



“EsseL Propack Q4 Financial Year 2018 Earnings
Conference Call”

April 27, 2018



ANALYST:

MR. HARSH SHAH - EMKAY GLOBAL FINANCIAL SERVICES

MANAGEMENT:

**MR. ASHOK GOEL –CHAIRMAN & MANAGING DIRECTOR - ESSEL
PROPACK**

**MR. A. V. GANAPATHY – CHIEF FINANCIAL OFFICER - ESSEL
PROPACK**

**MR. M. R. RAMASWAMY – CHIEF OPERATING OFFICER - ESSEL
PROPACK**

MR. ROY JOSEPH – REGIONAL VICE PRESIDENT - AMESA

**MR. VINAY MOKASHI –GLOBAL FINANCIAL CONTROLLER - ESSEL
PROPACK**

MR. AMIT JAIN – HEAD TREASURY - ESSEL PROPACK

**MR. ASHOK VASHISHT – REGIONAL FINANCE CONTROLLER -
AMESA**



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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2018 results conference call of Essel Propack hosted by Emkay Global Financial Services. We have with us today, Mr. Ashok Goel, Chairman & Managing Director, Mr. A.V. Ganapathy, CFO, Mr. M.R. Ramaswamy, COO, Mr. Roy Joseph, Regional Vice President, AMESA, Mr. Vinay Mokashi, Global Financial Controller, Mr. Amit Jain, Head Treasury and Mr. Ashok Vashisht, Regional Finance Controller, AMESA. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Harsh Shah of Emkay Global. Thank you and over to you Sir!

Harsh Shah: I would like to welcome the management and thank them for giving this opportunity. I would now hand over the floor to Mr. Goel for his opening remarks. Over to you Sir!

Ashok Goel: Thank you Harsh. Good afternoon ladies and gentlemen. I hope all of you have received the investor’s note already. Let me just speak on high-impact numbers. The revenue growth during the quarter on comparable basis, adjusting for excise recovery, was muted at 2.6% against a strong previous year last quarter. On the positive side; however, the revenue this quarter has recovered and grown by 5.6% over the preceding Q3. While India suffered the continued impact of GST transition during the early part of Q4, the Rest of the World sales grew 7.2% over the preceding Q3. The main driver here is Europe, which posted 18.8% growth helped by strong recovery in our German operations. As you all



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know Europe had been the main drag on our sales growth for most of this financial year. For the full year the revenue grew by 5.3% on comparable basis adjusting for excise recovery. In constant currency terms the growth was high at 7.7%. GST linked offtake drop in India and degrowth in Europe in the first three quarters were the key dampeners for our growth aspirations for this year.

With the GST transition having stabilized, we are seeing traction in the non-oral care category sales and hope to see India back on growth track helped by recovery in the FMCG demand. In the light of recovery in German sales since January and more robust new business pipeline, Europe looks poised to post growth going forward. The East Asia pacific has seen the key oral care customer demand stabilize in the last two quarters after a prolonged period of degrowth. Their non-oral care business continued to post growth at 27% of EAP revenue and is well set to drive growth in the region. America's region has secured new business awards, which are under commercialization in the US and Mexico. The Colombia operation is being closely monitored and is showing clear signs of recovery. All this should drive Americas growth in the year ahead. In some ways disappointing as it was from revenue growth point of view, financial year 2018 has been a time for us to recharge and re-group too.

The EBITDA margin for the quarter was at 18.7% lower by 80-basis points compared to Q3 impacted mainly by product mix and inventory correction at year end in the EAP and Americas. EBITDA margin for the full year in fact expanded by 110 basis points to 19.5% on account of operational efficiencies in several cost saving programs.



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It is to be noted that the full year EBITDA of Rs.473 Crores represents a healthy year-over-year growth of 11.4% in a year we faced challenges on the revenue front. The PAT for the year before exceptional item on account of closure of Egypt subsidiary is Rs.176.6 Crores compared to Rs.174.7 Crores of last year. Higher forex loss of approximately Rs.5 Crores and the impact on effective tax rate and underperformance of Poland were the dampeners of the PAT growth year-over-year despite an 11.4% EBITDA growth. Our current healthy margin coupled with the prospects, sales growth mentioned earlier should bring PAT growth to track our mission 20:20:20 and with that improve the ROCE and ROE, which now stands at 16.8% and 15% respectively.

The balance sheet continues to be strong with the net debt reducing by Rs.140 Crores over the year helped by a strong free cash flow. The capex for the year was proactively calibrated to the evolving demand during the year and contained at Rs.120 Crores, well below the depreciation. Interest cost has been contained below 6% at exit. Debt equity ratio and debt service coverage ratio are healthy at 0.59 and 2.2 respectively making for financial flexibility to seize any new growth opportunity. Overall, we believe the fundamental points to the business getting back to the double-digit growth trajectory, we are confident about. Now with that I will open the floor for question and answers.

Moderator:

Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. We will take the first question from the line of Bharti Mundhara from C.D. Equisearch. Please go ahead.



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Bharti Mundhara: Good afternoon Sir. I would like to know how would the US administration's inward looking state policy impact your business going ahead.

Ashok Goel: Bharti, it is a good question which I was asked by one of the media channel this morning. I think on the FMCG sector and the packaging sector that we operate in, we do not expect any impact of so-called global trade war; if it all, we should only benefit because the current administration in US, which is pushing for make in US, should only help us in terms of lower imports from other countries particularly China, of the items that we make and therefore, that should only help us in US. We do not operate in that space from China in our Chinese operation.

Bharti Mundhara: Okay, but will this not have any impact on our revenues and the business that we get from America?

Ashok Goel: Because we manufacture in America, it will only help us.

Bharti Mundhara: All right. Thank you Sir.

Moderator: Thank you. We will take the next question from the line of Sameer Gupta from India Infoline. Please go ahead.

Percy Panthaki: This is a Percy here. I was just looking at the difference in our net fixed assets as you have reported in your results released and I am adding back depreciation, so that would basically derive the capex and I am getting a capex of Rs.200 Crores as per that method versus Rs.120 Crores, which you just spoke in the call, so can you just let me know the reconciliation for these two numbers?



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A. V. Ganapathy: What we have put in the balance sheet will be in terms of what is the addition to capex and what we are explaining to you is the actual spend during the year as per the cash flow statement.

Percy Panthaki: Okay, so on accrual basis it is indeed Rs.200 Crores, but on cash basis it is Rs.120 Crores is that understanding correct?

A. V. Ganapathy: No. It is not accrual. It is what is commissioned. What happens when we spend, these projects take various time periods to complete, then they are commissioned; it is only once the project is complete they get capitalized, so at that time the balance sheet we include it as an addition to that right, so what we have been always tracking is in terms of how much we spend, the whole idea is that whatever the depreciation is there that cash accruing into the business, which is what we deploy for growth as capex.

Percy Panthaki: Can you give me an idea the rough breakup of this Rs.120 Crores for which facilities you have incurred and whether there is any Greenfield or Brownfield?

A. V. Ganapathy: Yes. Last year most of the spending has been on Brownfield. It has been spread in two areas, one in India for we had some expansion in Wada, we had some injection moulding capabilities, which was built in Vapi and then there are couple of tooling lines, which we added; then there was some spending in the US on the decoration capability and in China. China we invested in lot of tooling flexibility because, as we are expanding into the non-oral care, it gives us that added advantage to be able to offer shorter lead times to our customers.

Percy Panthaki: So would India be like more than 50% of the total capex or how is it distributed?



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A. V. Ganapathy: Yes India would be around Rs.60 Crores in terms of spend, yes.

Percy Panthaki: Okay, so half would be in India and then second highest would be US and third would be China is that correct?

A. V. Ganapathy: That is right, correct. You would recall also Percy, Ashok Ji mentioned last time during 2017-2018 a lot of our spend has gone on creating capability because in the past, there were capacity expansion, so it was capability and creating flexibility in our production base.

Percy Panthaki: Second question on Europe basically if I see the constant currency numbers in Europe, we have actually declined in terms of sales and Europe has now been sort of problem area for four, five quarters in terms of getting into positive territory adjusted for inorganic portion and if I recall correctly, the initial thought process was that Europe is actually going to be a growth market and the fastest growth among all the four geographies will come from Europe. So just wanted to understand what went wrong and what visibility do you have in terms of improvement and what are the timeline by which we can see this improvement?

Ashok Goel: Yes Percy as I mentioned in the opening remarks Germany was the main dampener for Europe, which for Q4, actually to be precise from February of last financial year, has bounced back; so we believe that Germany should continue to track and if at all should only grow from the original base; original base when I say what was the base when we acquired the company and after acquiring it had degrown, so that now has been arrested. Poland, we do not see any major issue except that the contracted customer there, their offtake has been low, which was not really projected by the customer and even in the last concall, I had



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mentioned that we may be required to balance some capacities in the plastic tube capacities because some of the lines are old and the business growth that is happening, we would rather invest in pre-owned equipment which has not happened. So fundamentally what I am saying is, Europe was kind of sloppy in terms of what they were telling and what they were achieving or what they actually achieved –m there was a mismatch between what they said they will achieve and what they actually achieved, so that was the challenge and this year we have sensitized the leadership very clearly and we see a much improved tracking of how the pipelines are being tracked and addressed and we are monitoring it from here and this year we believe and they are also confident ,that they will grow double digit. Europe will also grow double digit in this financial year.

Percy Panthaki: The double-digit growth is it on the back of any new sort of client acquisitions or the existing client base itself can give that double-digit growth?

Ashok Goel: Mix of both, Percy. The existing client base is the number of projects they are running is expanding and also new customers are getting added.

Percy Panthaki: Okay. The only reason I asked is basically new customer acquisition you can never be sure right whether you will be able to acquire or not, so if that does not pan out then the existing customers based on the visibility of orders that they tentatively sort of give at the beginning of the year, you would have some visibility on what kind of sales growth can happen through that sort of route?



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Ashok Goel: Yes, so there are two parts to your question - one is that what happened last year is true and there was a misalignment as I mentioned in the last call also. Misalignment in terms of what process we follow globally and what we finally discovered they were following in Europe in terms of customer growth. That mismatch has been aligned first of all. Now after having aligned the growth pipeline we normally take the strike rate not more than 30%; second part you are right in your statement, which I am confirming and also telling you what is our solution to that, so once if we target let us say 30 or let us say 100 then the pipeline has to be more than 300 and that is how we are now tracking and therefore that uncertainty gets kind of absorbed.

Percy Panthaki: Understood Sir. My question was slightly different and rather specific that supposing, just hypothetically, there are no new customer additions, then from the existing customers itself what kind of growth can you generate in Europe, can it be like 5% or 10% or the existing customers are not growing at all?

Ashok Goel: No. I think I have to go into the fundamentals of the business strategy. In that case, irrespective whether the category is growing or not growing, also let us assume that the economies are also not growing, our growth strategy is not dependent on category or the economic growth. Our strategy is based on the shift of packaging format from plastic tubes and bottles and aluminium tubes to laminated tubes - that is our fundamental growth strategy and which is why we feel confident. There might be some hiccups here and there, but fundamentally this strategy is still sound. So only thing is that we have to get more and more projects from the same customer irrespective whether that customer is growing or not? Are we able to convince the customer



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to shift from plastic tubes to laminated tubes? Are we able to convince the same customer to move some of their existing SKUs, which may might be in bottles to laminated tubes and some of the existing SKUs, which might be there in aluminium tubes to laminated tubes.

Percy Panthaki: Right Sir, very clear. Thanks and all the best. I will come back in the queue I have few more questions, but I will give other people a chance to ask.

Moderator: Thank you. We will take the next question from the line of Jignesh Makwana from Asian Markets Securities. Please go ahead.

Jignesh Makwana: Thank you for the opportunity. Just a few quarters' back you mentioned that the market share is for bidding customers in China has been almost over, but still we are not seeing any improvement in EAP business. If you can elaborate the same and second thing on India business despite your low base of last year in the post demonetisation quarter and everything still we are having very muted numbers. I understand there was a big disturbance in supply chain because of change in GST value, but still even after factor in that we have muted performance for the last two quarters. First you can comment on that also. Thank you.

Ashok Goel: Roy Joseph will answer on India then I am not clear about your China questions, will ask you later.

Roy Joseph: Jignesh, it is on India part, we have two aspects. One, we have the GST, which kicked in, in July and post that towards the end of November and we had cosmetic category, which had higher GST rates in July, which was announced and post that there was some revision to that towards end of November where the rates were



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again revised to a lower side. There was a lot of disruption in the supply chain and we saw volumes for the beauty and cosmetic segment lower from December to January and mid of February because brands were repacking and resizing their products. So this is one aspect that impacted especially the cosmetic sales for us. On the pharma side, we can say that although we have gone for acquisition and getting new customers primarily on conversion from aluminium to laminates. The portion of exports that happened from India to the developed regulated markets, we saw some reduction there because of pricing pressures that our customers are facing, so that does not impact the oral pharma growth for us in India because we have a very strong pipeline for conversion plus with acquisitions for this category of pharma. So it was primarily, I would say the cosmetics, the entire brands went for redesign and art work calibration to meet the new GST norms, which were announced towards the end of November and the entire phase in, phase out for supply chain in FMCG takes around 45 days and that is what impacted; but we could see from mid February strong traction, good growth for both cosmetic segment and growth coming from the pharma from conversions. So the other aspect is if you compare the Q4 numbers, the numbers are muted, our peaks are basically in Q3 and Q2 for India.

Jignesh Makwana: Can we expect double-digit growth from Indian market given the low base and now the improved traction in pharma and cosmetic both?

Roy Joseph: We can expect double-digit growth for India in the coming quarters, primarily because of one is the low base and also because of the new business acquisitions that we have made especially in the pharma space.



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Jignesh Makwana: Second on China what I was asking couple of quarters you were mentioning about your market share erosion for your customers in China has been arrested, but still we have not witnessed any material improvement in EAP business?

Ashok Goel: That statement is correct that the contracted customers that we had in China they were constantly dropping, losing market share, which has been arrested, which is a fact. Now that means that only the bad news does not come further. Now we are looking for good news, so good news was we were looking for some of the local customers, which we have but unfortunately with those customers, the credit risks that we have and therefore it is the balancing act that we have to do with respect to whether we give priority to sales or ensuring that the money is safe. So that balancing act we keep doing. If China in last two, three years has been actually degrowing, so at least this year they have grown positively and their growth for the year is 6.8% on constant currency and most of this growth has come from non-oral care and their non-oral care base is still very small which is about 27% of their sales I think. So our efforts are on non-oral care. There are some new wins that China had on non-oral care; we are waiting for the commercialization to happen and what is special about EAP and China is at that the volatility between the quarters are high, one because they have two lunar festival holidays, in those two quarters obviously they lose about 7, 8 days of working. So that is one of the reasons. and therefore EAP quarter-over-quarter may not be the right criteria for us to judge them- rather we see on a full year basis how the geography has done.

Jignesh Makwana: If you can provide us how much revenue we are deriving from the local customers in China?



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Ashok Goel: That breakup, Jignesh we do not have off hand, we can give you off line if you want.

Jignesh Makwana: Thank you. That is it from my side.

Moderator: Thank you. We will take the next question from the line of Sameer Gupta from India Infoline. Please go ahead.

Percy Panthaki: This is Percy here. Just wanted to understand with crude price going up, is there any risk to your bottomline?

Ashok Goel: Let Ramaswamy answer that question.

M.R. Ramaswamy: Percy, we explained in many calls, that we mostly work on contracted business; we will catch up but there is a time lag between polymer price rise versus actual oil price rise. Polymer rise then we recover from the customers, there will be a time lag, but more or less it is secured that is why the business normally happens, but this is a time lag.

Percy Panthaki: How much is that time lag approximately?

M. R. Ramaswamy: Anywhere between three months.

Ashok Goel: The time lag is three to six months depending on different geographies, the contract terms we have but as of now we have seen price rise from ,if we take the base of December last year, so price rise has been about 3% so far in terms of polymer, which is not significant and which is why you would see some of the inventory build up has taken place up to March in anticipation that the prices may harden, so in March quarter you have seen the inventory levels have risen up in India and China. So we tried to

soften the blow a little bit, but so far as the prices of polymer have not moved inline with the oil prices.

Percy Panthaki: And why do you think that may be the case?

Ashok Goel: That I think I have explained in the past also that between oil and the polymer, there are other building blocks that is naphtha and ethylene. Each one has their own orbit so to speak in the sense that the demand in supply from oil is different for naphtha so therefore it sort of revolves around in a different orbit and then from naphtha which is the building block for ethylene again is in a different orbit, which means it has again it is own demand and supply gap issues; therefore the price movements and then comes the petrochemicals, which is polyethylene in our case. So therefore there could be a time lag but if you plot all these on a longer period or either in a pre-year then you would find the movement is same.

Percy Panthaki: Understood then historically over the last like 10, 15 years what has been your experience that does high polymer prices affect your volume growth positively or negatively?

Ashok Goel: I do not think it has an impact on volume. What it does is that it increases or decreases my revenues. If I have asked for example if I am currently selling the price X and polymer price have moved by 10% and I ask for price increase by 5% because my value addition is let us say given take 50%, so 5% so my sales revenue becomes 105 while I keep the same margin so margin remains the same but my margin percentage comes down a little bit and take the reverse; if the polymer prices drop by 10% then my price revenue become 95 instead of 100. I lose the revenue and margin



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remains the same, but percentage profit improves so that is the volatility 'other than that it does not impact.

Percy Panthaki: Right Sir and just one quick question on China. Earlier we used to have that problem in oral care where the local brands were growing faster than the MNC brands ;so just wanted to understand what is happening on the ground and are the local sort of toothpaste brands still growing faster than MNC or that now the growth has more or less equalized?

Ashok Goel: Now let us talk about this in China terms and let us also talk about because I think it is relevant on global terms. In China terms for oral care if your question is specific then we believe that last year China toothpaste market has contracted by 1% i.e. i.t has decreased by 1%. But what is also happening is that we have to keep in mind, and this is to global context also, that new distribution channels or the method, which is in essential terms we are talking about is the e-commerce business. E-commerce business is a big disruptor globally as far as supply chain is concerned. The established brands are struggling to compete with the just mushroom brands who just launch it on the e-commerce platform and they are successful ;and by the time the established brands come to know what has hit them, it is a year or year-and-a-half. So that is the new reality that we are facing – in some geographies increasingly, in some geographies not so increasingly; and different products have different trajectory so to speak. We were having a meeting with some strategic partners just beginning of this week and they were sharing with us what is happening for beer market in US. Now all of a sudden there is so much of draught beer brands that have come up in US that the established brands are now suffering and they do not even know

what has hit them until year or a year-and-a-half has gone by and by the time they react, things have changed again, so the new distribution channels have become disruptors generally . That was the beer example but for FMCG again, depending on where the millennial population is calling the shots is highest, which obviously are in the emerging markets, the disruptions are greater and while the big giants are grappling with solutions and understanding first and then how to respond, these small brands are going to this reality. So that is a challenge and therefore it is becoming difficult even for us to assess how much weightage we give on the customer forecast and which is why we see their volatility is increasing in terms of what we thought that we will do versus what we did and the categories in which we did and so that has posed some challenges to us and therefore we are have internally deliberated already and working on long-term solutions, long term meaning that we have to start doing that now and start using some newer technologies now and processes so that we are ready when it really becomes a way of life, so that is in some sense of how the market disruption is taking place.

Percy Panthaki: Sir what new technology can you adopt in this if basically e-commerce is taking share or small brands are taking share. Can you just elaborate on that point you said you can adopt some new technologies to sort of safe yourself against this disruption?

Ashok Goel: Basically, I will not tell you how, but I will tell you what. What is that how do I make my processes react faster and then I have to identify what are my bottlenecks processes or capacities or the technology and then how do I address that.

Percy Panthaki: Understood Sir. In EAP could you split up your oral and non-oral care growth for FY2018 Sir? How much is it?



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Vinay Mokashi: Revenue growth in EAP for FY2018 is 3.8% and non-oral care growth is 2.7%.

Percy Panthaki: Sorry 3.8% is the total and 2.7% is non-oral care is it?

Vinay Mokashi: Non-oral care that is for full year. For the quarter non-oral care growth is 13.4%.

Percy Panthaki: Okay, so for full year oral and non-oral care have grown at approximately the same rate?

Vinay Mokashi: Yes both 3.5% average.

Ashok Goel: 3.8% is the overall growth for the year and 2.8%.

Vinay Mokashi: 3.8% is for oral care and 2.7% is for non-oral care for full year and quarter non-oral care is 13.4%.

Ashok Goel: So for the quarter non-oral care has grown faster.

Percy Panthaki: Sir any reason to believe that non-oral care in EAP will grow faster than oral care in the future?

Ashok Goel: Yes, because EAP has been the one geography, which has the lowest revenue share in non-oral care which is 27%, so just half of our global target, so they have to catch up and there is a huge market in China for non-oral care huge consumption and therefore that is the way to go.

Percy Panthaki: Thank you.

Moderator: Thank you. We will take the next question from the line of Ritwik Sheth from DEEP Finance. Please go ahead.



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Ritwik Sheth: Good afternoon Sir. Firstly, you mentioned that capex was Rs.120 Crores, so is it safe to assume that around we generally do an annual run rate of around Rs.150 Crores, so will that this balance spillover in FY2019?

Ashok Goel: Sorry, if the capex was Rs.120 Crores last year, average is Rs.150 Crores, what is the third part?

Ritwik Sheth: The balance Rs.30 Crores and Rs.35 Crores will spillover in FY2019?

Ashok Goel: That is a possibility yes.

Ritwik Sheth: Okay, this will include the capex that we are doing in Assam for Greenfield unit as well?

Ashok Goel: Yes that is correct.

Ritwik Sheth: Okay and Sir what is the status at Assam like where have we reached? Have we broken ground or can you throw some light?

Ashok Goel: I was there two weeks ago. I happened to be there, it is not that I was there. I think they are starting to erect the structure of the building. They have come up from the ground which means that all the foundation and everything of all structures, all buildings including gates and walls and everything has been done ;and by the way which I was not aware, monsoon starts in the month of March. I was not aware of it until I went there and obviously they can continue to work because all the foundations, every structure has been built up to plinth level, so monsoon will not impact and structure is under erection and I think power connection has been applied for, recruitments have already started, some legal



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formalities of the state government are underway so I think by July they will start production.

Ritwik Sheth: In three months' time?

Ashok Goel: Yes.

Ritwik Sheth: That is pretty fast. Okay and Sir you mentioned net debt we reduced by Rs.150 Crores, what is the net debt as of on March 2018?

Ashok Goel: Rs.563 Crores.

Ritwik Sheth: Sir just going by the call it looks like that worst is behind us in terms of India after demonetisation, GST then channel destocking this that worst is over for India and Europe as well so do we expect strong double-digit revenue growth for these two and overall for consolidated group as a whole like low double-digit for FY2019-2020?

Ashok Goel: FY2019 double-digit for sure both topline and bottomline, we should be logically speaking but we do not have definitive answer. I am not saying yes or no that does not mean my confidence level is not there just that we not put the numbers here.

Ritwik Sheth: Sir one last question generally whenever I have asked you about non-oral care you have shied away, but this time, this is the first time that I am hearing from your end, some pharma wins in India and we are excited about it so if you can throw some more light because?

Ashok Goel: Ritwik, I knew, you will come to this question.



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Ritwik Sheth: Because every time I ask you generally shy away so this is first time that I am hearing so it sounds very positive going forward?

Ashok Goel: Yes I cannot still give you specific numbers category wise breakup, but the fact that it all this new business reality is the expectation or not the expectation, the work that the teams have put in the last one or two years. Based on which efforts succeeded the best that set the tone for the current year or the next years' category growth, which is why we are able to say definitely that in India, pharma growth is likely to be highest in this financial year.

Ritwik Sheth: Okay so it is safe to assume that say next two years time, we should be going towards 45% non-oral care from current 41%?

Ashok Goel: India is already at 50%.

Ritwik Sheth: No I am saying for the group?

Ashok Goel: Well that is a challenge that I always have because we do not turn way any business, we do not stop pushing, hunting for more business in any category, but yes, you are right I think our growth in non-oral care should be faster than the oral care going forward yes.

Ritwik Sheth: That is it and all the best. Thank you.

Moderator: Thank you. We take the next question from the line of August Dave from CAO Capital. Please go ahead.

August Dave: Thank you for the opportunity Sir. Sir the way you described the challenges from the e-com and how the new brands are creating problem for the older brands. Sir on the marketing side and on the



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sales side how you are addressing that. Are you trying to get better access to be newer brands as your customers? What kind of strategy you have in place and what can you actually do? I understand that on your existing clients the volatility of their projections has been pretty high over the last 18 months at least so my question is how can you remove that from your business by addressing more and more business from these new and upcoming brands? Thank you Sir.

Ashok Goel: Great question, Dave. The new brands that crop up are able to brand themselves and market themselves with speed. It is safe to assume that they will not have their own manufacturing. So when they do not have their own manufacturing that means, they are coming up with their own recipe with the existing manufacturers and those existing manufactures typically could be not the brand owning manufacturers, but what we call OEM, contract manufactures. So therefore one of our efforts are to always scan who are the contract manufactures in different markets and start pitching in with them and the chances are most of the time around 50% or so of the time, that who should be supplier are chosen by so called OEMs or contract players. And therefore we begin marketing to them in advance which helps to capture the new brand also.

August Dave: Are your market share similar in these contracts manufactures as it is with the bigger brands?

Ashok Goel: I am not sure of that question and also the answer because we have not tracked, may be Roy can answer that better.

Roy Joseph: In terms of how to sell, them marketing from the first point was e-commerce how it is actually being disruptive? What I would like to



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say that in terms of studies done on packaging that we find a lot of shift because of the transportation that happens on the e-commerce, movement that happens from rigid to flexible a lot of items like shampoo bottles will actually go through redesign because the logistic challenge of transporting, so which is beneficial to products like tubes so that is the first shift. If you look at the conventional retail there is something called the first moment of truth, which means when the consumer picks up the tubes from the shelf when you go to the e-commerce route, which is called zero movement of the truth where basically the art work that the customers looking at the design, online on its mobile or laptop before he/she buys ; so in terms of the design that are done are different because he/she is not looking at the real product, but seeing on a screen so there is shift in terms of design and the way it is looked at so it is moving from first moment of truth to zero movement of truth when go to the e-commerce route. Now as far as Essel's way of working, we have been always working with smaller brands as well as private labels in the conventional business. So we are comfortable working with the private labels in the past and when we see the smaller brands coming we will actually use the same model to service them.

August Dave: Why I wanted to understand this was that let us take five-year view from today and let us say what the problem that we face in the oral-care client of ours in China. If such a situation were to repeat in any other geography have we learnt the right lessons or have we taken the corrective actions so that in case of our established client actually loses market share to and your brand. We can address that much more quickly. Through the Chinese situation took a long time to rectify and I know it has nothing to do with Essel actually you could not have reacted or anticipated such



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a thing, but in future will the reaction time to such changes for better?

Roy Joseph: If we look the case say in India, there have been significant shift in terms of market shares of large brands both in oral as well as non-oral care and as a company, we have been able to adjust as newer brands coming in, we have been able to service them. We have worked with very large base of customers. So we have experience in India of growing smaller customers, we have 440 active customers in India and this keeps on growing. So as a company we have the knowledge to actually replicate that across all the geographies when the smaller brands come in play.

August Dave: Okay and Sir final question from my side in such a situation when you are servicing kinds of different pedigree, different size and different geographies, are the economics significantly different, I mean if you go for a newer or smaller client or do you charge them differently compared to older larger client?

Ashok Goel: Well the volume does play a role in deciding the price.

August Dave: I get your point Sir. Thank you very much and good luck Sir.

Moderator: Thank you. The next question is from the line of Gautam Gupta from NRC Capital. Please go ahead.

Gautam Gupta: Thanks for taking my question. My question is would you be able to share quantitative sales data as in sales volumes for the three years may be online or offline?

Ashok Goel: Quantitative?

Gautam Gupta: Yes.



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Ashok Goel: I know what you are trying to do but I do not think it will be helpful because just quantitative data will not be helpful because the product mix would have changed in different years and category sales would have changed, and you know the price hikes for non-oral 2.5x of oral, or 3.5x for beauty - so that will not really help you build the model.

Gautam Gupta: Yes I think only thing I was looking for is to see how the value addition has changed year-on-year the cost has been such a fair amount of change?

Ashok Goel: Return on capital employed.

Gautam Gupta: Fair enough Sir.

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

Vikas Sharda: From the capex side you mentioned that Rs.120 Crores was actual for FY2018 so what is the budget for FY2019?

Ashok Goel: Well budget is always same as depreciation but this year we have couple of projects, which are strategic in nature. For example, we have in India, in Vasind plant, we are expanding the lamination facility - a new building and we are getting a new machine on as well, which will be good enough for billion of tubes ; this kind of investments we call strategic. We are expanding lot of further to be ready to be able to expand capacity so therefore some infrastructure projects that we have taken. There is some strategic investment that is happening this year. It would be safe to say that this year's depreciation, which will be in the range of Rs.167 Crores plus spill over of last year will be added and therefore around Rs.200 Crores we should be the capex this year.



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Vikas Sharda: Okay so say around Rs.200 Crores to Rs.220 Crores should be enough Sir?

Ashok Goel: For this year and the next year again it may come down to normal.

Vikas Sharda: In terms of the capacity, I mean would you spend for double-digit growth this year?

Ashok Goel: For capacity?

Vikas Sharda: Yes.

Ashok Goel: As I think the standard for Essel Propack is that and coupled with some other comments I had made in the past about the SHOT line - 500 tubesp.m. line. If let us say 500 tubes per minute line has a capacity of let us say 250 million tubes a year I am just picking up a number. It could be 200 and it could be 250, let us say 250. Now this 250 billion capacity I need to increase in three different geographies for example; so then obviously I cannot invest in one SHOT line in any geography and stop the other two or I cannot have the short line put in all three and thereby increasing the capacity to 750, which does not make sense. What we try to do is that we could take SHOT in one geography and the excess capacity created in that geography should be released viz. some of the existing lower speed equipments, which can be easily used in the other two geographies. This is how we expand the capacities and obviously then we will try to draw benefits other benefits - like if I put this 250 million capacity in a geography where my labour cost is higher than the other two, I would obviously choose the first geography where the labour cost is higher and thereby reducing the costs there and there is a normal



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cost so these are few of the things that we plan in terms of capacity expansion ; so there are lot of moving parts even in the simplest of decisions that we take.

Vikas Sharda: Sir I mean recently there was also release on this recyclable tubes, you mentioned that every tube can be recycled and also in the past you have mentioned that every tube that Essel makes we can promise it to be defect free so I mean all these projects I mean when will you see is some financial impact from these kind of initiatives?

Ashok Goel: Great question so let me help you understand. There are three aspects of on this environment friendly stuff. First is - plain and simple we have developed a laminated tube, which is made up of different layers and let us say generally speaking, some tubes have 23 different layers, some tubes have not less than 13 different layers. So each layer is manipulated in a way, which is made of similar same family of polymers. Therefore it becomes one single recycling code. There is, in any packaging material you see, eh. if currently have a water bottle in front of you and if you pickup the bottle and see the bottom, there is a triangular arrow marks if not in the bottle then you have certainly see on the label near the bar code. That is supposed to say a number in between the one I am holding does not say a number, but there are code numbers depending on what is the family of polymers that has been used. So in this case we have developed a code to 100% recyclable tubes so you do not have to do anything, you simply put them in the recycling in that most difficult, but simplest explanation.

The second part we have done is that we have developed tubes, which are called Etain that is environmentally sustainable though



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we have branded it like Etain, which has 25% to 35% of post consumer recycled material used in the making of tubes. That means we have reduced the demand for the original polymers by 25% to 35%. So that is the second.

The third is that we have tube, which also has a polymer, but also has aluminum foil as a barrier layer. That is the most challenging one in terms of recycling and therefore our R&D teams have been working on finding a solution to that in terms of recycling; of course we will continue to find solution for replacing element all together so while we do that in market also has to accept so we have identified and finally put together a couple of small different technologies, bundled them together in a way that that we can separate the plastic and the aluminum separately, which are bonded so strongly together and that has been a challenge. We finally cracked it and we have named it as Project Liberty . By the way Essel is not investing in the final process. It is a third party on the assurance from Essel Propack that we will make sure that it is economically viable for them. So we are helping them to select the technology, we will first start with our own factory scrap to be recycled through this process and after that we will offer this to the brands- that if they wish to collect the post consumer empty tubes- we are willing to take them and recycle it further and once we are successful in India, we will launch it globally . That is how we are making to sure that any tube that is produced by Essel does not go in landfill or in burning or any of such thing, all of it should go into recycling. So that is what we are doing and therefore we do not expect it to have any financial impact on Essel Propack in a negative way. Because I personally am of the firm belief that any recycling efforts are economically viable



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provided one has selected, identified, developed right technology and as said designed that project well.

Vikas Sharda: All right. Thank you.

Moderator: Thank you. Well that seems to be the last question. I now hand the floor back to the management for their closing comments.

Ashok Goel: Thank you really very much. As always appreciate your good questions. To whomever we could not answer the questions immediately, you are welcome to ask us back. You can reach out to Amit Jain or Ganesh to anyone of us. So thank you really very much. All the best.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Emkay Global Financial Services we conclude today's conference. Thank you all for joining us. You may now disconnect your lines now.