"Essel Propack Q2 FY16 Earnings Conference Call"

October 30, 2015

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Moderator: Ladies and Gentlemen good day and welcome to Essel Propack Q2FY16 Earnings Conference Call hosted by Emkay Global Financial Services Limited. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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 now hand the conference over to Mr. Prashant Kutty from Emkay Global Financial Service. Thank you and over to you Sir.

Prashant Kutty: Good afternoon everybody. Thank you for joining us today. We would like to welcome the Management of Essel Propack Limited and thank them for 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, again for hosting the conference. Ladies and gentlemen, good afternoon. Thank you for joining in. We are happy to present yet another quarter of profitable growth. Consolidated net profit for the quarter excluding exceptional items was at Rs.48.3 crores - a growth of 25.5% year-over-year and 25.6% over the previous quarter. As you are aware, we divested the flexible packaging business in early July. If we consider only the continuing business for comparison purposes, the net profit excluding exceptional item has grown even higher at 28.6% year-over-year and 26.3% over the previous quarter. Likewise for the first half year, the net profit excluding exceptional item is at Rs. 86.5crores; that has grown by 33.7% year-on-year as reported and by 35% if we consider only the continuing business. The EBITDA margin for the quarter and half year now stand at 21.3% and 20.2% respectively, representing an improvement of 170 basis points and 240 basis points respectively as reported and 80 basis points and 160 basis points respectively if we consider only the continuing business. So that seems to be on track as intended. On the sales front our growth has not been to the extent expected. The consolidated total income for the quarter was Rs.535 crores. On reported basis it appears to be lower by 10.1% year-over-year. If we exclude the impact of the divested business in the previous year and allow for the raw material price reduction pass through of approximately 5%, that has happened due to the easing of commodity prices, the continuing business has actually posted an underlying growth of 6.1%. Now if we dissect the underlying sales performance between India operation and rest of the world operations, the sales in the rest of the world has actually grown by 10.8% year-on-year. Given that there has been big movement over the year in the Euro and US dollar vis-à-vis Indian rupee; the underlying growth in rest of the world operations in constant currency terms is even higher at 13.4%. You will recall in the previous quarter also, the rest of the world sales reported similar levels of growth. The growth would have been even higher but for the continuing off take issue with a large oral care customer in China. It is encouraging that China sales still continue to grow, helped by 40% growth in the non-oral care which now contributes to 30.5% of China tube sales, up by 7 percentage point over the previous year. The market which posted a sales decline was Mexico where again the off take by a contracted customer has been low. This has been taken up and we hope to find a solution in the near future for the Mexico market. Overall then, the rest of the world operations continue to be robust. Now this brings the issue of India, where the business has suffered an underlying de-growth of 2.4% mainly in non-oral care due to sluggish economy, weak FMCG demand and this, I had also alluded to in the last quarter's investor call, softer pharma exports and reduced new product launch activities. Our strategy is to stay focused in this market, and we are talking about India, develop new customers in the cosmetics and pharma categories and leverage innovation to position tubes as an attractive alternative packaging solution for application in the food category as well. Considering India is still viewed as long term growth story and the prevailing low per capita consumption for most FMCG, we hope the situation will recover in near future, helping us revert to our topline growth aspirations of 15% CAGR. The operational health has improved with ROCE and ROE both improving to 17.8% and 20.3% in line with our plans. The divestment of Flexible Packaging has helped strengthen our balance sheet and improve financial flexibility.

Net debt at September 2015 was Rs. 738crores compared to Rs. 936crores a year ago. In constant terms the debt is even lower at Rs.682crores. Finance cost is on downward trend, lower by 21.7% for the quarter and by 12.9% for the half year. Average interest rate for the quarter now stands at 7.4% which is lower by 1.05 percentage points compared to previous year. The debt equity ratio now is 0.9 compared to 1.3 in the previous year. The company's long term credit rating has also improved two notches from A to AA-. I would like to sum up that path to growth is always strewn with challenges but the challenges were not something that were unknown. With the clear strategy, strong organizational alignment and customer engagement we are on track with our mission of 20:20:20. So with that I would now open the floor for questions and answers.

Moderator: Thank you very much. We will now begin the question and answer session. Our first question is from the line of Niraj Mansingka from Edelweiss. Please go ahead.

Niraj Mansingka: I think of the total three 20s, two have already been achieved, only the revenue growth is yet to come which only time would say. I have a few questions on all the four geographies actually. First, I will take India. What are the efficiencies that you are talking about?

Ashok Goel: Efficiencies?

Niraj Mansingka: Efficiency gains that you are talking about and how the margins have increased because of that?

Ashok Goel: Efficiency gains are because of improved operations, reduced working capital and of course reduced debt. All that has helped plus the COCO model business which has grown but does not show up fully on the topline growth has helped effectively for India.

Niraj Mansingka: So the related question is , the COCO model, can you share what has happened and how you see that growth and as a proportion of revenues how is it right now and how you see it going forward?

Ashok Goel: Niraj, last time also you have asked us the same question. As I mentioned that time also, COCO is growing okay, in fact the customer is indicating that they will further expand the capacity and we are geared up fully for that. I do not remember if I had mentioned that in this model we have deployed the latest technology which we have jointly developed with the machinery manufacturer, which makes 500 tubes per minute. The first line is already deployed and running. We expect the second line also to come up by this calendar year end.

Niraj Mansingka: So what will be, just to see the magnitude of the impact, can you share what or how large can be the COCO revenue share for the India business?

Ashok Goel: You have to see, this does not straight away add to my topline Niraj, because the same customer buys tubes from us not only through COCO model; but this means that with this customer, rest of India volumes will not grow. The growth will come only through COCO model and in COCO model, while we have not invested any money, we get revenue on sale of intermediate raw materials and of course our management fees which get captured in other operating income. So that is also true but the margin levels are more or less the same if we sold the tubes from rest of the country vis-à-vis through COCO model.

Niraj Mansingka: So the intermediate that you sell, that is captured in revenues, right?

Ashok Goel: Yes, that is captured in revenue, yes.

Niraj Mansingka: Okay and on the growth in the non-oral care in India, can you share some color? Was is about growth or was it about adoption of new efficient tubes, because even if the growth might have gone down won't the adoption of efficient tubes still happen?

Ashok Goel: See Niraj, do not forget. India non-oral care is already at 52%. So for India it was not so much of adoption of tubes. It is the general economy and therefore, off take of FMCG products, particularly non-oral care; and here we have clearly seen that the new product launches have been postponed, not cancelled but postponed successively; then the currency volatility which affected exports of pharmaceutical products particularly to the former CIS countries and to African countries; because their currencies depreciated much more than the Indian rupee, the export of finished pharma products were lower from India and that has impacted a little bit. We see that as a temporary thing, but on the other end, we have got new pharma customers who are more focused on Indian market and therefore we believe that it is only a temporary thing; for the rest of the FMCG it is the Indian economy which has to fire up.

Niraj Mansingka: And any other color on addition of new customers in the oral side?

Ashok Goel: Oral care side in India I think we cater to almost every customer; there is nothing that we needed to add. It is share gain - customers that we keep getting and, customers volumes keep fluctuating depending on their off take.

Niraj Mansingka: In Europe I have a thought process that you have already stated that you are running at full capacity and if you note that your ROCEs of Europe is still at a low number; I also understand that you have lot of scope of addition capacity, so can you get some color on how your ROCEs of Europe will go up and when can the capacity start building revenues from it?

Ashok Goel: Good point Niraj, but I think I have said that in the past. Europe is one geography where our balance sheet ratios are not as attractive as compared to the other geographies which is expected to be so, because we still are waiting for the economies of scale to happen in Europe and therefore, as I keep saying in every discussion , Europe is one geography where we need to grow faster than any other geography which is what our focus is ; we will continue to grow and as we reach to economies of scale these numbers will start to look good.

Niraj Mansingka: Okay, but when will the new capacity add and how much growth we will add in European capacity?

Ashok Goel: See, we have said "measured" capacity expansion, what does that mean? It means that we do not want to increase the capacity so much that our ratios start to look bad again. So therefore, we are doing a fine balancing act there – as to how much capacity we add, in what intervals, and how the demand is panning out. Do not forget that when you are dealing in so many categories, volatility or seasonality increases, so therefore we are mindful of that as well and as a result we expect, of course we have lot of other actions in Europe which are ongoing at the moment and I cannot share all of them, but our focus is obviously to grow faster in Europe than any other geography for the next 12 months.

Moderator: Thank you. The next question is from the line of Devvrat Mohta from Fidelity Investments. Please go ahead.

Devvrat Mohta: This year's revenue growth has actually impacted you. In your press release you mentioned that about 5% revenue growth was impacted because of raw material prices. So just going forward, across each of the geographies, how should we think about volume growth and also you know what would be the sort of improvement in realization because of you know, mix shift from oral care towards non-oral care - what should it add to your revenue growth for each of the geographies, how should we think about that?

Ashok Goel: Let me put this in perspective - see one way to look at it is the volume growth. The other way to look at it, which is what we have been pursuing, is to take the revenue growth that means to change the product mix, favorable towards, non-oral care or high value tubes. That does two things, one is that without increasing capacity, my revenue keeps increasing or to that extent I do not invest so much. That is one way of looking at it. Whether volume growth is very important or revenue growth is important - so far we have been focusing more on revenue less on volume.

Devvrat Mohta: So then how should we think about revenue growth for each of the geographies for the next 2-3 years?

Ashok Goel: We still believe that these are temporary setbacks and each geography has its own unique features; for example in Europe we are growing both in volume and revenue. China, also we are growing more on revenue, less on volume. India I have already explained in detail through the previous questions. In Americas, we divide the three markets we are operating in - US, Mexico and Colombia. US has shown a temporary dip in volumes because we are winding down the plastic tube operation in US which had been mentioned even in the previous call, and the conversion of those customers from plastic to laminated tube is underway. However, we want to wind it down sooner than later, even if it is sooner than the market conversion. because that makes sense for us. Colombia is growing, Colombia has grown nicely by about 30%. We have added capacity and we will add further capacity going forward. It is in Mexico where our contracted customer's volumes have shrunk, that we have lost the share from the customers. We are in discussion with that customer and hopefully in next 3-4 months we will have complete clarity as to which direction this customer is going to go. So that pretty much covers the entire globe.

Devvrat Mohta: Sure. On a blended basis how should we, for example FY 17-18 given that you know your raw material prices have of course depleted which will translate into low revenue growth, is 10%-12% type of revenue growth something which seems reasonable to do?

Ashok Goel: Absolutely, so that is what I was about to say - that we started the year by saying we will grow by 15%. 5% has been taken off by the softening of raw material prices and therefore it will be safe to assume about 10%, or low teens - about 10% or 11% or 12% revenue growth.

Devvrat Mohta: And the other question I had was with regard to margins, so of course margins have improved quite substantially across each of the geographies this quarter, but also you know, the percentage margin actually looks better because you raw material price has gone down, so your average selling price is down, so you know you might be making the same EBIT per ton but EBIT margins look higher. So just given that how should we be thinking about, are the margins that you have done this quarter sort of sustainable for the next 2-3 years or these are very high margins?

Ashok Goel: Absolutely sustainable. See this is not just the raw material impact that you see. You are seeing the delta effect of Europe - Poland changing from loss making to a low profit and then to a high profit unit. If we turn Mexico around that will also give you Delta effect. So therefore do not just look at it from that perspective; yes the divestment of the flexible packaging business has helped the margin to look up by 1.1% in EBITDA terms. All other factors and the finance cost coming down of course impacts after EBIT or EBITDA. All these factors contribute and we are working on a lot of other initiatives as well.

Devvrat Mohta: So you know the one that actuallyu really stood up was China right? If you look at China EBIT margin it is almost 20.3% versus 14.2% last quarter. So you know meeting this kind of 20% EBIT margin is sustainable or just it seems to be high?

Ashok Goel: See China, traditionally they have had a high EBIT margin and what impacted was that there was actually a de-growth happening there. As we have been reporting earlier, oral care sales off take was coming down and therefore the scale economies were going down. So that is now being compensated by growth in the non-oral care. So you will see in the last two quarters actually China is reporting growth. It is basically the operating leverage that is coming to the fore and if you see the past also, China has always been posting 20% plus EBIT margins.

Devvrat Mohta: So you think the margins are sustainable also?

Ashok Goel: These are the normal levels of margins. If you see for India and China, they have been always around these numbers.

Moderator: Thank you. Our next question is from the line of Chintan Sheth from SKS Capital & Research. Please go ahead.

Chintan Sheth: You mentioned about the 5% impact due to the pass through of the raw material benefit but if still , on a consol basis if I compute the percentage sales for raw material prices, our margins on that front also we see a strong improvement in raw material cost saving. So is it assumed that the partial pass through has happened and some benefit we have accrued in our margins?

Ashok Goel: Yes, Chintan, good question. I think it is multiple factors there again. Yes, it is true that the pass through mostly happened with the contracted customers and for the un-contracted customers, the pass through is not automatic but at the same time last year we did have some material write offs because we had changed the policy of how long the inventories can be held. So last year we had some write offs which this year is not the case. So to that extent, it reduces the material consumption and the lower scrap, etc., are contributing to lower raw material cost.

Chintan Sheth: We do inch in terms of product mix from earlier 41.7. So we are improving on the product mix side also, that is also giving some fillip to the margin.

Ashok Goel: You are right, so that also helps.

Chintan Sheth: So year-end we are targeting further improvement in product mix or we will continue in current rates in the first half?

Ashok Goel: As you know our target is to go to 50%. So our effort will continue in that direction and if you see in Europe it has happened the reverse way because we were mostly in non-oral care; now the huge growth that we have seen is coming from oral care which is what was badly needed in Europe. So it is the healthy mix - the right mix between oral and non-oral care that is important and different geographies are at different levels and therefore we are pushing the other side where they are lower.

Chintan Sheth: And again coming back to the Europe, you have just mentioned earlier that you are still awaiting to reach the scale to get the benefit of the operations there. So what kind of quarterly run rate you are targeting over there to achieve a favorable mix in Europe? We are currently at about Rs.104

odd crores of revenue this quarter, so any targeted quarterly run rate where in you will get, margins will start looking up better in terms of scale?

Ashok Goel: If you see for last two quarters, on constant currency basis, Europe has been growing at the rate of 20% . Obviously you cannot expect in the normal course, that same rate of growth to continue in a market like Europe for long. Therefore we have to have some strategies also which we are currently working on and if all those strategies come into play, organic or otherwise we will still see that we continue to grow at that level.

Chintan Sheth: In the size in which you will be more favorable in terms of margins, you can quantify this number?

Ashok Goel: It has to be close to 20% actually in revenue terms.

Moderator: Thank you. Our next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Sir I was trying to do some maths on historically quarterly numbers and I had come to a conclusion what happens when there is a shift in mix which is around 50 bps or a 100 bps shift in mix and how the margins would respond. But this time around because there are so many different things, you have divested a business, constant currency basis and exceptional items. So if I were to ask you this question, given everything is same and you improve non-oral care share by 100 basis points how much does your EBIT margins go up by assuming that raw materials are also constant?

A. V. Ganapathy: I think that is a hypothetical calculation. The point is that if you take EBIT, we have given that for the continuing business. We have shown that separately so that it would help you to see how we are performing on the business which is not divested. Now, that is first point for EBIT margins; the second point for EBIT margin is that it is going to be always sensitive to the top line to the extent say for example, if there are seasonality's between the quarter, you could see some fluctuations happening and if you see the longer-term trend that is what is coming out if you compare the half year number for this year with the last year's number. Now we have taken on and internally working on a plan that we must have EBITDA margin of 20% minimum; so the whole operations we are managing on a basis that we will be able to achieve that. This has happened through all the ramping up in Europe, partly it is also contributed by more non-oral care in our mix. So as you see , in terms of margin, we believe that achieving 20% or something is not beyond us.

Agastya Dave: Definitely, no doubt about it. So if you take Q2 numbers as a base, Q2 16 numbers as base and if you achieve your targets, let us take one of the targets, let us say 20% EBITDA margin, so if you were to keep that as a constant will your mix automatically be around 20%, I mean 20% achieved when you have 50:50 or is it achieved before or is it achieved after?

A. V. Ganapathy: See we are talking of a number of variables which will influence the EBITDA margins and we do not have a model which will say that if I do X then other things held as constant this will be the impact. Because even if we have the model, in reality things will move differently. There are different geographies with different profiles. The point is that today you are saying that I am close to say 42% non-oral care. So your question would be that if I go to 50% oral care will I have an EBITDA margin of say 20% plus X.

Agastya Dave: That is what my understanding was based on what I have calculated; that would be the case if you will actually cross 20% but this quarter is kind of throwing me completely because of the reasons and the factors that you are mentioned, so I was just wondering whether you could kind of verify that such a thing is possible before you hit 50% mix.

Ashok Goel: See, there are so many moving parts and particularly when you are geographically so diverse with different market profiles, theoretically yes it is possible that we could cross

20% but the question is are we willing to commit right now, we may not be.

Agastya Dave: I take your point sir and my second point was sir again your target of 20:20:20, again the way things are moving as of now too many variables in the business as of now but it would seem to me that if you do achieve your 50:50 mix you would be more than 20% EBITDA margins and definitely much more than 20% ROEs. But you have always stated 20:20:20 right, so I was just wondering the incremental changes which will happen, which will drive you towards the 20% EBITDA margin will that change the capital efficiency of the business? I mean, will we see margins going up, P&L getting better and better, but on the other hand balance sheet efficiency slightly deteriorating, so that 20:20 is achieving because as of now if I just look at the business as of now, right and even if variables to move, the way the capital efficiency is improving it seems to me that by the time 50:50 mix is achieved it will be more than 20% in EBITDA margin and much more than 20% in ROE. So are we looking at some deterioration of balance sheet to achieve the 20% or 50% numbers?

A. V. Ganapathy: See, this 20:20:20 is our mission - we are saying that this is the minimum we should be achieving. There will be no businesses which will plan to hold these at a lower level, if we can deliver better ,we will. So the reason is that there can be so many other variables which can impact. So internally when we are building a mission we have to be cognizant of that, so therefore it is not an exact arithmetic where there is a model presented to you. So are you happy if I am delivering (+20%) ROCE?

Agastya Dave: Very happy, it has been a substantial improvement over the last so many years, so kudos to you, I am not complaining, I am just wondering where the business is at. Also the last question from my side and I am off for the day, sir the Q2 number, the depreciation numbers and the interest numbers and the tax numbers, these are good indication for the remaining part of the year. I mean the trends are will be similar or will we see some more variations?

Ashok Goel: See on depreciation I think more or less for this year most of our CAPEX has been front-ended. So I do not expect much of trend change as far as depreciation is concerned. The second question was on your finance cost, was it?

Agastya Dave: Yes sir, the fixed cost elements in the P&L, are these trends similar after the divestment of the business. Are these trends roughly similar or stable?

Ashok Goel: They are stable, there is no question but let me go back to the previous question. We understand that you are not complaining about 20:20:20. We also recognize that it is not a straight arithmetic if we do the modeling. If the lowest number we achieve 20, the others would possibly be higher than 20. In management terms, of course the financial modeling which you are saying is I agree that it is possible that the other parameters will be higher than 20. It is not that we have built in any inefficiencies in any other thing but for us to be able to communicate within the organization and to keep people motivated ,we have to make things simple for them, so that it is easy for them to understand. Everybody, 2700 employees in the organization are not as intellectually sound as you or some of us sitting in this room will be. So therefore we have to simplify certain things to convey our message. I agree that they are not straight arithmetic models.

Agastya Dave: Make all the 6 digits to 22:22:22 that I guess would be.

Ashok Goel: Yes, let us achieve this 20:20:20 then we are obviously not going to stay still. We have to push up the bar, then we will articulate that what will be the next one.

Moderator: Thank you. Our next question is from the line of Kartik Gada from Val-Q Investment Advisory. Please go ahead.

Kartik Gada: Sir just one question, we have announced that we are going to amalgamate Whitehills Advisory, so can you just elaborate on this, I mean how does it impact our financials and you have mentioned that there is no dilution or no change in the capital structure except there will be a simplification but how does it impact our financials?

Ashok Goel: Nothing. It is a zero impact in terms of cost, zero impact in terms of benefits, zero impact in terms of shareholding.

Kartik Gada: So if that is the case is it fair to assume that this Whitehills does not have any debt, revenues , is that right? Is that fair assumption to make?

Ashok Goel: It has no liabilities, no other assets other than shares of Essel Propack.

Moderator: Thank you. Our next question is from the line of Ritwik Sheth from Span Capital. Please go ahead.

Ritwik Sheth: Just had a couple of questions. Firstly on the margins , you mentioned in the first question that margins are sustainable and going forward we will have some delta from Mexico and couple of other geographies. So say over the next 4-6 quarters where do you see the margins going at, we are around 21% right now and can we increase 200 or 300 bps in the best case scenario.

Ashok Goel: Are you talking about the quarter?

Ritwik Sheth: No, consolidated margins.

Ashok Goel: Annual number?

Ritwik Sheth: Yes, over the next 4-6 quarters, like over the next two years.

Ashok Goel: Now when you talk about margins, let us talk about EBITDA margin; for the quarter it may be higher but for the year it is still lower than 20%, about 19.6% or so. We want to take it to 20% on an annual sustainable basis. So that is our commitment we will do. Are we likely to achieve it sooner, possibly yes.

Ritwik Sheth: So FY16 we can have a margin of about 20% or thereabout?

Ashok Goel: Yes, absolutely.

Ritwik Sheth: Sir I was getting into the EAP margins, this quarter we have done exceptionally well, we did a 500 basis points improvement in EBIT margins, so you mentioned that oral care was a bit slag due to the off take issue of some company. So if that kicks in what is the delta that we can see over the next may be 2 quarters once it kicks in?

A. V. Ganapathy: Ritwik because on a mix basis, the margin will actually be lower, although in absolute terms it will be better right? Because right now our growth is more happening on the non-oral care. On a longer term I am sure that as we catch up on the oral care, so you will see tracking little bit down.

Ritwik Sheth: And in China in non-oral care, what are we targeting non-oral care revenue share from. Right now it is around 30%. So may be FY16 exit what are we targeting?

A. V. Ganapathy: We have grown already 7 PP and it is the last non-oral care market we have entered. The challenge to us there is not in terms of getting a share of the business, but orienting and focusing our operations to start growing in that particular category because traditionally China has been prominently oral care for us. The team has done excellent work in terms of creating the capability and creating awareness among the customers and we are now starting to reap the benefits . So as we stand now we are basically wanting them to grow and they are trying to compensate even part of the oral care by increase in the non-oral care share.

Ritwik Sheth: And one final question on India. You earlier mentioned that FMCG companies are not growing that much, so what is the sense that you are getting while interacting with them like we get a couple of quarters away or may be visibility for one year is not so great. Now what is the sense that you are getting from our Indian FMCG plan?

Ashok Goel: See the challenge with India MNC customers is that they themselves do not really know. They have been hoping to do much better than what they actually did. So it is not that we have lost any market share with that customer. It is just that they are not doing as well as they thought they would. It will bounce back.

Ritwik Sheth: So we are still in a ?

Ashok Goel: No indications. I mean they are saying the next month the things will improve, but we have been seeing that for last three months

Moderator: Thank you. The next question is from the line of Niraj Mansingka from Edelweiss. Please go ahead.

Niraj Mansingka: Sir, on the Americas, just wanted to know you have seen a revenue de-growth on a constant currency primarily because of the raw material prices, but can you say that at the absolute EBIT there has been a reasonable jump in the EBIT as well and on a YoY they were lesser considering that there was seasonality in the business. So can you get some thoughts on and we have also seen Mexico not doing good, Colombia getting capacity constraints, so can you give some thoughts on how this was and is it sustainable.

A. V. Ganapathy: Colombia is predominantly non oral care market. So the margin will continue to be higher so it is a profitable growth. Mexico has been predominantly an oral care market for a certain point of time and the contract customer who is not doing well in terms of oral car market, so the revenue drop in that market has reduced our EBIT , that is one fact. And second actually in US we are growing but US there is one thing that is happening in US market that the sizes are getting changed, from larger sizes to mid sizes that is another impact; so overall there is an underlying growth that there are two markets where we are growing, Mexico is the one that we need to fix on an ongoing basis. So the margin will continue to grow; revenue growth we will be able to set right in the coming quarters.

Niraj Mansingka: And sir related to this, in the plastic unit, you would be moving to the European facility?

Ashok Goel: Yes, plastic, part of it has been shifted Neeraj and full winding down will happen by December this year.

Niraj Mansingka: And any thought process on how much the potential revenues on Europe can grow while one plastic unit moves to other and it has ballpark percentage in revenues would also be okay?

Ashok Goel: I think I alluded to one of the previous questions, there are a lot of things that we are planning to do - gain market share grow with particular customers, get more new customers and other possibilities. As I said Europe is a focus market for us, focus in the sense it is a market in which we believe and our desire is to grow fastest in the whole of the Essel Propack scheme of things over the next 12 months.

Niraj Mansingka: And sir the last question on inventories, we have seen correction in the raw material prices which has led to correction in your balance sheet receivables as well as the working capital debt as well but we have not seen a reduction in the inventory for the company in the commensurate level. So can you give some thoughts on that?

Ashok Goel: There were some strategic stock increases that we under took because of the softening raw material prices; that has increased some inventory temporarily but on the other hand we have identified about $4 million, inventories that we need to reduce over the next two months, so that we will reduce .Then once we know the way the raw material prices are going to pan out maybe we will correct our stock as well.

Niraj Mansingka: So that means that you will actually end up seeing interest expenses also obviously coming up because of, or what is strategic increase just at the last end of the quarter or just wanted to on that, just I am seeing on the interest expenses side?

Ashok Goel: I think strategic increase that we did was about Rs. 20crores worth of inventory and US$ 4 million in addition that we have identified.

Moderator: Thank you very much. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Praskant Kutty for closing comments. Over to you sir.

Praskant Kutty: So before just closing the call I just had one clarification, sorry if I missed that in the last part. Just want to know sir if there is the price pass through is concerned as on the raw material front which is there, assuming that the commodity prices stay where they are is as far as the pricing pass through, is that event done, is it safe to say that?

Ashok Goel: Yes. Prashant.

Prashant Kutty: Thank you very much sir. I would like to thank you once again for joining the call today and would like to hand it over to Mr. Goel for any closing comments.

Ashok Goel: Thank you Prashant and everybody for joining in. If you still have questions you know how to reach us, we are there. We are happy to answer your questions even going forward. So thank you for your time. Really appreciate.

Moderator: Thank you very much members of management and Mr. Kutty. On behalf of Emkay Global Finances Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.