



“EPL Limited Q1 FY22 Earnings Conference Call”

July 29, 2021



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MODERATOR: **MR. VIPUL SANGHVI - SYSTEMATIX INSTITUTIONAL EQUITIES**



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Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY22 earnings conference call of EPL Limited, hosted by Systematix Institutional Equities. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes.

Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the confidence over to Mr. Vipul Sanghvi from Systematix Institutional Equities. Thank you and over to you, sir.

Vipul Sanghvi: Thank you, Ruchita. Good evening, ladies, and gentlemen. On behalf of Systematix, I welcome you all to EPL Q1 FY22 earnings call. From the management team, I will quickly introduce them. We have Mr. Sudhanshu Vats - MD & CEO; Mr. Ramasamy – COO; Mr. Parag Shah – CFO; Mr. Amit Jain - Senior VP Corporate Finance; Mr. Suresh Savaliya - Head Legal and Company Secretary and Mr. Deepak Ganjoo - Regional VP for AMESA Region.

I will hand over the call to Sudhanshu for his opening remarks and post that we can open the call for the Q&A. Over to you, Sudhanshu.

Sudhanshu Vats: Thank you, Vipul. And very good evening, ladies and gentlemen on the call. It is indeed my pleasure to welcome you all to Quarter 1 FY22 EPL's earnings call. Thank you for your patience. Thank you for waiting for a couple of minutes because some of your colleagues were joining in.

So, let me start by sharing with you our quarter 1 FY22 results. As the board and management team of the company, we are very satisfied with the progress which we have made in quarter 1 under the given circumstances.

Let me start by sharing with you our mission once again. So EPL 2.0 mission. This is we are basically committed to delivering market leading revenue growth, and we have defined it as double-digit growth year-on-year. And at the same time, we stay committed to delivering capital efficient, consistent earnings growth.

Against that backdrop, let me once again share with you the performance of EPLL quarter one. We are very satisfied with the performance we have delivered. And under the given circumstances, these are very good set of numbers. Let me share with you the revenue growth. So, on a proforma basis, we have delivered 12.8% revenue growth. When I say proforma basis, as some of you will remember, we have shut down our Russia manufacturing operations, which was in the base last year.

And also, we had opened up a new category called hand sanitizers, which was in our base in quarter 1 FY21. So, when we talk about 12.8% growth consolidated for EPL in quarter one, we are taking out the knock we are basically knocked off the numbers which are there for Russia manufacturing operations. So, the Russia numbers, because we have stopped manufacturing in that geography. And we have also taken hand sanitization pipeline out. When I say pipeline, this does not include the total sales which we did. It includes a number which would have gone into pipeline like for any FMCG company when you launch a new product, there is a pipeline impact which is there.

For us, this was an important big category which we launched and there is a pipeline impact which is there. So, 12.8% growth, double digit growth. And on growth, I am equally delighted, and as a matter of fact, very happy to share with you, our India standalone growths. Having had the chance to look at a few numbers which have come up of some of the leading FMCG companies that have announced their results, I can share with you, our numbers. So, our India standalone reported number is 17.3% revenue growth.

This does not include our acquisition on CSDS. So, our actual growth in India in quarter one leading to 32.5% with CSDL acquisition built into it. So, we have delivered a 32.5% growth, both organic and inorganic, and 17.3% revenue growth. So, on India standalone, whatever numbers I have seen our growth are better than anything which has been reported up until now.

The second thing which I want to share with you, which is something which we had talked to you last quarter, is we have also delivered sequential margin expansion of 66 bps. Incidentally, most of the numbers which I have seen which have come in for India, I think the impact of supply chain and supply disruption is being felt by almost every company, especially in the FMCG space.

And I have seen that many people have had challenges with market both year-on-year and quarter-on-quarter. In that backdrop, a 66-bps sequential margin expansion is something we are very satisfied with, and with these two, I want to once again reiterate, we stay committed to double digit revenue growth, which is what we have been talking about, year-on-year. And at the same time, we are committed to delivering sequential margin expansion, quarter-on-quarter from quarter four onwards, in this year, this is a tough year indeed.

However, we managed to achieve it, we will talk about it in great detail. But one thing which I wanted to highlight to you is that we have taken price increases across the board. So, my colleagues in all the regions have been proactive in taking price increases across the board. 90% of our portfolio now 90% plus of our portfolio actually has price increase, which has already been agreed to. We are also from a quarter one perspective, I wanted to share with you that we are ahead of plan on our price increases.



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So that is one big thing which is helping as we go forward. Having said all of this, it would be a miss on my part if I did not talk to you about the unprecedented supply disruption challenges that we are also facing, along with many of our customers and other companies that you may have heard about.

So, we have managed to navigate these unprecedented supply chain disturbances, because I call them now disturbances because not only the raw material prices high, not only is freight costs actually skyrocketing, it is becoming difficult to be able to supply in certain cases. So, supply security being able to push out from one place to the other is becoming challenging. So, just to give you a few anecdotal examples, China to US container, and we used we move a lot of laminates from China to US and to some of our other geographies where a container would normally be available for \$4,000.

We are currently struggling to find a container, even when we are willing to pay anywhere between \$15,000 to \$18,000. So, you can imagine it is four to five times the cost. But despite that, it is not easy to find containers. Even within Asia between Thailand and India, the numbers have gone from \$600 to \$3,000, almost a 5x increase. So, the impact of this is tremendous. As a matter of fact, that leads me to the final point I wanted to talk to you about in terms of the key messages I wanted to give on Q1 FY22.

So, the numbers we have delivered, we are very happy with, but our intrinsic performance is better. And the reason I say that is that in this quarter, we have navigated three one offs, which are basically. So, we have our operations in Colombia, in the month of May, because of disturbances in the country our plant was shut down for the entire month. So, we lost almost one month out of the three months of this quarter in one of our geographies in Colombia.

We also faced challenges in the severe second COVID wave in India, and one of our leading customers actually had to shut down his plant for the longest period of time about two to three weeks. And based on that, let me share with you and I genuinely believe this is a one off and hopefully will not repeat. This quarter is the very first time we also had to shut down one of our plants for three to four days because of this position. And finally, as I was telling to you about maintaining supply security.

I think in the last two, three days of the quarter as a quarter was ending, we were not able to ship out of China into US some of the stocks which was supposed to go. And if I was to take these three instances which I have given you, they are one off and hopefully will not be repeating in future and they are also one offs which were not anticipated at all from the point of view. We had anticipated increase in material prices, we did not anticipated reasonable increase in freights. But I think some of those things were not anticipated.

If I was to base this in as well, we have actually lost at the bare minimum, about Rs. 180 million in revenue. And that would have taken our revenue growth to mid-teens, which, in my opinion, is the intrinsic performance of our business, and is indeed very good performance.

So lastly, this is also signified by our performance of month, June month in between the quarter because some of these one offs, which we saw were in April and May, and barring the China episode, which I told you, our June performance is better than the full quarter performance on all key parameters. So, we have delivered a very good quarter but more importantly, we have delivered a June month which is better than the consolidated quarter numbers, which you see. With that, let me share with you the financial highlights of the numbers as we have reported them.

So, revenue growth from operations is at 7.8% as you can, as we have delivered Rs. 7,991 million in revenue, which is a 7.8% growth at the global level and an Indian standalone I told you that number is robust, that 17.3%. The proforma revenue growth, as I told you continues to be 12.8% that number for India is actually a robust, a mid-20s number. So, India operations have done very well. Americas this time has again had a standout performance as a region, we have delivered about 29% growth there.

Our EBITDA has come nearly equal to last year, almost flat, with a margin at about 18.1% and margin expansion of 66 bps sequentially over quarter 4 of FY21. Our PAT actually reported number on PAT if you will see is 30.4% but apple-to-apple comparison here when I tell you proforma on revenue, which is higher. I must also share with you that last year we had a one off when we had impaired our Russia some of the assets in Russia. If we take that into account, our PAT has come in at about 1.1% adjusted again, nearly flat.

So, I think with this performance, with the cap which this business continues to generate our net debt over EBITDA ratio continues to improve that is at about 0.4x now, marginal improvement from even previous year quarter 1 FY21, despite the acquisition, which we announced in quarter four of FY21. So, the acquisition which we announced and the borrowing which we did, despite that the number over, the number is Rs. 2,457 million, it is marginally lower than the number a year ago and more importantly, the ratio is at about 0.4x.

Because of the capital efficiency and the prudent capital allocation, which we are beginning to demonstrate quarter-on-quarter and year-on-year our ROC now is at 20.7%. So, this indeed are the highlights. If I was to move on the raw material prices and talk to you a bit about raw material prices.

So raw material prices in our opinion continue to remain high. They are bit volatile. So, they have come down from their peaks, but they are still quite high. And just to share with you a few examples of a couple of polymers. So LLTPE, quarter 1 FY22 year-on-year growth, which is

compared to quarter 1 FY21 is a 55% growth over last quarter, even sequentially. When already we talked about based on our polymer prices had started going up and are going up very sharply, even sequentially LLDP has grown at 16% over last quarter.

So, quarter 1, FY22 versus quarter 4 FY21. The same number for LME, the aluminium is 61% year-on-year and 15% quarter-on-quarter. HDPE is very similar at 52% year-on-year growth and even 8% growth quarter-on-quarter. So, this is something which we will need to navigate through the year. And I am glad that we put together a very robust plan in the beginning of the year. And I am happy to share with you the progress which has been made on this plan. The progress is indeed very heartening, and I will share with you again all the three things which we talked about.

So, the first and foremost thing we talked about was judicious price increase. So here as I was telling you earlier as well, 90% of the portfolio has been covered. We are ahead of our plan. All these price increases have been agreed. Some of them have flown in quarter one, some more will flow in into quarter two. And I think with the, wherever these are contractual, these pass throughs will continue, although with a lag. So, I think that is the thing, which is there. So very good progress in price increase ahead of the plans. And that is why we signaled it with a green traffic signal.

The second important pillar to navigate a tough year like this is our project Phoenix, and you heard the management talk about project Phoenix now for a couple of quarters, actually five to six quarters year-on-year. So, this is cost saving initiatives, and cost saving is becoming part of our DNA, and there could not have been a better time to actually go all out to be able to do more of this.

So, as I share with you, we have got detail projects, actually with very small projects to reasonably large projects, 350 plus projects that we are working on, clearly identified target set, teams ready, clear accountability.

So, we are making very good progress on this piece, we are also making progress on multiyear winning projects, which I told you. So particularly, I want to highlight here, the in-house manufacturing of caps enclosures. So, we started doing work on this, and this is something which will deliver towards the latter part of this year, but more importantly a lot into next year, and you will see us doing a lot in this area.

So again, very, very strong progress on Phoenix and cost saving initiatives, we are confident of delivering a number which is which we have not done in the past, it is a substantially higher number than what we had even thought of, even in our planning and in our budget estimates. And that is important for a year like this. Because as I was sharing with you, the raw material prices continue to remain high.

And this is a challenge which we will need to navigate not only do we have a problem, and not only do we have an issue with raw material prices, but we also now have challenges, of course going up on other fronts, whether it is freight and secondary packaging.

So, I think our cost saving initiatives are going to be very important. Lastly, our next improvement is on class, you will see some of the numbers across regions where personal care portfolio is a molding, or the growth has not been that high. I want to once again highlight to you that we know subcategory growth within these which are very heartening.

We know that in the quarter one of last year, there is a hand sanitization pipeline sitting across geographies. And that is why the progress which we made on some of these as well is on target. And that is how we are talking about this.

So judicious price increases ahead of plan a clear green productivity initiatives and cost saving initiative project Phoenix ahead of plan and mix improvement on plan. This and I therefore I am not surprised, and I am happy to report to you that we have delivered sequential margin expansion of 66 bps, which you will find many organizations finding very hard to deliver under these circumstances.

And with our holistic margin improvement plan, we are very confident that we will continue to deliver sequential margin expansion quarter-on-quarter through FY22. Continued focus on capital efficiency, basically our CAPEX, it is always been prudent. But just to share with you the number for quarter 1 FY22, the CAPEX standards at Rs. 531 million.

I think we will continue to judiciously spend capital wherever it is needed for growth, wherever it is needed for innovation, wherever it is needed for us to pivot to sustainability and that you will continue to see. And we talked about the point on reduction in net debt.

And I think that is very heartening again. So, if you look at despite Rs. 1,675 million of cash proceeds paid to creative acquisition, we have managed our Q1 FY22 net debt is at Rs. 2.457 billion or Rs. 2,457 million already lower than the FY21. And therefore, this is something which we are which is the cash engine which we have in the organization will continue to deliver and our ROC is improved at 20.7.

We have made consistent progress across all our identified levers, and I am not deciding to go into each one of them for to keep this brief and to be able to answer your questions as we go forward. But I do want to talk about sustainability. Because sustainability is a very, very critical lever and something which we have made very good progress. So here I want to talk to you about three key points. First of all, you may have picked up in the media or otherwise that we are now forming sustainability partnerships with our key customers.



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We talked about it about two of our global customers. And you will hear from our us about other global customers and large Indian players or Chinese players, or even big local customers. And that perfectly segues into one innovation, which we have done with an important local customer in Europe, and on our category, where I am delighted that I am sharing with you. This is our platina success story on a brand called Ella in Europe. So first and foremost, it is a food brand.

So, I think that the fact that we have been able to deliver a sustainable solution for a food brand, I am delighted. Secondly, as ketchup is not an easy product to handle, you need to have. So, the customer is very clear that they need a requirement of stability but at the same time, we were aware and sustainable, and the customer was aware that they needed very high oxygen barrier, we were packing the food material on top of that ketchup here, which is not an easy material to handle.

And what I am delighted to share with you is our innovation team, our sales team in Europe and all our business development teams have done an outstanding job to come together and to be able to deliver EPL Platina Pro Solution, which allows Hayleigh to pack challenging material like ketch up in a safe and odorless way. It gives them the barrier which is needed. This technical breakthrough will open up many new things as we go forward.

So, our confidence of continuing to build our competitive advantage on sustainability is growing with every quarter with every month. And this also I want to share with you that we will this year alone in FY22 and I still be believe journey has just begun, we will be delivering on our sustainable portfolio almost a 4x jump over previous periods FY21. And in FY21 we just started but in FY22, where I still believe that the journey is just started.

But our volumes in on sustainable portfolio will be at least 4x as we go forward. We continue to be socially responsible, and our journey on ESG has begun. And the work which we are doing on corporate social responsibility is heartening. And you will see more of this being done. We are fully conscious of our responsibility in COVID times.

And in this period again, we have partnered with Akshay Patra to be able to give family happiness kits, these are this is dry ration to family in and around our plants where we operate. With that, let me sign off with the key messages and once again, for FY22 and on quarter one.

So, first and foremost, we continue to remain committed to deliver double digit revenue growth and for the second consecutive year, and year after year from now. Our pipeline has become robust. The quarter 1 FY22 pipeline growth has been better than any quarter one or any quarter growth in in the past, which we have seen.

So, with very strong winds, particularly in beauty and cosmetics with some of the global majors, which we which we have seen here. So, our pipeline continues to strengthen continues to give



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us the confidence that our volumes will grow. And we will deliver double digit revenue growth in FY22.

Our quarter-on-quarter improvement on EBITDA margin, I spoke about a lot on this, but just to reiterate that we stay committed to on this journey 90% of the portfolio already covered for price increase ahead of our plans. And I think we need all of this and more because I think the challenges on the raw material front and now on freight front are equally strong.

The cost reduction initiatives we talked about the project which have been agreed, and I think mix improvement journey, you will see an impact of this moving forward in quarter two, quarter three, even more, I think has strongly begun. Sustainability I believe is a key driver for us for our business. And we continue to lead the way in the industry here. I just talked to you about the partnerships. I talked to you about innovation on **(Inaudible 24:21)**. And I spoke to you about how we are talking about multiples of growth when it comes to volume and sustainability.

We are confident of delivering at least 4x in this year. With all of this, we are very confident and committed to delivering market leading revenue growth, which is double digit growth as we have defined, and we will continue to do this in capital efficient, consistent way. One thing I do want to share with you which I am sure many other leaders may have severe COVID wave 3 and the volatility on raw material prices and the continued freight prices remain a concern.

Having said that, at EPL, we are confident of navigating it. We have done it very successfully in quarter one. And then we are confident of maintaining this rhythm as we go through this year. So, this is unprecedented times, it is a tough year COVID has not gone away, along with it has come huge challenges on raw material inflation, freight inflation, supply security.

But we are confident as a company to be able to navigate this well. And with that, I want to thank you all for patiently listening to me, and we are open, me and my team are now open to questions. Thank you once again, and we will be happy to take the questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the nine of Ashwini Agarwal from Ashmore Investment Management. Please go ahead.

Ashwini Agarwal: So, two or three questions there. One is, I was a little puzzled by the change in mix in Europe, in favor of oral and against some of the higher margin cosmetics and beauty products. And I was also a little worried about the US where I would have expected to see stronger growth, considering most of the US did open-up during the quarter under review? So that is one question.

And second is, you guys have done a marvelous job on sustainability. And I really applaud all the effort you guys have put in. But could you also help us understand, how does these partnerships on sustainability, how do they feed through to long term profitability? I mean, do



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the R&D and material costs offset whatever higher realizations are there? Or is there a meaningful contribution different from the sustainability products? It would be great if I can get your comments on these?

Sudhanshu Vats:

Thank you. Thanks, Ashwini and thank you for being generous with this thing, we are very happy with the performance. So let me first share with you the thing on Europe. So, two things are happening here. You will see these as we go forward. First thing which is happening in Europe is if you remember last time, I had said that we have won an oral contract with a global major, which is the contract which has started from April onwards.

So, in a way we are happy about that because we have that allows us to balance our portfolio better. And we now have two large global oral natures whom we work with in Europe. So, this with this, the new edition. So that is one thing which is happening and which you are seeing this in this quarter. But the reason it has got a bit accentuated, and you are absolutely right that you were surprised to see beauty and cosmetic coming down a little bit on further two counts.

I think in the base in personal care, what is sitting is when we say personal care in our context, as you all know, now it is beauty in cosmetics form and everything else actually everything outside of oral care. So, I think last year, Europe has taken a lot of lead in hand sanitization as well. So therefore, there is a lot of hand sanitization sitting here in the base. So, I think that is one other thing.

The second thing is that the Russia manufacturing operations, were also largely everything outside of oral. So, I think that operations we have discontinued, we believe in the long term, that is the right decision we have taken, and we will see margin impact of it in the long term as we go forward.

So, I think that has also come into play here. So that explains Europe. I think, as the year progresses, you will begin to see beauty and cosmetics coming in, again into Europe. I think there has been some so therefore that demand picking up you will also see some of the new contracts which we have won in in Europe, also playing out towards a definitely the second half of the year. And that will start begin.

And fortunately, we have won a lot of our new wins are in beauty and cosmetics with two of the global natures. So, I think that is the Europe thing. That also on the US see what we are seeing is Americas here. So, I think and let me break this down into three. I think one, if you look at Columbia there is a big setback, it was like of not being able to do almost for one full month there. Our Columbia portfolio incidentally is also very strongly skewed towards beauty and cosmetic.

So, I think that has to impact not only we were not able to sell, but we were not able to sell, what would have been with stronger from the personal care point of view. I am happy to share that Mexico growths are good, Mexico is doing really well, which is part of the numbers which are here.

And US, you are absolutely right, is coming back. And I think you will begin to see a lot of those in this quarter and quarter onwards. So, I think even last quarter, we delivered about an overall growth in America as of about 9%. But I think this will continue to gain in momentum as we go forward, because the macros in US are strong. And I think some of this impact, particularly with the summer, this time, some of the travel now coming back, which we saw only towards the end of the quarter, I think will begin to take shape.

So that is what America is. And I think your point on US macro is absolutely right, we are equally bullish. We are actually as a matter of fact installing additional machinery to be able to cater to that demand. And so therefore, so US remain strong. And you will see that as we go forward. And I think Europe, I spoke to you.

On sustainability very quickly. I think the way I will address this is, sustainability will give us a competitive advantage and continues to give us competitive advantage. One of the things which comes with, and I just mentioned to you in context of Europe, that we have won two contracts in beauty and cosmetics with two global majors.

And I think one of the key drivers there have been sustainability. So, I think sustainability, therefore will continue to improve our share of wallet, will allow us to continue to upsell to our existing oral customers. And to that extent, when we get that beauty and cosmetics along on sustainability and get that from some of our competitors, I think that is going to improve the margin and mix. And in certain cases, I have always maintained, we will get a pricing advantage, we are not likely to get pricing premium on every case.

But I think we will definitely gain share of wallet, we will gain additional categories or upselling as I am seeing and in some cases premium.

Ashwini Agarwal:

I had one small follow up question there. So, for example, the Columbia plant being shut down was probably unanticipated by you, but a lot of your products your end products, essentials in many sense. Do your contracts incorporate a failure to supply penalty? How do you deal with that the airlift material from other geographies? Did that have any bearing on your margins for the quarter?

Sudhanshu Vats:

So, I will briefly answer this and I will ask Ram to comment on it also in some more detail for you. But I think this was a one-month disruption. So, I think we have been able to carry forward some of it into we will deliver in June and thereafter. But overall supply disruption, your question

on being sort of airlifting some raw materials to be able to make in some one place versus the other is something which we have to now anticipate, and we are beginning to do.

But on the contract front in a little bit more detail let me pass it on to Ram. Ram, over to you.

Ramasamy:

Columbia primarily, the entire country is closed. It is not only we are closed. So that way the demand has not gone away. The demand in the course of time everybody's supply chain is stressed. So, everybody is building up like we are building up. So going forward those will see a larger portion of it recovering in the coming months. So that will happen. But there are disruptions in raw materials supplies, because of one month the entire supply chain was disturbed. That we are trying to see how to early materials because most of those material goes from China to there or India to there. So, we are trying to export those materials.

Mostly Colombia is a retail business, and more so in beauty and cosmetics and pharma. oral care is a very small market there. So those products will bounce back.

Moderator:

Thank you. The next question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain:

Couple of questions from my side. First of all, volume growth, considering that we had such a sharp inflation in the raw material, and our revenue growth of 7.8%, if we are just for the creative acquisition probably lower, how has been the volume trajectory for us? It looks like it has significantly declined for us and when we talk about the double-digit revenue growth, and where the inflation for the raw material on a YoY basis for all of them is upwards of 50%.

It looks like the situation may not normalize sooner, and it will be more gradual. That means for the full year, you are again looking at a significant decline in the volume for the EPL. How should we think about the volume growth for the EPL in FY22? And for the Q1 particularly? That is my first question. I will ask the follow up question post that.

Sudhanshu Vats:

Yes, so, let me share with you on the volume piece. I think the assumption that volume trajectory is, or volume is declining is incorrect. As a matter of fact, we have seen one of the most robust volume growth in quarter one, and we continue to remain committed to a strong volume growth through the year. So, the reason you are seeing a 7.8% value growth and you are assuming there is price in it, which is absolute correct assumption. But the volume is it is not that volume is not there, because in our case, there is also a play of mix.

And just to explain to you, if you look at my comparable quarter, last year, I think that quarter had lower orals because India was shut down for almost one-and-a-half months, all of April for sure. Travel tubes were very adversely affected in Europe and US, which are beginning to come back now. So, and we compensated a lot of that through the opening up of hand sanitization

tubes, and a sharp V-shaped recovery in China, where the China recovery also had a lot of personal care built in into it.

So, I think, this quarter, now, as you see, one, my pipeline is gone. That is why I am trying to tell you that. So therefore, there is an adverse mix impact. So, I think between my pricing and mix, there is a plate. We do not, unfortunately, share these numbers. And therefore, I will not be able to share exact numbers with you.

But I can tell you, and I am telling you with confidence with our numbers our volume growth in quarter one is better than in many quarters we have seen and our volume growth in FY22 will be one of the best volume growths we have seen in many years.

So, I would allay that fear of yours totally. And that volume growth gives us the confidence that we will deliver strong double-digit growth in FY22.

Sanjesh Jain:

Now this Russia impact, the previous when we spoke about it, we said that we will be able to meet those supplies through the other manufacturing plants in Europe. Where are we in the plan? Are we setting up the supply chain and hence we are looking at an adjusted growth rate for Russia? And how much time we would see before reaching the previous levels of supply in Russia?

Sudhanshu Vats:

This is a good question. So let me try and explain the Russia and I think we talked about it briefly in one of our earlier calls. But let me spend a couple of minutes because that is important. See when we looked at our portfolio and we keep doing this from time to time our plants and our portfolio and particularly Europe in our journey of improvement of margins, one of the things which we realized that rationalization of manufacturing and basically shutting down manufacturing operations in Russia is going to be long term beneficial to us from the margin point of view.

So, I think that is something which we stay committed and you will see that that impact coming in, in this year itself in fullness of time. I think in terms of being able to supply to the key customers, I think we are going to look at them as long term strategic customers where we are building up additional capacity in our cooling plant and you will see basically us being able to service those and then they were some tactical customers where we will decide whether we service them out of Poland does it make sense for them or we do not service them?

I think those are the calls which we will take as we go forward depending on how we want to margin maximize our Europe geography because one thing you are aware we stay committed to in the medium term is to drive up the margin and the profitability of Europe business. So, I think so that is how so, to answer your question, are we gearing up to supply to strategic places and do we have plans in place?

Yes. And then there are a few customers with whom we have the pipeline discussion, as well as following this. Some of the people whom we already had are we be able to supply from there, the answer is, yes.

But are we rationalizing our operations in Russia? The answer is, yes. That is why we have shut down our manufacturing plant there. So, I think, so therefore, and that impact in this quarter is a significant for us to call out I think as it goes forward, I think this will be an impact, which may not be that significant.

Moderator:

Thank you. The next question is from the line of Sameer Gupta from IIFL. Please go ahead.

Sameer Gupta:

I have two questions. And I will probably ask them together just in case there is some interlinkage. So first on the MSR portion, even adjusted for acquisition, I look at the revenue run rate in absolute million rupees it is better than 4Q. Now in our COVID impacted quarter India, we know that May was a lot impacted here. So, what exactly is driving such a good top line performance in India or AMESA?

And in US, our EBIT margin has seen a very sharp decline. And I understand that there is a lower personal care contribution. And one of the customers is moving production from Colombia to Asia. So, is that the only thing or is there something else in this margin decline? And also, this Colombia to Asia moment, are we servicing that customer from Asia?

Sudhanshu Vats:

Yes, so let me take up both the questions. So, Sameer first, thank you for highlighting our India top line performance. Deepak is sitting with me you are also complimenting him and his team, I can see him smiling as you shared that comment. So, thank you. I think indeed, we have done very well. I think the reason you see this is something which we have been talking to you for a couple of quarters now.

I think a lot of the work which we have done in last year in FY21. And of course, it is continuing. But the work which we have done in last year, in AMESA, I think it is highly commendable on particularly opening up of pharma. So, I think there is a lot of growth, which you will continue to see with our addition of pharma customers. Opening up of entirely or building the new category, I think which is in a very interesting a local innovation, where we are converting a lot of mehndi cones into tubes.

I think just to give you one illustration of that, but working with players, I think India team along with our China team to be fair, but India team working with a lot of startups with very, very strong responsive times with what we call new emerging brands. So, I think it is share of wallet gains. It is competitive game. And I think we are now beginning to see those results, you saw a robust performance in quarter four, and relatively both these quarters, the competitors have been weak.



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So, the numbers look very, very strong, but I think relatively speaking compared to other companies and others, I think performance is very good. It was true for quarter four, it is true for quarter one of FY22. And I am confident that in year of FY22, and then moving forward AMESA would have turned a new leaf and I think you will see in AMESA delivering strong growth as we go forward.

So, a lot of competitive gains, a lot of shares of wallet gains, some sustainability gains here as well, which you will see and therefore our sustainability portfolio coming into play, and we will talk about it. On the EBIT margins in US. I think, see US some of the challenges continue to remain and I must be absolutely upfront with you particularly in US.

I think the challenges that we spoke about earlier. So very briefly touching upon them again, I think our ability to get people into the factories, ability to get them to continue to work when we hire them, continue to retain them especially at the starting level. And so, I think that is where we have the challenge, because of the very peculiar circumstance in US at the moment.

You are aware it is not true only for us it is true for many companies. I think with the current program of the US Government, and I think the help which they are getting from the US government. There is a huge pressure on industry in terms of manpower. But what we are all confident of is I believe this is going to last, and we will build sort of anniversary out in September, I think.

So, which is just a couple of months from now. And hopefully that will bring back people back into factories back into workplaces. And I think with the vaccination drive, which US has taken, that will make it even better.

So, I think the point I am making is that US what you are seeing is, again I would request a somewhat one offs, because these are costs which we are incurring, disproportionately higher because of COVID in this particular geography. And I think as you will see, in quarter two of this year, and from there onwards, I think we will build, build on these EBIT margins, and build them back very quickly to where US used to be. So, I think so therefore, I would not worry about US margins at all.

Moderator:

Thank you. The next question is from the line of Trilok from Aditya Birla Life Insurance. Please go ahead.

Trilok:

I just wanted to kind of get more of some clarity on European operations. So, we understand obviously Russia plant has been shut down by the company. But would not you sort of supply it from other plants? I mean, I am just curious to understand more in detail why would plant decision have an operational impact on the business **(Inaudible 46:50)?**

Sudhanshu Vats:

Yes, so I explained, Trilok, to I think one of your colleagues earlier, Sanjay, I think in that context. See, Europe operations and the Russia decision has both immediate term and a medium-term implication for us. So, I think, in the medium term, I think the reason we have looked at that operation is because that was not from a margin perspective, long term viable for us. We were of the and we stay committed to improving Europe margins in the medium term and taking them to high teens.

I think in that context, we have taken that decision. And I think by definition when we have shut down the plant there, we are rationalizing our Russian business. So, where we need to supply, we will supply, where we need to perhaps supply and build maybe even pipeline for the future, we will do that. We are building capacity, as I told you in that earlier one in Poland. But I think we do have a near term or an immediate term impact. And that is what we have highlighted here.

Trilok:

Now, is it fair to conclude that the reported number in European region is primarily because of that particular plant?

Sudhanshu Vats:

Yes, so I think it is fair to assume two things in case of Europe. And I said that, and I want to reiterate, I think one is because of Russia, which is basically you are absolutely right. And I think the second is also like many other geographies but even in Europe, and maybe Europe a little bit more than other geographies.

Our hand sanitization category building work, which was done was brilliant last year. So, I think therefore, that is also in the base. And I think because of that pipeline, also there is an impact which you are seeing in this quarter. But I think moving ahead, you will basically so these two will begin to come down and you will see European numbers continuing to grow because what I am confident of is that in Europe as well, and I spoke about it, I think in my opening remarks, we have one beauty and cosmetic orders with two global majors.

Now, these will start I think, playing out they will pay out towards the second half of this year. So, I think that impact will also begin to come in and I think we will continue to gain more and more competitively both share of wallet with existing customers and also new customers. So that work will happen. And therefore, from a from a share of wallet perspective and our competitive position in the market, we are very satisfied with where we are in Europe.

Moderator:

Thank you. The next question is from the line of Suman Kumar from Motilal Oswal. Please go ahead.

Suman Kumar:

Can you talk about the Creative Stylo business performance? And it is, I think in today in AMESA, so can you segregate the extra Creative Stylo of business?



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Sudhanshu Vats: So, I think one broadly on the creative performance, we are very happy with the progress, which we made in the first full quarter of the acquisition. I think we have seen very robust growth in Creative and I am here talking Creative growth quarter-on-quarter. So, very robust top line growth, a strong EBITDA growth, and the work done by the Creative team along with our team in AMESA on pricing is again commendable.

So, I think both sides of their portfolio, the plastic portfolio and laminate portfolio, they have made very good progress. I think on the AMESA number you have the numbers here. The AMESA growth is 28.5% with Creative. And I think if I was to look at organic comparable growth, that number will be in very high teens.

So, I think it is the high teens growth without, so on a comparable basis, if you look at organic, without Creative. So, I think that is the way it is.

And overall Creative performance is good. Their growths are far superior to the growth which you are seeing for the AMESA regions. So, as we said, revenue growth accreditive their EBITDA growths are far superior, their margins are superior. So, from the hypothesis, which we went in with, on revenue growth accreditive, EBITDA growth accreditive and margin accreditive. I think this acquisition is playing out to our plan, integration is progressing very well. And you will hear more from us on this, as we go forward.

Suman Kumar: And the slight move from the Columbia to Asia so will we get business **(Inaudible 51:57)?**

Sudhanshu Vats: Can you repeat the question? I lost the question; can you just say the question again please?

Suman Kumar: The slides move from the Colombia to Asia. So, will we get our business from this site in Asia?

Sudhanshu Vats: Yes, we keep looking at it. We do not comment on individual clients. But ye, you are absolutely right. I think between our EAP business and this, so I think there are places where when these businesses move our other regions clearly benefit.

Moderator: Thank you. The next question is from the line of Punit Kumar from Reliable. Please go ahead.

Punit Kumar: Mr. Sudhanshu, you were very enthusiastic and energetic in terms of presentation and so are the numbers of profitability, etcetera, which gives us a lot of confidence in EPL. That is point number one. I have a small question that our return on networth's TTM 12 months would be 12.5, which is not very happy to be around. That is one.

Number two, if you see, maybe 12 quarters we have been jumping up or going up, and India continuing to be high-cost country in terms of CAPEX. I would like to bring your attention to that. Whatever you want to reply I am still very happy investing in EPL.



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Sudhanshu Vats: Thank you so much. Thank you for your confidence in EPL. I think I just wanted to share with you that as EPL global and at consolidated level, we continue to evaluate our cost of capital. And I think you know Amit is sitting here, he manages our treasury really well. So, I think we continue to look at how do we manage the cost of capital at which we borrow? How do we borrow and how do we maximize some of these things as we go forward? I can assure you as a concept that this is the rate of interest at which we borrow from across the world. What is the weighted average interest for this thing? How are we utilizing our capital in different geographies? And how are we optimizing it and maximizing it as we go forward? It is top of our agenda.

Unfortunately, I did not follow through the numbers you spoke about and maybe we can take them offline so that our finance team can understand better from you. But I can tell you capital efficiency, and consistent capital efficiency is at the heart at what we do.

And I can assure you that our team is doing a very good job of on this. So, I think you can perhaps take it offline with our finance team and thank you once again, in your confidence in EPL. It is a great company it will continue to grow and and go from one to the other so, therefore continue to grow as we go forward.

Moderator: Thank you. The next question is from the line of Siddhant Kanodia from Ratnamani Securities. Please go ahead.

Siddhant Kanodia: Sir, I have a couple of questions. First, how many days of raw material inventory do we maintain?

Sudhanshu Vats: So, Parag, would you address that, the number of days of inventory which we maintain?

Parag Shah: So, the ideal inventory would be in the region of about 45 days to 50 days. These are difficult times in terms of the supply chain disruptions that we are seeing. So, we would build a bit of safety stock there until these challenges in supply disruption are completely abet.

Siddhant Kanodia: And the second question will be what will be our utilization levels?

Parag Shah: So, we do not give out utilization levels. Suffice to say that we have always invested, and we will continue to invest CAPEX for the growth of the business. We have said this many times that you will see CAPEX expenditures grow in time, but we do this in a prudent fashion. So again, to repeat, we do not need to build Greenfield plants, and we are able to grow our business with adequate cash flow for capex.

Moderator: Thank you. The next question is from the line of Shivaji Mehta, an individual investor. Please go ahead.



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Shivaji Mehta: I had just one question. This was regarding the recent acquisition of Piramal Blackstone. Now that Piramal Glass is a part of the portfolio company of Blackstone, is there any synergies that we could get from this? Just if you could share some thoughts on that?

Sudhanshu Vats: So, you are talking to the EPL management, maybe the audience, maybe the people whom you sort of, so I think, Blackstone invests in different companies from time to time. We always explore wherever there are synergies. I think in case of Piramal Glass, it is very early for me to comment, but conceptually, we always explore synergies wherever we can.

And I think at an appropriate moment, if we have something more to share with you, we will.

Moderator: Thank you. Ladies and gentlemen, as this was the last question for today, I would now like to hand the conference over to the management for closing comments.

Sudhanshu Vats: Thank you. Thank you, Ruchita. Thank you, ladies, and gentlemen on the call. Thank you, once again for your energy and your enthusiasm and your confidence in EPL. And I want to share with you that we have begun FY22 very well, in an extremely tough time, having some unprecedented supply security and supply chain issues.

We have done very well. We along with the management are confident of sharing this and navigating it well as we go forward. EPL is a great company. On a personal level, I want to thank all of you for your support for this organization. I also want to tell you that I am moving on. For personal reasons I have enjoyed the 17, 18 months which I have had with this organization.

They are being short, but they have been very, very enriching, challenging, and enjoyable personally for me. Thank you for your support to the organization. Thank you for your support to me and thank you for all your good wishes. Thank you so much.

Moderator: Thank you. On behalf of Systematix Institutional Equities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.