



“EsSEL Propack Q2 Financial Year 2017 Results Conference Call”

October 28, 2016



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**Moderator:** Ladies and gentlemen, good day and welcome to the Q2 FY17 results of Essel Propack 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 at the end of today's presentation. 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 would now like to hand the conference over to Mr. Dhaval Mehta, Research Analyst of Emkay Global. Thank you and over to you Sir!

**Dhaval Mehta:** Good afternoon everyone and welcome you all for Q2 FY2017 earnings con call of Essel Propack. 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, Vice Chairman and Managing Director along with senior management of Essel Propack. We will start with opening remarks by Mr. Goel followed by Q&A. Over to you Sir!

**Ashok Goel:** Thank you Dhaval. Ladies and gentlemen welcome to the second quarter investors call and I wish all of you a very happy Dhanteras and Happy Diwali. The second quarter saw the consolidated revenue growth growing double digit at 10.5% to Rs.596 Crores with AMESA and America's growing by 12.6% and 12.7% respectively, positive development compared to the underlying year over year growth 5.5% posted during the previous quarter. India, Philippines, US and Mexico grew in double digit; however, Europe and China did not grow, thereby pulling down the overall top line growth. The offtake issues at the key customers continue to impact these two geographies. New customer development in Europe is lagging the plan in the non-oral care category, although



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the pipeline of customer development is robust. In China, even though there has been good progress in non-oral care category, which grew 40% sequentially, the efforts still are in the catchup mode considering the gap created by decline in key customer off take and problems at couple of non- oral care customers, which we had discussed even in the previous calls. On the other hand, during the quarter we faced some glitches in the new plants that we setup in Colombia and India with regard to stabilizing the new units. In Colombia, this caused loss of volume and additional cost arising out of the import of finished goods we made from US to service the customers; therefore it eroded the contribution margin on account of adverse product mix also. These one offs made for EBITDA loss to the tune of Rs.5.4 Crores in Colombia and in India it was Rs.2 Crores; so total Rs.7.4 Crores.

In India the operations in Chakan and Silvassa got consolidated at the newly built modern facility in Vapi, which we spoke about last time as well. Managing this transition posed its own challenges given the buoyant demand that we had from the customers and the need to avoid disruption in supplies to Customers. We had to slow down the pace of shifting of the machines from these two units and continue to operate multiple plants, while in our projections we had factored in that we will move the plants very quickly. That resulted in this one-off cost of Rs.5.4 Crores in Colombia and Rs.2 Crores in India. But for these glitches the EBITDA margin for the quarter would have been 20% against the reported 18.7% and the growth in Profit After Tax excluding exceptional item would have been a healthy 18.4% compared to 5.2% reported. Finance cost continues to decline year over year by 8.8% helped by reduction in average interest rate by 85 basis points to global average of 6.53% compared to previous year.



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Balance sheet continues to be strong with debt-equity ratio of 0.87 and ROCE & ROE of 16.8% and 17.5% respectively on trailing 12-month basis. During the quarter, CARE upgraded our long-term loan rating from AA- to AA.

With Colombia and Vapi projects expected to stabilize by end of the third quarter, the one-off impact on profits will abate. The buyout of German JV will streamline the Europe supply chain and help seamlessly service the market by utilising the capacities optimally. This acquisition will expand the top line by 11% on annualized basis and improve the non-oral care share of global revenue by 2.9% at this point, again on annualized basis. The Europe team is refocusing and prioritizing their marketing efforts, so as to get the growth back on track by leveraging the new EDG platform and capacity in Poland for non-oral care tubes.

India opportunity continues to be promising. We also see good interest among customers in our new products like Mystik we talked about last time, and Green Maple Leaf which is 100% recyclable; these should help strengthen the pipeline for growth for the financial year 2018. We believe that our strategy in Mission 20:20:20 is therefore well secured and the business is well poised to deliver on our growth targets. Just to clarify , the German JV that we acquired 100%, earlier we were holding 24.9%; The balance sheet has been consolidated because the acquisition date was 30<sup>th</sup> September, but the P&L numbers have not been consolidated, which means the revenues and 100% of the profit has not been factored into the second quarter numbers, all of which will flow for the rest of the year. Now with that I open the floor for questions.



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While you guys are framing your questions just one more thing- we launched the new technology that we jointly developed with our technology partners, in US last week, i.e. SHOT line producing 500 tubes per minute. In US, so far, we have had tube lines which could produce only up to 180 tubes a minute. With this, we have extended the contract with one of the main oral care customer with 15% volume increase that I had mentioned even in the last call.

**Moderator:** Thank you. We take the first question from the line of Percy Panthaki from IIFL. Please go ahead.

**Percy Panthaki:** Good afternoon Sir, my question is on the European business. This business was supposed to be the fastest growing geography for us and a driver for growth, but last couple of quarters have been quite slow; so if you would just throw some light on exactly what is happening, is it that among the two or three suppliers that each customer might have, there is some re-balancing in terms of the market shares or is it that the end consumer demand in those categories have slowed down or some other reason. Can you just give some idea?

**Ashok Goel:** Yes Percy. First of all, we have not lost any wallet share with any customer in Europe; that is number one. Number two, up to last quarter, there were issues with oral care where the customer was correcting its pipeline of stocks. Since then, the customer has come back to the contracted volumes level. Last year situation was extraordinary with that customer because they were taking tubes more than the contracted volumes; that is as far as oral care is concerned. In the non-oral care we have seen some softening of the customers demand overall with respect to certain brands that were launched, which is also the case in US to some

extent where the new product launches have not done as well in the market as the customer had expected based on which they had given the volume expectations. This happens in any non-oral care particularly in beauty and cosmetic sector - some products do well, some products do not do as well as our customer would have projected to us. That has been the case in Europe and we believe even though the pipeline of customers are strong, some of the wins that we were expecting have not materialised yet, so that is the issue and German numbers have not been consolidated as I mentioned.

**Percy Panthaki:** So when do we see growths returning to double digits here on a like for like basis?

**Ashok Goel:** Well the efforts are on and we expect Europe to start growing - whether it will be double digits as compared to last year is something that we are still assessing.

**Percy Panthaki:** Secondly I just wanted to ask a question on depreciation. You had given a guidance that you will continue policy of capex to be equal to depreciation more or less, so that thought process is for what time horizon and can you continue supporting if your top line growth needs to be in the 10% to 12% band for the overall consolidated company so to achieve that kind of a growth for how long will this capex equal to depreciation formula hold?

**Ashok Goel:** Percy yes, we still hold onto our guidance of capex equal to depreciation. So far I think in the first half we have done about Rs.150 Crores capex, which is front-loaded for the year and for rest of the year we should see less of capex. What we have also done is that we have been moving capacities across geographies, so that our overall capex is minimum. Having said that, we do

have head space in US, we do have some head space in Poland. Some capacity that we would need in India. With the introduction of the new high speed line in US, we will have some spare capacity; part of it we will leave for the region's growth and part of it will be brought into India, because in India we are running to full capacity. So we believe that we can maintain this at least until next financial year that is, capex equivalent to our depreciation.

**Percy Panthaki:** And lastly just wanted some more granular detail on this plant stabilization and start up cost of 74 million, what exactly happens because I am a little new to this sector, if you could explain what these costs are exactly?

**Ashok Goel:** Okay good point. In India what we are doing is that we had plants which had no more room for any expansion so we needed to build a bigger plant. We also saw an opportunity to consolidate some plants into one big unit and while doing so, our market demand in India was very robust and continues to be robust; anytime you move capacities from one plant to another there is a downtime, that is one thing; and second thing is that the new plant with new people has to come up to the efficiency levels that it was originally producing in the previous location. These are the two challenges that happen in any shifting or consolidation of plants and because the demand was robust we had planned that we will surgically shut down a plant, move all the machines in one go and restart. That obviously the market condition did not permit us to do; so we did gradual shifting of the equipment from the existing plants and thereby we were running multiple plants at the same time, which was not factored into our numbers. Therefore, the costs were double or triple - that has happened in case of India. Now we have shut down two plants and operationalised the new plant,



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which will come up to the full operational efficiency levels by this month, and create room for future growth. In Colombia exactly the same case - that we had a plant earlier, the new plant was with the expanded and bigger capacity and the shifting got delayed; so we were running both the plants simultaneously. As I always have been saying, the moment you shift from one plant operation to two plant operation your complexity increases multifold. We had that collective experience, but obviously our team in Colombia did not have that experience. So complexity increased and we faltered on both the plants. Now that we have put our technical squadron in Colombia and they are improving a lot of things which we are monitoring very closely, we expect Colombia to come up to speed by end of this quarter while India is already coming up to the level. So we had incurred these one off costs that is what the Rs. 7.4 Crores or 74 million is all about.

**Management:** Percy, to add to that perspective, in the case of Colombia, the market is very strong. In fact, the demand is so buoyant and we are actually perhaps the largest player there locally. In the process, we tried to expand the capacity, there were production volume losses. In addition, because customers' demand is something we cannot afford not to meet, we had to resort to importing the finished tubes from other locations so that we retain the customer and keep them satisfied. But then when you import, it becomes so expensive that you hardly make any margin on it; and again with the capacities in two places we had to do a lot of prioritizing of the customers because it is a large non-oral care market where we have an opportunity to supply laminated tubes in place of plastic tubes, but then existing customers always gets the first priority because they have been with us for years. So all these optimization steps, everything that we had to do during





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this period of stabilizing, meant a lot of erosion in the gross margin. Then we have the issues of the product mix etc.

**Percy Panthaki:** So any more one off costs likely in Q3 Sir?

**Ashok Goel:** As I said, until Colombia stabilizes, there will be some costs but not huge because we have already put our crack teams there. In India we may have some overhead of Rs. 45 Lakhs coming in from previous quarter basically, which got completed in first week of October. So we will have some Rs. 45 lakhs coming in third quarter.

**Percy Panthaki:** Okay sir, That is all from me. Thanks and all the best.

**Moderator:** Thank you. We will take the next question from the line of Nihal Jham from Edelweiss Securities. Please go ahead.

**Nihal Jha:** First of all congratulations on the good set of numbers. So as we speak ahead on that, could you elaborate on the strong growth that we have seen in India and what is your outlook going forward and just an addition to that, maybe the margins in AMESA when including the fact of the 55 million that we spent related to the plant, do seem a little lower, so any change in product mix that has impacted our margins this quarter?

**Ashok Goel:** Nihal, your question is related to India, is it?

**Nihal Jham:** India and margins front I was looking at AMESA also.

**Ashok Goel:** Rs. 2 Crores, which is one off cost has come from AMESA, so that is that. Then we had some extraordinary disruption in power particularly plants in Western India because of monsoon. We had to resort to hiring of DG sets which obviously cost money and also



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the per unit cost is higher. So we had about Rs. 2 Crores one-off costs coming in from there and there was the product mix, which went in favour of oral care. Even though we grew nicely in non-oral care, we grew faster in oral care in India. So product mix has also made some impact. Overall impact is about Rs. 6.5 Crores to Rs. 7 Crores. So that would have depressed the margins.

**Nihal Jham:** We do expect that that will bounce back in the coming quarters.

**Ashok Goel:** Yes, it is a full recovery in this coming quarter.

**Management:** Nihal, also if you have seen our investor note , we grew in India about 15.4% in the top line and in the EBIT margin, actually EBITDA has grown almost 14.7% if you allow for this one off cost. So the margins are almost keeping track, but there was a mix variance, which had happened because oral care once again increased during this quarter.

**Nihal Jham:** Sure sir, and just continuing on this, as I see America also there has been some very good revenue growth that is come in at 13%, so was this primarily related to the order backlog that we had spoken of last quarter or is it that going forward we expect this growth to sustain?

**Ashok Goel:** Yes, you are right Nihal. So the pipeline correction that happened in first quarter, the demand back came back up in US. Mexico is doing better than expected, so that has also helped. It is Colombia, which is depressing it; if that had also fired, the numbers would have been even better, and margins also would have been much better.



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**Nihal Jham:** Okay, just one last question; we mentioned that we have seen a 40% sequential growth in non-oral in China. If I have to just look at the number compared to last year, how have we grown?

**Management:** Yes, it has declined Nihal, compared to last year. See, in non-oral care we have had an issue. You will recall that we mentioned during the December quarter con call that a couple of customers in the food and related non-oral care category, had their own market-related issues; they were large customers for us in the non-oral care and we thought they will recover during the last quarter or first quarter of this year that still has not happened. That gap is being now filled by a huge pipeline they have developed and being commercialized one by one. That is what we mean by the sequential growth of this level. Meantime, we are still hurt there by the key customer in the oral care whose demand offtake is poor.

**Nihal Jham:** You mentioned that even in non-oral care there is a key customer whose offtake is poor in China right now?

**Management:** Yes.

**Nihal Jham:** Sure sir. That should be it from my side. Thank you so much.

**Moderator:** Thank you. We will take the next question from the line of Ritwik Sheth from Span Capital, please go ahead.

**Ritwik Sheth:** Hi, good afternoon Sir, Happy Diwali to everyone at Essel.

**Ashok Goel:** Thank you Ritwik, to you as well.



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**Ritwik Sheth:** Thank you. Sir, I had a couple of questions, firstly, regarding the EDG. According to my calculation it is around 65% to 70% of non-oral care. Is that understanding right?

**Ashok Goel:** Yes, correct.

**Ritwik Sheth:** Okay and this will be like higher EBITDA margin as well?

**Ashok Goel:** Higher margin, same as what we have in Europe, yes.

**Ritwik Sheth:** Its same. Okay, that is that. Then second question is regarding the non-oral care share market. So last con call you had mentioned that you have 3% to 5% globally. So, if we did say 3% to 5% you mean that including plastic, aluminum, laminated and all other kinds of tubes, is that right?

**Ashok Goel:** Yes, correct.

**Ritwik Sheth:** Do you have any numbers which say that non-oral care market only laminated tubes only in our particular segment or...

**Ashok Goel:** So Ritwik, you have found a new way to ask the same question. Every time you ask.

**Ritwik Sheth:** I just wanted to gauge like what is our market share in non-oral care in laminated tube segment.

**Ashok Goel:** We honestly Ritwik do not have that number.

**Ritwik Sheth:** Okay, do not have, okay no problem okay. And this new SHOT technology that you have recently developed- how fungible it is like, can we get it into India and what will that do to the volumes as well, so if you can throw some light on that.



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**Ashok Goel:** Yes, good point Ritwik. The technology is fungible just like any other tube making machines we have, so that is not a problem. Now, the obvious choice we have is that we deploy this high speed, lower footprint machines in the markets where our people cost are the highest, so that we benefit the maximum while we keep our overall capex under check. So US was the best choice and therefore we deployed it in US and as a result we should be able to save about 16 people. The payback therefore becomes faster, particularly in the geographies where people costs are also high. So therefore the lower speed lines, which is not low speed, but lower speed comparative to 500 tubes a minute, we will move them into geographies where we need the capacity. One line will come to India and one they will retain either in US or , we expect some more business wins in Mexico and therefore they might shift that one line into Mexico.

**Ritwik Sheth:** Okay, so typically you will employ this where there is high labour cost, basically in US or somewhere in Europe or something like that.

**Ashok Goel:** Yes, so that becomes the low hanging fruit while the technology can be deployed anywhere.

**Ritwik Sheth:** And Sir, one final question. In the last call you mentioned that Indian non-oral care is picking up and therefore you do not have much utilization in India. So, do we have some headroom now seeing the new or getting commissioned into the Vapi unit or still we are fully utilized and we are losing orders because we do not have excess capacity?

**Ashok Goel:** So, we are not losing any volume at the moment in India, but we could if we do not have the capacity and the capacity addition as I



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mentioned last time for plastic tubes, one line will move from Poland and one lami line will come from US.

**Ritwik Sheth:** Okay, so that should be done in Q3 and Q4 and we will add some extra volume from India as well, right?

**Ashok Goel:** Yes, so the volumes have already been contracted for these capacities that I spoke. We may need to add some more capacity in Q4 - that we will see.

**Ritwik Sheth:** Okay Sir, all the best. Thank you.

**Moderator:** Thank you. We will take the next question from the line of Andre Purushotam from Cogito Advisors, please go ahead.

**Andre Purushotam:** Thank you, I just have two questions; whether any major client acquisitions or losses in the previous quarter, specifically on Patanjali also and secondly are we revising our long term forecast for non-oral care and/or are we keeping our targets similar for the next growth period?

**Ashok Goel:** Andre, let me answer the second part; first part of the question I have not understood. We are not revising our non-oral care numbers. I think even last call you had the same question and we maintained that there might be a little delay, but we are not revising our objective of 50% revenue coming from non-oral care. The timing may be a little here and there, which I can grant you. First part of question related to Patanjali I missed, what was that?

**Andre Purushotam:** Any major client acquisitions or losses in the previous quarter.



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**Ashok Goel:** Acquisition in India, yes, has happened. We have not lost any customer to speak in India or anywhere else in the geography.

**Andre Purushotam:** Have we gained any client?

**Ashok Goel:** In India, yes of course, we have.

**Andre Purushotam:** What, Patanjali?

**Ashok Goel:** Cannot give you the names, yes Patanjali is one of them.

**Andre Purushotam:** Okay, thank you.

**Moderator:** Thank you. We will take the next question from the line of Ankit Gor from Systematix Shares and Stocks, please go ahead.

**Ankit Gor:** Thanks. Sir my question is related to Europe. First, if I understand well, you earlier mentioned that Europe is easier to scale up and economies of scale can be faster there. So if you can give us some capacity numbers there in current utilization levels that will be helpful to us.

**Ashok Goel:** Yes Ankit. So to answer first part of your question is, yes, it is our desire to grow faster in Europe. The reason I had mentioned in the previous multiple calls is that the margin profile in the whole of Essel Propack, Europe happens to have the lowest margins and therefore it logically makes sense for us to grow faster in Europe. Last year we demonstrated it also and it actually happened. With German acquisition that number will not look so bad for this year, while we continue to develop pipelines of new customer wins. It is just that this year, it is double impact - because last year the oral care customer was taking tubes much more than what we had contracted. So that was giving us better results, right and we had



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good pipeline. We still have good pipeline of customer development for non-oral care which, has kind of not materialised in the expected time line. So going forward, we still hope that it will happen .The third impact in Europe is that some of the new business that we had won in non-oral care, some of the brands which were launched are fresh, have not done as well as was projected. So, therefore the impact that you see in Europe of non-growth. However, some products not doing well in beauty and cosmetics is normal; the same brand will launch some new variants, that keeps happening more or less almost all the time. So our own estimate is about 30% to 40% of new product launches succeed in beauty and cosmetics and the rest lingers on.

**Ankit Gor:** We also had some other income coming from Europe operation side and because of that our margin swelled very sharply.

**Dhaval Mehta:** Right.

**Ankit Gor:** So what will that be Sir?

**Ashok Goel:** We have a patent on a particular technology related to printing machines, which we have given rights to somebody to use and for that we have received some upfront payment; some ongoing payments will also be there; we expect this income to continue for next two years.

**Ankit Gor:** So, what is the quantum of this, Sir, other income?

**Ashok Goel:** Quantum of this income is about Rs. 3-3.5 Crores upfront and another Rs.3 Crores as a regular income.





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**Ankit Gor:** So, for the next two years we will expect this kind of ramp up in Europe operations coming in?

**Ashok Goel:** Yes Sir.

**Ankit Gor:** One more thing, till what time we foresee this offtake issue coming in our way to grow Chinese operations and other as well, so what can we do with offtake issues or rather we should directly subtract this or what is your sense on that case?

**Ashok Goel:** Here I do not think we need be defensive. The point is that macroeconomic situation in China has undergone a change. I had mentioned last time that the oral care market has shrunk by 4%. I would also mention that multinational brands might have shrunk more than the market share and therefore local brands are gaining more. So we obviously are engaged with the local brands. Some brands we have won, some more brands are in the pipeline and we will win. Now the question is will we overshoot the volumes that have shrunk with the existing contracted customers and that has been the challenge. The collective gains both on local customers as well as non-oral care has not been enough to compensate for the lost volumes of existing customers and also the cost increases in China. So unless my business grows more than what I have lost and also increases more than the cost increases, this pressure will be there. Therefore the teams are aligned, they understand where the challenges are and they are working hard to overcome this, so we are continuing to put every effort on cost controls as well in China.

**Ankit Gor:** Sir, my next question is related to Indian operations where we see tax rates have actually gone down, tax rate in India. Correct me if my reading is wrong sir, is any specific reason for this apart from



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exceptional income received during this quarter or anything else is there sir.

**Ashok Goel:** I think that is because last year we had this exceptional income coming out of sale of Packaging India, which had a long term capital gain, so that is the only reason otherwise it is not an issue.

**Ankit Gor:** Absolutely.

**Ashok Goel:** So that is the only reason, otherwise there is no other reason.

**Ankit Gor:** Otherwise is fine. Non-oral care India market has grown with double digit numbers, this quarter, in that case this growth is coming from a new customer or for example the new customer and second thing is are we really replacing other material with laminates or plastics or how it is, if you can just stress more on our strategy.

**Ashok Goel:** In India non-oral care grows both in plastic and laminated tubes. India is a unique geography; we are growing in plastic because we also make plastic tubes in India. Some of the existing customers who are in plastic, if the volumes pick up, we kind of push them into taking laminated tubes; that keeps happening as far as India is concerned. What we are changing in India is the Aluminum tubes that is mostly used for pharma products and some children paints and stuff like that, into laminated tubes. In India we are growing both lami tubes and plastic tubes by replacing some of the Aluminum tubes and also partially bottles with laminated tubes.

**Ankit Gor:** Okay, lastly, this german operation numbers will come into this book from Q3, right.



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**Ashok Goel:** Yes, from 1<sup>st</sup> October.

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

**Bobby Jairam:** I have three questions. The first one is given that Indian map picked up, has competition also picked up, and is there more supply now coming in for laminates and that is the first. Second one is in Colombia or UK going to be MNCs or the local players, and the third one is, in China, how are you penetrating the market given that the Chinese over capacity is virtually everywhere. Do they not have their own laminate packaging companies?

**Ashok Goel:** Three questions, first is, does India have more competition. The suppliers of tubes in India more or less that you can name have remained the same as they were. However, one has to say in unorganised categories, some people have brought in some technologies which is partially hand-operated, partially mechanised and those kind of suppliers do mushroom, but we do not cater to those categories that they serve anyways. So in India, the competition is as they were, nothing has been added significantly and there is no significant shrinkage. That is as far as first question goes. Second question is, in Colombia do we cater to MNCs or local customers. In Colombia, we do both and that is true for almost every geography; there are local brands and multinational brands, we cater to all. The question on China. China has seen some increased competition but not so much. There used to be two suppliers earlier, now I think there are four, so to that extent some competition has increased but that was expected anyway, so there is nothing extraordinary that has happened in China. We make our own laminates; one more competitor makes their own laminates, so in that sense, China is



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a little unique geography where our major competitor also makes their own laminates. In most of the other geographies, no competition makes their own laminates, so I hope that answers your three questions.

**Bobby Jairam:** Yes, thank you very much.

**Ashok Goel:** Have I answered all three to your satisfaction?

**Bobby Jairam:** Yes, thanks.

**Moderator:** Thank you. We will take the next question from the line of Devrat Mohta from Fidelity Investments. Please go ahead.

**Devrat Mohta** Hi Sir, Happy Diwali, just one quick question, I think most of my questions have been answered. Just with regard to the Europe business, you were talking about the other operating income in the Europe division, this 3 Crores that you mentioned, the 3.5 Crores is the onetime, 3 Crore is a recurring income on a quarterly or annual basis.

**Ashok Goel:** That we do not know, that depends on number of machines they are able to sell using our patent.

**Devrat Mohta:** Okay, so you basically license the technology out for someone else to manufacture machines and to sell it to someone else. Who do they sell these machines to, I mean guys who will compete with you or?

**Ashok Goel:** No, No, these are printing machines which goes for printing the tube laminates as well as the labels and stuff like that.

**Devrat Mohta:** It does not really like kind of create more competition for your business or whatever?



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- Ashok Goel:** No.
- Devrat Mohta:** Alright fine. That is it from me. Most of the other questions are answered. Thank you.
- Moderator:** Thank you. We take the next question from the line of Sameer Gupta from IIFL. Please go ahead.
- Sameer Gupta:** Good afternoon Sir? Wish you a very happy Diwali in advance, just a bookkeeping question from my side sir; could you just share your nonoral care share in the different geographies that you operate in?
- Vinay Mokashi:** Non-oral care share in different geographies- in AMESA for September quarter our share is 49.6%, in case of EAP it is 28.7%, in case of Europe it is 58.5%, and in case of America it is 19.6%, all non-oral.
- Sameer Gupta:** Okay Sir and one more from my side, when we say we are shifting capacities to other geographies like you mentioned, with use of the SHOT technology you would bring the existing machines to geographies where labor costs are lesser, so Sir, just understanding, these also would involve some one off costs, right, related to the shifting and also could you just quantify or give a guidance as to what these costs would be?
- Ashok Goel:** Because they are shifting from one geography to the other, that would be like shipment cost, packaging cost and all that will be capitalized I guess.
- Sameer Gupta:** So, that won't go in our P&L? Right sir.
- Ashok Goel:** That will not go in P&L.



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**Sameer Gupta:** And Sir, one more thing, when I look at the non-oral care shares, broadly had been in the range of 40 to 42% in the last 3 to 4 years, so sir, like just trying to understand. I understand that the demand here is based on the demand for the products that are launched. So, what gives us this confidence of still reaching this target of 50% by FY19?

**Ashok Goel:** Sameer, as I have been saying that, non-oral care target is always a moving target for me. Why because, we continue to grow in oral care as well.

**Sameer Gupta:** That answers most of my questions.

**Moderator:** Thank you. We will take the next question, a followup question from the line of Nihal Jham from Edelweiss Securities. Please go ahead.

**Nihal Jham:** Sir, just one question, on the relocation of machines if I have heard right, you are planning to shift the machine from US to India, are there any other plans other than this.

**Ashok Goel:** One plant last time I had mentioned is being moved, plastic tube line from Poland to India.

**Nihal Jham:** This is the only relocation we are looking at right?

**Ashok Goel:** So far, we may have one more machine, because 500 tubes per minute line versus 180 tubes per minute line, that is equivalent to three machines, right.

**Nihal Jham:** Absolutely.

**Ashok Goel:** We have added effectively three more machines, right. So, equivalent to one machine we will get increased business from



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the customer; that will put two existing machines spare. Now out of those two machines, one will come to India, one potentially will go to Mexico. In Mexico, we are expecting some new business wins.

**Nihal Jham:** Just quickly summarizing, we are saying that we will add a 500 tube machine in US and the other machines which become spare, one will be shifted to India and one to Mexico is that right? Okay, sure sir, thank you so much.

**Moderator:** We take the next question, again a followup question from the line of Ankit Gor from Systematix Shares & Stocks. Please go ahead.

**Ankit Gor:** Sir, my question is related to the SHOT machine, which we have recently developed, sir this machine, I must have missed the number, but what is the present numbers of these machines we have currently, how many machines we have?

**Ashok Goel:** This is the first machine owned by Essel Propack.

**Ankit Gor:** There will be another two machines, one will be shifted to India and one will be to Mexico.

**Ashok Goel:** No.

**Ankit Gor:** Or we will be shifting those machines where cause problems or these things will happen.

**Ashok Goel:** No Ankit, I think you need to see that in perspective. This is the first machine owned by Essel Propack 500 tubes per minute line, which is a new technology, recently deployed which is equivalent to existing three machines in US, right which is 180 tubes per minute lines.



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**Ankit Gor:** Okay, got it.

**Ashok Goel:** So, this one SHOT line is equal to three existing lines. Equal to one 180 tubes line we will get increased volume from the existing customers in US. That makes two existing lines spare. We definitely have a plan to move one machine to India because India needs capacity. Second machine we have a choice either to keep in US for the future business growth or if we get, which we are expecting, new customer wins in Mexico, we will shift that second machine quickly to Mexico.

**Ankit Gor:** Thanks for that explanation and second sir, this machine will be predominantly used for oral care, right, SHOT machine?

**Ashok Goel:** It can do both, that does not stop any category except there would be diameter limitations.

**Ankit Gor:** Okay.

**Ashok Goel:** So this machine can do up to 38 diameter tubes. Whether oral care, nonoral care does not matter and for any diameter above 38, we have different set of machines which can do higher diameters.

**Ankit Gor:** Sir one question, with regards to exceptional items sir in our console. If you can break it up that will be great Sir.

**Vinay Mokashi:** Exceptional item if you have seen in the note to the results, the exceptional item is arising out of this acquisition we have done for Germany. 24.9% by us earlier and under the Ind-AS it is treated as an associate. An associate means we will not consolidate in our balance sheet or in the P&L account, we only take and report the share of profits and we will see there is a line in the published



results, share of profits of associates. When we made it our subsidiary by buying out the balance 75%, we have to consolidate assets and liabilities in the books and that we have done because the control was passed on 30<sup>th</sup> of September. As per the Ind-AS, it is required to be shown in our closing balance sheet and up to that date it still continued as an associate. Therefore the results are reported only for the associate alright because we have been carrying it as an associate in our books. Under the Ind-AS the associate is seen as a divestment and the subsidiary is seen as an acquisition, so that value relating to the divestment is released through the profit and loss account as mandated by Ind-AS and that is the exceptional credit we have got here.

- Ankit Gor:** Thanks a lot for your explanation sir, thank you very much.
- Moderator:** Thank you. We take the next question from the line of Dimple Kotak from SKS Capital. Please go ahead.
- Dimple Kotak:** Sir, I would like to ask that post consolidation what would be the additional revenue move we would be getting after this subsidiary.
- Ashok Goel:** You are talking about Germany, right.
- Dimple Kotak:** Yes, the German subsidiary.
- Ashok Goel:** So, revenue is about Rs.300 Crores on annualised basis.
- Dimple Kotak:** What about the EBITDA and PAT numbers?
- Ashok Goel:** EBITDA and PAT is more or less same as our European numbers - EBITDA about 10% to 12% and PAT is about 5%.
- Dimple Kotak:** Okay. And sir as you said that you will be shifting the machine if required to India from Poland, So sir just as you had the issues for

shifting one machinery and we are seeing one off cost, similar kind of cost will be the same for the shift, which we are faced in this quarter?

**Ashok Goel:** See, those shifts are associated with some plant getting closed and some plant getting opened. So machine shifting is part of that process. Here it is just the machine getting shifted from one plant to another plant and whatever the cost because they are changing geography, there are packing and shipping cost, those will be capitalised at the receiving end.

**Dimple Kotak:** Sir, in a ballparkish tone if you could just give me the amount of the exception of one-off amount, which we will be seeing in the next quarter for the Colombian plant and the Indian plant, is the time to stabilize?

**Ashok Goel:** India I have already said about Rs.45 lakhs will be coming exceptional in the third quarter. Colombia it depends how quickly it ramps up. One of course we expect some one-off expenditure to continue until December. How much will that be, that depends on how quickly our technical squadron is able to ramp up the unit.

**Dimple Kotak:** That is all from my side. Thank you Sir.

**Ashok Goel:** Thank you Dimple. I guess everybody is in the festive mood moderator.

**Moderator:** A reminder to the participants, to ask a question, you may press “\*” and “1” on your telephone.

**Dhaval Mehta:** I do not think so we have any further questions, one question from my end. This SHOT technology, which we have started in US, so



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what will be the ROE. Will this be the ROE of this machine is greater than our existing machines?

**Ashok Goel:** Yes, for the simple reason that they will be saving on the labour cost as this will be explained to you. This is high productive equipment and then there is also saving in the footprint and energy cost, so all of this will then flow into the bottomline, plus increased volume.

**Dhaval Mehta:** So what is the premium of the cost of this machine vis-à-vis current machine right now?

**Ashok Goel:** This machine is about \$5 million.

**Dhaval Mehta:** My second question is on the India business, so we have been consolidating the India business where we have transferred our Silvassa and Chakan facility to Vapi, so we have transferred all the machines from these two locations to Vapi or how it is?

**Ashok Goel:** Yes, from these two locations yes, all the machines have been shifted. Now they are in the process of getting ramped up. And we hope by this month end that hump will be over.

**Dhaval Mehta:** The two new machines, the one plastic machine which you will be getting from Poland and the other machine from the US, that also will be shifted to Vapi or it will be to a different location.

**Ashok Goel:** For plastic tubes in India we have dedicated facility in Wada, so that line from Poland will go in Wada but the laminated tube line from US will go to Vapi.

**Dhaval Mehta:** That is it from my end. Stanford do you have any questions or in the queue?



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**Moderator:** No we do not have any questions.

**Dhaval Mehta:** Thank you Sir, thank you for giving us the opportunity to host this call and very happy Dhanteras and Diwali to our entire team and to the people on the call. So would you like to make any closing comments?

**Ashok Goel:** Thank you Dhaval and Emkay for hosting this call. Ladies and Gentlemen wonderful talking to you, Wish you a very happy festive season to all of you. Thank you.

**Moderator:** Thank you. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us. You may now disconnect your line.