



**“Essel Propack Limited  
Q3 FY2019 Earnings Conference Call”**

**January 24, 2019**

**ANALYST:**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Essel Propack Limited Q3 FY2019 earnings conference call hosted by ICICI Securities 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 would now like to hand the conference over to Mr. Rahil Jasani of ICICI Securities Limited. Thank you and over to you Sir!

**Rahil Jasani:** Good afternoon everyone. We would like to thank the management of Essel Propack Limited for giving us this opportunity to host this call. The management is represented by Mr. Ashok Goel, Chairman and Managing Director, Mr. M.R. Ramaswamy, COO, Mr. Vinay Mokashi, CFO, Mr. Amit Jain who is Head Treasury, Mr. Deepak Ganjoo, Regional VP (AMESA Region), Mr. Ashok Vashisht Regional Finance Controller (AMESA Region) and Mr. Suresh Savaliya, Head of Legal and CS. Without further ado, I would like to handover the floor to the management for their opening remarks and then we can start the Q&A session.

**Ashok Goel:** Thank you Rahil. Good afternoon ladies and gentlemen. I thank ICICI Securities for hosting our Q3 financial year 2019 earning call. I am also happy to state that Ernst & Young is now representing us to manage the investor relations function, which is headed by Ms. Jill Deviprasad and her team.

Now, on the numbers, as you would have received the info pack, the revenues are at INR 694.4 crores, which is higher by 16.7% as compared to same period last year. Growth was spread across all regions and aided by both the oral as well as non-oral care businesses. AMESA revenue grew at 13.5% aided by a strong growth in Egypt, which is at 54.8% year-over-year, East Asia Pacific grew at 22.7% helped by the growth in the non-oral care category, Europe grew by 21.1% and America grew by 17%.

We have seen the significant uptake in our non-oral care category business across the regions. Egypt revenue composition improved in favor of non-oral care by 4.9 pp as compared to the same quarter last year. East Asia Pacific improved non-oral care revenue by 7.3 pp, America improved by 3.1 pp and Europe improved by 1.5 pp. On a consolidated basis, for Q3 FY2019 non-oral care revenues are now at 43.5% of our total revenues as compared to 41.3% in the same period last year an increase of 2.3 pp. For nine months the non-oral revenue has grown by 1 pp as compared to last year. EBITDA margins are 18.9%, which is as compared to 19.5% for the same quarter last year impacted mainly by exchange rate fluctuations and our investments toward strategic programs.

Although visually it appears that our EBITDA margin percentage has dipped for the quarter, when we analyzed this dip, I am happy to confirm that our contribution per 1000 tubes across



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regions has either remained the same or has grown up in absolute amount, so it is not actually reduced.

Our profit after tax for the quarter is at Rs.45.5 Crores compared to 40 Crores same period last year, which is a growth of 13.5%. Before I open the floor for questions, let me briefly update on some of the initiatives I had mentioned in the previous quarter conference call. In Russia we shifted to a new premises and production has commenced. Normally what we do is, anytime a new plant is opened, we deploy teams from our technical squadrons, which go and help stabilizing the plant and train the new crew or local talent. So far this is going fine.

In Europe, we have seen a robust pipeline for Germany as well as Poland. We can see new business coming in. We see new business in this region and are in active discussions of commercialization. Now if you recollect last time I had explained the stage gate process of new business development, which was a 6-stage harmonized stage gate process. In Europe many of our customers have reached the stage 5, which is just before issuing the commercial orders. Hence, obviously then stage 6 is issuing the commercial orders while the sampling and all trials have already been completed. In America, a new SHOT machine, those who are not familiar, it is the 500 tubes per minute machine, which is the second machine that we have now commissioned in US successfully. And at the back of this increased capacity in US, we are winning more business from existing as well as new customers.

We would have some spare capacity in US because of this and that capacity we intent to shift to Mexico where again we are expecting very soon some increased business from existing customers as well as from new customers. In India, the pharma regulations are behind us as volumes have already picked up in the month of December. A specific customer also I had mentioned in the last call, whose demand was soft for most part of the year, had come back now albeit at a lower demand, but our wallet share remains intact with that customer. The new second laminator has been commissioned in India and inaugurated at the hands of one of our customer. We have begun to commence sale from this new laminator and the sales revenue is part of Q3 financial year 2019 numbers. Our Assam unit is also up and running efficiently. The process from commission to commercial production was seamless. The team there has done a great job as we have seen near to 0 or less than normal teething troubles in the Assam plant.

There is one important point I think I must mention is that our net working capital, which is at INR 724 Crores is higher than our gross debt of INR 712 Crores and this debt is both long-term as well as short-term all gross debt at constant currency, which denotes that the entire debt is lower than even the net working capital. You would be happy to know that we have received an amount of INR 25.3 Crores towards spot payment of Principal and interest dues from what used to be listed as related party and we have a commitment from them that by March 31, 2019 the entire dues will be cleared. These were the two important points I thought I must mention. Now I am happy to take your questions.



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

**Nihal Jham:** My first question was on your India operations and as you mentioned that you believe that the regulation related to pharma is now behind us, so just wanted to understand that going forward can we expect the normal growth rate to sustain or you think it could still take a quarter or two more to be totally behind this and what is the growth that we focused in India and how would you like to split it between oral and non-oral separately?

**Ashok Goel:** I can say that all pharma related stuff is behind us and the team here tells me that they have a strong indication of orders going forward and the fourth quarter probably will be the highest revenue in this year and they will sustain that going forward. In terms of ratios I think India is already the highest of target of 50% for non-oral care revenues and we will maintain that.

**Nihal Jham:** What is the growth you are looking at in the India operation in the coming years, what would be the target?

**Ashok Goel:** You are talking about this entire year or for the next year?

**Nihal Jham:** The next year.

**Ashok Goel:** We will be casting our budgets next month sometime, and then we will know how this is going to pan out, do not forget we have a new unit in Assam where we expect a lot of customers to give us more business in Assam because their manufacturing is in North East and we also have second laminator, which is more than double the capacity, so they will do laminate sale as well and of course we have geared up for non-oral care that is beauty and cosmetic business as well and in that direction India has increased its capacity for premium decoration printing, which has been commissioned already along with a new digital printer as well in India.

**Nihal Jham:** On the Europe operation, we see that the growth has come back significantly well in the region at an approximate 13% constant currency growth, but the improvement in margins is still not as per the earlier trend. We would have expected the margins to have improved significantly higher considering the kind of growth this region has shown, just wanted your comments on that?

**Ashok Goel:** Also in Europe, I expect that the fourth quarter their margin expansion would be about 2% to 3% per pp and whole of next year I expect them to expand their margin by between 3% and 4%.

**Nihal Jham:** And have the EDG (Essel Deutschland Germany) operations also started getting EBITDA breakeven or that is still something that will take some time?

**Ashok Goel:** Yes, the EDG (Essel Deutschland Germany) is included in the European numbers and they are doing quite well, they have fully used up their capacity, and are demanding me to permit them to



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expand their factory building, which I am holding on for the moment but that is kind of unavoidable because they do not have factory space, in absence of which they cannot add capacity while their current capacity is fully utilized, so we will take that call, so Germany is doing well.

**Nihal Jham:** At the start of the call, you mentioned about certain strategic initiatives, what exactly are we planning to do ahead and can you give us the reason why the EBITDA margin was lower than what you would have ideally wanted it to be?

**Ashok Goel:** EBITDA is because of the price increase that we have taken either because raw material price increase or on account of currency fluctuations. Now while my sales revenue might grow up and while I have said that my gross margin is same or higher, when the denominator changes at the revenue, my absolute amount of margin remains the same, so my percentage looks depressed, so that is an optical one and as the raw material prices go down and effectively we pass the price while we will again maintain or increase our margins the percentage will look even better.

**Nihal Jham:** On the strategic initiatives anything to detail?

**Ashok Goel:** I have explained that the businesses that we are winning across the geographies both in oral and non-oral. Non-oral care for example, we have a global customer, who has decided to convert some of their existing products from bottles to tubes, which is a global launch, which means all our regions have geared up to meet those demands and we have exactly replicated the capabilities so that same product looks exactly the same across the world and strategically we have moved the capacity. For example, when the demand from Egypt short up, instead of investing fresh we said why we don't move capacities from India so we did move capacities from India and we have achieved the higher sales in Egypt. About the Assam unit, I have explained about the new laminator, in the US, I have explained about the new short line and why we did expand there partly because for us to win additional business from existing customers as well as the new customers and some spare capacity that will be generated because of this additional investment, we will move that in Mexico, we are winning some good businesses in Mexico so that will help us there. In the last call we talked about zero defect, we talked about deskilling, we talked about removing of the bottleneck processes in our systems so that we gear up for the quick demand that will probably happen because of the e-commerce. All those strategic things I think we have discussed.

**Nihal Jham:** Thank you so much.

**Moderator:** Thank you very much. Next question is from the line of Ankit Gor from Systematix Shares. Please go ahead.

**Ankit Gor:** My question is with regards to the volume growth in this quarter, secondly with regards to the Assam unit utilization, so you think Assam can be a growth driver there if you can give



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utilization to them? I am trying to understand the second laminator, which you have already commenced with its operation, is this mainly for our internal consumption?

**Ashok Goel:** Assam unit is for the customers who have either been there or have invested afresh in that part of the country and therefore some of the customers we were servicing from for example Himachal Pradesh or even from Vapi, which is a long distance away, so part of that business basically will shift, I mean part of the rest of India business will shift to Assam and the same customers therefore have also committed to buy more quantities than what they were buying from us because we have opened a factory in Assam and the initial capacity that we have built is about 220 million tubes and as the demand as we fill up this capacity currently we are running at about 190 million, so the moment we have an indication we will expand more capacity there and this is how Assam will grow.

And then on the laminator, laminator is actually for both one for internal consumption because we expected our own business globally to grow up and for which we will need laminate and that laminate is supplied either from China or from India, so obviously we needed to expand capacity, but also, we sell laminates to third parties particularly in the countries where we are not present as tube manufacturers and therefore in those countries we supply the laminates as well.

**Ankit Gor:** What is the volume growth in this quarter Q3FY2019?

**Ashok Goel:** We will give you that offline Ankit as we do not have it ready yet.

**Ankit Gor:** Thank you.

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

**Agastya Dave:** Sir, in the last conference call you had mentioned that you are also getting rid of some low margin business very consciously, so what is the progress in that and in terms of your region by region we have either expanding capacities or picking capacities or adding new capabilities, so are we not done with all those internal adjustments or do you foresee over the next two years any major capex or any major further alignment of your capabilities as well as capacities and final question was on the non-OC side, what are your timelines now, last quarter again in the concall you had explained to me how things are progressing and we have taken like pretty decent margins like this quarter, I was just wondering what are the timelines now, when will we hit tentatively let us say 45%, 47% and then 50%. Is it like a linear journey now or you expect some other trajectory? Thank you, Sir.

**Ashok Goel:** What was the second question related to specific region or?



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**Agastya Dave:** Overall are we done with all the expansions, all the debottlenecking exercises, all the capability additions, we were micro managing a lot of our capacities to add either capabilities or capacities, so are we done with that, do you expect any other such global peaking again over the next two years or are we now comfortable with our internal capacities now?

**Ashok Goel:** So the tail cutting we spoke about last time was specific to the country of Columbia where we have already done it and the teams there are there for getting business from the customers, which have better margins and that is underway so the tail cutting what needed to be done has been done, so that was only in that country specific. Moving on to the next expansions, capabilities and capacities, now expansions when we say we will look at to the laminator I have already explained why we needed to because we were already full in terms capacity, but expansion also means in our case that we try and keep every factory ready to receive more machines when the business grows, now some of the factories in this year we have taken care of in terms of expanding the infrastructure needs so that they can accept more machines and therefore can do more business. Expansion also means in terms of capacities, which again we have done in US. India was already done at the beginning of the year, so in terms of capacities we are comfortable, but as I see, Europe is one region where to one of the previous question I said the Germany may need a building expansion, also we may next year need a building expansion in Poland, but they immediately need some capacity that we are going to provide to them by the beginning of the next quarter, so these are the major expansions that I foresee. Rest all in terms of capabilities I think it is ongoing program because as we make ourselves ready for future we believe that we should always be ahead of the curve better & than our competition in every respect and therefore we keep identifying that what will be the capabilities needed and not only identify, but we start to work, we start to prototype them and having prototyped we do deploy them commercially, but may not be 100% because 100% is not what is needed at this stage, so those capabilities we will keep on adding annually. Now, on non-oral care, I see that we will need some capacities, but not major capacity in China or Europe, rest all I think at the moment we build our capacities and capabilities and non-oral care growth of course is not linear growth, I normally like to give this analogy when Essel Propack began the business we were competing to change the aluminum tube usage and it took us five to six years to actually convince the customers & then after 6-7 years we were actually doubling our capacities literally and we were begging for machines from our machine suppliers. I suspect that the similar situation is about to turn from the non-oral care perspective for laminated tubes and we have all put in efforts convincing the customers that we are no longer, only oral care tube supplier obviously takes time to break that mould and we have successfully broken that mould and therefore I see that this is now the inflection point for us to see step change in non-oral care.

**Agastya Dave:** We will see you next quarter. Thank you very much Sir.

**Moderator:** Thank you. We take the next question from the line of Rithwik Sheth from Deep Finance. Please go ahead.



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**Rithwik Sheth:** Firstly, in the previous call we mentioned that the e-commerce thing is impacting us because of the flexibility that we need to get into our production to the market, so how has that been in the Q3 quarter. Any improvement?

**Ashok Goel:** Yes, that statement was a forward-looking statement as I just mentioned to the answer to a question from Agastya that we always like to identify the future challenges. So we have identified this as a future challenge, it is not that it is affecting us in any significant way at the moment and in that direction we had identified a one particular process, which again as I said last time for competitive reasons I cannot mention specifically what it is, but we have worked on it, we have deployed the capability to begin with, in four factories in each region and each region is experimenting with it, India is one region, which actually has taken a great amount of production, which even the machine supplier is surprised that you could do that, so we are aligning the different regions to experiment on that machine and therefore to process and build their own learning and then at the end we will have all the learnings collated and shared with everyone, so that is one example, zero defect is another one and I had explained in great detail the in kitchen concept in last call, so lot of things that have been done and I think we now need to see the effect and the benefits of it and realized by all our teams and then we will strengthen these initiatives as needed.

**Rithwik Sheth:** In the press release we have mentioned that because of some expenditure for various programs, EBITDA margin was impacted, so is that expenditure and our all those programs behind us after the December quarter ended?

**Ashok Goel:** Yes, most of it is done Assam plant, new laminator, US capacity increase both in terms of tubes as well as printing these four machines I talked about a while ago, I think some of it we could not capitalize because of the accounting standards, but the interest and depreciation will continue.

**Rithwik Sheth:** Is it possible to quantify that impact in the nine-month ended?

**Ashok Goel:** Not ready, Rithwik right now. We will give you offline.

**Rithwik Sheth:** Your answer to the previous participant was very encouraging that the oral care you are expecting at an inflection point and a big jump we would see, so should we assume this kind of oral care growth coming in for next 2 or 3 years at least?

**Ashok Goel:** Non-oral care of course, yes, of course not just 2 to 3 years, then I will be defying my own strategy of growth because my growth strategy is by and large not dependent on category growth, not dependent on economic growth, and I know you have been pressing me for this answer that is what is the market share of non-oral care category wise, we would not be more than lower single digit in terms of market shares, so we have a huge opportunity.

**Rithwik Sheth:** Great. All the best. Thank you. If I have anything I will come back in the queue.





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- Moderator:** Thank you. Next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.
- Mayur Parkeria:** Sir, in the releases you have mentioned about the revenue mix change to non-oral in terms of percentage changes wherever it has happened, will it be possible to share the base numbers for oral and non-oral region wise?
- Ashok Goel:** No, unfortunately Mayur I know you guys have been asking, but that is so insignificant for me to start tracking and giving those numbers.
- Mayur Parkeria:** No Sir, I was saying in our revenue mix, oral and non-oral mix region wise?
- Ashok Goel:** That is why we have given it in the press release.
- Mayur Parkeria:** The change is there, I was just asking for the base numbers?
- Ashok Goel:** Last year, the base number was 41.3.
- Mayur Parkeria:** Region wise?
- Ashok Goel:** We can give it you offline.
- Mayur Parkeria:** My question also relates to volume growth, but looking from a long-term perspective in the non-oral segment do you believe it will be possible to have volume growth in higher mid-teens at least for 4-5 years coming?
- Ashok Goel:** Volume we normally do not share.
- Mayur Parkeria:** Volume growth wise just number wise, will it be possible to hit?
- Ashok Goel:** We can give it to you offline.
- Mayur Parkeria:** Thank you Sir and wish you all the best.
- Moderator:** Thank you. We take the next question from the line of Ankit Gor from Systematix Shares. Please go ahead.
- Ankit Gor:** My question pertains to EBITDA margin, as you rightly mentioned that non-oral care share has gone up Y-o-Y, but the EBITDA margin has gone down Y-o-Y, so was that mainly because of



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Assam and all these strategic initiatives and other things as otherwise EBITDA margin would have been much, much higher since our oral care is there Y-o-Y has increased?

**Ashok Goel:** Let me help you understand what in our case could impact the EBITDA margin. One is the denominator changes and absolute margin remains the same and percentage it will look lower. Second on the same thing that could be impacted either by a raw material price or currency fluctuation, the other thing that will impact is if we have higher interest and depreciation charge then obviously all these expansions that have taken place have higher interest and higher depreciation, so that would reduce the margin. Other than that, between the categories EBITDA margin as a percentage is the same given the delta of the sales price in that sense absolute margin obviously is higher or lower depending on which category we are talking about.

**Ankit Gor:** Are there any inventory losses in Q3 FY2019?

**Ashok Goel:** No, if you are alluding to the raw material price decrease and therefore is there a hit, no that hit actually is a nonevent for us because every month SAP adjusts the average price and the stock, so practically there is no impact actually.

**Ankit Gor:** Thank you.

**Moderator:** Thank you. We take the next question from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

**Mayur Parkeria:** To give an analogy what we see in telecom segment the voice revenue started impacting and the data started increasing and there was some or the other bad news in voice, similar thing is happening on IT where the traditional revenues continue to become a problem whereas the digital revenues grow. The analogy I am trying to come is while we see non-oral care segment doing well but because oral is more than 50% of us. So, as an investor, long-term investors do you believe that on the oral side either we will have some margin pressures in some regions or we will have sales growth issues in some regions, will we continue to have some headwinds on the oral side while the non-oral and at a company level it may still be very difficult for the growth to be visible, I hope I am able to put across the question?

**Ashok Goel:** Let me tell you oral care, oral care as a category globally is going global average and that to in tonnage terms, mark my words little carefully there, in tonnage term globally oral care is growing at about 3% to 4%, so when the tonnage gets translated into number of tubes it varies from geography to geography, now some geographies, which consume typically bigger diameter tubes per tonnage consumption of tubes are lower, geographies where price points are sensitive, there the per tonnage number of tube consumption is higher. This cannot exactly be transposed 3% or 4% growth exactly in tube numbers in the same way and different geographies are between 0.5% growth and some geography could be 6% to 7% growth. These are the numbers I have given you globally and then we have opportunities where there is organic growth, then there are



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opportunities for me to gain market share and there are opportunities where in certain geographies I am not servicing the market at all. These are three possibilities for me to grow in oral care. Now, headwinds in terms of price pressure has always existed, so there is nothing new in that and we have found ways through our R&D teams, we have been reducing our thickness of laminates for example, right when we started the business at that time the smallest of tubes that we produced was of 330-micron thickness and now we have gone down to in some geographies 190 microns without affecting the efficacy of the product or the quality. Now, this is how we obviously have been delivering some of the price pressures that are there and I have been explaining that the packaging cost in case of oral care of the brands BOM, bill of material is about 25% to 30%, so if the packaging is the higher spend obviously it is a price sensitive market, that price sensitivity we manage by volumes and therefore we always go after volumes in oral care, so this is how we have been mitigating and we have also been mitigating the multiple ways for example the shipper (the cartons) that we use for shipping the tubes, we have been working with programs with customers that instead of single time use can we go into 5 to 6 times use, so therefore average cost comes down per shipment, so there are multiple avenues that by which we remove the non-value add cost and therefore deliver the savings to the customers.

- Mayur Parkeria:** Thank you Sir.
- Moderator:** Thank you. Next question is from the line of Rithwik Sheth from Deep Finance. Please go ahead.
- Rithwik Sheth:** Sir, just a follow-up, can we expect double digit revenue growth for FY2020-FY2021 and some margin improvement as well from here on?
- Ashok Goel:** Of course, early digit meaning what?
- Rithwik Sheth:** Like 12% to 15%.
- Ashok Goel:** For next year you are talking about?
- Rithwik Sheth:** Yes, for a group consolidated.
- Ashok Goel:** I think it will be much better than this year.
- Rithwik Sheth:** For current quarter and for the nine-month ended what would be the constant currency revenue growth for us?
- Ashok Goel:** Nine months ended constant currency revenue growth (consolidated) is 6.7%.
- Rithwik Sheth:** And for the quarter?
- Ashok Goel:** For the quarter 10.6%.



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- Rithwik Sheth:** Quarter was significantly higher, great. All the best. Thank you, Sir.
- Moderator:** Thank you. Well this was the last question for today, I would now like to hand the floor back to the management and Rahil for any closing remarks.
- Rahil Jasani:** I would like to thank the management for giving us this opportunity again and over to your Sir for any closing remarks.
- Ashok Goel:** Thank you Rahil for hosting this call and ladies and gentlemen thank you so much for joining us this afternoon. All the best.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of ICICI Securities Limited we concluded this conference. Thank you all for joining for us. You may disconnect your lines now.



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