Essel Propack Limited

Q3FY16 Conference Call Transcript

Moderator:

Ladies and gentlemen, good day and welcome to Essel Propack Q3 FY-16 Earnings Conference Call hosted by Emkay Global Financial Services 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 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 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 us Mr. Ashok Goel – Vice Chairman & Managing Director; Mr. A.V. Ganapathy – CFO; 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. I would now like to hand over the call to Mr. Goel for his opening remarks. Over to you Sir.

Ashok Goel:

Thank you Prashant. Good afternoon ladies and gentlemen. Welcome once again to the quarterly investors call. We are happy to report yet another quarter of continued strong performance. Consolidated net profit for the quarter stands at Rs. 42.9 crores - that represents a growth of 44.5% YoY excluding the divested flexible packaging business. For the nine months ended December 2015, the consolidated net profit is Rs. 140.6 crores which is equal to the full year reported net profit of the previous year, but this includes Rs. 11 crores of exceptional gain; even after adjusting for the divested business and exceptional items the consolidated year to date net profit stands at Rs. 129.4 crores which represents a growth of 38% YoY. The EBITDA margin for the quarter is at 20% representing 250 bps improvement YoY for the continuing business. Year to date the business is tracking EBITDA margin of 20.2% - 200 bps improvement over the previous year. The stable raw material price- I am underlining the word stable raw material price, which means not necessarily lower raw material price, and improved operational efficiencies as also the continued strong performance in the Americas and Europe where non-oral care is growing strong, underpinning the robust margin.

The consolidated revenue this quarter is Rs. 513 crores. While the sequential growth of 4% is on account of the year-end holiday season in Americas and Europe. The YoY growth(excluding the divested flexible packaging business) continued to be impacted by raw material cost reduction pass through and currency shifts. Adjusted for the said factors, the underlying revenue growth for the quarter is in fact at 6.6% on a constant currency basis but 5.2% on current exchange rates. Further dissection would show that underlying growth in the Europe and Americas at 12.4% is tracking well and is not different from growth registered in the earlier quarters. In fact, both these regions are benefited by double digit growth in non-oral care category. Europe especially is growing at 24% this quarter on a constant currency basis but at 14% on current exchange rate basis. Offtake issues with a large oral care customer in China coupled with de-growth in non-oral care sales in India on account of sluggish economy, softer pharma exports and reduced cosmetic launch activities in India is what is then pushing the consolidated revenue growth to mid-single digits. (Of course this quarter there has been the added impact of lower key customer offtake in Egypt as well). This is being proactively addressed through our ongoing successful thrust to expand the non-oral care category share in China.(In China by the way, this category has grown YTD basis by 29% on constant currency

Moderator:

Mr. Prashant Kutty
Emkay Global Financial Services

Management:

Mr. Ashok Goel
Vice Chairman & Managing Director, Essel Propack Limited

Mr. A. V. Ganapathy
CFO, Essel Propack Limited

Mr. Roy Joseph
Regional VP, AME SA Region,
Essel Propack Limited

Mr. Vinay Mokashi
Financial Controller,
Essel Propack Limited

Mr. Amit Jain
Head of Treasury,
Essel Propack Limited

Mr. Ashok Vashisht
Regional Finance Controller AME SA, Essel Propack Limited.

basi) and new customer development in India , of which we expect benefits to flow in the coming quarters. With India contributing to one third of consolidated revenue and considering the strong competitive market position enjoyed by Essel here, a recovery in the economy and FMCG activities could propel the revenue growth rate back to mid-teens. Considering India is still viewed as a long-term growth story our strategy is to stay focused in this market, drive innovation, develop new customers in the cosmetic, pharma and food categories and actively promote migration to laminated tubes as the packaging form.

The financial health is now vastly improved with ROCE and ROE further improving to 18.8% and 20.9% respectively on trailing 12-month basis. Strong cash flows have helped to reduce the net debt further to Rs. 670 crores. This is on the current exchange rate from Rs. 846 crores at end of March 2015. The debt equity ratio now is at 0.75, average interest rate has dropped to 7.4% for the quarter which is a reduction by 110 bps over the previous year.

I would like to sum up stating that we believe we are on track with our strategy and mission 20:20:20 notwithstanding some temporary headwinds in some of the geographies when it comes to topline growth. So with that I would like to now invite questions from the participants.

Moderator:

Thank you very much. We will now begin with the question and answer session. The first question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Question and Answer Session

Nihal Jham:

My first question relates to EAP region. You have mentioned that normal growth has slipped here because of lower offtake and we have seen 40% growth in the last two quarters so do we see this coming back in Q4 and going ahead in FY 17?

Ashok Goel:

EAP mainly China for that matter , is suffering because of lower offtake in oral care basically whereas the non-oral care growth is reasonably going ahead. It is the oral care which is a dampener there. When we talk to our customers, of course the customers keep saying that yes it is a temporary problem and we are fixing our demand issues. So we have to. many a time take the word of the customers. But if your worry is about the Chinese economy, macro economy so far we have not seen any impact on this account ; we keep asking our teams in China and they continuously assure us that they themselves as consumers, as Chinese citizens, are not seeing any major shift in this particular space. So while our intent is that we should get the volumes back from our contracted customers for oral care, non-oral care continues to grow.

Nihal Jham:

Similarly, on that line has the sequential drop in margin in this region related to that only that the non-oral growth has been lower because we have seen margin drop from 20 to 15% in EAP?

Ashok Goel:

It could be because of a certain local customer who launched a premium hand wash or cream which did not do well and he actually launched at the cost of the existing good selling product, so that has had the impact.

Moderator

Thank you. The next question is from the line of Sangita Purushottam from Cogito Advisors. Please go ahead.

Sangita Purushottam:

My question actually relates mostly to some of the details on the numbers. When I look at the QoQ performance we are looking at sales numbers which are just about marginally down compared to the previous quarter but the EBIT numbers are significantly lower. Why is that happening, if you could explain that? The second question is because the raw material prices have been falling have you had to take any inventory hit because of the falling prices, if you could talk a little bit about that? And also in Europe while we are seeing the sales numbers go up on YoY basis the EBIT number again is a little lower. So these are some of the specific questions. And a more broader question really relates to your margins if you could give some color as to what lies behind the margin improvement and how do we see this continuing into the future?

Ashok Goel:

EBIT margin being lower the table I have in front of me has actually grown by 19.2% on the same quarter.

Sangeeta Purushottam:

Not on the same quarter I am saying QoQ.

Ashok Goel:

You mean sequential.

Sangeeta Purushottam:

Yes. YoY it has grown but sequentially the sales is slightly lower about 513 versus 535 but EBIT is 70.72 versus 83.15.

Ganesh:

Let me answer the question. December typically for us has a long holiday season in Americas and the European region. If you see the topline also, there is a decline compared to the previous quarter around 4.1%. So in our case because operating costs continue, therefore it has normally a seasonally lower EBIT margin during this period. Your second question on EBIT margin for the Europe also, Europe compared to the last quarter you are seeing some reduction in the margin this is actually explained by the product mix change during this quarter -there is no other thing. It is just that the mix was different for us.

Sangeeta Purushottam:

These numbers which you have posted in this quarter do they include any inventory loss that you had to take on the raw materials side because the prices were falling?

Ashok Goel:

Let me explain that. On raw material what happens in our ERP system, any good ERP would do that, is that at the end of the month it adjusts the inventory carrying cost based on the average of last month purchases; that is the normal practice which happens and we do not even notice it. That hasnot made any extraordinary or likely to make any extraordinary impact; if that impact would happen, it would recurr every month. That is on the raw material.

Now your fourth point is on margin improvement and what is behind this. First is economies of scale that is helping us in some locations and efficiency improvements by way of improved productivity; lower scrap rates is another one. Third , because of reduction of debt and also rating improvements our overall finance costs have come down. We have been trying to reduce our inventories and all other efficiencies - all those are helping us. And the other factor which I think you are fearing is that is it contributed by the raw material price reduction. What happens is it is not the reduction that matters, what matters is the stability of the prices over a longer period, because we have to pass on the raw material prices to our customers; so if the prices are stable then we are not doing a catching up game which in the previous year we were doing . So when the market is less volatile, which we expect it to be, so therefore the catching up game as a result of which we have been losing some money, that is not happening. So that has also helped in improving the margins. These are multiple factors of improvement and of course the non-oral care category continuing to grow which is giving us better margins.

Sangeeta Purushottam:

You feel comfortable that these margins are something which you will be able to maintain going forward?

Ashok Goel:

Absolutely.

Participant:

What is the non-oral care, oral care mix at this point of time in terms of value and how do you see this mix changing in next few quarters?

Ashok Goel:

This quarter there has been a change of by about 1.2%. so therefore it is about 42.7% non-oral care in revenue terms. And our target as we all know, is to go to 50% by next year.

Participant:

You seem to be on track?

Ashok Goel:

I think so. Except for this year's little muted growth, but I still believe that we will catch up by end of next year.

Moderator:

Thank you. We have the next question from line of Ritwik Sheth from Span Capital. Please go ahead.

Ritwik Sheth:

Firstly, on the Pharma you mentioned in the presentation that in the Pharma offtake there was some issue with some India customers, is it the same customer which had the export issue?

Ashok Goel:

Yes, exactly.

Ritwik Sheth:

Okay that has not changed much.

Ashok Goel:

No.

Ritwik Sheth:

Pharma like on a scale of 1 to 10 if you would rate internally, say last 18 months how have we gone about in terms of penetration and reaching out to new customers?

Roy Joseph:

In terms of Pharma we continuously work on converting aluminum tubes to lami tubes. That work is in progress. As we mentioned there is some particular customer which has some export issue there has been some de-growth, but if you look at the overall numbers for Pharma it looks flat, but it is the new conversions which are actually giving the revenue stream up.

Ritwik Sheth:

So that conversion how is it going over the last 12 months or two years and how do we plan to do it for the next three years because that is a huge opportunity that we can get into.

Roy Joseph:

We are working on a large pipeline and we are seeing steady conversions happening and a number of brands actually moving from aluminum to lami; so if you see new conversions we are on track and I would say 8 out of 10 in terms of conversion plan that we have. And we have a pipeline also for the next three years in terms of those conversions. So that is on track and we monitor it very closely. It is only that one customer that we have in this space has seen some decline because of this export related issues.

Ritwik Sheth:

Currently how many customers would we have?

Roy Joseph:

In Pharma?

Ritwik Sheth:

Yes.

Roy Joseph:

About 80 customers.

Ritwik Sheth:

In FY 17 next 12 months how many do you plan to educate about converting aluminum to lami tubes?

Roy Joseph:

We cannot give you the exact numbers.

Ritwik Sheth:

Not exact, just a ballpark, we have 80 to whether we can be pitch it to another 100?

Roy Joseph:

It does not happen like that. We have existing customers who have lami tubes and aluminium tubes; so within a customer also there is a ratio, it is not only about getting new customers. So in the existing customer mix, we have the ratios that keep on changing; that is where our engagement with these customers matters, because we are already supplying our lami tubes so we are engaged with them in terms of making the conversion happening for the rest of the portfolio; so that is the way it works and that's the edge that we get because we are already engaged with them.

Ritwik Sheth:

What kind of percentage in non-oral care would we have from Pharma?

Ashok Goel:

Further dissection we are still not doing.

Ritwik Sheth:

On India you mentioned that underlying growth is 4% and which has come from oral care only so is that implying that non-oral care was negative in the quarter?

Roy Joseph:

As we mentioned we had a muted growth in terms of cosmetic tubes. We did not see the new launches with our customers in the same way as we saw last year ; and so we are seeing that non-oral care numbers are not growing as we were expecting it to be.

Ritwik Sheth:

Any indications from them and how leading is it in terms of an FMCG brand?

Roy Joseph:

The new product development is the lead indicator in terms of seeing how things will pan out in the future; we are seeing some momentum coming with respect to the New Product Developments but again not to the level of what we saw in 2014. We are seeing improvements compared in the last quarter over the last maybe nine months, but I am sure that we could see better compared to what we saw in the past.

Ritwik Sheth:

If non-oral care picks up particularly in India then can that be a next margin improver and a growth driver on topline as well?

Ashok Goel:

Sorry say it again.

Ritwik Sheth:

Like once the non-oral care picks up can it add to like 4 to 5% of topline in FY 17 and 18?

Ashok Goel:

I think that these two are not mutually exclusive - maybe can be exclusive also. So if your question is will you grow 4-5% this year, next year….?

Ritwik Sheth:

Additionally, we are growing 5-7%...?

Ashok Goel:

We would aim to grow at 15%; we are not forgetting our targets.

Ritwik Sheth:

We have strong cash flows and debt is also under control, any upgradation in the dividend policy or we are looking at reducing the debt further and then maybe we will look at dividend policy?

Ashok Goel:

The way we have stated our dividend policy has a natural upgradation. As my profit keep increasing, even if I keep same percentage of distribution, our absolute dividend is higher so anything between 20-25% of our global profits is what we have committed and we will stay focused on that.

Moderator:

Thank you. We have the next question from the line of Ankit Gaud from Systematix Shares. Please go ahead.

Ankit Gaud:

The first question is with regards Pharma, if you can give us some sense on conversion of aluminum to lami tubes. What percentage of conversion has already been done and what you are expecting in the next 3 to 4 years?

Ashok Goel:

I do not like the word conversion; at times it can be very derogatory in different contexts. What I feel is it is a shift from aluminum to lami and so far it is only about 25-30% that has shifted so there is still a lot of headspace.

Ankit Gaud:

What would be this ratio globally?

Ashok Goel:

Different geographies have different. In fact, we are the market mover in that sense.

Ankit Gaud:

My question with regards to China how many plants we have in China and if you can give us some sense on Chinese market is it more of oral, non-oral?

Ashok Goel:

We have five plants in China. Our market share in China is about 45-50% and the sense is that we are also constantly scanning the economic environment and so far we have not seen any impact of what the financial world is facing as far as our product is concerned. Let us assume that, what if it becomes a reality. What in the past couple of years we have been seeing is that consumers have been buying more of family packs that means their purchasing power at a point was higher. Now let us assume that purchasing power goes down and they will therefore buy the smaller pack size and that's not necessarily bad news for us, because the same tonnage of paste or whatever will consume more number of tubes, therefore so far we have not seen any indication of the economic situation affecting us and even if it does then we see that the consumer purchasing power going down may help to increase the number of tubes on the same tonnage.

Ankit Gaud:

What would be the breakup of oral non-oral in China and revenue also?

Ashok Goel:

I can tell you only in revenue terms. Revenue is 28.8% in non-oral care.

Ankit Gaud:

You said that this 45-50% market share which is cumulative, tubing market we are talking about here?

Ashok Goel:

That is right, 45 to 50% of the tubes market, yes.

Ankit Gaud:

With regards to Colombia have we added any capacity in recent times?

Ashok Goel:

Yes, we added capacity in the middle of this year and we are expanding it further as we speak.

Ankit Gaud

My question with regard to debt levels, what would be your repayment cycle for the next 2 to 3 years as we are seeing a good cash flow and a stable dividend policy what kind of repayment we can expect?

Ashok Goel:

I can tell you the ratios, the debt-equity ratio is at 0.75 right now, my DSCR is 2 and debt-to-EBITDA is 1.72.

Ankit Gaud:

And repayment cycle if you can give us some sense how much we are going to make the repayment in FY17 and FY18, what would be that amount?

Amit Jain:

The way the rating agencies work, they have assessed in terms of our capacity to service debt. We are already rated as AA long-term issuer rating for us. You would have read already.

Ankit Gaud:

Yes.

Amit Jain:

So in that sense there is no any major issue for us, this is normal course whatever debt reduction happens…

Ashok Goel:

If your worry is that will we be able to meet our expansion from internal accruals, I would say yes, dividends through internal accruals, yes, will we be able to repay whatever is becoming due in terms of debt, we will pay from accruals, yes.

Ankit Gaud:

My last question would be with regards to volume, what kind of volume growth we have seen in quarter and in nine months' ended and if you can give me region-wise that will be great.

Ashok Goel:

Volumes we normally don't give and certainly not on region-to-region basis.

Ankit Gaud:

Volume growth cumulatively how much it was?

Ashok Goel:

0.5% on a global basis. This is without COCO model.

Ankit Gaud:

Obviously. How is COCO doing, we added any customer?

Ashok Goel:

So far it is only one customer and doing well, growing.

Ankit Gaud:

At a conso level what would be our utilization level, capacity utilization at a global level?

Management:

We have been answering before also. I think you must refer to our previous notes. See capacity utilization does not mean much because it depends on the product category we are making. It varies from plant-to-plant. We do not keep any very huge or excess capacity with us other than to meet the peaking needs of our customers and some small amount for growth. Likewise, on volumes also don't read much because it depends on the mix etc.

Ashok Goel:

The positive side of it is we should see that if we are able to grow the revenue with lesser number of volumes then my pressure on CAPEX comes down and my ROCE improves. So therefore it is a positive; we are not unduly worried on that count. Of course we would have liked it to grow better than what we have.

Moderator:

Thank you. We have the next question from the line of Devrat Mohta from Fidelity. Please go ahead.

Devrat Mohta:

You had mentioned that Europe margin declined year-on-year due to some shift in product mix; can you tell us exactly what happened?

Ashok Goel:

If you remember , we have been saying that Europe is one geography where our share of oral care was very low and the inherent strength of oral care business is it gives you the critical mass; so therefore we wanted to grow in oral care which we have actually done and once that has grown it has changed the product mix in terms of ratio.

Devrat Mohta:

Basically with your product mix you are trying to shift your product mix from 42% to 50% non-oral care over the next year or year and a half and also with achieving critical economies of scale in Europe and Americas where do you see EBITDA margin stabilizing on a 2 to 3 year basis? What should be your steady state EBITDA margin 2-3 years from now?

Ashok Goel:

Good point; but we have to look at, in this case, the geographical spread of EBITDA margin. That means each geography giving what EBITDA margin. India and China are tracking well in terms of EBITDA margin. Why India and China because obviously the critical mass in terms of scale economies is already there. It is now US which is in low double-digit margins. I guess, US is giving us 17% and Europe is still low at 10% so what we are trying to do is push the margins in Europe and America to the same levels as India and China and once that happens, the entire thing gets lifted up, so this is the path that we will follow .As far as commitment on EBITDA margin is concerned I would say for the time being I am happy to give 20% on a global basis.

Devrat Mohta:

Do you see that over 2 to 3 years is it possible that Europe and America margins could go to India, China levels? Do you think it is possible just given the economies of scale that you all can build to 2-3 years out?

Ashok Goel:

Absolutely possible.

Devrat Mohta:

Broadly you all have been saying for a while that CAPEX would be in line broadly with depreciation, with whatever capacity you all are adding at Colombia whatever capacity you all are adding in Europe that remains, right? The depreciation equal to CAPEX or CAPEX as in depreciation, broadly?

Ashok Goel:

Yes more or less.

Moderator:

Thank you. We have the next question from the line of Dikshit Mittalfrom Shubhkam Ventures. Please go ahead.

Dikshit Mittal:

What is the currency adjusted growth rate in Europe and China on a YoY basis?

Ashok Goel:

Europe is 24%, Americas only 1%, same quarter last year and AMESA because we had the divested business we have negative growth ; EAP has shrunk by 7% year-on-year.

Dikshit Mittal:

In EAP we have been seeing quite a swing in the margins like from 14% to 20% and again going to 14% this quarter so what is the sustainable margins in that region?

Management:

There the issue is only about the topline and this quarter there has been a de-growth; therefore that is impacting the margin. So my suggestion would be to see it on a trailing 12 month' basis because there can be seasonality and these variations can happen and also there are issues which Ashokji mentioned about one of the customers with some wrong marketing choice that caused his brand not to work, these sort of things, otherwise EAP in terms of EBITDA margin has been above 20 for us.

Moderator:

Thank you. We have the next question from the line of Prashant Kutty from Emkay Global. Please go ahead.

Prashant Kutty:

Firstly sorry for the sake of repeating over here but if you could give us what are the current capacities across all our regions?

Ashok Goel:

You guys pull me into answer this question and I have difficulty answering this because it does not help you. The way I see you are trying to model what is the headspace do we have?

Prashant Kutty:

No I am not asking capacity utilization, all I want is capacity number what we have in respective places?

Ashok Goel:

That we do not have handy.

Prashant Kutty:

In terms of the India's growth we did highlight that we have seen some moderation in cosmetics because of the new product launches; does factors like a delayed winter and all of that also impact the offtake as well?

Ashok Goel:

Yes it does, it has a big time impact. The winter products like moisturizers and stuff, sales have beenun usually down this year.

Prashant Kutty:

So in that case obviously when you are talking about delayed winter and now with winter actually picking up again we should be seeing that trend reversing in Q4 if one has to assume that?

Ashok Goel:

We are already in spring my friend so I do not know if the winter is going to prolong or it just an aberration, we do not know.

Prashant Kutty:

In terms of the EAP segment you said that the oral care has been a problem, if you look at this particular quarter the non-oral care part which has grown by about 12%, correct me if I am wrong over here, is it also a case that the base is catching up which is why hereon growth rates might not be those high 30-40% numbers at least for now? Because if we look from a capacity perspective I guess we have fair bit of headroom for growth as far as capacity is also concerned especially the new capacity?

Management:

In EAP there is a definite plan by which we are going ahead and developing new customers in the non-oral care. That is working fairly well for us and we are adding a lot of new brands to the portfolio. Now in this particular quarter I think what seems to have happened is with couple of customers in non-oral category, there has been some offtake issues for the reasons which Ashokji has mentioned . Now this has to go through the correction process because they have relaunched their product as a premium product which was not backed by the product properties. Apparently there was a resistance and this product did not do well in the market. So they had to get the marketing mix right. There was another category where we are dealing with the largest food supplier and there again they had some shifting of the factories happening and therefore some supply chain disruptions have happened. So our own understanding and as we have gone through all these numbers, is that one – the pipeline is intact and there is a lot of progress happening - one by one various brands are being taken and we are still not very large there in terms of non-oral care. So these could be probably temporary blips. Your point is right, so this quarter it has still grown the non-oral care category but it was not to the extent we grew say in the previous quarter .

Moderator:

Thank you. We have the next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave:

You gave a very nice commentary on what is happening in China; can you also provide some updates want your clients are telling you about Indian demand, you must be having some discussions with them other than the seasonal effects that you just described are there any other things that you could share?

Ashok Goel:

What we expect in India is that there are ways to grow anyway for us. One, we talked about shift of the packaging format that is from aluminium to laminated tubes, we can potentially gain some market share so therefore the growth still can come easily.

Agastya Dave:

What are the clients saying, when do they see an uptick in the normal standard non-oral care and the oral care demand, are there any discussions there?

Roy Joseph:

We see in terms from sequentially, from quarter-to-quarter basis, some positive signs from a demand perspective from our clients. We also a lot of shift and churn happen within the client base in terms of newer customers coming on board. If you see overall numbers, there is a growth in terms of sequentially if you look at the demand which is coming from the FMCG sector.

Moderator:

Thank you. Next question is from the line of Chintan Seth from SKS Capital & Research. Please go ahead.

Chintan Seth:

On the guidance part you are changing anything?

Ashok Goel:

Guidance means for the fourth quarter?

Chintan Seth:

For the full year?

Ashok Goel:

Now that the nine months have gone by as far as topline growth is concerned we believe that it will track the first nine months' growth numbers. As far as PAT is concerned also we will track the first nine months without exceptional profit numbers.

Chintan Seth:

For FY17?

Ashok Goel:

FY17 I maintain that we should grow 15% topline, 20% bottom line.

Chintan Seth:

Coming back to the Indian Pharma side wherein you were saying that the change is happening from aluminium tubes - , it has been steadily changing to lami tubes ; so how big that market is in terms of volume and whether we are having the similar kind of market in East Asia Pacific that we can address?

Ashok Goel:

Let me explain again. I think couple of quarters ago in the Investors Call I had mentioned that a strategic direction that we have taken as a company - so when we talk about non-oral care we said non-oral care constitutes of Beauty and Cosmetics, Pharma and Health and Foods. So let's just talk about two major categories that is Beauty and Cosmetics and Pharma. As far as Beauty and Cosmetics are concerned which is in current format are either plastic tubes or bottles or both - we are shifting those to big diameter laminated tubes and our strategy for that shift to take place is from the developed economies coming down to emerging markets i.e. starting uphill and coming downhill. That was our shift strategy for Beauty and Cosmetics.

Chintan Seth:

So that transition in the developed market, how satisfactory the transition has been for the company?

Ashok Goel:

Let me answer your first question then I will take your follow-on. We have been coming from uphill to downhill as far as Beauty and Cosmetics is concerned, of course, the efforts are on in all geographies. For Pharmaceuticals we started from downhill to uphill that means from emerging markets , go to developed markets. This is how the shift strategy has been planned by us. Therefore, we see the potential of aluminium tubes in India or in the other emerging markets is quite nice and both these strategies are working quite okay for us.

Now your second part follow-on question was that has it been satisfactory in Beauty and Cosmetics? I would say yes, we have put in all the building blocks, we have put in all the efforts of trying to convince the customers, some have shifted, some are in the process, some are considering, that is what we call pipeline and therefore we have a visibility in every geography for all the business developments; the marketing teams have to have a list of pipeline for next three years and also mark the probability of shift happening this year, next year and year after. So this is how we keep a track on all these pipelines.

Chintan Seth:

That gives confidence of reaching our 50% guidance on non-oral care?

Ashok Goel:

Absolutely.

Chintan Seth:

The shift is such that we can achieve that by the end of next year?

Ashok Goel:

Yes, that is what I am hoping.

Moderator:

Thank you. Ladies and gentlemen as there are no further questions I would now like to hand the conference over to Mr. Prashant Kutty for closing comments. Thank you and over to you Sir.

Prashant Kutty:

Thank you. Just before I close, just a couple of bookkeeping questions. Firstly, is this interest number which is there for the quarter the new numbers as per the quarterly numbers are concerned? Is this interest number of Rs. 12.6 crores is going to be the new norm from here on assuming that our debt remains over here itself?

Ashok Goel:

Yes, at the current level of debt, yes.

Prashant Kutty:

Secondly, any kind of competitive intensity we are seeing in any of the markets maybe either EAP or in Europe or in Americas, any kind of competitive intensity that we have seen any increase on that side?

Ashok Goel:

Competitive intensity?

Prashant Kutty:

Yes from any other player, other global player or anybody for that matter, any such activity being witnessed?

Ashok Goel:

Nothing significant .There are as there have been. Actually in Europe we are seeing competition getting weaker, particularly the local ones.

Prashant Kutty:

I was asking in either ways whether it's been stronger or weaker.

Ashok Goel:

Europe getting weaker as we see it Further, Americas hardly anything new. India we keep seeing some new players coming in so is the case in China so we will see the impact of them.

Prashant Kutty:

This Egypt thing - I guess it is again like something which is in case of EAP again, nothing very specific to dwell on that side as well?

Ashok Goel:

We have not lost any market share in Egypt so is the case in China, it is just that a large customer has not taken the contracted volumes; we are working with them while we continue to develop other customers.

Prashant Kutty:

Thank you. On behalf of Emkay Global thank you for joining us for the call.

Ashok Goel:

Thank you Prashant, Emkay for organizing this event and ladies and gentlemen again appreciate your time. If you still have any questions unanswered, you can reach out to anyone of us through e-mail or if you have our phone numbers, we will be happy to answer anytime. Thank you very much.

Prashant Kutty:

Thank you Sir.

Moderator:

Thank you very much. Ladies and gentlemen on behalf of Emkay Global Financial Services Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

Note: **1.This document has been edited to improve readability.**

2. Blanks in this transcript represent inaudible or incomprehensible words.

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Emkay Global Financial Services Ltd.
CIN - L67120MH1995PLC084899
7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

DISCLAIMERS AND DISCLOSURES: Emkay Global Financial Services Limited (CIN-L67120MH1995PLC084899) and its affiliates are a full-service, brokerage, investment banking, investment management and financing group. Emkay Global Financial Services Limited (EGFSL) along with its affiliates are participants in virtually all securities trading markets in India. EGFSL was established in 1995 and is one of India's leading brokerage and distribution house.EGFSL is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited(NSE), MCX Stock Exchange Limited (MCX-SX).EGFSL along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, portfolio management, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.emkayglobal.com

EGFSL is registered as Research Analyst with SEBI bearing registration Number INH000000354 as per SEBI (Research Analysts) Regulations, 2014. EGFSL hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years, except that NSE had disabled EGFSL from trading on October 05, October 08 and October 09, 2012 for a manifest error resulting into a bonafide erroneous trade on October 05, 2012. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on EGFSL for certain operational deviations in ordinary/routine course of business. EGFSL has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

EGFSL offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by Emkay Global Financial Services Limited (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report-:

EGFSL or its associates may have financial interest in the subject company.

Research Analyst or his/her relative's financial interest in the subject company. (NO)

EGFSL or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (EGFSL) have not been engaged in market making activity for the subject company.

EGFSL or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

EGFSL or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. EGFSL or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. EGFSL or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Subject Company may have been client of EGFSL or its associates during twelve months preceding the date of distribution of the research report and EGFSL may have co-managed public offering of securities for the subject company in the past twelve months.

The research Analyst has served as officer, director or employee of the subject company: (NO)

EGFSL and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject EGFSL or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to Emkay. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of EGFSL . All trademarks, service marks and logos used in this report are trademarks or registered trademarks of EGFSL or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannc