



“EPL Limited  
Q4 FY2022 Results Conference Call”

May 10, 2022



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**Moderator:** Ladies and gentlemen, good day and welcome to Q4 FY2022 results of EPL Limited call hosted by Systematix Institutional Equities. As a reminder, 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. Pratik Tholiya from Systematix Institutional Equities. Thank you and over to you Sir!

**Pratik Tholiya:** Yes thanks Amal. Good evening everyone. On behalf of Systematix Institutional Equities I would like to welcome all the participants who logged into the EPL conference call to discuss the fourth quarter and full year results for FY2022. From the management, we have Mr. Anand Kripalu MD & CEO, Mr. M.R. Ramasamy COO, Mr Amit Jain CFO, Mr. Suresh Savaliya SVP Legal and Company Secretary and Mr. Deepak Ganjoo President AMESA region. Thank you management for giving us the opportunity to host this conference call. I would like to now hand it over to Mr. Anand Kripalu for sharing his opening remarks post that we will open the floor for Q&A. Thank you and over to you Sir!

**Anand Kripalu:** Thank you very much and hello everybody and welcome to the Q4 and FY2022 earnings call. My opening remarks this time will be a little longer since we are also covering our full year performance. So the previous quarter in particular and the full year in general has been exceptional in terms of challenges something that this business has never experienced in its history. The year saw unprecedented volatility and inflation in input cost be it polymer, aluminium, packaging or freight. Continued COVID-related issues in the western world led to absenteeism and overtime cost. With COVID having a significant impact in China as we exited the year. Finally post our last call together just when we felt the things could not get any worse we have all seen the unfolding drama of the Russia Ukraine conflict. Given this context I am pleased with where the business has ended.

In the quarter gone by we delivered revenue growth of 8.6% which is 9.4% adjusted for Russia in the base and this growth was broad based across regions and categories. Oral care grew by 8% and personal care grew by faster 9.5%. EBITDA margin for the quarter stood at 15.4%, a little lower than 15.7% of the previous quarter impacted by the recent unforeseen events. Given the nature of our industry we would like to reiterate that we do not run this business from quarter-to-quarter but more on a full year basis. In the full year in line with our commitment the business achieved a double digit revenue growth of 11%. Performance on a like-for-like basis which excludes Russia, CSPL and hand sanitizer was similar at 11.2%. During FY2022 oral care grew by 10.2% and personal care grew by



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11.2%. The latter which is personal care was significantly impacted by the decline of the category in Europe due to COVID. Within the regions three of the four delivered double digit growth. MSR grew by a strong 23.4%, EAP by 10.3% and America by 12.9%. Europe declined by 2.6%, but however if I excluded Russia and hand sanitizer it grew by 4.7%. Importantly Europe grew by 4.2% in Q4 with an adjusted growth of 7.3% without Russia and hand sanitizer. EBITDA margin for the year was 16.8% a decline of 306 basis points versus FY2021. Both Europe and America have seen challenges on margin during the year. I am pleased that both these regions delivered improved exit margins versus the full year average. Europe recorded a Q4 margin of 11.9% and America 15.7%. The biggest challenge to margin has been the ability to recover pricing in not just an inflationary but also highly volatile environment. Our model of quarterly lag-based price recovery which served us well for decades has left us with clear gap in this one-sided volatile environment. This is something we are urgently and aggressively working to address. Overall net profit declined by 16%. Net of one off PAT was down 12.3% versus the previous year. Despite the challenges of the year we believe that EPL has achieved an overall performance that is competitive.

Moving on to sustainability, ESG, and other business updates for the year. Our purpose and ambition is to be the most sustainable packaging company in the world. Having spoken to customers across the Board we believe that this will be a significant source of sustainable comparative advantage. Consequently we are setting up our efforts to innovate and lead the pack with an expanded set of 100% recyclable offerings. This ensures the ramp up of platina volumes across several of our large and small customers alike such as Colgate, P&G, Unilever, GSK, Hela, and Vicco. We expect this to further ramp up exponentially in FY2023. Significantly we won the WorldStar Global Packaging Award in 2022 for sustainable offering in the health and personal care category. In service of leading the pack sustainably we have made global commitments by joining the new plastic economy an initiative by Ellen MacArthur. We are founding the member of the India Plastics Pact. We are signatory to the UNGC or the United Nations Global Compact and our Carbon Disclosure Project rating have also been improving year-on-year. We recently published the second edition of our sustainability report this is available on our website and I would urge all of you to access our website and take a look at this sustainability report. Finally we have been honored with the Best Governed Company Award by the Institute of Company Secretaries of India.

So looking ahead as mentioned earlier our ambition is to be the most sustainable packaging company in the world and deliver sustainable, profitable, double digit growth. We have a clear strategy in place driven by the four C's of category, customer, country, and cost and



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enabled by the four enablers of innovation, bold sales in marketing, digital and the one EPL culture. The short term specifically due to COVID in China remains challenging; however, we are consciously confident of performance in the rest of the world. Our focus and effort of pulling out all stops to contain cost remains, this includes actions across every line of P&L for example in-house manufacturing of caps, which India has already commenced, reduction of scrap and waste and scrutiny of our organizational effectiveness and efficiency. However in this environment we recognized that getting more and quicker pricing from customers is key. We are significantly enhancing our efforts on this and are confident of getting more, so with our robust business development pipeline, our cost saving efforts and above all our pricing actions, we remain committed to our objective to deliver sustainable, profitable double digit growth. Thank you very much. With that we will now open this up for questions.

**Moderator:** Thank you very much. The first question is from the line of Sameer Gupta from IIFL. Please go ahead.

**Sameer Gupta:** Hi Sir good evening and thanks for taking my question. I have two so I will go one by one. First is on this China performance there is a sharp Q-on-Q decline would you attribute this entirely to the COVID lockdown impact or is there any other variables that are playing out and any outlook that can be shared here in terms of the COVID lockdown, how is the situation right now is it improving, your take on how we should look at it going forward?

**Anand Kripalu:** Give me the second question as well.

**Sameer Gupta:** Sure Sir. Basically this pertains to India on the growth outlook. Now most of the FMCG companies that we track they are all alluding to titration of volumes by consumers who are also facing the brunt of inflation and for us the volume growth number basically is what translates to gross profit and EBITDA growth so how are we looking at it, growth in India apart from driven by price pass through would that be under a sort of challenge in FY2023 or at least the first half?

**Anand Kripalu:** So let me take one at a time. As far as China is concerned yes Q4 was challenging. Typically Q4 is probably the smallest quarter in the year because of CNY Chinese New Year and I think this time it was probably impacted even a bit more than usual. Second is the fact that China like anyone else has faced huge input cost increases and that impacted their performance and finally yes as I said in my opening comments towards the end of the quarter COVID started having a material impact to the quarter. Now as far as outlook is concerned honestly and that is why I called this out that it remains challenging and remains



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a bit uncertain because China has this kind of no tolerance policy on COVID. Now we know the number of cases is coming down in Beijing; however, Shanghai remains largely under lockdown. The number of cases in Beijing are very few but because they spread all over the city it is not easy for anyone from outside Beijing to go into Beijing or somebody from Beijing to come out of Beijing because of the kind of restrictions that are there, so the COVID crisis is not huge in Beijing, but the zero tolerance model is putting a lot of restrictions over there. Now it is really hard to predict right what is going to happen. We have a sense that the worst maybe behind us right as far as March and April is concerned but in this game I would hasten to caveat that by saying we do not know for sure, so we are keeping our finger on the pulse, we are looking for every opportunity to get volumes, but if one of your customers plant is shut and they are not producing there is little you could do with that and you will know as much as we know because you will hear it from the news as well in terms of what is happening okay, but China remains challenging and that is why I said in my opening remarks that outside of China we remain cautiously confident of our performance in the rest of the world. Now as far as India is concerned we know that a lot of FMCG players are taking significant price increases and there could be some impact of that. All I will say is that we still remain positive in terms of our internal business plan as far as India is concerned. We are stepping back pricing and the aggressiveness of getting more pricing done and that is going to help both our topline as well as margins and help us to cushion some of the gaps that I spoke about between past pricing and raw material inflation. There could be some tampering of growth, but as of today I do not think we are pessimistic about growth and performance in India. We remain I would say cautiously optimistic even as far as India is concerned both from a growth standpoint and a pricing and therefore revenue standpoint.

- Sameer Gupta:** Understood Sir. That is all from me. I will come back in the queue if I have any followups.
- Moderator:** Thank you. The first next question is from the line of Ritwik from One-Up Financial Consultants. Please go ahead.
- Ritwik:** Hi thank you for the opportunity. Sir I have a couple of questions. Firstly what would be the volume growth for us in FY2022 and Q4 FY2022?
- Anand Kripalu:** So you know we report revenue growth and we do not report volume growth and we have stayed consistent to that and it is important that I keep reiterating the reason right. We do believe that our strategy is a strategy of mixed improvement and therefore revenue from tubes are different are higher as the mix improves and you have all kinds of funnies like small tubes in travel getting impacted during COVID and stuff like that, therefore we do not



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believe that volume is a good representation of our overall topline performance and therefore we stick to reporting revenue.

**Ritwik:**

Sir my second question is you mentioned couple of times that we need to increase the prices so historically if I look at our gross margins they tend to be around 57% to 59% band so would it be fair to assume that we need another 3 to 4 percentage points or 2 to 3 percentage points of increase on the pricing for us to reach that 58% to 60% gross margin to come back to around 19% to 20% of EBITDA margin would that be a reasonable understanding?

**Anand Kripalu:**

So I think the way you should think about is this so you can see what the specific erosion of gross margin has been right that is very, very clear in the results because we are broadly operating around the 50% mark above half of that I would say is due to under recovery of pricing and the other half is just a simple mathematics of translation losses. Now the half that you see that is because of under recovery and pricing recognized that this is a moving number because every day, every month, every quarter the input is not static, so it is a moving number and therefore it is a complicated average of cumulative set of numbers right and as we go and push for pricing it is possible that input cost may go up further and even if you get the pricing you may not see as much of the improvement as you would expect right in the gross margin. So suffice to say that we are pushing as hard as we can right. We are trying our best to make sure that we do not lose volumes and lose customers right, but we are not easily taking no for an answer and what we are also figuring out is that the model of having one price conversation and then forgetting about it is a matter of history now. Every months you will have to go back again to the customer if this is the volatility in input cost and say what you give up last month is great but next month is a different plan altogether so I do not think you can simply aggregate it but our intent is to catch up at least some of the loss in price versus cost that we have seen.

**Ritwik:**

So probably we can claw back the increase in raw material prices and some part of the freight and other expenses we will have to take a hit on our P&L and some part we can get a part two hopefully?

**Anand Kripalu:**

By the way our intent is to try and recover all input cost increases and not just polymers and other input materials so we would like to recover freight and in certain regions it could be energy or it could be labor cost because of general inflation like in Europe and US general inflation is 8% plus now so it is not that we are only recovering input cost, we are not looking at the rest. Now how successful we are in recovering 100% of everything I think that is the question really but we are trying every lever of justifying price increases from customers every lever of input cost.



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**Ritwik:** Sir just one last question from my end. We have been maintaining since we have taken over from the (inaudible) 20:21 double digit improving margin so on a medium term basis like three to five year basis our goal is to grow in double digits or will this (inaudible) 20:42.

**Anand Kripalu:** So I probably heard 50% of what you said. The line is very muffled but you are saying compared to promoters what is the difference.

**Moderator:** We have lost the line for the current participant. We will move to our next question that is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

**Sanjesh Jain:** Good evening Sir. Thanks for taking my question. See from my side first from the China situation, we also manufacture films in China now that there is a restriction and all is that also one of the reasons why there is higher cost that we need to keep it from any other place or we are sufficiently covered from the film perspective that is one, number two on the Brazil type we did disclose that we are getting into Brazil last quarter any further plan firmed up in terms of capex, in terms of film capacity we need to put in India or China what are the investment plans for Brazil and when should this Brazil operation start and adding to the revenue that is the second one, the third one is on the cost side on the Europe and US wage and energy cost has significantly gone up what are the percentage of revenue were these costs last year and what are these costs this year and how much of it practically is recoverable going into FY2023 so these are the three questions from my side?

**Anand Kripalu:** Yes we make film in China, we make film in India and we dynamically manage the allocation centrally here on who should make how much right. For instance China could be a better supplier to certain countries and India could be a better supplier to other countries and also we constantly look at the input cost in China and in India to see whenever there is an optimal opportunity to produce and ship at the lowest cost so we do that dynamically in terms of allocation. As far as Brazil is concerned we do not believe we need new film capacity as we speak and these Brazil plants are probably getting I would say finalized as we speak. We have not yet put capex inside and so on, but we will be doing it soon right and I think we got to give it a few quarters before we believe that we will be up and ready with any supplies out of Brazil, but very clearly the project is up and running and on track okay. As far as Europe and US is concerned yes wage costs have gone up, energy costs have gone up as you very rightly said, our intent is to recover as much of that as possible through way of pricing and I can tell you this that our teams are absolutely seized of this issue. We have put together ambitious price recovery plan from our customers and we remain hopeful that we are going to get a significant part of it back by way of pricing right



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so the teams are absolutely all over this one and on pricing it is not just Europe and US but everywhere we are all over this in terms of trying to get more pricing done.

**Sanjesh Jain:** Fair enough Sir. Just one followup on that, so is it fair to assume that Brazil will have a very minimal contribution in FY2023, any material contribution will come only from FY2024 is that a fair assumption, now why I am asking this question because it is an existing product, new geography, new customer that means ramping up should not ideally take too much of time, but now that we are telling it will take few quarters to firm up is it fair to assume that FY2024 is where we should see the impact of Brazil coming into the revenue?

**Anand Kripalu:** I think it is fair to say that the impact of revenue from Brazil will be relatively small in FY2022 and FY2023 and the big impact will happen in the subsequent year right and at the end of the day we are going to wrap this project as fast as we can conceivably drive it, but for it to be material in terms of volume coming up and therefore material impacting EPL numbers I think it is fair to assume that FY2023 will be nominal.

**Sanjesh Jain:** Fair Sir. Thanks for answering all the question and best of luck for the coming quarter.

**Moderator:** Thank you. The next question is from the line of Douglas Turnbull from Invesco. Please go ahead.

**Douglas Turnbull:** Thanks very much. On the point of pricing you say you are not easily taking no for an answer can you give a bit of colour on what other options the customers have and what your competitors doing with price, how sticky is their business with you and how does that translate into pricing power and perhaps if you could give us any colour as well on how does that vary globally?

**Anand Kripalu:** So the thing with this industry is that there is reasonable stickiness especially in the short term between customers and suppliers like us and the stickiness comes from longer term relationships and contracts and a certain belief by customers that we are able to deliver quality, service and ultimately sustainability and sustainable solutions right in line with what they want. Now I think we have to believe that while tactically any competitor can offer lower cost and we can to do that to our customer or one of our competitors right practically anyone will do that but sustainable way in this commodity environment nobody can deliver with prices that are significantly better than ours and we like to believe that we are amongst the lower cost producers in the world because where our manufacturing is which is large part is certainly in India and China therefore we would like to believe and of course in Poland as well that we are one of the lower cost producers in the world so nobody





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can sustainably deliver something at a significantly lower cost in this kind of commodity environment so our customer can threaten to move business and in some extreme cases they could, but we will be surprised if anything significant moves the way and we have to believe also that our relationships are long and deep enough and customers are cognizant enough of the environment we are in and of the input cost that we are experiencing that what our asks are is not unreasonable at all right it is absolutely justified and part of it is about the case we are able to make right riding on the relationship that we already have, so I think that is how we are thinking about it. Now we may lose a fringe bit of volume here or there but I would be surprised if we lose anything material.

**Douglas Turnbull:** It is really helpful. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Navin Sahadeo from Edelweiss. Please go ahead.

**Navin Sahadeo:** Thanks for the opportunity. I am looking at your slide and looking at especially the raw material challenges I would just like to request a directional sense on the margin front in the sense that if raw material prices have been volatile until Q4 it has like only been that much more higher or volatile into the current quarter as well, you said there are efforts are on to take price hikes which is appreciated, but I would really like to understand if directionally at least from a near term would we still see margins continue to be under pressure or there could be some respite some directional colour will be really helpful Sir?

**Anand Kripalu:** We do not want to give any margin guidance okay to be very, very clear. There are moving pieces. One is you had seen we have got a slide on commodity input cost and you are seeing the fact that it is continuing to go, so even if I do pricing today by the time I get that approval the input cost would have really gone up further so we are trying to make sure we get pricing ahead of cost but it is not always easy to do that let us at least get the cost that we have suffered already and then there are few other moving pieces like I said which is particularly COVID in China right and there could be some impact on volume and therefore it could impact the margin because there is certain amount of costs fixed cost anyway there particularly in the short term so the margins will be an amalgam of all that, but let me put it this way that I think if we are able to pursue and realize the price increases that we have embarked on right and I am confident that we will get a good part of that then I think that we are not going to be on a significant landslide on margins and we will try and contain where we are and start building back from here, but I have to caveat this by saying that the environment just remains unbelievably unpredictable. Last time we said that our margins are bottomed out and then the Ukraine war happened right and there was a concomitant set



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of impacts because of that okay so I have to caveat this by saying that it is really hard for us to predict things beyond the point. I think what you need to be reassured of is that management doing everything it can under the situation to become fitter as an organization and to get pricing from customers and really what is in our control is what is the only certain thing right now everything else is somewhat uncertain because that is the environment we are in so I cannot give you any clear guidance that margin will go up or not go down further or stay the same I think we will just have to wait and watch right, but I do believe the actions we are taking are material enough to help see us through this phase.

**Navin Sahadeo:**

Right I appreciate your answer. Just a followup there and pardon my ignorance please I recently started tracking this, but from a policy perspective how much inventory do we carry is it like more like one month, one to two months a broad average would help here and then second part is since our customers are largely these large companies and typically it is B2B segment so is there some sort of a possibility given the volatility some cost pass-through basis or some mechanism can be worked out wherein margins become that much more sustainable for us? Thank you.

**Anand Kripalu:**

I am going to request my colleague Ram to tell you inventory what we are carrying right and you can also talk Ram about the fact that we have a pass through model of pricing with a very large number of customers.

**M.R. Ramasamy:**

Normally we keep two months of inventory but it varies between places where we have our own input going to operations like America and things like that we keep slightly large inventory two to three months, but anywhere between two to three months of inventory that we carry then we replenish as we start consuming it so that way it is sustainable. The pricing is a pass-through mechanism of the last quarter. Quarter-on-quarter that we go for a price change based on the indexation so normally what we buy since I also have an inventory of three months that gets recovered automatically with timelines.

**Navin Sahadeo:**

Fair. That is helpful. Thank you so much.

**Moderator:**

Thank you. The next question is from the line of Chirag from Keynote Capitals. Please go ahead.

**Chirag:**

Thank you for the opportunity. Earlier we used to give a revenue bifurcation of how personal care revenues would be from areas like MSR, EAP, America so I am seeing that since last few quarters we are not providing that is it possible for you to give annual based numbers that how much have we earned in percentage terms?



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- Anand Kripalu:** So your question is region wise category performance is it?
- Chirag:** Personal care region wise performance.
- Anand Kripalu:** Personal care region wise performance. Are we reporting that?
- M.R. Ramasamy:** Sir we were reporting earlier it is a portfolio of various category and various region, sometimes some regions are down in some category like Europe we told earlier that butane cosmetic is getting hit but overall if you see we have managed and sustained to keep the composition of our personal care category at 46% so that we have sustained in last three to four quarters where even Europe is getting down we are at 46%.
- Chirag:** Actually I just wanted to know clearly from the America point of view because earlier we said that cross selling of personal care products is exclusively hyped up in America so just wanted to know how we are growing over there?
- Anand Kripalu:** Personal care which is beauty and cosmetics and pharma combined has grown double digit in the America in full year 2022 so it has grown double digit and by and large performance has been good everywhere except in Europe which I called out in my opening comment because we have had a shrinkage of the category through the entire COVID wave in Europe but we are optimistic that things are going to start bouncing back.
- Chirag:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Akshay Kothari from Envision Capital. Please go ahead.
- Akshay Kothari:** Thanks for taking my question. Sir I just wanted to know that would it be fair to assume like the population growth in the geographies which we are operating would be what we can say ballpark number for the volume growth which we are having?
- Anand Kripalu:** I do not know you have to tell me.
- Akshay Kothari:** I am coming from that perspective like these are very volatile times so we cannot say anything about the margin front so volume growth is one we can look for.
- Anand Kripalu:** No I am not going to give anymore regional volume growth. The segment can grow because of travel tubes or if you grow because of 50 dia tubes so it is really, really hard to add apples and oranges and bananas together right and give you a number and to use population



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growth as a surrogate for volume growth I think is at your own risk honestly I cannot see the simple correlation of these two.

**Akshay Kothari:** Would there be any impact of the EPR norms on our business?

**Anand Kripalu:** We are going to be a responsible manufacturer of plastic and like I said sustainability is a core part of the purpose of our business so we will take our responsibilities along with a larger industry seriously and partner with a larger industry to do what we must do as a responsible producer okay. Now will it impact our business not at least that we can see immediately at all.

**Anand Kripalu:** Okay. Thanks a lot. That is it from my side.

**Moderator:** Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

**Sumant Kumar:** Hi Sir. In recent analyst meet we were talking about we have taken two price increases and we are going to take one more price increase so can we talk about how much price increase we have taken recently and when this price increase is effective?

**Anand Kripalu:** There is no simple explanation because different customers, different regions, different rates, so I do not think there is any simple thing about saying from this date one round of pricing to this date another round and because these commodities have moved away it has been a continuous process okay of price increase. Now each phase of price increase is also not the same as a quantum of the other phase, so for this time we may be trying for a higher quantum than we have tried in the previous two times, so honestly this is a continuous process of input cost increase and a continuous process of trying to negotiate higher prices okay but If you were to look at a few simple matrix like ASP per tube so you will get an idea of aggregate that has other complications skews and mix and those things there but you will get some sense there.

**Sumant Kumar:** Overall assuming normal case scenario from here the commuter prices going to correct or say stabilize here is this is a bottom of the margins for the company?

**Anand Kripalu:** Nobody can say that commodities have corrected out or will bottom out nobody from whatever I know nobody have that wisdom right and therefore I cannot say anything more on margin as I have said already earlier actually.

**Sumant Kumar:** Thank you so much.



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- Moderator:** Thank you. The next question is from the line of Jenish Karia from Antique Stock Broking. Please go ahead.
- Jenish Karia:** Yes Sir just two questions from my side. Firstly how much would China be contributing to our topline in terms of revenue?
- Anand Kripalu:** China is around 25%.
- Jenish Karia:** If I am to assume first quarter there is nominal revenue and more revenue from China how much is the MCR growth rate that FY2023 could do?
- Anand Kripalu:** Sorry nobody said that there will be no volume in China, it is not as if the full business is shut.
- Jenish Karia:** Marginal volumes for the first quarter of FY2023.
- Anand Kripalu:** But I do not think I said there will be marginal volumes of the first quarter there will be an impact of COVID. There will be a significant of COVID, but the overall volumes and revenue will still be material in China.
- Jenish Karia:** Got it. Understood Sir and secondly I see there is a jump in inventory days in FY2022 so is it attributable to raw material price increases or is there additional volumes of inventory which has been maintained?
- M.R. Ramasamy:** FY2022 was very volatile. Availability of material was an issue; price was an issue so wherever there was an opportunity to stop we stop right because we placed service over cost right because that is how you grow. Now over a period of time we will be back once it is normalized we will reduce our inventories and one more all our China operations as we speak are running we had not closed even for a day, some of our customers are closed we are not closed even for a day.
- Jenish Karia:** Understood Sir. Thank you so much. That is all from me.
- Moderator:** Thank you. Our next question is from the line of A C Alagappan an individual investor. Please go ahead.
- A C Alagappan:** I have got only question. This company acquired Creative Stylo Packs what was the impact on that I do not find any improvement in margin after acquiring do we contribute towards the turnover?



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- Anand Kripalu:** Sorry your specific question is you do not see an impact of Creative in our numbers?
- A C Alagappan:** Yes Sir because the company acquired Creative Stylo and actually there should be an impact on the price either the margins should improve or the turnover should improve, what was the impact on that?
- Anand Kripalu:** Creative is a small part of the total revenue and P&L of EPL first of all. So you are not going to see a dramatic movement because it was never meant to be that way. Now has it strengthened our position with customers, has it has given us access to a whole new capacity or plastic tubes, has it been margin accretive and so on the answer to all that is yes but you will not see the materiality in the total numbers because Creative itself is a relatively small part of the total EPL business.
- A C Alagappan:** the Company spent 175 Crores because of that company's debt increased is not it?
- Amit Jain:** So our company has invested 168 Crores money for Creative acquisition but that is out of the internal accruals.
- A C Alagappan:** But the company's debt also increased.
- Amit Jain:** Yes but that is not because of Creative, that is normal because geographical you do capex in each and every geography there are 10 countries and even the debt if you see from the ratio perspective on the overall balance sheet the service ratios, interest service ratios, the debt equity and those are I think much, much strong if you see the balance sheet.
- Moderator:** Thank you. The next question is a followup question from the line of Douglas Turnbull from Invesco. Please go ahead.
- Douglas Turnbull:** Thanks. I appreciate you said you want to talk more about margins, but I wonder if I could understand some of your longer term thinking. You said half of the margin compression we have seen is lack of recovery from cost increases and half is just a mathematical pass-through of the COGS leading to a lower percentage margin, if we customize forward and think to more normalized cost environment and confident in your ability to recover the gap in pricing over cost how do you think about how important your percentage margins can those actually recover back some of that mathematical impact or do you say we may rebased margins a bit lower but just on a higher value of topline?
- Anand Kripalu:** So let me put it this way. First of all do we believe that all commodities in input cost will remain at these levels forever hereafter okay which are enormous levels and we know that



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commodity companies are laughing all the way to the bank right now and the way commodities go from my limited understanding honestly is that right now you are seeing the demand and there is less supply and more supply will come into this market over time and prices will start neutralizing so that people make sensible margins and not crazy margins, so I do not know if I should think about the future at these levels of commodity and input costs or even higher than this right looking at more recent trend. Now having said that at the end of the day as a growing concern the absolute margins we make and the percentage margins we make are important right so I am not saying that the percentage margin we make and report are not important. I think we are trying to manage the interim of this highly inflationary and volatile phase of the commodity cycle and the input cost cycle and during this phase it is I would say important to recover cost increases to the extent you can and worry less about the optical translation loss in terms of your margin right, but long term I think there are multiple other forces that will play and I would like to believe that as commodity tempered and mainly this time will be different but I think for the past 100 years if you look at commodity market they have gone through prices and tampered again right when that tampering happens I would like to believe that our margins will not only be good but also look good right and get back to where they were or even better so that is really what I can tell you honestly as far as that is concerned.

**Douglas Turnbull:**

Understood and that is very clear and agreed of course I do not think commodities stay at these levels indefinitely. I just wonder as part of the conversation you are having with customers they realize that it is a very unusual situation to improve costs and so your ability to rebuild the percentage margin in the long term kind of implies that you can hang on to some of this pricing even if commodity prices come down is that part of the conversation with customers what do you think their expectations would be in an environment where commodity price normalizes, would they expect to see perhaps some price cuts from you?

**Anand Kripalu:**

They will might, see because in any case a significant half of volumes are contracted and if your input goes up your pricing goes up, if the input cost goes down your pricing will follow that okay it is contracted right. It is the non-contracted volumes where you have to negotiate for price increases and I dare say that sometimes there could have been more of a lag and therefore there is a higher propensity to retain some of those when the commodity prices soften, but obviously this is not a conversation to be had at this point of time and I am sure you would appreciate that too, right now we just have to get what we can get and cover our cost, we are not really having a conversation right now whether we will retain it if and when commodities soften right, and there is no point preempting that conversation either.



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- Douglas Turnbull:** Understood that is great. Thank you very much. Appreciate it.
- Moderator:** Ladies and gentlemen that would be our last question for today. I now hand the conference over to Mr. Pratik Tholiya for closing comments. Thank you and over to you Sir!
- Pratik Tholiya:** Yes thanks Aman, thanks to all the participants for logging on to this call and thanks for the management for giving us the opportunity and indeed it was a very candid and detailed discussion on the outlook. Sir would you like to make any closing comments?
- Anand Kripalu:** No I just want to thank everyone for their time for logging in and most importantly for the active interest that everybody on the call continues to show in EPL.
- Pratik Tholiya:** Thank you so much Sir.
- Anand Kripalu:** Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Systematic Institutional Equities that concludes this conference. Thank you all for joining us. You may now disconnect your lines.