



“EsSEL Propack Limited Q1 FY2018 Earnings Conference Call”

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ANALYST:

MR. DHAVAL MEHTA - EMKAY GLOBAL FINANCIAL SERVICES

MANAGEMENT:

**MR. ASHOK GOEL - CHAIRMAN & MANAGING DIRECTOR - ESSEL
PROPACK LIMITED
MR. A. V. GANAPATHY - CFO - ESSEL PROPACK LIMITED
MR. M. R. RAMASWAMY - COO - ESSEL PROPACK LIMITED
MR. ROY JOSEPH - REGIONAL VP AMESA - ESSEL PROPACK
LIMITED
MR. VINAY MOKASHI - FINANCIAL CONTROLLER - ESSEL
PROPACK LIMITED
MR. AMIT JAIN - HEAD TREASURY ESSEL PROPACK LIMITED
MR. ASHOK VASHISHT - REGIONAL FINANCE CONTROLLER,
AMESA - ESSEL PROPACK LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Essel Propack Q1 FY2018 Earnings conference call hosted by Emkay Global Financial Services. 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 please signal an operator by entering “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Dhaval Mehta of Emkay Global. Thank you and over to you!

Dhaval Mehta: Thanks Melisa. Good afternoon everyone and welcome you all for Q1 FY2018 Earnings concall of Essel Propack Limited. We would like to thank the management for giving Emkay the opportunity to host this call. From the management, we have with us **Mr. Ashok Goel, Chairman and Managing Director**, along with the Senior Management Team of Essel Propack. We will start with the opening remark by Mr. Goel followed by the Q&A. Over to you Sir!

Ashok Goel: Thank you Dhaval and good afternoon ladies and gentlemen. Appreciate you are joining in today. I hope all of you have received the investor’s note. Let me mention just the salient highlights.

The consolidated sale grew at 6.1% to Rs. 583 Crores during this quarter; the net profit was Rs. 34.3 Crores lower by 8.9% compared to the previous year. Incidentally this quarter witnessed unusual volatility in currency market with Indian rupee recording significant appreciation against all major currencies in which the company has operations. As you all know, over 60% of the company’s operations are in non- INR currencies. Indian rupee appreciation thus led to significant translation impact in the reported consolidated numbers of the company during this quarter. In constant currency terms; however, the sales grew by 12.3% of this 9% came from EDG, EDG is a German joint venture that we acquired last year, the balance 3.3% from organic growth. The GST

linked down stocking by customers has further impacted the company's India sales to the extent of about Rs.17 Crores; but for this, the quarter sales growth in constant currency would have been 15.4%.

Sales grew strongly in China, Egypt and Colombia posting double-digit growth in constant currency; however, India because of the GST transition and Europe and US on account of weaker customer offtake, lagged. Share of non-oral care in total sales improved by 1.3% pp to 41.8% compared to the previous year.

EBITDA margin was sustained at 17.9%, previous year it was 17.8% in the same period with the overall EBITDA of the business inclusive of EDG expanding 13.5% in constant currency terms (against reported 6.7%).

It is worth noting that the EBITDA for the business exclusive of EDG grew by 9.3% in constant currency as against the comparable sales growth of 3.3%, representing 100 basis points margin expansion to 18.7%; however EDG pulled down the EBITDA margin to previous year's level.

As mentioned in the previous concall, a time bound margin improvement program is underway at EDG that is Germany, their productivity and efficiency issues have been corrected to good extent, but there is still work to be done. The unit is actively developing new customers with a view to growing in the topline and improving the product mix that should take up the unit's EBITDA margin to Rest of Europe level and improve the consolidated EBITDA margin of the company.

Although the reported net profit reflects a decline of 8.9% compared to the previous year, in constant currency terms it has actually grown by 3%. In fact, exclusive of EDG, the net profit growth in constant currency has been 6.2% against comparable sales growth of 3.3%. But for the lost

sales in India on account of GST transition, the overall net profit growth in constant currency would have been around 12.2%.

The balance sheet continues to be strong. The reported net debt as at June 2017 was Rs.630 Crores as compared to Rs.704 Crores at March 2017 a reduction of Rs.74 Crores demonstrating strong cash flow. Even in constant currency, the reduction has been similar. Average interest cost for the quarter is 6.2% lower 50 basis points compared to the previous year. Debt equity ratio of 0.72 and debt service coverage ratio of 2.1 further demonstrate the company's financial flexibility to pursue growth. The company enjoys AA rating for its long-term debt and top rating for short-term debt. Return on Equity and Return on Capital Employed on trailing 12-month basis continue to be strong at 17.8% and 17% respectively.

In summary, the quarter is a mixed bag while recovery in East Asia Pacific that is China and Colombia materialized in line with our guidance at the previous concall, the India recovery did not realize due to the GST transition. Expected topline ramp up in Europe and US however, has lagged although the new business development pipeline is healthy in all the geographies particularly in Europe and US that gives us confidence that the topline should grow sooner than later. Meantime. Europe margin has recovered on account of improved operational efficiency, that is you look at Europe without EDG. Appreciating rupee however has depressed the reported performance. With that I would now open the floor for question and answer. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Sir my question is on the EDG business where you said the margin have been lower on a YOY basis so just wanted to understand the reasons behind that?

Ashok Goel: Germany has been at that level, it is not that it is kind of depressed further just that it is not improved as we expected so just pulling not only the European numbers down but also the global average down. Obviously intent to improve it is there; a lot of work is being done in debottlenecking their capacities in terms of efficiencies and processes, integrating that with rest of Essel in terms of IT systems, in terms of practices, including supply chain etc., but the most important thing is that they need to get more volumes to sell; earlier they could not sell because they did not have the efficiency as the rest of Essel has. So while the efficiency issues have been taken care of, now they really need to get the business.

Percy Panthaki: Understood Sir, so at the overall Europe level what is the reason for the decline in the EBITDA margins.

A. V. Ganapathy: See in the Europe region if you exclude Germany and you compare the like-to-like business, there is a decline in topline, as you would have seen in the investor note.

Percy Panthaki: Right, so it is just operating leverage, which has affected the margins.

A. V. Ganapathy: No but the margins did not come down. Actually margin has improved in the Europe exclusive of Germany; that was due to improved operational efficiency. If we look at only Europe exclusive Germany EBIT margin has come back close to 5.9% and you would recall that a year ago we were at 6% and then last year there was some dip. So what is pulling down is the EDG result and once that gets fixed and that margin starts aligning to the Europe. So yes, in Europe as Ashok Ji mentioned, there is a lag in terms of getting the topline growth; while we fixed a couple of regions, we fixed EAP and Colombia, in Europe despite the pipeline it has not fully materialize. Once that comes the margin improvement can come with that.

Percy Panthaki: What is the sort of timelines we were looking at for bringing the EDG margins in line with Europe?

M. R. Ramaswamy: I think both EDG as well as rest of the Europe, we believe Q2 will be better than the Q1 because there are lot of pipelines; business as you all know, takes time to mature, so we see more positive trend as we go along.

Ashok Goel: Let me just add to what Ram said that we have a good pipeline already of the developments. Now as Ram was saying that it takes time, it may take six months, five months and we track them on the scale of 5.0 scale. Various customers at what stage of development and most of the times we move up scale ;sometimes we down the scale also if there are some technical things, which we thought has been approved, but later on they said no, or we need to take a retrial and stuff like that. So we see a great pipeline moving in the right direction. So as Ram is saying second quarter will be better than first, but will it be the good quarter I do not think so; we expect the third quarter to have some better numbers.

Percy Panthaki: So on Europe margin sir they have been so volatile if I see your last five quarters the margins are 2.4, 11.2, 1.8, 7.5 and 1.5 so it has been anywhere between 1% and 11% so just if you can help us it is very difficult for us to make estimates with so much of volatility if you could just help us understand how do we estimate your margins in Europe?

Ashok Goel: There are couple of things. Europe, one has to see there are three countries Poland, Russia and now Germany where we are affected. So if one has to look at the extraordinary charge or extraordinary income that is probably bringing in the volatility there. There are extraordinary charge in income that came in for example a charge came in EDG because we had to value the assets from the how do you say that Ganesh.

A. V. Ganapathy: On fair value.

Ashok Goel: On fair value and therefore we had additional charge there was a profit on one side and there was an additional depreciation in the other side.

Percy Panthaki: Is this in this quarter.

A. V. Ganapathy: Yes it continues this quarter.

Percy Panthaki: Oh! It is a continuing item is it?

A. V. Ganapathy: Yes that is relating to the EDG acquisition.

Ashok Goel: Yes that is one thing.

A. V. Ganapathy: For the Ind-AS.

Ashok Goel: Second we had explained that in Europe we had that royalty income, machine royalty that keeps coming as the machine where we have allowed our patent to be used by a machinery manufacturer. So as they sell the machine, which of course is not in our hand, we get from royalty income. So last September we had from royalty income there. Now in June quarter we do not have any income we expect some income to come in next quarter again.

Percy Panthaki: So as analyst we do not have sort of visibility on these items at least going into the future so it would really help if you could give some kind of guidance on how we expect the Europe margin to trend.

Ashok Goel: Yes Ganesh you want to respond to that.

A. V. Ganapathy: Percy, as I said if you look at this quarter exclusive of EDG it is around 5.9% EBIT margin and if you see the trend in the past before this volatility which we explained in the last four quarters, it was actually moving up and closing at around close to 6% and we were looking at how it can go beyond that as the volumes ramp up, because essentially most of the costs here are already committed on the ground so the operating leverage will kick-off as the volumes expand and in the last

year you were mentioning some numbers like 1.8 and 2.0 something so the times when volumes had suffered even below that level those have got restored in terms of contractual volumes which were already got signed up with the customers; the second part was in terms of certain other operational efficiencies we have been able to kick in and so if you look at this business now without that particular item which could come based on the machine we are at around 6% in EBIT margin so that is something which we could definitely consider as a base because those problems under costs have been fixed.

Percy Panthaki: No but Ganesh if EDG is going to be in the red then the 6% will get pulled down to a particular number so when you report it will not be a 6% number right.

A. V. Ganapathy: Yes, so the point is that they how quickly EDG starts tracking the rest of the Europe margin and that is where AG had just explained to you that while we are working towards getting it happen say in quarter two might get into quarter three.

Percy Panthaki: Okay because as recent as last quarter March 2017 quarter your Europe margin was 7.5% so it is not as if I am sure EDG did not suddenly deteriorate only in the last three months so if you have been able to post 7.5% in March quarter is that not number which is feasible in the near future?

A. V. Ganapathy: It is not like that because in that 7.5% also the benefit of that royalty charge so without that we would have been I can separately give you that number compared to that we have improved ; in fact, at that time EDG was still in a worse shape.

Percy Panthaki: Fair enough and second question Sir on the topline in America and Europe the topline sort of has been weak so is there any I mean I am sure as a business because of lead times etc., you would have a visibility whether things are improving or not and how they are looking they must

be giving a rolling yearly plan or at least a six monthly plan so what is the kind of sort of sales that you are expecting in the next six months nine months?

Ashok Goel: In Americas the villain in these numbers is actually US. In Americas we have three units Colombia, Mexico and US. So in US there were two things one is the pre-contracted customer, which has been there with us, and then there was a new customer pipeline. So unfortunately in US both have underperformed. It means the contracted customers have not taken the volumes as much that they should have taken not that we have lost any share with them so that has depressed, and the new customer development also is taking longer than was expected.

Percy Panthaki: And how is the future looking the next couple of quarters?

Ashok Goel: Again next quarter would be better that is as far as the contracted customers are concerned but the new customer pipeline could probably take another one more quarter.

Percy Panthaki: Your vision of 20:20:20 also included a topline target of 15% so just wanted to know are we sort of now fair amount of quarters away from going back to that kind of growth or you believe that there can be a bounce back in the next two, three quarters back to our target of 15% at least in constant currency terms if not in reported terms?

Ashok Goel: Yes, so obviously everything that we can say is only based on constant currency. So on constant currency and that to annualize number by the way Percy. If you are asking for a specific quarter we may get the number that is not what we are looking at, we are looking at annualized numbers. So we expect that this year we should close at about 12% to 13% topline and about 18% bottomline against 15% and 20%.

Percy Panthaki: Okay and both these numbers, which you are talking about, are constant currency numbers.

Ashok Goel: Constant currency after having factored in the first quarter.

Percy Panthaki: That is all from me for now. I will come back in the queue if necessary.

Moderator: Thank you. We have the next question from the line of Ritwik Sheth from Deep Finance. Please go ahead.

Ritwik Sheth: Good afternoon Sir. Sir my first question is relating to depreciation for the quarter is sub 30% so is it mostly attributable to the EDG acquisition?

A. V. Ganapathy: There are two things. When you look at the quarter the full year impact of all the assets which got capitalized during the last financial year would come in. So we had some major expansion happening in Colombia. We had expansion happening in India, and so that is one; number two that post acquisition EDG has got consolidated. Earlier it was not consolidated so there is a base depreciation of that unit also which has come in and third is that as per the Ind-AS upon acquisition we are required to do the fair valuing so that has given a little bit of a step up also in the depreciation relating to EDG. So that is how the total depreciation is stacking up for this quarter.

Ritwik Sheth: So EDG would be like Q-on-Q it would be comparable right?

A. V. Ganapathy: Sorry.

Ritwik Sheth: EDG it would have been consolidating since 1st October that would be Q3 of last financial year.

A. V. Ganapathy: Yes on a sequential basis yes.

Ritwik Sheth: EDG is there in the sequential basis but on the YOY basis there is EDG plus all the reshuffling of the units.

A. V. Ganapathy: You are right.

Ritwik Sheth: Sir next question is about GST; it is also 40, 45 days post implementation what is your sense on the market and has everything stabilized after the first 15 days of disruption?

Ashok Goel: GST there is a mixed bag and there we look at some peculiar phenomenon of the types of customers; when I say types of customer are I am referring to the category that we serve. As we see oral care customers have more or less aligned their GST compliances and we are reaching everything, everything by this time. The beauty and cosmetics is a mixed bag. Some have aligned themselves and some are yet to get their act together. And it is the pharma customers which has started to suffer the earliest; they started to suffer in May itself and we do not believe that they are still ready because lot of them have their own contract manufacturing and we see that the many pharma companies are still not fully ready and how long will they take is anybody's guess but we are in constant touch with the various customers.

Ritwik Sheth: How long Q2 will like for non-oral because you said oral care is okay so this non-oral care Q2 will also be a washout for that segment or it would be selective?

Ashok Goel : I would not say washout but it will be selective as you understand that some of the cosmetic products have two kinds of GST, one which is branded as ayurvedic I think is well 12% non-ayurvedic is attracting I do not know 18% or 28% so obviously the brands are trying to find their own bearings in terms of this correction they want to head and so it may not just their GST readiness it is also the business call many brands have to take. And we have no access as to how fast or how quickly they are going to move.

Ritwik Sheth: Okay this Q2 is also is some impact of GST can be sort of non-oral care?

Ashok Goel : So impact of GST , will see a major impact on pharma, to a lesser extent in beauty and cosmetics and oral care should be more or less up home.

Ritwik Sheth: I just getting to understand like in this non-oral care pharma would be very less right like even less than 5% is that understanding right?

A. V. Ganapathy: It depends how you are looking at Ritwik. In pharma typically the tubes are very small so small tubes typically would have a lower ASP even though it may be tracking the ratio of 2.5 times of oral that I have been saying all the time, but the per unit price is still lower. Number of tubes can be higher the revenue can be lower.

Ritwik Sheth: No I was talking in terms of revenue.

A. V. Ganapathy: In terms of revenue pharma I think is much more than 5% in India.

Ritwik Sheth: Sir last three quarters if I look at the India business especially it was impacted by demonetization then GST. So should we expect like is it after Q2 like second half to be see some significant growth like post September?

Ashok Goel: Yes that is what we expect, Ritwik, as far as the revenues are concerned.

Ritwik Sheth: Sir that EDG acquisition we have reduced the debt by 10% so how did we confer the 74%.

Ashok Goel: Once your voice is again was faint and Ganesh would answer that question can you repeat the question please?

Ritwik Sheth: Yes, so this EDG acquisition we did 74% balance, which we acquired and subsequently we have reduced our debt by 10% so how did we pay for the acquisition?

A. V. Ganapathy: Yes Ritwik, first acquisition was financed out of debt. So that is why you saw the debt level peaking in the September 2016, but since then as we have mentioned in the report also the underlying business is still generating strong cash, and also because of the asset productivity we are pushing on and also working capital plus - so that has helped us to bring

down the debt. You may have noticed that debt has come down both in reported as well as in the constant currency by similar amounts.

Ritwik Sheth: So in terms of constant currency what would that amount be?

A. V. Ganapathy: The debt is around 630 Crores, net debt as of June 2017 and it was 704 Crores in March 2017.

Ritwik Sheth: That is on constant currency.

A. V. Ganapathy: Yes this is in reported basis reduction of Rs. 74 Crores and if you talk of reduction on constant currency basis it is also similar at around Rs. 70 Crores.

Ritwik Sheth: Just on US like we have said that that will still be one quarter away in terms of new customers so what it is now it has been a two to three quarters since we have realigned the US facility so what is our plan in US like in terms of topline and margins. Can you throw some light on that?

Ashok Goel : Ram.

M. R. Ramaswamy: In Q2 we should be moving up , there are specific contractual customer what Ashok Ji was saying that off-take was lower on Q1, we are seeing a traction, so when they come in normal ,we said we to a normal level of that last year, then the new development also picked up in Q3 and going forward, we should be able to grow; but you should also realize that in Colombia we had issue last year but is now growing, Mexico is also factoring well so combined as a region America's, is showing far better results.

Ritwik Sheth: Okay so it is going forward like Q2 and Q3 onwards we should be improving on the revenue and as well as the margins.

M. R. Ramaswamy: Yes.

- Ritwik Sheth:** That is it from my side. All the best. Thanks.
- Moderator:** Thank you. We have the next question from the line of Vikas Sharda from Empty Asset. Please go ahead.
- Vikas Sharda:** Good afternoon everyone. One question on this EDG you motioned that there is some impact from fair value accounting can you quantify that how much is amortization because of that.
- A. V. Ganapathy:** See the fair value accounting is routed through the depreciation line so incremental impact of that is in the range of around so per quarter it will be around \$300000.
- Vikas Sharda:** So roughly say around Rs.3.5 Crores.
- A. V. Ganapathy:** Yes.
- Vikas Sharda:** That is for quarter and secondly what is the outlook for the capex for the year and how much was it for this quarter?
- A. V. Ganapathy:** Capex for this quarter I will just give you the figure.
- Ashok Goel:** We are still following the policy of capex equal to depreciation.
- Vikas Sharda:** Because one thing which looks odd in this quarter is around 70 plus Crore of debt reduction and the profit is around 35 Crores so is it funded by a lower capex or lower working capital during this quarter?
- Ashok Goel:** Certainly lower capex that we know this quarter has been a very low capex and some of the advances might have been realized, also Ganesh is that correct?
- A. V. Ganapathy:** Yes, Vikas just a little correction on this because what I gave was the total depreciation number actually the incremental effect on account of the accounting is to be in the region of about Rs.2 Crores a quarter. This

is incremental because of the fair valuation. The capex for this quarter is 13 Crores.

Vikas Sharda: Thank you.

Moderator: Thank you. We have the next question from the line of Bobby Jairam from Falcon Investments. Please go ahead.

Bobby Jairam: I have one fundamental question and one rather insight. Mr. Goel what do you think of the intrinsic growth of such of your packaging business essentially because your business depends on consumer spending and the global growth is around 3.5% Europe has been growing at a very fast pace, this is actually as good as a guess, but your growth is rather pedestrian so how do you see this? Is it competition is that more business development is needed or what are your view here?

Ashok Goel: Bobby thanks for your question. I agree with you if you take the packaging sector as a whole the growth might be in those low single digit numbers but here we are talking about Essel Propack strategy which is not dependent on consumer spend which is not dependent on market growth at all and which is why it gives us confidence that we will grow. No doubt outpacing the average packaging business it is simply because we have said that earlier we were catering to only oral care, which had a market size of only 14 billion tubes and we were already sitting at 33%, 36% of that so there was hardly any room for us, there were of course room always but not a significant room, then we said that how can we change the plastic tube and aluminum tubes into laminated tubes for which we needed to develop new materials, new machines, new processes and more importantly the mindset in the company so we succeeded in the first three the mindset of the company changed last, but it did change and therefore we are saying that we have developed now the laminated tubes which are much better than plastic tubes, we have developed the laminated tube which is much better than aluminum tubes and therefore we are replacing those and therefore even if the market

does not grow even if the consumer do not buy much my growth strategy is intact. Of course then we in Europe, market like Europe we can gain market share because Europe is a fragmented supplier base market. There consolidation can happen and will happen and therefore we can gain the market share as well, so that is how the growth fundamental question that we see is relevant.

Bobby Jairam: Right and the other question is in many of your conference calls you have mentioned about clients not taking in their contracted volumes so are these contracted volumes annual so does the client have to take an x number of tonnes per year essentially is he obliged to take so much and he can vary it between quarters is that how it works?

Ashok Goel: Yes Bobby it is mostly annual numbers then they do give us a forecast for about a month ranging from a month to three months but that can vary that can vary and then they break it down to a week then three days and on a daily basis but that can change even on a weekly basis and not they can change on a daily basis as well and that is how the agile our supply chain has to be and therefore entire manufacturing has to be. So it can change yes quarter-over-quarter, it can change month-on-month, it can change week-on-week, but it is an annual contract. Now with your second part of your question is are there penalties some contracts have penalties, penalties meaning a little penalty, some contracts have the price escalation that if you are not picking up so much volume then our overall price will rise by so much the contrary is also true if the customer exceeds certain volumes then we may end up giving this account also but that is at the end of the year so it is a mix basket on that question.

Bobby Jairam: I see and what is the capacity utilization generally you run and is there a lot of lag in capacity and what is the operating leverage you expect if all clients max out their contract level?

Ashok Goel: It depends if we talk about oral care because this is where the run size are larger than the other one in the plants which are only dedicated for

oral care can go as high as 80% and some plants we are happy if they go at to 74%, 75% and those plants which cater only for non-oral care can be as low as 45%, 50%.

Bobby Jairam: Right so what is the - so this would drive your EBITDA margin right.

Ashok Goel: Yes absolutely.

Bobby Jairam: So at very favorable utilization levels what would your EBITDA margin be?

Ashok Goel: We are saying 20% and some units are actually delivering more than 20% and some as you know US and Europe are delivering much lower so global average is 20%.

Bobby Jairam: So you do not foresee any capacity increases for the next two years?

Ashok Goel: I did not say that as in line with our volume growth coupled with efficiency we will obviously need capacities we know for sure that in India we would need capacity , additional capacities for pharma and I cannot reveal too much right now but yes we would need capacity.

Bobby Jairam: Thank you very much Mr. Goel.

Moderator: Thank you. We have the next question from the line of Ankit Gor from Systematix Shares. Please go ahead.

Ankit Gor: My question regards to EAP region probably we have seen a good margin traction profitability traction there so is the offtake issue gone or if you can give some idea there that will be great for us?

Ashok Goel: Ankit first of all yes they have done better than what they have been doing earlier in terms of business growth both and that is both in oral care as well as in non-oral care . What they have also done is they have done some significant improvement in operational efficiency, which is

flowing right through to the bottomline so this is a combination of both that EAP has done.

Ankit Gor: But the offtake issue still persists in oral care sir?

Ashok Goel: Off take issue with the multinational customers yes still persist.

Ankit Gor: Profitability improves in because of two reasons one is efficiency?

Ashok Goel: Because they got more non-multinational customers that are local Chinese customers they also got some business in non-oral care as well and improved the efficiency.

Ankit Gor: Pardon if I have missed this number what was the contribution of EDG in terms of absolute revenue in Europe? Sorry I missed up.

Ashok Goel: Ganesh, did you hear that absolute contribution in revenue of EDG?

A. V. Ganapathy: Revenue share of EAP in the total revenue of the business.

Ashok Goel: EDG.

A. V. Ganapathy: EDG will be close to about 9% to 10%.

Ashok Goel: For global.

A. V. Ganapathy: Yes global revenue

Ankit Gor: Okay so Europe has 1173 million topline so can you what would be the contribution there for EDG in this case?

Ashok Goel: No can you repeat the question?

Ankit Gor: Europe has 1173 million revenue in Q1 so what was the contribution of EDG out of this?

Ashok Goel: Roughly 50% of Europe region.

Ankit Gor: Thank you.

Moderator: Thank you. We have the next question from the line of Nehal Jha from Edelweiss. Please go ahead.

Nehal Jha: Good evening to the entire management. My first question is relating to the EAP region has was the growth of non-oral segment in this quarter.

Ashok Goel: Ganesh, Ram you can answer that.

M. R. Ramaswamy: We will get you the number see as we provided to you in the last three or four calls that we were working on lot of non-oral especially cosmetic market in China we have invested in; relevant machineries to approach this market and in fact we start seeing benefits flowing through now and it should be a percentage should be somewhere around 27% .

Nehal Jha: 27% is for this quarter or for the last year?

M. R. Ramaswamy: For this quarter.

Nehal Jha: What would have been the percentage say for the same quarter last year I just trying to understand the growth trajectory that the segment has been seeing?

M. R. Ramaswamy: Yes it is non-oral care for this quarter has grown in constant currency by about 19.4%.

Nehal Jha: Okay so that is actually a pickup because I understand that in FY2017 was it close to is flat or negative if I remember right?

M. R. Ramaswamy: No again if you see my investor note because on reported basis topline growth is around 3% overall but on a constant currency basis the growth has been far higher and that has been led largely by the non-oral care.

Nehal Jha: For the whole year FY2017 what was the non-oral growth in EAP like in constant currency terms?

M. R. Ramaswamy: Yes I do not have the figure immediately we can separately give it.

Nehal Jha: Now for just check on the domestic operations obviously GST has impacted revenue is that do we expect the entire destocking to happen in the coming quarter where we could see a sort in revenues?

M. R. Ramaswamy: Say it again Nehal.

Nehal Jha: Sir I was asking that in India we obviously saw the impact of GST impacting our revenue growth this quarter like some of the other companies have been guiding is there an expectation where the destocking which has happened we expect this talking up to happen in Q2 and the entire revenue growth could ramp up in the coming quarter?

Ashok Goel: That is what the expectation is Nehal for sure.

Nehal Jha: But say with the quarter gone by we have already like in the middle of Q2 are we seeing that kind of a trend now.

Ashok Goel: As I explained that different category of customers are at different level of their readiness if I may say so. The readiness could be in terms of their compliance; readiness could be in terms of their own supply chain network clarities. For example pharma had a huge discrepancy as to if one is a brand owner let us say brand owner "A" who was getting the product manufactured from their contract manufacturer "XYZ" and brand "A" was asking "XYZ" to directly dispatch the material to the market now how would the application of various GST take place was not clear that is my understanding. Now some of those clarities have just recently come in now they will probably get in to implementing things and stuff like that so we do not know how long with that take. That is as far as pharma customers are concerned. Now on beauty and cosmetics as we said that there are two kinds of GST rates; one for ayurvedic based other one is non-ayurvedic and therefore many brands are looking at if they would get into formulations, which are ayurvedic therefore attracting less incidence of GST, now we do not know how soon will

they be able to come out with new formulation and do it and rollout so that may take some time. Oral care as we said more or less is ready , the only thing is that they had to grapple with that antiprofitteering clause of the whole process and therefore they have to change their prices because many customers probably would have decided to go for higher grammage than price hike that would essentially mean that they would need new artworks and probably the length of the tube will also change. So while there may be a clarity there are art work change and the size change that they have to decide and tell us and we will be moving ahead so there are lot of moving parts within the whole thing and the category wise stuff so while we are seeing some better trend than June quarter, will the September quarter be normal as was planned? I do not believe so, then will we be fine in December we hope so and therefore the destocking that would have happened would probably there may be rush for orders etc., etc. we do not know we are hoping for that to happen we are keeping ourselves ready with that and so there are many, many moving parts to that Nehal.

Nehal Jha: Just one last question sorry if I missed it we have maintained guidance for the coming year?

Ashok Goel: No I mentioned that on the constant currency basis excepting that the first quarter has already pass by we expect the topline to grow at not more than 12%, 13% factoring in the next three quarters on constant currency basis and bottomline to grow at about 18%.

Nehal Jha: Thank you so much. That is it from my side.

Moderator: Thank you. We have the next question from the line of Vikas Sharda from NT Asset. Please go ahead.

Vikas Sharda: Just one question on the guidance side. When you mentioned 12% to 13% growth in constant currency for revenue this year large part of that comes from EDG acquisition which is just breaking even then do you

think that faster than the faster profit growth and revenues is possible this year?

Ashok Goel: Vikas do not forget that EDG came in October 1 of last year so the only benefit we will get is the first and second quarter revenue growth.

Vikas Sharda: Thank you.

Moderator: Thank you. As there are no further questions from participants I now hand the conference over to Mr. Dhaval Mehta of Emkay Global for closing comments. Please go ahead.

Dhaval Mehta: Couple of questions from my end. Sir if you see the America business, America business saw a sharp decline in the EBIT margin performance in this quarter so is there any reason for the sense reason you are highlighting in the investor note but when you expect the margin to track that to again double digit?

Ashok Goel: Colombia while it has taken it has moved the revenue PAT up and it has stopped making losses, what it means is that, that it still has some additional cost therefore that additional revenues that we are getting has to be profitable, so we still have to see the profit levels of Colombia to come back up while the revenues have come back up. So that will help. Mexico we expect some growth to happen and their margin expansion to happen so that will help. In US the first quarter the contracted customer did not take the volumes as was planned and the new customer did not come in. So in the Q2 we expect the contracted customer to come back up again and that should help the scale and therefore improve the margin. In the third and fourth quarter we expect then the customers to start rolling in and that would therefore expand the margin.

Dhaval Mehta: Sir my second question is on the India operation sir we were consolidating our facilities in to Vapi plant where we had closed on the all the facilities and we had started at the new facility at the Vapi and we expected that this will be margin accretive once that particular facility

will operate in full scale when basically in which quarter we expect the benefit from that facility to accrue us?

Ashok Goel: Dhaval there are again two pieces to that one is that we had one of course last year because of consolidation, which was, be there this year.

Dhaval Mehta: Sorry that one-off cost was not in this year right?

Ashok Goel: There is this year so that is not good enough. We also have to stabilize the new operation in terms of new people and everything so my operating cost in Vapi is still higher than the other plants. That starts to normalize because they need extra support in terms of engineering, extra support in terms of operations the management and everything. So in providing those extra support my operating cost goes up and we keep a track on whatever the measures that we track on per 1000 tubes or per million tubes my operating cost those operating cost have to start to normalize that obviously will not happen immediately, it will happen gradually. So my operating cost right now may be which I have asked the team to work the numbers on maybe higher than my previous piece that I was running on per 1000 basis. So while the consolidation benefit logically should come my current operating cost maybe higher and that has to start to normalize for me to start reaping the benefit.

Dhaval Mehta: So assuming that last three quarters have been relatively muted for the India business because of external factors so once the growth comes in H2 so we expect the leverage because of a positive operating leverage the operating cost will be lower than our previous plants.

Ashok Goel: Yes of course operating leverage would always help in our business Dhaval.

Dhaval Mehta: That is helpful Sir. There is no one in the queue Sir. Thank you once again sir for giving us the opportunity to host this call. Would you like to make any closing comments Sir?

Ashok Goel: Thank you, Dhaval and thank you for Emkay for hosting this call and ladies and gentlemen joining us. We are always happy to answer your questions one-to-one whenever you know how to reach us. Thank you once again. Have a nice evening.

Moderator: Thank you gentlemen. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us. You may now disconnect your lines.