



“Essel Propack Limited  
Q2 FY2020 Earnings Conference Call”

November 08, 2019

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**Moderator:** Ladies and gentlemen, good day and welcome to the Essel Propack Limited Q2 FY2020 Earnings Conference Call hosted by IIFL Securities 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, please signal an operator by pressing “\*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Percy Panthaki from IIFL Securities Limited. Thank you and over to you Mr. Panthaki!

**Percy Panthaki:** Good evening everyone. Thank you for joining us on this Q2FY20Essel Propack earnings call. I have with me from the management Mr. M.R. Ramasamy, COO, Mr. Vinay Mokashi – CFO, Mr. Amit Jain – Head of Treasury, Mr. Deepak Ganjoo – Regional Vice-President, AMESA, Mr. Ashok Vashisht - Regional Finance Controller, AMESA, Mr. Suresh Savaliya – Head-Legal & Company Secretary. So, without further ado, I hand over the call to Mr. Ramasamy. Over to you Sir!

**M.R. Ramasamy:** Thanks, Percy. Hi, everyone. Good evening. Welcome to the Second Quarter Earnings Call for the financial year FY20. Investor presentation has been shared with the stock exchanges. I will refer to that presentation in my opening remarks.

This quarter marks the first quarter since Blackstone became the new controlling shareholder of the company. We, as a management team, are very excited about this partnership. We will walk you through our new mission in this avatar called EPL 2.0 and our progress in Q2.

Now I refer to the presentations. On Page 4, I want to leave you with 4 messages. Message number one, in this avatar, our mission is to deliver capital efficient, consistent earnings growth. I would like all of you to notice the key words in this mission: capital efficient, consistent and growth.

Message number two, we are fully geared to deliver on this mission. As part of this transition, the entire Board has been revamped with what we call fit-for-purpose experts. The work on further strengthening the management team has been initiated. And last but not the least, the company is tapping into Blackstone's global advisor and portfolio company network to support us to deliver on this mission.

Coming to message number three, the levers to deliver on these missions are: one, accelerated growth in personal care; two, continued leadership in oral care; three,



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innovation and sustainable solutions; four, prudent capital allocation across regions and finally, we, as a team, are happy to report early success on this mission.

Coming to next page, Q2 reported revenue is up by 6.9% year-on-year and EBITDA is up 22.3% with a margin expansion of 270 basis points. PAT is up by 49.1% year-on-year and we are proud of these results.

We, as the management team, will measure ourselves on this progress we have made on our mission. To do so, we have selected the relevant metrics, which are highlighted here on a recurring basis, adjusting for any one-off items.

These numbers are on Page 6. EBITDA grew by 18.4% year-on-year on recurring basis. EPS grew by 24.3% on year-on-year basis. The growth has been led by personal care category, which I am going to talk more about later. We are going to refer 'Non-Oral Category' as 'Personal Care' going forward, which comprises of Beauty and Cosmetics, Pharma & Health, Food and Home categories. The focus on capital efficiency is also showing in the numbers. Against the Rs.304 Crores capex spend in FY19, the capex spend in the first half of this year is only Rs.54 Crores. The return on capital for the business has increased from 15.5% to 16.4%. On the back of this performance, the Board of Directors have approved an interim dividend of Rs.1.25 per share.

As I mentioned, the entire Board has been revamped with industry experts from around the globe. Dr. Davinder Singh Brar is the Chairman of the Board. As some of you may know, he is the Chairman of Mphasis, a USD 2.5 billion Indian-listed IT company. He was also the ex-CEO of Ranbaxy Limited. The other Independent Director is Mr. Uwe Röhrhoff, who has extensive experience in packaging industry across the globe. He was the CEO of Gerresheimer, a German-based packaging company for the pharmaceutical industry, and led its successful IPO in 2007. Gerresheimer was the most successful packaging investment by Blackstone, where he delivered 7x returns to its investors.

The audit committee is chaired by Mrs. Sharmila Karve, who recently retired as the audit head for PwC India. She was the lead audit partner for several large consumer companies. We also have senior professionals from Blackstone on the Board, including Amit Dixit, Head of Blackstone Private Equity in India; Amit Jain, Managing Director of Blackstone; and Alex Yang, who is a Senior Managing Partner of Blackstone in China, who led their investment in ShyaHsin, a rigid packaging company for beauty and cosmetics customers globally.



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I am excited to announce that Parag Shah has been appointed as our new CFO, who will be joining us later this month. Parag comes with 25 years of consumer and pharma industry experience, starting with Unilever, Nike and most recently at ACG Packaging group. Vinay Mokashi would be retiring from his role as CFO after spending 23 years with EPL. We thank him for his invaluable contribution to the company. He will continue to be a Whole time Director on the Board.

The management team is also closely working with Blackstone's global advisor network. Most of you will know, Mr. Harish Manwani, who is the ex-Chairman of Hindustan Unilever, COO of Unilever globally, is helping us with key account management and various growth initiatives. Mr. Dhaval Buch, ex-Supply Chain Head for Unilever Global is leading what we are internally calling Project Phoenix, a productivity improvement program, and has already identified key areas for efficiency enhancement. Finally, Mr. Don Anderson is the global energy expert with Blackstone, and he is helping us, the company, to optimize energy utilization globally.

Some of the effects of these lean initiatives have started to reflect in the improved margins you all are seeing in Q2.

The key message on Page 9 is that this has been the strongest quarter on revenue and EBITDA in the history of Essel Propack, primarily led by growth in personal care.

Moving on to Page 10, as we discussed, operating performance has been strong with lower capex spend. Hence the Board, for the first time in the last decade, has declared an interim dividend. It is to say, this is a very exciting time.

Now I will hand over to Amit Jain to walk you through the key business highlights of Q2. Amit!

**Amit Jain:**

Thanks Ram. In my interactions earlier, many of you have asked for increased information disclosures and visibility on the performance of different segments and regions. I trust this presentation provides more insights toward that.

Let me start with the first business highlight, accelerated growth in personal care segment. To set the context, personal care has been a major growth driver for the company over the last 10 years, growing at a CAGR of 17%, and it now contributes 46% of the company's revenue as compared to 34% five years back. We have continuously expanded our offerings to newer subcategories, for example, hair care and prescription medications.



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Personal care grew by 21.4% in Q2 and saw traction across the regions. Personal care segment grew by 39% in Americas and 22% in Europe. An industry-defining testament to this growth has been the 100% conversion of a market leader in antifungal pharma segment from aluminum tube to laminated tubes. This has opened up a lot of new opportunities for similar conversion in other pharma products.

Second, oral care continues to provide a solid, stable base to the company, and EPL continues to strengthen its market leadership in the oral care segment globally. We continue to be preferred supplier to major global and local oral players worldwide, and we have been able to maintain this leadership through continuous product and process innovations.

Third, Europe has demonstrated strong growth traction and improved profitability in Q2. Q2 revenue grew by 17.7% year-on-year, with 22% year-on-year growth in personal care segment. The strong revenue growth is a result of several initiatives taken, including the strengthening of front-end sales team and formalization of the sales pipeline tracking process.

The EBITDA margin for the region improved to 13.7% in this quarter compared to 9.5% same quarter last year. Given the low utilization in Europe, the strong revenue growth contributed to fixed cost leverage, and we expect the margins to expand further as the revenue momentum continues.

Fourth, we continue to be the industry leader in innovation and providing eco-friendly solutions to our customers. We now have Platina laminate, which is 100% recyclable and has been certified as recyclable in Code 2 stream by the Association of Plastic Recyclers, U.S.A. This will definitely enable us to be the partners of global brands in their sustainability programs. We continue to be the torchbearers for the industry in the sustainability journey. As you all can see, we had a strong start to deliver on our mission of delivering capital efficient, consistent earnings growth.

Now I will hand over to Ram for concluding the presentation.

**M.R. Ramasamy:**

To conclude, as you have seen the numbers, we are excited about EPL 2.0. There are multiple growth and productivity initiatives underway at the company, results of which are starting to show in our performance. We are excited on the opportunities in front of us and remain committed to deliver capital efficient, consistent earnings growth. Now I will pause here, take any questions you all may have. Percy?



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- Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Jatin Damania from Kotak. Please go ahead.
- Jatin Damania:** Good evening Sir. Congrats on the good set of numbers. Sir just wanted to understand the key reason behind the improvement in the Europe performance. Because if we look in the past, despite the higher contribution of the non-oral care as compared to America, the EU business has delivered a lower margin. So, what happened in this quarter, where the margin has improved and the sustainability of the same going forward?
- M.R. Ramasamy:** As there are new businesses wins across both oral care as well as personal care that has improved the revenue. As we were always explaining operating leverage will start happening as the volume goes higher that is what is reflecting and the business development pipeline are strong in the avatar 2 of Essel Propack. We have got lot of sub-segments in each one of the category to see and we are applying the same amount of energy in each one of those areas that is reflecting on the growth and we believe this will be sustainable growth in Europe.
- Jatin Damania:** So, the same applies with the Indian business also in AMESA and EAP because in the last couple of quarters, we have seen the downturn in China and India. So, if you can help us in understanding the performance of both these regions.
- M.R. Ramasamy:** In AMESA, EAP, we are a strategic supplier to many large customers with substantial wallet share. Our wallet share in these regions continues to remain very strong and in the recent past we have actually grown our wallet share with some of the customers; however, having said that macroeconomic conditions are not good. It is getting better but we cannot say it is good for our customers so that will continue to reflect in our performances because if the customer performs well we will do, but what we have done in the meantime is we are putting lot of energy into growing our businesses in personal care, converting customers who are in a different packing format into laminated tube, those efforts are on. That is what Amit explained, he explained across regions our personal care growth has been substantial that reflects on that.
- Jatin Damania:** That means this performance definitely leaving AMESA, EAP; for China and India the growth is not that strong, but Europe and America will continue to deliver the strong performance, right?
- M.R. Ramasamy:** Yes.



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- Jatin Damania:** If I have any further question will come back into the queue. Thank you.
- Moderator:** Thank you very much. The next question is from the line of Varshit Shah from Emkay Global. Please go ahead.
- Varshit Shah:** Thanks for the opportunity. First of all, congratulations for great set of numbers and also thank you to the management for more detailed disclosure in this presentation so really thanks for that it does help us. First question is on the AMESA region, in the growth last quarter we had some miss in one particular large account, has that been recovered in this quarter because I think Mr. Ashok Goel last quarter had mentioned around that. This is my first question. Second question is that we had strong cash flow generation in H1 and historically also our company has delivered strong cash flows. We see that if you are paying dividend, the dividend payout is almost 70%. Can this be the new normal of payout ratio going forward or is it just for the quarter and then we will see.
- M.R. Ramasamy:** I will answer your first question. I will ask Amit to answer your second question. The large account loss, which Ashok mentioned last time has been recovered. In fact, we have improved our wallet share with this customer. On cash flow Amit.
- Varshit Shah:** My question is more strategic my question is less on miracles. What I am asking is that, it almost amounts to 70% dividend payout ratio, if I consider your H1 EPS and H1 dividend, I mean the dividend which are announced. Should we expect such high dividend payouts going forward as well? That is my question?
- Amit Jain** Varshit, after the change which has happened I think the philosophy has changed and for any excess cash, if there are not any other opportunities available in the market, it will be distributed as dividend.
- Varshit Shah:** One more thing, I just wanted to ask on the margin improvement in Europe, I think you have alluded to operating leverage in the European segment because of the revenue growth. So, if I were to just say, is this margin level also sustainable along with the revenue growth or margin is still little shaky and it will take some time to stabilize out there in the Europe?
- Amit Jain:** Europe, as we always informed you that volumes were needed in Europe and as oral and personal category both are driving this revenue growth, the operating leverage started kicking in now and as we are winning new businesses in both oral and personal care, these margins will be sustainable as we grow further.

- Varshit Shah:** One just last question if I can squeeze in, our other expenses as a percentage of sales have come down drastically so is it just pure operating leverage or there is some efficiency which you guys would have kicked in and efforts from the Blackstone experts? There is some reflection of that in this margin or that is yet to come and will be over and above this?
- Amit Jain:** Varshit, other expenses there are two things. One is there is impact of new accounting standard on lease where the reclassification of the operating lease. Number 2 is that as Ram mentioned in his opening remarks about Project Phoenix, which we call it internally, so the benefits of that are seen in the operating cost.
- Varshit Shah:** Sir this benefit would improve in the coming quarters because you would not have those benefits for the full quarter if I have to say?
- Amit Jain:** Yes, so there are certain projects identified which team is working on and that will continue.
- Varshit Shah:** Last book keeping, is it possible for you to quantify Ind-AS impact of reclassification in Q2?
- Amit Jain:** Ind-AS adjustment, in the presentation if you see there is one slide where it is already quantified. It is slide no. 26.
- Varshit Shah:** Okay. You have also made a provision of Rs. 20 Crores, Rs. 203 million, can you just help out with that there is notes to accounts?
- Amit Jain:** It is an old loans and advances to an infra company and we have checked on that under the impairment and that is how we have provided it for. We are still following up for the recovery and we will see going forward the progress. The new audit committee and the new board has taken decision to provide for.
- Varshit Shah:** This is the loan given to one of the infra companies, is it correct?
- Amit Jain:** It is an old loans and advances.
- Varshit Shah:** It has been provided fully or is it still partially provided.
- Amit Jain:** No, it is fully provided.
- Varshit Shah:** Does it explain the reversal in anything on the tax side because I think you had some tax reversals of earlier period, is that related this or anything else.





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- Amit Jain:** No. refer to the tax on the earlier period is basically a tax refund in our China subsidiary where our China subsidiary is being approved as a high technology company and in the high technology company in China the rates are different compared to a normal corporate income tax so that benefit is refunded back to company which was for the last year. Going forward the reduced rate will continue on this.
- Varshit Shah:** For incrementally what is the tax that which we should assume excluding this impairment what is the normal effective tax rate for our company at consolidated level?
- Amit Jain:** On a going forward basis, normal tax ETR will be around 27% globally.
- Varshit Shah:** Thank you so much Sir. I will come back in queue for any follow-ups.
- Moderator:** Thank you very much. The next question is from the line of Percy Panthaki from IIFL Capital Limited. Please go ahead
- Percy Panthaki:** To ask about your capex guidance you have reduced it for the first half but looking at your capacity utilization across different regions, what is the guidance for the next two to three years and when do you sort of reach full capacity utilization in each of the different geographies if you can give some guidance on that please?
- M.R. Ramasamy:** We expect capex for this year in the range of Rs. 130 Crores to Rs. 150 Crores, so Rs. 50 has been spent the balance will be spent and always our objective is to remain within the depreciation parameters other than any strategic projects that comes in.
- Percy Panthaki:** If you start growing well and you run out of capacity then inherently this is a contract manufacturing business so your return ratios cannot be very, very high right so you will need apart from just some line addition or something at some point of time you will need some heavy capex right so are we sort of two years away from that point, three years away I mean what is your judgment?
- M.R. Ramasamy:** This is based on many factors. Currently, the Project Phoenix that we are working on, we are working on to improve our efficiencies, changeover time etc. There are many other metrics because of the global connections now we have started benchmarking, so that to further improve, but the stated objective continues to remain, we should be well within the depreciation amount.
- Amit Jain:** Percy, one more thing on this that I think I do not know from where you have got the term but definitely I can say that it is not contract manufacturing business.



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**Percy Panthaki:** Sorry that was not a correct sort of way to put it what I meant was that it is not a brand or something where we can get 80% to 90% ROCE like an FMCG company, so I meant it in that kind of a context. Secondly, I just wanted to ask regarding some of the one of items. Can you explain what is this transition services agreement related to one-off of 17 million on the EBITDA?

**Amit Jain:** So, transition service agreement, I think the details are already in the public domain. This is an advisory services agreement which is entered with Mr. Ashok Goel for the strategic inputs which will be required going forward in the business and actually it is not part of the day-to-day business operations. So that is the TSA.

**Percy Panthaki:** Okay Sir, understood.

**Amit Jain:** For the quarter whatever is the amount is shown as adjustment.

**Percy Panthaki:** Secondly in China last quarter you had some 10% to 11% kind of decline or I think higher and you had mentioned that part of it a large part of the decline is because of the laminate being supplied from India rather than China and if you adjust for that then the decline in China is much lower at 2% or something like that last quarter so any such kind of bifurcation that you would like to give for this quarter as well?

**M.R. Ramasamy:** Percy, the situation is something similar to India, right? Our focus on fast growing regional customer and personal care plans are yielding sequential growth. There are some structural changes like you are referring has been addressed in consultation with the customers. Structurally, our business development pipeline in China is very, very strong and we are very confident to take it to the next level while continue to maintain our wallet share with the existing customers.

**Percy Panthaki:** This entire issue of laminate supplied to the western countries from India rather than China which was there last quarter that is not an issue this quarter right?

**M.R. Ramasamy:** You see a 26% growth sequentially.

**Percy Panthaki:** Okay understood Sir. Thank you very much. On Europe, this margin expansion that you have seen and significant huge growth in terms of EBIT, I mean it must be some cost saving incentive etc., but can you give some details about what those initiatives are and is this kind of 6% to 7% kind of EBIT margin sustainable for the future?



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- M.R. Ramasamy:** Percy, this is volume related. This is certainly sustainable as long as we continue grow in volumes.
- Percy Panthaki:** It is mainly the operating leverage there is not any large contribution from any cost saving plans into this number.
- Amit Jain:** There is Percy, when we talked about Project Phoenix, Ram has told that internally we call it a Project Phoenix, so this Project is not for any particular region or the country. These are global projects which we are working on, so that is for Europe also, Americas also, AMESA also, and EAP also.
- Percy Panthaki:** Lastly Sir on AMESA even adjusted for some one-off your EBIT growth is sort of quite poor. I see one of the slides where you have given the India performance you have adjusted for the TSA and one more item, but Ind AS 116 is not adjusted so if I adjust for that I think it might be about kind of flat EBIT growth for AMESA, correct me if I am wrong, so just wanted to understand this Project Phoenix benefits they are yet to flow in for the AMESA regions?
- Amit Jain:** See when you talk about the adjustment of TSA, the EBIT growth is around 7%. As far as leases are concerned, leases will not impact EBIT too much because that effect is nullified by the depreciation amount, but if you see EBITDA numbers the margins are improved from 19.5% to 22.2%.
- Percy Panthaki:** I understand it is a soft economic situation but these margins that we have posted currently are they sort of margins which are going to continue for the next one or two years or do you expect further accretion to this margin with Project Phoenix or any other measures.
- Amit Jain:** Margins will improve going forward because Project Phoenix is there. The revenue growth is there, so margins are going to improve further. The mix will also improve as you know that the personal care growth in this quarter is already there so that momentum will continue.
- Percy Panthaki:** Right Sir and finally can you give me separately the oral and non-oral care for AMESA?
- Amit Jain:** I think that I will give you offline.
- Percy Panthaki:** Okay Sir. That is all from me.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints this was the last question. I now hand the conference over to the management for your closing comments. Over to you Sir!



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**M.R. Ramasamy:** We are all excited about EPL 2.0. There are multiple growth and productivity initiatives underway in the company as explained in some of the questions and answers. Results of which fully will reflect going forward. We are really excited about many opportunities in front of us and remain committed to deliver capital efficient, consistent earnings growth. Thank you very much.

**Moderator:** Thank you very much members of the management. Ladies and gentlemen, on behalf of IIFL Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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(This document has been edited for readability purpose)

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