"Essel Propack
Q1 FY2021 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, good day, and welcome to the Essel Propack Q1 FY2021 Earnings Conference Call, hosted by Antique Stock Broking Limited. 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 please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Mahawar from Antique Stock Broking. Thank you, and over to you, Sir!

Manish Mahawar: Thank you Raymond. On behalf of Antique Stock Broking, I would like to welcome all the participants on the call of Essel Propack. From the management, we have Mr. Sudhanshu Vats, MD and CEO; Mr. M. R. Ramasamy, COO; Mr. Parag Shah, CFO; Mr. Amit Jain, Head, Corporate Finance; Mr. Suresh Savaliya, Head - Legal and Company Secretary, Mr. Deepak Ganjoo, Regional VP, AMESA; Mr. Ashok Vashisht, Regional Finance Controller, AMESA on the call. Without further ado, I would like to hand over the call to Mr. Vats for opening remarks. Over to you Mr. Vats!

Sudhanshu Vats: Thank you Manish. Good evening ladies and gentlemen. Thank you for your time and thank you for joining this call. I hope you are safe; your friends and family are staying safe and staying healthy. It is indeed my privilege and pleasure to share with you Q1 FY2021 results of Essel Propack.

We have delivered a very good quarter. We have delivered a revenue growth of 17.7% with better product mix and operating leverage, coupled with optimized costs. With a very close watch on costs, we managed to grow the EBITDA at 35%. This 35% EBITDA growth translates into 19.8% EBITDA margin in Q1 FY2021 and 260 BPS improvement on EBITDA from previous period - same time previous year.

Our PAT growth excluding exceptional items has grown by 113.6 %; so we more than doubled PAT in this period, increasing our earnings per share from Rs.0.90 to Rs.1.92. We managed to reduce our net debt from Rs.511 Crores to Rs.248.2 Crores; so focus on capital efficiency yielding results and has driven our return on capital employed from 15.7% in Q1 FY2020 to 19.9% in Q1 FY2021. This is a substantial 421 BPS growth over the same period last year. Importantly, it is also sequentially a handsome growth in return on capital employed, which is now closer to 20% at 19.9%.

If I was to describe our quarter to you in two words, I would use two important words, “disciplined” and “determined”. We have been disciplined to imagine boldly, to think of new vistas, to think of competitive gains in these tough times and we have been determined to drive the performance with dedication, with execution day after day, with our plants and everyone across the world working tirelessly to deliver these results.

If I was to talk about operations, all the 20 plants have been operational. We have proactively worked to ensure that we have the best standard operating procedures and I am happy to share with you that in some cases, the SOPs are being used as a role model for industries in and around the clusters in which we operate. We have also worked on, and I spoke to you briefly about this in the last investor call in May, on launch of a new category of hand sanitizers.

I am proud to share with you that we have made very good progress. We now have actually partnered with 50 plus brands across the world, both multinational brands and local brands - and are confident of delivering the pipeline which we had spoken to you last time of 150 million tubes; we have commercialized a large portion of it in Q1 itself. In management, through all this period, what we have done is actually used three things, communication, very clear feedback mechanism and clearing the path. It was basically a crisis committee constituted which had all the senior members, many of them are around on this call with you today and we would do this regularly.

So, it is about communicating, it is about continuously getting feedback and clearing the path wherever necessary for our teams to be able to deliver. Our emphasis on cost management need not be underlined again. You are aware of the project Phoenix we started last year. We are continuing that. The phase II project Phoenix is now running very effectively across all our plants across the world.

Overall, our liquidity management position is very strong- our gross cash position is at Rs.3101 million or Rs.310 Crores at the end of June 2020. The renewed focus on capital efficiency is leading to reduction in net debt and I think that is a phenomenon, we will continue - to focus on this area as we continue to drive market leading revenue growth. At this moment, allow me to take some time and walk you through the four pillars we have emphasized on achieving our mission; let me start with the first pillar and share the progress with you on Q1 FY2021 for all these pillars.

Let me first start with the first pillar, the accelerated growth in personal care. If you look at the last 10 years, we have delivered a CAGR of 15.9% in our personal care categories which include beauty and cosmetics, it includes pharma, it includes parts of food and even home and industrial kind of categories which are part of it. Slowly but surely, we have been opening new categories. The latest one to be opened in this space is hand sanitizers which I spoke to you about and we are pursuing some others as we go forward.

In this quarter we have delivered a 21.2% growth in this category; so after a CAGR of about 16% over the last 10 years up until FY2020 this quarter has started well in this space as well, with a growth of 21.2%. This has led to the contribution of this category now standing at 49% at the end of Q1 FY2021. This is really heartening. If you remember from the last call, we had gone to 45% in FY2020 from 43% in FY2019. I am delighted to share this number with you.

Having said that I think these are COVID times; so as we go through the year, we are committed to improving this number over 45% of FY2020, 49% number of this quarter may or may not be the number we continue as we go forward. So our commitment to improving our product mix to balancing and strengthening our portfolio and growing personal care is steadfast. As a matter of fact, I am delighted with the number we have delivered in this quarter but I am equally conscious of pointing out to you that these are COVID times and some categories may have got affected a little bit more than the others; so therefore I would not take this quarter number as cast in stone.

I think in terms of our progress on personal care across regions has been very good. I think we have grown very rapidly in East Asia Pacific. China has seen a very strong V-shaped recovery. So overall performance in China has been very good but at the same time, I think our personal care growth there has been stupendous. Against the 21% CAGR in the in the last three years in this category, we have delivered a growth of 90.8% - almost doubling this in this period. I think our growth in Americas has been about 30.6% in this quarter ahead of the CAGR, we have delivered in the previous three years and in Europe that growth has been 37.3% against 19% CAGR which we delivered in the previous three years. So I think you will hear more from me on Europe. Europe has delivered a very strong performance both on revenue but more importantly, on margin expansion.

I think the growth in AMESA has been muted but if you were to look at our growth versus some of the key competitors and more importantly, some of the FMCG companies who have declared their results in India - we have seen three or four results already coming out - I would say that we continue to motor and we will make progress as we go forward. Good progress on personal care now contributing 49% in this quarter and accelerated growth across regions.

I think the second pillar is continued leadership in oral care and I think on this pillar again you would remember that we have delivered a 10.1% CAGR through FY2011 to FY2020 about 10-year. Even, in this quarter, when I must say oral as a category has been under pressure on account of India particularly, where we have a very strong presence in oral care but also on travel tubes, on sample tubes where there is a large component of oral care in these categories. Despite that we have managed to deliver a growth of 10.4% in Q1 FY2021. We are delighted with this. We continue to strengthen our position in oral care. We are basically, as you are aware market leader across key markets. We are continuing to strengthen our long-term relationship with customers. We are working through product and process innovation on sustainability and you will hear from me on that as well in a little bit and we continue to remain agile.

So our wallet share gains are growing with marquee customers and we have shown considerable resilience against COVID-19 impact in this category and across regions and I would like to single out AMESA where we have done a very, very good job in this place.

I think the third lever which we have spoken to you earlier, which is an important pillar of our mission, is improved performance in Europe. I am absolutely delighted to share the performance which Europe has delivered. So first, the revenue growth of Europe in this quarter which we spoke about has been stupendous. We have delivered a revenue growth of over 30% - we spoke about that. It has been personal care growth of 37% and oral care growth of 19%. So strong growth in Europe because of the accelerated personal care growth. The percentage contribution of personal care in Europe has gone from 64% in FY2020 in that geography to 70% in Q1 FY2021.

All the efforts which we put in the last couple of years are now yielding results. We have strengthened our front-end organization, we have improved considerably, our pipeline development processes, our investment in capabilities and flexibility and agility have really paid dividends in accelerated growth in Europe and particularly our ability to open new categories in these tough times.

The other important feature is that while doing all of this we have managed to expand our margin. So at Q1 FY2021 our margin stands at 15%. This is almost a 500 bps improvement over a year ago period but it is also about a 225 bps improvement against our FY2020 number; so our journey on strong growth and EBITDA margin improvement in Europe is truly there and we are basically confident of building on this. So the Europe performance is indeed, in these times, very, very heartening and this is a very, very strong green in terms of our pillars.

Finally, I think on industry leadership in eco-friendly solutions - we have always talked about it- we are committed to sustainability and we are doing more and more work in this area. I must say Platina which happens to be fully recyclable laminate is successfully recognized by APR. We have also got Green Maple Leaf which is in personal care that has also been recognized by APR. Our Etain tubes which are on reuse are now being used by an oral care global major. So we have also the heartening piece which I wanted to share as a news in this period with you, is that we have now commercialized many of these brands in oral care and personal care across geographies and across some large marquee customers.

I think I would like to once again end on the two words that I talked about which is disciplined and determined. We are disciplined and we will bring in the power of disciplined creativity to find newer ways to grow. We are committed to grow and I am sure all of you around the table will appreciate with 17% growth we have already delivered in Q1 and we are well on our way to deliver a good year.

We are determined to seize these opportunities with full determination, one day at a time, one relationship at a time, with resolve that is totally unmatched. Thank you, ladies and gentlemen, Disciplined and Determined, Essel Propack.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Trilok Agarwal from Aditya Birla Sun Life. Please go ahead.

Trilok Agarwal: Good evening. Sir heartiest congratulations on a wonderful quarter and I must say to the whole team particularly to get this kind of execution in a very tough quarter is very commendable. A couple of questions I had one is if you could just share some thoughts on each of the reasons, what drove such strong revenue and obviously I would assume that margin I mean profitability is a function of cost leverage if you can throw some light on that reason and also in context of for health and hygiene particularly in Asia and I am sure you must have been seeing this trend across the world picking up. Do you think the acceleration towards higher salience to sales will be much faster than the old age envisaged?

Sudhanshu Vats: Could I request you to repeat the second part of the question please?

Trilok Agarwal: I am saying given the pandemic the health and hygiene sort of categories across the world might see an acceleration in growth and adoption so in that context do we see our salience to sales of personal care much faster than originally thought of internal plans?

Sudhanshu Vats: I think let me quickly address the question and then open it up for Ram to comment on it further. I think in terms of, if you see our growth you are right these are good growths. I think what has led to this growth is I would say three fundamental things. The first is a well-balanced and a rich category portfolio. I think we have got a portfolio which runs into different categories and in times like this it is very helpful. Majority of our portfolio is also at the staple end of the business - staple business as people's business as they say - so that is helpful absolutely without doubt. I think the second piece which has been very helpful in a time like this is our geographic spread and our presence across the world and therefore we have actually seen performance from across; but I think the severe lockdown which India saw in April and May, and I must say India has recovered really well in June; I think we have delivered double-digit growth in India as well in June. I think our geographic portfolio allows us to balance these things and bring the growth out and most importantly is, I think, the management team and our agility and innovation and I think what we demonstrated in this period specifically with the launch of hand sanitizers which we have spoken about and to be able to get 50 plus brands in the market in a period of three months I think is commendable. So, I think those are the three key reasons for growth we have delivered. We have continued to work on costs, and I would ask Ram to comment a little bit more on it so I would not let there be any duplication. Let me quickly go to the third part of your question which is on hygiene - health and hygiene. You are right. Health and hygiene as a trend is a secular northward trend. It is a habit which is called one of those sticky habits and is something which is likely to continue in my opinion even after the pandemic is gone to some extent; to that extent you are right that I think it will allow us to accelerate and to participate in categories - some of the newer categories which we have either opened up or which we will see opportunities in - so you are absolutely right we will continue to motor in this zone as we go forward. Ram if you would to like add on this one?

Trilok Agarwal: Just one more question if you can - sorry it was just a follow-up over the first one itself. In Asia Pacific again just to get this clear the growth is mainly a function of salience of personal care improving significantly this quarter or is that a meaningful client share or in case is there something else that we can read on this in each initiative as we can talk about particularly?

Sudhanshu Vats: In Asia Pacific as well, I think there has been wallet share gain which I think will be there across; there has also been growth in health and hygiene as you spoke about. I think at the same time there has been growth in oral care. So, as I told you for the world and even in Asia Pacific, we basically manage to grow each so it is not one pillar that we are standing on. We have managed to grow this considerably, especially if you look at China or Asia Pacific. If you meant by Asia Pacific, China I think we have seen a very healthy growth in oral care also. Ram please continue.

M.R. Ramasamy: As we explained, we have seen a V-shaped recovery in China especially after COVID kicked in, in the last financial year. We saw that recovery quick but we were continuously working on a lot of brands both in oral care as well as on personal care, especially hair care products. Those have taken up really well so we have improved our balance with the existing customers; we have also added customers in that region. Similarly, in Europe as well as in Americas. Unfortunately, India got hit in April. So you would see really a muted growth in revenue in India, whereas others have grown them. So one good thing is that as a company, our Phoenix 1 and Phoenix 2 projects is helping our ability to control our expenses in relation to the volume and the growth. We are doing many projects; the projects are very structurally drawn in terms of usage of materials; to reduce wastages in terms of improved utilization of equipment and in terms of number of people that we employ across geographies; so everything has worked very well. That is why you see margins are growing too.

Trilok Agarwal: Thank you very much and wish you good luck. I will come back in queue for further question.

Moderator: Thank you. We take the next question from the line of Kishan Gupta from CD Research. Please go ahead.

Rakesh: Congratulations on a great set of numbers firstly and I had two questions. Sir first is what sort of interdependencies are there between the four segments?

Sudhanshu Vats: Do you want to say your second question also?

Rakesh: You said that do not take these numbers in stone as far as first quarter is concerned. So can you give us a flavor without giving any sort of guidance but if you can give us a flavor as to what sort of expectations do you have as management as the year progresses?

Sudhanshu Vats: Thank you. I think first of all let me tell you my comment on "not to take these cast in stone" was a very limited point on the 49% personal care, because we have been every year inching up and we have committed to inching that up. We have moved it from 43% to 45% in FY2020.

We are committed to moving that up further in FY2021. I am not sure the Q1 number will be fully representative of FY2021. So that was the limited point on that one. You know we have delivered a very good Q1. We remain optimistic as we go forward. It is a tough environment but we remain optimistic with the virtuous cycle we set in terms of wallet share gains, in terms of new category which we have just opened up, in terms of the cost benefits and advantages which should continue to flow through because that has become almost like a habit and it is a good habit; so I think so that discipline should continue. Therefore, we are seeing this but it is a very tough environment which I do not need to underline to all of you guys out here. I think that is on your second question. On the first one I think the interdependency on four segments- I think it is a very good question. I think there is interdependency in many areas. So there is interdependencies or advantages of scale you could call it, comes into play in basically web and films and therefore our backward integration is really helpful because it is not that one film comes from one place and another from another; that does not happen. There is of course scale benefit which comes in manufacturing excellence and management of costs that is in place, so there is interdependency to that stage to that extent and of course there is interdependency from the point of view of customers because many customers play in many of the categories we are playing in. Therefore you have a bigger share of wallet of the customer and your ability to deliver better experience and better service to that customer goes up. So, clearly there are advantages of that interdependency and the ability to play the word interdependency which you have used but I would like to call it a balanced and a strategically balanced and strengthening strong portfolio.

Rakesh: All right Sir. Thank you so much for your time and I will come back in the queue for further questions.

Moderator: Thank you very much. The next question is from Gauri Sharma from Roha Asset Managers. Please go ahead.

Gauri Sharma: Congrats on a good set of numbers. I just had one question. Mainly it was on two segments, personal care and oral care. So could you just give us some margins for those and if you could just provide us with an idea about how health and hygiene is looking to be in the next few quarters? That will be helpful. Thank you.

Sudhanshu Vats: We do not share margins at the individual category level and therefore it will not be appropriate for me to share that number with you; however, I will ask Parag Shah to comment on this one - on health and hygiene like the person before you I think the first gentleman asked, I think it is a category which will continue to grow; it is a sticky trend and that is good news and we are well positioned to basically take advantage to grow with this trend.

Parag Shah: You see our adjusted EBITDA was 20.3% and the reported EBITDA is 19.8%. So if you look at the same margins in Q1 of last year that was 17.2%; clearly there is a significant increase in the margins. Further, this improvement in margins has been across all our regions particularly EAP which has a margin of 27%, America's 17% and Europe which Sudhanshu had mentioned earlier 15%. Therefore, this improvement in margin is something that is driven by our growth both in oral care and in personal care. We did say that our personal care grew by 21.2%. Oral care also grew by 10.4% and we have explained earlier in our commentaries and calls that personal care ASP is three times the ASPs in oral care and therefore yes, product mix does help improve margin. So I hope that sort of answers your question.

Gauri Sharma: That does. Thank you so much.

Moderator: Thank you very much. Thank you, the next question is from Percy Panthaki, from IIFL. Please go ahead.

Percy Panthaki: Good evening team. I have only one question. This China growth it is a stupendous growth of some 90% in the personal care division; if you can just break it up a little more granularly in terms of drivers - how much of it is completely new categories, how much is it existing categories but new customers, how much is it cross-selling to existing customers in new SKUs and how much of it is wallet share increase? I mean I do not expect exact numbers but any kind of flavor that you can give on this would be helpful and if you can do the same thing for the Europe topline growth also? That is, it.

Sudhanshu Vats: Like to say you yourself partly answered your question, which is that we do not share these details and it will be inappropriate for us to give that kind of granularity here at this moment, but suffice to say, let me tell you what, to try and give you a picture and therefore hopefully a little bit more color as to how things have been. If you look at China I think what we managed to do is we managed to, like across the world, opened up a new category. So yes, there is a new category in this growth which is hand sanitizers; but let me also quickly add to you that the growth in China net of that new category is also very healthy. So, I think therefore that is the first part. Therefore, yes, there is a new category but there is a very, very handsome growth in the existing categories as well. I think as Ram was speaking in response to an earlier question, we have added wallet share, we have added new customers, we have actually done innovations and we have opened up new tube types like tube-in-tube in this period; so I think there is a combination of everything which has gone in. I think broadly speaking the same is true for Europe. So yes, even in Europe's growth which you saw, basically there is a new category and that new category is again hand sanitizers, which is a new category. However, even in Europe what we have managed to do is to improve our wallet share with certain customers, we have managed to get new customers and I think it is the agility and go to market front-end organization's ability to convert some of these things - to basically first get to develop and the get the business and then our supply chains' ability now which has become more agile and definitely competitively more agile in a geography like Europe, has managed to deliver this speed; so I think that is how it is that is how I would respond to this.

Percy Panthaki: Just one clarification here Sudhanshu, just wanted to understand if any of the sales this quarter in these two geographies are sort of due to bunching up of orders or any one-off exceptional or would you say that the quarterly sales that we have clocked here is a sustainable number for the remaining quarters?

Sudhanshu Vats: I think good question again. There isn't any overt bunching up of anything; there is absolutely nothing of that sort. It is not that there is basically any bunching that has happened but could there be a small impact in our consolidated numbers and maybe even in these two geographies on a slight stocking up mentality which was there in COVID times? the answer is yes. But my sense is there is nothing overt and there could be a little bit of it because that was the mentality which was there through and through from consumers to customers to supply chain to even manufacturers; so there is a little bit of that

that may have happened but the trend is definitive and a lot of this is something which we can treat as something which we should be able to carry forward as we go forward.

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

Moderator: Thank you. The next question is from the line of Sanjay Bembalkar from Canara Robeco Asset Management. Please go ahead.

Sanjay Bembalkar: Thank you for the opportunity. Really commendable performance in the current situation. One question from my side on the competitive intensity going ahead, do you think the change is in the current context there will be change in the competitive intensity going ahead and we will get much more opportunities to gain market share or wallet share going ahead, outlook on the competitive intensity would be great? Thank you.

Sudhanshu Vats: It is a good question but I can tell you my broad understanding in this space. Yes, we believe that strong will get stronger, packaging as an industry is a highly fragmented industry- very, very highly fragmented industry - so there would be opportunities for consolidation and they could be some consolidation as we go forward. This is a broad industry trend I am telling you. Now again if you were to look at very specifically for Essel Propack, I think we have delivered really good results, we have got a strong balance sheet and I will be honest in saying that yes, we are being approached. So there are targets which we could look at but we will evaluate them on merit and depending on what it is. Beyond this I cannot say anything at this moment, but yes from a secular trend will there be a bit more consolidation with strong getting stronger, I think the answer is yes and hopefully we should benefit from it.

Sanjay Bembalkar: Okay thank you Sir.

Moderator: Thank you. The next question is from the line of Ankit Merchant from Reliance Securities. Please go ahead.

Ankit Merchant: Congratulations on good set of numbers. Can you share some light on the American market and how is that going to perform over the next few quarters?

Sudhanshu Vats: Can you repeat the question you meant Americas as a geography?

Ankit Merchant: Yes.

Sudhanshu Vats: I will say a few words then I will ask Ram to comment on this more as well. See America as a geography has also done well in this period viz. Q1 FY2021, but the pandemic is there everywhere. It is there in United States; as a matter of fact, if you look at all of America, north and south put together, Brazil is also very severely affected as we can see from the numbers. So, the impact is there. The impact is on certain sub-categories- the things like travel tubes, sampler tubes- but I think as we go forward as a management, we are geared up seeing where the opportunity is and to see how we can mitigate if there are any losses. I think you know that this way we will continue to drive that and I think there are opportunities as well which will open up. I think hand sanitizers in tube as a trend is slightly delayed in U.S. so it was not as pronounced as it was in other parts of the world but I think there also it is slowly coming; it was more bottles there earlier, so that is to some extent somewhat good news for us and we will see as it goes forward. Ram if I could I request you to add more as well please.

M. R. Ramasamy: In Americas, as you have seen, we have grown slightly better than normal CAGR in the last three years. This is in spite of certain sizes like travel packs and oral care and not picking up because of COVID reasons but their pipeline is very, very strong. We explained to you in last two quarters call, that we have won a large hair treatment contract in U.S. that is ramping up; we will see as it goes along that revenue will come in U.S. We are also creating a lot of new customers, customer wins which will start happening, which has happened, but the actual execution will start happening as we go now. Yes, we feel very strong about America's too.

Ankit Merchant: Just one question related to EAP- so we have seen a very strong EBITDA margin so can we expect this to continue going ahead as well?

Sudhanshu Vats: We have seen a very good EBITDA margin but like you know I was saying in the context of something else, I think this period- this last quarter- is a little typical. I would take that number but one thing I would not do if I was sitting in your shoes is to blindly, pardon me for that word, extrapolate that. I think our growth will continue to strengthen our EBITDA margins but I think in this period because of the mix, some of the places the mix improvement in the margin may be accentuated, so just to put it in perspective. If you would look at some of the areas where oral healthcare may have got affected a lot you know that and we have spoken of it many times, that our margins are much better in personal care compared to oral care. So if oral care got affected in certain geographies a little bit more and it is going to bounce back then the mix effect may sort of, you know, yield a slightly different number; but I think the point is that yes, the margin improvement is there, there will be strong margins going forward.

Ankit Merchant: That is quite helpful. Thank you so much.

Moderator: The next question is from the line of Sourav Patra from HDFC Mutual Fund. Please go ahead.

Sourav Patra: Thanks for taking the question. I just wanted to understand two things. One is how much growth could we see in this EAP region specifically due to COVID virus had spread a quarter before so is it possible a part of a demand which we have seen now, which could have been like, would have been part of Q1 calendar year first quarter and the second question which I would wanted to understand with the crude pricing falling and like now stabilizing at a lower level than last year HDPE prices etc., have also fallen so how much this has been passed on is not that I am trying to understand the impact of the price reduction if at all anything has already been taken care, or we will be seeing it in coming quarters?

Sudhanshu Vats: Let me take the first question and I will ask Ram and Parag to comment on the second one. I think on the first question on EAP growth - I think you know there was COVID in Q1 calendar for Q4 fiscal and is there a bit of carry forward of that into Q1 FY2021 -Q2 fiscal, the answer is yes. There is a little bit of carry forward. It will be incorrect for me to say that there is no carry forward; that will be a wrong statement to make but if you look at our revenue growth of 45.6% in Q1 FY2021 in EAP, even if I was to take a little bit of that carry forward I would be delivering may be 70% of this growth still. I am saying therefore even then it is a very, very robust growth to answer your question so I think the growth is really robust, yes indeed in one or two customers there could be and there is indeed a little bit of carry forward which is there. On the price Ram if you would comment and then Parag could comment.

M. R. Ramasamy: The pass through is a timeline we have with contractual customers. We pass the prices based on an agreement; last quarter prices will be an effective prices used for this quarter; so that is natural, that keeps happening but on price front crude oil prices are not directly correlated linearly due to polymer prices. Polymer prices will mostly depend upon demand supply gap also. Now because of COVID, there many companies who have scaled down their operations; some plants have been taken because the prices dropped so much and they do not have no margin so most of the polymer suppliers, there are a lot of supply side corrections that have already happened and we see prices are stable or growing, it is not dropping further on the polymer side. In any case those price drops or price gains do not make an impact on Essel Propack because we are secured by our pricing strategy.

Sourav Patra: Just wanted to understand like my question was like I understand it comes with a lag and they would have a different demand and supply so the only point which I wanted to understand was that so if you see a year on year, the last year, this quarterly and from now there would be some change I think there is in HDPE specifically there is a bit of correction so have we been able to already pass on a part of it or is it still spending, so obviously prices have been correcting every few months so you would obviously would have been passing on a part of it?

M. R. Ramasamy: Sourav prices have already been passed on in Q1. Q1 prices it is already passed on the results are including that.

Parag Shah: Sourav just to add to what Ram said, he said this before that if you do analysis of the prices and crude volatility over the past several years and you compare our margins in the same period, what you will find is that my margin remains in a very narrow band and it is not really comparable with the volatility that one sees in crude prices. So I think that historical trend itself speaks for itself.

Sourav Patra: True and I actually I think my question was not on margin front actually it was largely on the realization part so how could I would want to build in when I model my next year's growth or this year's growth that was the only point which I wanted to understand, so I understand and I think your margin stability has been phenomenal actually in that sense. Thank you.

Moderator: Thank you. The next question is from the line of Naushad Chaudhary from Systematix. Please go ahead.

Naushad Chaudhary: Thanks for the opportunity and congrats on a very good set of numbers. Two questions I have on our new product segment, if you can share was there a meaningful contribution from our new products like Platina 250 GML and PCR in this quarter and what is the size of opportunity you see in these kind of products?

Sudhanshu Vats: I think we have started the journey. I will also ask Ram to comment on this after me. Let me tell you on Platina what we have done is we have started the journey; we've begun commercializing it in many places; that is number one. The second point, important point, is that this is a very important development for us. The reason I say it is a very important development is I think having sustainable solutions is a license to operate and basically therefore to that extent it is extremely critical and in many places it may allow us to get some amount of upgrading but I think you have to understand the two in conjunction. I think it is a license to operate and it will allow us some room as we go forward in certain areas to be able to upgrade a little bit. Ram, if you could build on this please?

M. R. Ramasamy: See with all the sustainable solutions if you look at the market, if you look at many MNC announcements, each one wants to be in that journey. Their product packaging should be converted into a recyclable material by so-and-so time this is a journey. The journey has just started. More important at this point of time, more than the revenue how our approval status of this product in the marketplace. So we are working with all MNCs; our products are getting APR certified probably you know what is APR. APR is an association of plastic recyclers in the U.S. which tests the product and say, this can go for a recyclable stream that has been obtained for Platina. The "Recyclass" is another association in Europe which gives a similar kind of a stamp for usage - saying your material is recyclable in Europe. That we got. In India BIS standards are there so in all the regions this Platina is approved as a recyclable material that is the most important step. The second most important step is how this will behave with customers' brands right? They need to do the stability to see their products are stable in that. We are in very advanced stages with many customers; we have crossed the bridge with some customers; so this is important. This is a journey. So this will happen and as we go along, we will see more and more revenue out of sustainable solutions.

Naushad Chaudhary: If we can talk something quantitatively on this how much price differences are there in this kind of product versus the traditional products and what is the timeline how much time does it take for a customer to switch from the traditional things to these kinds of recyclable tube?

M. R. Ramasamy: At this point everything needs to evolve. At this point of time globally what will happen? You and I will buy a product because it is packaged in a sustainable packaging but will we pay more? We will pay slightly more but we will not pay hugely more, right? So the ability of a producer like us will be to find solutions which are cost competitive to the existing packaging systems, but having said that, there are challenges in terms of probability, there are challenges in terms of material casting, we continue to work. At this point of time yes, it is slightly expensive so therefore margin will be slightly higher because it is not produced in an aggregated level. As we go along, we will see it will be better than the current products because everyone will not be able to produce such solutions immediately whereas matured products duplication is easier, developed innovation products duplication is difficult it will take time, so till that time, we will have our market growth in terms of revenue. That is more important than the margins because margin will automatically come when the revenue growth happens; so we are well settled for that.

Naushad Chaudhary: Do you see this could be a sizable in next three to four years or would it take much more time than this?

M. R. Ramasamy: One government says two years, some governments say three years, some government says four years. I think it should start gradually. No one is going to wait for the deadline date to start. It will start happening gradually.

Sudhanshu Vats: I think just to build on what Ram said, I think these are timelines which have been defined by some of our customers, there are certain timelines which have been defined and they are in public domain by certain governments. I think to answer your question this will gain momentum and I think in three to five years' time it will be of a certain meaningful proportion.

Moderator: Thank you. The next question is from Devan Shah from One-on Financial. Please go ahead.

Devan Shah: Thank you for the opportunity. Two or three things, is there a complete overhaul of your thinking in terms of whatever innovation we do competition normally catches up and in terms of your revenue, you know substrates do you think this is unsustainable advantage for you till such time competition catches up, number one? Number two in your overall scheme of things how would you want to really position yourself for a sustainable growth and these sustainable margins purely owing to the fact that most of the countries are now getting protective so do you see a meaningful change in your strategy owing to that so can you just answer these two please?

Sudhanshu Vats: Thank you Devan. I think in terms of innovation and Ram spoke about it in one of the responses, basically we are on a continuous innovation process. Let me tell you, as we have been speaking to you about Platina, we have managed to commercialize Platina; we ourselves have got the next avatar of Platina. It is called Platina Pro and Platina DW. Those are also coming in. It is a continuous process, we are treating it like that and we will continue to innovate, we will continue to remain ahead of the curve. Would people catch up in some duration? The answer is yes. Whether that will be varying from country to country and competitive intensity is to be seen but the good news is that we know this game very well, we are committed to sustainability and we will continue to stay ahead of the curve and have the first mover advantage. So if you look at Platina is, and Ram spoke to you about APR, "Recyclass" and BIS, in my opinion the only innovation, where we have all three approvals or all three certifications. Therefore, it shows that we are committed to this game we are ahead and we have a first mover advantage. I think on the second question, if you could just remind me once again, I think it was about what sustained is?

Devan Shah: Yes, countries are now protective so do you think depending?

Sudhanshu Vats: As a company, our business model and I say this we are a global company, but we are a global local company, we are glocal; much of our manufacturing is done for that geography in that geography and a lot of it to be honest with you. Therefore in that sense, I think some of these developments which are there we are watching these developments, but we believe and we are convinced that we have current supply chain solutions and possible supply chain solutions which should help us to navigate this very well.

Devan Shah: Great and if I can just squeeze in one more what would be your capital allocation policy given the margins are now much stable than yesteryears and you know even growth seems to be kind of aligned especially with the mix also turning favorable in favor of healthcare so for every rupee or for every 100 rupee whatever how would you want to assign a capital allocation so what would be your usage going forward?

Sudhanshu Vats: I will ask Parag to comment on this as well, but let me quickly add to you, basically we continue to remain committed to capital efficient, consistent growth which we have spoken about; that is our mission. So we will be basically utilizing capital very efficiently. But ours is a capital intensive business, so will we be needing to invest, whether we will be open to invest and investing where we need to invest, the answer is yes. So in a way I cannot give a quantitative number to this but what I am saying is we will continue to invest efficiently and therefore we would be ready to invest wherever it is needed, Parag if you want to add more to this.

Parag Shah: One of the most important elements of our strategy has been articulated is about growth, whether it is accelerated personal care growth or it is about increasing wallet share with oral care. In order to grow, I think the company is very clear that capital would be allocated where required for growth; so that is a clear yes. What I would just simply like to clarify in detail is that when it comes to capex and expansion, you see, our manufacturing process is essentially about making laminates, printing and tubing and we are able to expand our capacities in a modular fashion. Based on demand we are able to allocate capital maybe in a printing line or a tubing line as required. I do not see any reason to put up new Greenfield plants and therefore effectively saying that there is enough capital to ensure growth for the business at the same time being prudent about it and therefore confident of delivering our mission of capital efficient consistent earnings growth.

Devan Shah: Just to interject here. Parag thanks for that answer. Would you clarify so suppose in a particular year or next two years let us say it is only organic growth, which is affected let us say 7%, 8%, 9% or whatever that figure is in those two years what do you mean you would be actively looking for acquisition or would you enhance your payouts or suddenly if you find too many acquisitions then what money be used to acquire and possibly take a look at the inorganic side of it and how would you view both these scenarios?

Parag Shah: When it comes to inorganic growth Sudhanshu has already articulated earlier that it is something that we constantly evaluate as opportunities come our way but there are two criteria. I mean one is why do we want to acquire a business? We need to answer that very clearly for ourselves and then the second point is it has to be at a right value or right price. So it is these two and very honestly I mean I think this is case to case; one cannot have more specifics; we will evaluate and if it is the right reasons and the right price certainly yes there could be an organic growth in terms of funding for the inorganic growth I think again it will be a case to case basis but given our a strong free cash flow generation and in terms of ability to fund such acquisitions I think we would be able to do that. I do not see that as a challenge, we are not overly leveraged or anything like that.

Moderator: Thank you very much. We take the next question from the line of Varshit Shah from Emkay Global. Please go ahead.

Varshit Shah: Thanks for the opportunity and congratulations to the management for converting this crisis into an opportunity so where you see such dynamic approached by companies. My question is around more crystal gazing FY2022 and we have seen that the spike in demand on the back of sanitizer and other hygiene related products. If I were to just say that probably we could see this momentum in a couple of quarters ahead but once this pandemic let us say cools off let us say a year from now some of this demand of course may will go away because those changes in behavior but then that will also be compensated by some growth in other categories so what I am trying to ask is that do you see or at least maybe there is a reasonable possibility that three, four quarters down the line growth might face challenge in terms of declining growth in sanitizer segment which needs to be compensated by the other segments so that could set off sort of the growth for a couple of quarters in this transition phase so that is my question one and then I will follow back with question number two.

Sudhanshu Vats: Thank you for asking this question. Varshit, basically I think this is a very logical and an obvious question to ask - that you had a new category opening and how would you perform if the category was not there. Let me answer first that part and then second, I will also take up as to what happens as you go ahead in future. First of all, I can assure all of you round the table and sharing this data with you, that we have grown double digit without the new category as well. So therefore you know we delivered a 17% growth which means if this category was not to exist we would still have delivered a double-digit growth in this quarter. So, I think that should give you one clear indication on how things have panned out. The second thing I want to tell you is that as this category moves up and down a bit and settles down to a certain level, and you are right it will settle down at another level, I have been saying this, we have to watch it for at least a year for us to see at what level this new category settles down. I must also tell you that in this period there are certain categories which have got very adversely affected in certain geographies, particularly if you look at India and arguably in some other geographies, beauty and cosmetics has got very adversely affected in the same period. We have in this period, lost a lot of that which we believe is a pause. I do not think we have lost it forever so therefore I think that will come back again. It is a mix of these that gives us confidence that we should be able to have a sustainable double-digit growth to aspire towards and to be able to deliver that.

Varshit Shah: That is helpful. My other question is just a follow up on this so you said you had double-digit growth, even without the new categories and if I were to adjust in constant currency terms so it should be high single digits is my assessment correct?

Sudhanshu Vats: Yes, your assessment is correct because our growth is 17% which we spoke about our constant currency growth is around 13.6% so yes so, your assessment is correct.

Varshit Shah: Just one question on the impairment which you have provided. Is there any such assets further which you think could be impaired or I think are you that was probably the last one?

Sudhanshu Vats: That is a very good question. Let me first talk to you about Russia impairment a little bit. I think that is a question which may be of interest to everybody around the table and then answer the second part of your question. Russia impairment- we have looked at Russia very closely over a period of time and we have assessed as to how should we be playing Russia now and I think, if you look at Russia's geography, we in our assessment there are some multinational players which we could continue to play from elsewhere. We are very confident we need not have presence in that place so that is why we scaled this down a little bit in order to see how to cater more to the local companies in that space. That is what we have done and that is what this impairment reflects; it is our resizing and our right sizing the opportunity and looking at a way to sort of see this opportunity with a front line and to be able to optimize this opportunity. I think as far as our presence in other geographies is concerned, it is pretty much there. So as you rightly said we do not see anything immediately but you cannot comment for something in the future. If something comes up we may be interested in some places or we may like to rjig the way we operate another place. I would not like to categorically say no but you are absolutely right that we have got firm entrenched positions in most places and we should continue to run them the way they are.

Varshit Shah: Because my understanding was that all these elements were already taken care of in phase I of the project Phoenix so maybe this is a result of that if I were to say right because you realigned your manufacturing operations and became more efficient?

Sudhanshu Vats: Yes and no. I will ask Ram also to comment on phoenix each time. I want him to make it more clear to you. I think Phoenix is a more comprehensive manufacturing excellence and cost saving opportunity across the country, across the world. It is not necessarily a geographic portfolio exercise which is an independent exercise. Therefore, the two need not be directly linked in my opinion and I think I will also ask Ram to comment on this. I think Ram if you would like to talk about Phoenix.

M. R. Ramasamy: Phoenix is absolutely the cost saving based on the way you do things, how effectively you can do things, the processes you have, how can you optimize the processes so that your resources utilization are lower etc. The consolidation of manufacturing sites and things like that needs to have a different level of understanding because these are products which cannot be shipped from one location to another location very easily, customer buys it to his convenience from whoever is nearer; so those are the different exercise. Russia, over a over a period of time, for various reasons is a very difficult market even though it is a huge market. We were hoping to win large contracts which has not been done in the last four, five years; so we felt carrying it for a very long time is not right and therefore the thought of impairing to the level needed at this point of time. However, it is an interesting market; it is a huge market for cosmetics. Even though it is difficult to do business for every person, you need a certain skill set, which we thought we could acquire very quickly, which is not so but we are looking at it, we will see what best we could do in Russia.

Moderator: Thank you very much. We will take that as the last question. I now hand the conference back to Mr. Manish Mahawar for closing comments.

Manish Mahawar: Thank you Raymond. On behalf of Antique Stock Broking, I would like to thank the team of Essel Propack for providing us an opportunity to host the call.

Mr. Sudhanshu, would you like to make any closing comments?

Sudhanshu Vats: Thank you for the opportunity. Just wanted to take a minute. Because there has been one set of questions which have come in, which perhaps somehow in different forms to ask the question, is there any one-off in this quarter. I think there was also about the new category about EAP and all that. So all I wanted to let people know is that irrespective of which way we look at it, it is a double-digit revenue growth and it is a very robust bottomline; so I think that is one key message I wanted to leave you with which we are very happy and I think under these circumstances to be able to deliver double-digit revenue growth and a strong EBITDA growth because of operating leverage and costs and mix improvement. I think it is something which we, on behalf of the entire team, I am very proud of and I would like to thank the team and thank you for your time and I think we are very excited with the journey we are on. Thank you very much

Moderator: Thank you. Ladies and gentlemen on behalf of Antique Stock Broking that concludes this conference. Thank you all for joining us. Ladies and gentlemen, you may now disconnect your lines.