. So for example, if they are selling the lower gramage tubes, then obviously our number of tubes goes disproportionately higher to the tonnage growth.

### Sarika Kukshya

Secondly, now that we are running close to our full capacity utilization levels in India and China, is there a scope for adding on some CAPEX in FY12?

### Ashok Kumar Goel

Yes, CAPEX is a constant story for us. This financial year by March, we would spend about Rs. 90 crore and in the next fiscal we see that our CAPEX would be about Rs. 75 to 80 crore.

**Sarika Kukshya**

And this would be funded by our internal accruals or?

**Ashok Kumar Goel**

Yeah, mostly internal accruals.

**Sarika Kukshya**

Okay. Thirdly, can we talk about how the product mix is going to change, how is it going to look?

**Ashok Kumar Goel**

As I was explaining a little earlier, we primarily have been in the past focus on oral care markets, but now we have seen good amount of success in almost every geographies where we are also selling to non-oral care and that typically brings us higher revenue and higher profits in terms of global average, does anybody have that figure, oral care, non-oral care, global numbers? My sense is that it would be about 20% by volume and by value it would be even higher.

**Sarika Kukshya**

20% in case of oral care?

**Ashok Kumar Goel**

Non-oral care. Non-oral care would be about 20% in terms of volume, in terms of revenue it would be higher, let's start tracking these numbers Ganesh. It would be in the range of 25%

**Sarika Kukshya**

Okay and how is the geographical mix going to look for us in FY12?

**Ashok Kumar Goel**

Sorry, how the geographical revenue mix?

**Sarika Kukshya**

Geographical spreads.

**Ashok Kumar Goel**

Geographical spread, as we said, that India and China, all the emerging markets we see higher growth. In all other markets we don't see significantly higher growth but except for us to utilize our capacities to the maximum. Non-oral care is by value is actually 28%, not 25%. So the significant growth of course will come from India and China. India, you may know that we also have plastic tube in India, last year, that is, so far in 9 months; we have grown about 36%, in plastic tube in India. We expect the same momentum about 36% to 40% growth going forward as well in plastic tube in India. As Ram was also explaining earlier, that our focus in India and China is also to go after the pharmaceutical customers and also cosmetic and toiletries customers, whereas in America we do have focus on hair cares, because there is a large market for hair care. Hair care includes the hair colorants and the related partner, what you call fasteners and the conditioners.

**Sarika Kukshya**

How about China?

**Ashok Kumar Goel**

China, as we explained earlier, that we have introduced these two products that is the inviseam technology we have seen some initial good success and we recently got the pharma license now that the Pharma license is there in place, the stability test with various customers will begin, have actually have already begun with some and we expect some more to happen so lets say by the third quarter of next fiscal, we will start to see some good growth coming in from pharma as well in China.

**Sarika Kukshya**

All right, any details on the cash on books, if at all we are holding?

**Ganesh Ganpathy**

Sorry, I didn't get your question.

**Sarika Kukshya**

Any cash on books?

**Ganesh Ganpathy**

There is particular operational cash which we carry. So we have got about 100 crores.

**Ashok Kumar Goel**

But there again we have some programs running. We want to reduce our inventories, so as to release some cash from that.

**Sarika Kukshya**

Okay. All right sir, thank you.

**Moderator**

Thank you. We have a follow up question from Sageraj Bariya from Angel Broking. Please go ahead.

**Sageraj Bariya**

Sir, I just wanted to know the debt figure currently?

**Ganesh Ganpathy**

Yeah, current debt is 885 crores.

**Sageraj Bariya**

Okay and sir in the CAPEX, Mr. Goel mentioned about 90 crores for FY12 or this year?

**Ganesh Ganpathy**

FY11

**Sageraj Bariya**

Okay and 75 would be for FY12?

**Ganesh Ganpathy**

Yeah.

**Sageraj Bariya**

Okay, can you just give some perspective on the working capital? How is it currently?

**Ganesh Ganpathy**

See working capital, our receivables are currently around 48 day, DSO, so we have been able to maintain our receivables almost for the same amount as it worked end of last year, and the fact that we have grown almost 18%. That shows that our efficiencies we have been trying to keep on, but the inventories are concerned, inventory base is currently around 15%.

**Sageraj Bariya**

Okay, Sir, thank you.

### Moderator

Thank you. As I see no further questions from the participants, I would now like to hand over the conference back to Mr. Pritesh Chheda for closing comments.

### Pritesh Chheda

Thanks, Marina. On behalf of Emkay Global I wish all the participants thank you for attending the call and I also wish thanks to Essel Propack management. We wish you luck for the future endeavor and the future strategies of the company. Over to you Mr. Goel, if there is any closing remark.

### Ashok Kumar Goel

Thank you Pritesh for organizing this event as always and of course to the participants for asking brilliant questions. Keep asking us, we are all available to answer your questions, thank you very much.

### Pritesh Chheda:

Thank you.

### Moderator

Thank you. On behalf of Emkay Global Financial Services Ltd., that concludes this conference call, thank you for joining us and 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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