

## **Essel Propack Predicts 12% Profit Gain This Year**

By  
Subramaniam Sharma

May 13 (Bloomberg) -- Essel Propack Ltd., which sells toothpaste tubes to Unilever and Procter & Gamble Co., said profit may rise as much as 12 percent this year, aided by production from new overseas plants and higher U.S. demand.

Net income will probably climb to as much as 790.3 million rupees (\$17 million) from 705.6 million rupees a year ago. Profit is expected to grow at last year's pace as the company spends \$9 million in 2004, including investments in a Moscow plant, Chief Operating Officer R. Chandrasekhar said in a telephone interview from Mumbai. Sales may rise about a fifth to 6.79 billion rupees.

Essel Propack, the world's No. 1 maker of laminated plastic tubes with 17 plants in 11 countries, is looking for new markets to boost earnings and stem a 27 percent fall this year in its share price. Investors, who drove the stock up by almost half last year, are concerned about returns on the \$110 million the Mumbai-based company spent in the last three years building capacity and buying companies.

"They're adding huge capital expenditure," said Ayaz Motiwala, who helps manage the equivalent of \$2 billion, including shares of Essel Propack, at Birla Sun Life Asset Management in Mumbai. "Before the assets sweat out, return ratios look poor. The company is trying to balance between growth and high return on capital employed."

Shares of Essel Propack fell as much as 10.75 rupees, or 5.3 percent, to 191.3 rupees and traded at 199.4 rupees, down 2.7 percent, as of 10:14 a.m. on the Mumbai stock exchange.

### **Falling Returns**

Essel Propack's return on capital employed declined to 11 percent last year from 19 percent in 2001, the company's annual report said. Earnings used for calculations are before interest and tax payments. Essel Propack set up a plant in the U.S. in February last year, selling its entire production for the first year to Procter & Gamble. It's seeking more clients for its Danville, Virginia-based plant. The U.S. accounted for 16 percent of its 2003 sales of 5.76 billion rupees, the company said.

The company aims to win more U.S. orders and convert more customers to longer-lasting laminated tubes from metal packs. Competition among toothpaste makers in China will boost demand. It also expects to sell more tubes to cosmetic makers and drugmakers.

Essel Propack is seeking to gain U.S. market share from "other competitive players," Chandrasekhar said. He said he expects to sell 100 million tubes to customers other than Procter & Gamble in the U.S.

## **Russia**

The company, which has a global manufacturing capacity of about 4.2 billion tubes a year, is trying to tap the Russian market, estimated at 400 million tubes a year. Essel expects to replace imports that dominate that market as its plant near Moscow starts production in October. "The volumes have reached a level that makes it attractive for us to set up our own capacity," Chandrasekhar said.

Essel Propack also expects demand to increase as more companies enter the toothpaste business in China in competition with the local units of Unilever, Colgate-Palmolive Co. and Procter & Gamble. China accounts for 28 percent of annual sales.

"In the last year, a lot of local companies have got into toothpaste manufacturing," Chandrasekhar said. "We will have double-digit growth given this fierce competition." The company is also selling the tubes to makers of cosmetics and drugs, where profit margins are higher. "The cosmetic and pharmaceuticals markets are highly fragmented, meaning better prices for us," Chandrasekhar said.

Essel Propack's profit growth slowed to 12 percent in the year ended Dec. 31 from the 14.5 percent a year ago. In the first quarter of this year, profit increased 10 percent to 180 million rupees on sales that rose 29 percent to 1.52 billion rupees. Earnings have been hurt because the U.S. plant produces tubes of a larger diameter for the local market, increasing raw material costs, Chandrasekhar said.

--Editors: Ghosh, Kennedy

Story illustration: For a series of screens on Essel Propack's share performance, click {ESEL IN <Equity> CNP00094090108 <GO>}. For a summary of companies reporting earnings for the quarter, click on {NI ERNIND <GO>}. For select company earnings estimates, see {TNI INDIA EST <GO>}. See {TOP SAS <GO>} for top stories in South and Southeast Asia and {TOPA <GO>} for top Asia stories.

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