"Essel Propack Limited Q4 FY-16 Earnings Conference Call"

April 29, 2016

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Moderator: Ladies and Gentlemen Good Day and welcome to the Essel Propack Q4 FY-16 Earnings Conference Call hosted by Emkay Global Financial Services Ltd. As a remainder all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prashant Kutty from Emkay Global Financial Services. Thank you and over to you Sir.

Prashant Kutty: Good Afternoon everybody. I would like to welcome the management of Essel Propack. We have with Mr. Ashok Goel – Vice Chairman & Managing Director; Mr. A.V. Ganpathy – the CFO; Mr. M.R. Ramasamy COO; Mr. Roy Joseph - Regional VP (AMESA Region), Mr. Vinay Mokashi – Financial Controller; Mr. Amit Jain – Head of Treasury and Mr. Ashok Vashisht – Regional Finance Controller (AMESA Region). I would now like to hand over the line to Mr. Goel for his opening remarks. Over to you Sir.

Ashok Goel: Thank you Prashant, and thanks Emkay for hosting this call again. Ladies and Gentlemen we are pleased to sign off the year with yet another strong quarter with net profit excluding exceptional item of Rs.50 crores, representing a growth of 25.6% year-over-year and 16.7% sequentially. This actually is the highest quarterly Net profit during the year. You would recall in the previous year, there was exceptional income reported in the March quarter on account of sale of certain fixed assets. whereas this year there has been an exceptional charge included on account of adjustment to the gain earlier reported in the respect of divestment of PIPL. As such the reported profit for the quarter of Rs 41.5 crore may appear low year-on-year. The business profitability indeed remains robust if you consider the Net profit excluding exceptional items. In fact, if you refer to the quarter comparable results of the continuing tubing business which has been reported additionally, the Net profit excluding exceptional item has grown even higher at 36.8% year-over-year.

For the year ended March 2016, the consolidated net profit is Rs 182 crores as against Rs.141 crores, reported in the previous year, a year-over-year growth of 29.5%. Here again, adjusted for exceptional items, the consolidated profit is Rs.180 crores, representing a YoY growth of 33% over the previous year's of Rs 135 crores. It is heartening that the business has delivered net profit growth at this level for last 5 years.

Thus, in terms of the Net profit growth, we are well on our Mission 20:20:20 target. Equally , the EBITDA margin is fast tracking our, target of 20% with the year EBITDA margin expanding by 230 basis points and 150 basis points respectively with and without considering the divested business which means that for the continuing business the EBITDA margin has grown by 150 basis points and if we include the divested business then the EBITDA margin expanded by 230 basis points, which is also helped by favorable sales mix, improved cost and manufacturing efficiencies.

As mentioned earlier too, the reported top line growth looks muted this year on account of raw material cost reduction pass through of around 5% to 6%, currency impact, especially the sharp depreciation in Euro and Latin American currencies and the sluggish Indian economy. The situation has not been different this quarter, except that India has shown signs of recovery with reported top line growing by 3.1% in this quarter, after de-growing in the previous 3 quarters.

Consequently, the reported y-o-y growth in the consolidated revenue for the current quarter of the tubing business inched up to 2.8% from the reported 1.2% and 1.1% in previous quarters. Adjusted for the effect of pass through the underlying top line growth for the current quarter is 7.8%

higher than 6.6% reported in the previous quarter. A further dissection shows the underlying growth in Europe. Americas at 12.3% is tracking well through the year. This is however pulled down by the off-take de-growth at large oral care customers in China / Egypt and de-growth in the non-oral care sales in India.

However, the strong oral care growth witnessed in India during this quarter and the continuing non-oral care growth in China / Egypt gives us confidence to look to 12% to 15% topline growth going forward. As to the share of non-oral care category, the ratio has increased only marginally this year from 41.1% to 41.8% for the reasons that the oral care grew strongly in Europe and India, coupled with de-growth in non-oral care in India. This should once again go on upswing with the economy picking up here in India and new business development in Europe and Americas.

The financial health is also getting robust by the year. The return on capital employed for the year is now at 18.4% and return on equity stands at 20.7% compared to ROCE 16.4%; ROE 18.9% in the previous year. The business continued to generate strong free cash flow which together with divestment proceeds has reduced the net debt to 644 crores versus 846 crores in March 2015. Average interest for the year is at 7.4% less by 1% point and contributes to interest cost reducing YOY by 21%.

It has been a great journey for us over the last few years. Our assessment of the market potential in the non-oral care category using our new generation high value add laminated tubes, the traction we are seeing on ground and the undeniable prospects for the FMCG sector globally, gives us confidence of delivering on our strategy in the coming years.

With this I will now open the floor for question and answers please.

Moderator: Thank you, very much. Ladies and Gentlemen we will now begin the Question and Answer session. We take the first question from the line of Nihal Jham from Edelweiss .Please go ahead.

Nihal Jam:: My first question is that can you share the oral non-oral breakup for this year for India and all the other geographies and the second question related that is just if you could add a little more color on why has non-oral in India slowed down and even in China this quarter, we had a 40% growth till H1 and it has come to 7.5 in Q4 and your expectation going forward specifically for these two regions in non-oral.

Ashok Goel: Yeah, Nihal, the last time also you were the first one to ask the question. Vinay will answer that question.

Vinay Mokashi: In case of AMESA, Non-Oral Care is 48%, in case of EAP it is 27.1%, in case of Europe it is 57.2% and in case of America it is 29.5%.

Mr. Ashok Goel See Nihal in India, the ratio has reversed. Last year our non-oral care revenue from India was 52% and oral care was 48%. This year it is reversed. It is reversed due to two reasons one that oral care growth in India has been good whereas non-oral care degrew. De-growth reason is all known to us because of the Indian economy the way it was , but we are already seeing some green shoots and seeing some new product developments happening and therefore we hope that the de-growth part of non-oral care will get arrested. So I think that answers your question I guess.

Nihal Jam: And for China also I mean just that it is the growth has fallen of marginally, so I just wanted to understand that and how is our expectation, especially considering that our new plant is also commissioned this quarter.

Ashok Goel: Your voice is little faint. On China I think you are asking the question. China actually grew 25% in non-oral care as compared to last year. The new facility which was commissioned last year before is growing but obviously this was a strategic investment so we did not have anchor customer there.. So it is growing but there is still some head space. In China what has happened is the oral care de-growth or less growth than we expected, is causing the depression in our numbers for China.

Moderator: Thank you, the next question is from the line of Dharmesh Gupta from Trivantage Capital please go ahead.

Dharmesh Gupta: Sir, I was speaking about the commodity prices going up, how is that going to affect your results in the coming 2 quarters and the next year?

Ashok Goel: Okay, commodity prices hardening up. We do not get too much worried or too joyful when the prices of raw materials move up and down. Primarily fundamentally because raw material prices are pass through in our case. So, it does not impact the absolute profit margins. What it may do is that it may change the percentage point, while the denominator changes, so to that extent it happens. Now on how the price movement of the polymers happen with respect to oil prices we have to understand that between oil and polymer prices there are two major building blocks - from oil to Naphtha, Naphtha to ethylene and from ethylene then the polymers are derived; so as the oil prices move, it takes about 6 to 8 months by the time the effect comes on the polymer prices. That is number one; then you have to look at the demand and supply situation on one side of Naphtha and on the other side of ethylene. They have their own, you know, kind of orbit, so therefore, it is not straightforward linked to the oil prices as such. So that is something that seems to be a misnomer that the polymer prices move immediately in line with the oil prices.

Dharmesh Gupta: Sir, basically are you saying that there is going to be no impact on your results in the coming quarters if the commodity prices keep on hardening?

Ashok Goel: Well, as we have been saying even in the past, that if the prices move in one direction consistently that is if it moves in the South, in the North direction constantly, then we will have to do a catching up game with respect to price pass through, so we end up losing some percentage point. If the prices are going down then we tend to gain a little bit, so therefore we always look for stability which is kind of expecting a perfect world and we are not living in a perfect world.

Moderator: The next question is form the line of Pravin Rai from B&K Securities. Please go ahead.

Pravin Rai: my question is related to the US, America region, as in the presentation you had mentioned the Colombia business is driven by some 29% and I can understand there is enough plastic business shift, the plant has shifted, due to that actually we had seen you know YOY de-growth in the US overall, so can you give the contribution of the Colombia in the Europe and America business.

Ashok Goel: Contribution of Colombia in America's business? Well,in Colombia what has happened is yes the business has grown. Yes, we have got more growth in non-oral care, so that is in the underlying currency, that is the Colombian PESO right; but when you translate because of the devaluation of most Latin currencies, it is not really showing up when we are reporting. Now, 15% of the America's is contributed by Colombia.

Pravin Rai: I just asked about the Colombia business, how is scalability out there from the current level.

Ashok Goel: How is what.

Pravin Rai: Scalability.

Ashok Goel: Scalability, yeah, okay, so as we speak, we are currently under expansion in Colombia. We are moving to a bigger and modern factory and we are expanding the capacity. Colombia services the Andean region that means the neighboring countries and therefore we see a good potential there also for non-oral care.

Pravin Rai: Next question, I would like to ask on the Egypt and EAP region, where you have mentioned the plant off take got delayed from the key customers, so will you please elaborate more on that.

Ashok Goel: Yeah Egypt and China right. Egypt, we had a contracted volume from a multinational customer, who has the regional hub in oral care and because of the disturbance in the region - Nigeria and Libya - where the region is serviced from, there was uncertainty in the demand and therefore the volume off take has been lower and that is mostly in oral care. That is as far as Egypt is concerned. In China again, as we have been saying for the past year or so, there appears to be a shift in the consumer behavior in China both in terms of the family pack size versus the individual pack size; as a result they have been moving towards the family pack. Therefore, while the tonnage of toothpaste has been selling high, the number of tubes consumption has gone down, but that we try to compensate by additional volumes from the same customers which we have contracted but on the other hand as we see there are local brands in China are getting more popularity and in the local brands we have been actually weak earlier, so we have, over the last two years , improved our engagement levels with the local brands and we have got some new business from the local brands in China but obviously it has not compensated for the reduction of the volume less off-take from the contracted customers.

Moderator: The next question is from the line of Ritwik Sheth from Span Capital. Please go ahead.

Ritwik Sheth: Sir, I had a couple of questions, firstly if I see the EBIT margins for annual FY-16, then almost one out of 4 in to the single digit that is Europe and that too we have converted it from negative to positive, so what is the strategy going forward over then, I am sure you must have target to go into double digits, so what is your strategy going forward, how do we get to double digits and you know in may be one year or two years, if you can throw some light on that?

Ashok Goel: Yeah. Let Ganesh answer that question but do not move on to the further dissection of non-oral care as you have always been.

Ritwik Sheth: Sure.

Ashok Goel: Sir, let me ask Ganesh to answer that.

A.V. Ganapathy: Yeah Ritwik, Europe you are aware, is the most recent geography where we are expanding, but the costs are already on the ground both in terms of the investment, in terms of the regional management etc. Now if you see in our business, the expansion happens on a modular basis, right, we keep adding a new line, tubing line or whatever it is. And therefore we only add marginal cost to support additional volumes. That is why if you have seen Europe results over the last 2 years, you see the operating margins actually jumping up, and this happens because there is a leverage of the operating costs; so to answer your question that when we reach a certain minimum scale like for example you see the mature business like in India and China, we are already in terms of EBITDA about 20%. Likewise our large business like in the US also is tracking similar number.

Ritwik Sheth: Yeah, so exactly, so what can we expect in the say by FY-19, two years, three years down the line?

A.V. Ganapathy So essentially Europe should be tracking where America is now and America should be tracking where the Asia, EAP, are there. Generally, in terms of the margin structure, they are not going to be different across geographies.

Ritwik Sheth: Okay, my next question is related to the margins in this quarter, generally we have been maintaining that Q4 is seasonally very strong quarter for us, so if I see the topline are increased by 9.5% but that has not converted into margins, so any specific one off in this quarter or.

Ashok Goel: Yeah but if you see compared to the same quarter last year.

Ritwik Sheth: No I am talking about sequentially. December ending 2015.

Ashok Goel: That is what I am trying to explain. See because in our business the quarters can move differently right. If you look at last year also in the March quarter our margins were slightly subdued, so if you see the EBITDA margin, it has improved actually 50 basis point over last year but sequentially yes your point is right, we were around 20 and now it is around 18.4%, now it has also partly impacted because of the certain mix changes etc., because quarter to quarter there can be some changes, so overall the way we track Ritwik is on the basis of trailing 12 months, that we are now currently running at 19.7%.

Ritwik Sheth: Yeah absolutely and my next question is on the non-oral care part, sir, non-oral care, we have generally like in the last 12 to 18 months, we were around 41% to 42%, so going forward what kind of trajectory are we thinking about by FY18?

A.V. Ganapathy: Ritwik, Ashok is smiling because he told you not to ask the question you. So he told me to answer it for you yeah. Okay, see if you recall even in the earlier meetings, Ashok ji has always been saying that we want to achieve 50% non-oral care but it is like a dynamic target, right? It is not that we are cutting of the oral care customers in order to improve percentage because that would not help.

Ritwik Sheth: Sir, basically the demand scenario is like especially in India before 9 months it was subdued, it has just picked up in the last one quarter so going forward it can improve, that is what?

A.V. Ganapathy: Absolutely right. If you have seen India's quarterly results, last three quarters there was actually de-growth as reported. Definitely it was not a good situation and this quarter we are first seeing growth in India and this growth is coming strongly in the oral care and that is why the oral-care ratio has reversed in India. Now if you look at Europe also, we have had a very good year in the oral-care. You remember that we had acquired a new contract and we had an opportunity to do much more there. So obviously that again has impacted the oral-care on the one side. The other side, the non-oral care, while we saw good growth in certain geographies like China and Egypt, in India the non-oral care actually de-grew. Pharma had its own problems which I think, in the earlier meeting Roy had explained to you both in terms of the currency pricing issues at Customers as well as some FDA issues. We have not lost wallet share and we are actually trying to compensate it through new customer development. There is a huge number of new customers which have been added even in Pharma but then we are still running in the same place and likewise in cosmetics, launch activities have been subdued and hopefully as we go forward, we will see those cosmetic activities start picking up. So what has happened; this year is in a sense, that growth has come but has come by skewing the ratio in favor of oral care; but in terms of our planning and whatever we are seeing, yes non-oral care must see growth in the coming year.

Ritwik Sheth: So FY17 will be better for non-oral care.

A.V. Ganapathy: Yes, that is what we expect based on the numbers we have now.

Ritwik Sheth: Sir on the COCO Model, are we actively looking at adding any clients or we are like right now satisfied with one client or how does it work because it is I think four quarters back we had added the first customer so are we actively looking?

A.V. Ganapathy: See, in a sense this is one of the options we are giving to our customers. So obviously if the customer is willing then we will be able to activate in more places but at this point in time. Some customers have expressed interest, but have not gone into any major discussions till now.

Ashok Goel: I may add on to that; on this current COCO Model, there has been capacity addition after the initial capacity; so this business itself has been growing. Second we have to keep in mind that the COCO Model would be only relevant for those customers who have large volumes and large volumes typically come from oral care so that is another thing that is to be kept in mind.

Moderator: Thank you. The next question is from the line of Hitesh Taunk from ICICI Direct. Please go ahead.

Hitesh Taunk: Sir, I have two questions. One is I have seen you in media you are saying our revenue growth for FY17, the guidance will be around 20% to 15% around. So I just wanted to know; which region among these four regions would be the key or driver for us? And the second question Sir; I just wanted to understand how we see Patanjali Products as a competition to our existing clients?

Ashok Goel: Well Hitesh, the growth that we expect is going to come almost from all Geographies including India, Egypt, Columbia, and Europe. And in media what I said was 12% to 15% top line and 20% bottom line. That is what I have been telling to the investors and also in the media. So we are consistent there. Now reference to any specific customer, we desist because we have signed the confidentiality agreements with all the customers so obviously we cannot discuss any specific customer but if your question is; 'Is Patanjali growing?'. Yes, they are growing.

Moderator: Thank you. The next question is from the line of Kumar Saumya from Wealth Managers. Please go ahead.

Kumar Saumya: My first question is; what is the volume uptick for FY16?

Ashok Goel: Volume numbers we normally do not give.

Kumar Saumya: My next question is that in the COCO Model, I read somewhere that the SHOT machine was developed under COCO Model, is that right?

Ashok Goel: What was developed for COCO Model?

Kumar Saumya: SHOT model machine that we have developed, 500 tubes per minute that was developed in this COCO Model.

Ashok Goel: Yes, it is not specific to COCO Model.

Kumar Saumya: So I was saying where COCO Model the CAPEX is done by the clients so will we be able to use it on our side?

Ashok Goel: Can we use the machine for us, is that the question?

Kumar Saumya: Yes.

Ashok Goel: Yes we surely can. The contract does not deny or permit but this particular new line that was developed, which is 500 tubes per minute line, so far the highest speed that we have had was 240 tubes per minute. So it is not specific to COCO Model, it has been developed by Essel in joint collaboration with the Technology partner. So has it got deployed for COCO? Yes, it has been, but it is not exclusive to COCO.

Kumar Saumya: Sir, my last question is that; if we see the market in value terms, so what will be the value for the oral market, Pharma market and then non-oral market?

Ashok Goel: Value terms; I think Ganesh would answer that question.

A.V. Ganapathy: See in terms of volume, you are aware that our estimate of the market size is around 14 billion tube for oral care and 22 billion tube for the non-oral care totally around 36 billion. Obviously the non-oral care fetches us much higher revenue and revenues vary from country to country. Our estimate is non-oral care market value should be around $2.5 billion. We have just started so we are barely around 5% or somewhere there. And that has got a good potential for us.

Kumar Saumya: Sir, oral market size?

A.V. Ganapathy: Oral market will be under a $1 billion. We are already 36% there know?

Moderator: Thank you. The next question is from the line of Joshua from A-Grade Investments. Please go ahead.

Joshua: I really loved your rebranding exercise for the past year and I am looking forward to your non-care growth. The question is regarding the loans and advances that I saw it is about 109 crores, it is about 5% of your total asset. I would just like to ask if you can elaborate on this loans and are they for strategic purposes?

Ashok Goel: This related party loan obviously is not for strategic purposes at all. This was given a long time ago. This should have been wound up, it has not been wound up yet. The loan outstanding is about Rs. 96 crores and then there were interest outstanding for which the cheques have been collected. Obviously it is in the interest of the company to unwind this loan and we have been making efforts to square off the position but obviously it is not materialized and our intent is to get it closed as soon as possible.

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

Bobby Jairam: The first question is; your EBIT growth for this quarter has been rather weak, what is the reason? Is there a lot of quarter-to-quarter volatility in the business?

A.V. Ganapathy: I already explained the context of another question that comes in terms of our quarterly EBITDA, right? So there is, differences between the quarters would be there, on annual basis our EBIT has grown actually 17%.

Bobby Jairam: So is that because the customers vary their offtake every quarter?

A.V. Ganapathy: Yes because there are different types of seasonalities. For example, in this quarter there was a Chinese New Year, and then also there are customers who would like to down stock during their yearend. So typical year ends are March or a December and then the mix also changes between the quarters. So that is why, as a principle we also keep tracking the trailing 12 months.

Bobby Jairam: Okay, how long are your customer contracts for?

A.V. Ganapathy: It varies; it varies depending on the customer and depending on the type of product. So for example, in the oral care with large MNC customers, they might like to give contracts for a 2-year, or 3-year or 5-year period. Similarly, MNC customers in non-oral care categories might like to give a year or two-year contract but many of them prefer to work also without any specific contract but on an order-to-order basis because in this it is also relationship. Also, in that case because we are involved right from the design of the packaging material to launch and other things, so we are firmly embedded in their marketing process. So it varies actually.

Bobby Jairam: Finally, since you have a lot of manufacturing plants across the world, there is not much economies of scale here. So what gives you an advantage over the players in those countries?

Ashok Goel: Well, first of all our product is not really transport friendly because we are transporting empty tubes which essentially mean you are transporting air and therefore it is not usually transport friendly. Two; we have to be closer to the customer because of, as you see as a consumer or as the organized retail is becoming more and more popular, the brand owners have the least amount of time in terms of visibility of what product is selling at what time and therefore their supply chain lead times are becoming shorter and less predictable. And that is another reason why we have to be close to the customer or close to the market. Your second point that you alluded to is in terms of economies of scale, yes you are right. Economies of scale plays a major role in our business particularly when you have entire set up in a totally different country which you cannot leverage the management bandwidth or the fixed cost of the other country. So therefore we always prefer not to allow increase in the number of plants in a given geography unless it is really strategic and important. So yes, 'economies of scale' is a matter of fact and we are conscious of it. For why we have to be in those countries is because it is more transport friendly. And therefore you may say that why your margins in Europe are low, is because we still believe that Europe has not reached the economies of scale and therefore the EBIT margin percentage in Europe still lags behind the rest of the three geographies.

A.V. Ganapathy: Just to add to that; you had also asked about how it becomes competitive. Because it gives us a global presence and many of the customers are also dealing with us in the different geographies. So, for them it becomes a seamless transfer of knowledge and therefore they are able to get a very consistent supply of their products.

Bobby Jairam: Sir you tell your customer that you can manufacture in several countries so that becomes a better value proposition for them?

A.V. Ganapathy: It does because that is how the global presence helps because global customers are also looking for global suppliers. So they save the time, efforts, and cost of having multiple supplier base in different geographies. And second, if they want to roll out an innovation , it is much more convenient for them to develop centrally and let the packaging partner do it across the globe. So it becomes a very competitive advantage for us to be present like that.

Bobby Jairam: Okay, who is your key competitor there from a global perspective?

A.V. Ganapathy: Yes, there is a competitor by name Albéa**.** They have a large presence in Europe and America and they are also havingr global supply capability like us.

Moderator: Thank you. The next question is from the line of Sreenath M from Motilal Oswal Securities Limited. Please go ahead.

Sreenath M: My question was that most numbers are consistent with the narrators except one number according to me, which is gross profit, which I define as sales less just the raw material cost. Now the way I look at it is; we have underlying revenue growth of about 7% to 8% and raw materials during this time as you said was going down South, which means you should have had some advantage. So the least we could expect is that the gross profit should have grown in line with revenue, but that is not the case both at the quarter level and at the annual level. So can you throw some light on that?

A.V. Ganapathy: First let us look at the annual level; In annual level our material cost in the last year was 45.6%, it is now 43%, right?

Sreenath M: My number suggests the 4% growth in gross profit.

A.V. Ganapathy: Okay, you are probably looking at what?

Sreenath M: At sales less raw material cost.

A.V. Ganapathy: Understood. See our results have published, one which is having some divested business in that and then also without the divested business. And I am basically referring to underlying tubing business where our material cost percentage has actually reduced from 45.6% to 43%. And for the quarter, it has reduced from 48% last year to 46%. So they are trending in the right direction, right?

Sreenath M: Right, but gross profit absolute is flat at Rs. 303 crores for this quarter and the fourth quarter FY15. Can you confirm that?

A.V. Ganapathy: Yes, for the quarter that could be a mix impact. See, we have multiple mix impact arising out of the categories or arising out of which region is doing more and less. But overall if you look at the full year basis, I think it is going the right direction. I did not see any wrong trend there.

Sreenath M: No, full year also, we have grown 4% end of gross profit, that is what my calculation suggests; that is Rs. 1229 crores against Rs. 1187 crores. That is just the sales less raw material cost and in fact, with the divested business you should have actually been even higher. I am assuming that the gross margin in the flexible packaging was lower than the tube business. So, considering the divestment and that we have only one quarter of tubes flexible here and four quarters last year, the gross margins have actually expanded more.. I mean I am looking at absolute gross profit.

A.V. Ganapathy: I have got certain numbers here Sreenath before me, which I am referring only to underlying business so that we take out that impact of flexible business; it had a different cost structure. So in terms of the reported numbers for the full year; the top line has grown 3%, I am talking of sales and operating income and the material cost actually has come down by 2.8%.

Sreenath M: Right, so what is your absolute gross profit; that is sales without getting into percentages?

A.V. Ganapathy: No, I am talking of the movement. Compared to last year, the growth in the sales is 3% and the material cost actually has reduced by 2.8% that is what I am saying. So it has actually moved the other way.

Sreenath M: Okay, I will have to just maybe rework the numbers too.

A.V. Ganapathy: I can clarify to you separately.

Sreenath M: Okay, and the second is; can you throw light on the CAPEX plan – both strategically and even in terms of the numbers as well, in terms of the actual value of CAPEX? And what is the strategic direction behind the CAPEX going forward, not necessarily the strategic CAPEX, I am talking of the direction end of the first CAPEX and the expected value of the CAPEX?

Ashok Goel: Yes, the strategic direction for any capital expenditure for us in Essel is that if it is a revenue adding CAPEX then we obviously have the hurdle rates that we expect that revenue growing business to deliver. When it is non-revenue add CAPEX then we obviously look at the CAPEX which pays back not later than 18 months or 24 months. Then there are CAPEX where we look at the system improvement like any IT related expenses; then we obviously look at the ease of doing business and not what NDA talks about. When we say ease of doing business is for all own people within our company and where we can eliminate the opinions and can have the proper analysis thrown out by the system. So these are the three and the fourth one of course you talked about strategic investments. So these are the four kinds of CAPEXs that happens. First three, I have already explained, the fourth is strategic investments could be a Greenfield operation, the strategic investment could be developing a new technology or something which initially may consume some resource but will deliver the benefits in long way term but will give us some edge. Then it could also mean that we want to reach economies of scale in a particular geography therefore we do some acquisition. So these are the kind of strategic investments that could happen.

Sreenath M: That is fine I think, just the thing is, so for the foreseeable future, I mean visible future as things stand, can we continue with the rule of CAPEX is equal to depreciation?

Ashok Goel: Yes, so the principle remains the same and for the non-strategic investments our CAPEX would be equal to depreciation.

Moderator: Thank you very much. That was the last question. I now hand the conference over to Mr. Prashant Kutty from Emkay Global Financial Services for closing comments.

Prashant Kutty: Thank you for your time Sir. Just before we end the call, just one last question from my end; so we have been actually talking about a 20-20-20 vision in terms of had over 20% EBITDA margins, 20% bottom line growth and a 20% ROC numbers. We are pretty much close to that number in terms if we look at the performance and it is a Kudos to Essel Propack for actually giving this performance. What I want to know is that are we anywhere looking at upgrading any of these parameters, if not from a one-year perspective but from the three years' perspective or something of that sort?

Ashok Goel: Yes, I was wondering Prashant, why have you not asked the question so far. So, there you are. Okay, so Mission 20-20-20 was 20% EBITDA, 20% of return on capital employed, and 20% on return on equity and 15% top-line growth and 20% bottom-line growth. So that is the mission so that everybody on the call is on the same page. So with respect to EBITDA – we are already at 19.4%, in case of return on equity, we have crossed 20.7%. It is return on capital employed which has improved to 18.4%. So return on capital employed is something that we have to still work on a little bit and we do have this financial year as a time with us. So once we achieve this then obviously we will raise the bar.

Prashant Kutty: And Sir, in regards to debt repayment – while obviously we have seen how the debt paring down in this particular year largely on account of we paying back our flexible packaging business proceeds but apart from that we have not seen too much on the debt **repayment** front, any plans on that front for the next couple of years?

Ashok Goel: See Prashant, we are under no pressure to reduce our debt, why I say that is because if you look at my ratios on this front.

Prashant Kutty: You are pretty comfortable.

Ashok Goel: Yes, so our interest coverage ratio is 5x, debt-to-equity is 0.75 and so on DSCR is 2x, so we are very comfortable and in our business I think if we reduce the debt too much that can become counterproductive also. So, we will have to strike the balance.

Prashant Kutty: Great. All the very best to you Sir and thank you very much to the entire management of Essel Propack.

Ashok Goel: Thank you Prashant, thank you every ladies and gentlemen for joining us.

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