"Essel Propack Q4 FY2020 Earnings Conference Call"

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day, and welcome to the Essel Propack Q4 FY2020 Earnings Conference Call, hosted by Systematix Institutional Equities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Gor from Systematix Institutional Equities. Thank you, and over to you, Sir!

Ankit Gor: Thank you Steven. Good evening everyone. On behalf of Systematix, I welcome you all to the earnings call of Essel Propack to discuss 4Q FY2020 results. From the management side, 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. Without taking much time, I would like to hand over the call to the management for their opening remarks, post which we can start the Q&A session. Thank you, and over to you, Sir!

M. R. Ramasamy: Thank you, Ankit. This is Ram. Hi, everyone. Welcome to the fourth quarter earnings call for the financial year FY2020. I hope all of you and your loved ones are safe and healthy. Investor presentation has been shared with the stock exchanges, and we will refer to that presentation in my opening remarks as well as in others.

This quarter marks the third quarter since Blackstone became the new controlling shareholder of the company. We, as management team, are very excited about this partnership. On Page #4, I want to recap what our new mission is in our new avatar, EPL 2.0, and our progress in the current financial year. There are four key messages on this page that I want to remind everyone.

Message number one, in this avatar, our mission is to deliver capital-efficient consistent earnings growth. I would like all of you to note the three keywords in the mission, capital efficient, consistent and growth.

Message two, we have building blocks in place to deliver on this mission. The entire Board has been revamped with fit-for-purpose experts, who continue to be deeply involved in the key strategic initiatives being undertaken by the company. I am excited to welcome Sudhanshu Vats, who joined as the company's CEO and MD in April 2020. Sudhanshu comes with 28 years of expertise in consumer and media industry. Most recently, Sudhanshu was the CEO of Viacom18 for eight years, where he helped scale up the company's revenue by 4x during his tenure. Before that, he spent 20-plus years with Unilever in various general management roles. His last role at Unilever was serving as the Head of Unilever's laundry business in South Asia and Head of the Radiant brand globally. He made Radiant, the fastest-growing laundry brand in the world with over EUR 500 million turnover. During his long-tenure at Unilever, Sudhanshu shaped many popular household brands like Lipton, Vim, Wheel, Surf, Rin, Lifebuoy and Lux. Welcome, Sudhanshu.

In addition, we, as management team, continue to work closely with Blackstone's global adviser and portfolio company network to support us to deliver on this mission. Mr. Harish Manwani, ex-Chairman of Hindustan Unilever and COO of Unilever globally, is helping with a key account management and various growth initiatives in the company. Mr. Dhaval Buch, ex-supply chain Head of Unilever globally, is leading our productivity improvement programs, called Project Phoenix. Finally, Mr. Don Anderson, who is Blackstone's Global Energy Expert, is helping the company optimize its energy utilization globally. The effects of this lean and productivity initiatives are evident in the improved margins you all are seeing in FY2020.

Coming to message three, the key levers to deliver on this mission are accelerated growth in Personal Care, continued leadership in Oral Care, innovation and sustainability solutions, and prudent capital allocation across regions.

And finally, we, as a team, are proud to report that these efforts have helped the business be resilient despite the impact of COVID-19 in Q4. With this, I will hand over to Sudhanshu to take you through the highlights of Q4 and full year FY2020. Sudhanshu?

Sudhanshu Vats: Thank you, Ram. Good evening, ladies and gentlemen, on the call. First of all, it is indeed my pleasure to be here. I am excited to be part of EPL. I look forward to the journey ahead. What I have seen in the last 40-odd days makes my excitement even more. I think if I were to highlight three things, which I want to share with you about our company, I will talk about them in this order. I think, first, EPL with its local and global presence is very well poised to grow and also we are very well equipped to handle challenges and to be able to convert those challenges into opportunity like what we are seeing in COVID-19. In this call, you will hear from me and from Ram and our other colleagues on how we are converting this into a big opportunity.

So this presence of global plus local, and if I could use the term glocal, makes us a very unique company in that sense and the way we operate and our presence across geographies gives us that leverage. Our portfolio in terms of segments is also very handy. Our presence in oral care and our growing an important presence in personal care and pharma strengthens that further.

The second piece, which I want to talk to you about, which really stands out, is our technical experience, technical expertise and our technical entrepreneurship. I will talk about these aspects also, but I think that, to me, is a hallmark of a very good company and finally, we have got some very passionate people who are agile and who make things happen very, very quickly. So I am indeed very, very fortunate to be here, and I am excited to take this forward.

Let me now draw your attention to our performance in Q4 FY2020. I would like you to look at page #6 in our docket. I think if you focus on that one, I would like you to first see how the quarter would have been if it was not for the glitches of last 1 month or 20 to 30 days. The most important signal I want to give you here is that we are well poised on our journey, which we have undertaken in the last three quarters which Ram talked about and under the Blackstone ownership, I think we continue to remain on our mission, which is capital efficient, consistent earnings growth. If you see, our proforma adjusted EBITDA growth is strong double digits, actually, 21.7%. This is consistent with what we have delivered in the last two quarters.

Our revenue growth would have been about 7%, and our EPS growth would have been 57.4%. So this indeed is the first part. Continuing to tell you about capital efficiency, you can see our improvement in return on capital employed- it has gone from 17% to 18.4% in this period. Our debt has sharply come down, and we will talk about this. We very efficiently used Capex in this period and also in the future, you will continue to see our Capex utilization being very, very effective.

If I was to then translate this to what is our FY2020 performance and I am again sharing with you our pro-forma numbers - exact numbers are given to you, so they are with you. This is just to tell you what we think is our intrinsic performance because it is very important for you to know from management how are we doing intrinsically and therefore, one assurance I want to give you is, we continue to move very well on that count. So our overall growth for the year at a proforma level could have been 3.9%. Our proforma adjusted EBITDA would have grown by 10.8% to Rs.558 million, and our proforma adjusted EPS would have grown by 22.3% to Rs.711. Our return on capital employed, you heard from me is 18.4%. Our net debt and Capex has effectively come down because we are very efficiently utilizing all our capacities, and I am going to continue to drive that.

Just to quickly remind you, if I go on to page 8, you will see these are the reported numbers, which are there with you for full year. I thought I will sort of, put this across. Look at page 8, so this is indeed the numbers we have delivered. I think the point I want to highlight on this is that even after COVID, we have delivered a revenue growth of about 2%, but more importantly, we have delivered a double-digit EBITDA growth and a margin expansion of EBITDA from 18.5% to 20.3%, about 180 bps expansion in March. That translates to an expansion in EBIT margin and a very strong expansion impact, which you can see, PAT has grown by 14.3% basically to Rs.166 million.

So overall, I think the leverage of the business and the portfolio is playing out and despite the COVID being there in quarter four, our results for the full year continue to be better compared to many of the other staple companies, which you may have heard from, whether they are consumer-facing front-end companies or companies like us who sort of supply to the consumer-facing front-end company. So our presence in staple gives us the confidence that we are well poised to navigate this challenge well. This naturally brings me to the most important topic of the day for all of you, and I am sure you have been hearing about it from many people, and you should also hear from us. So let me bring you to page 9 on this, which you have with you. The topic, I think, the elephant in the room or the big question in everyone's mind is, how is this company navigating COVID? How are all of us navigating COVID, in whichever path, whichever way we do that? So let me talk to you about COVID-19 from EPL perspective.

In the initial period in Q4 FY2020, for the first fortnight, maybe 15 to 20 days, of course there was a huge disruption. But I think what we have realized is we have quickly changed this challenge into a big opportunity for us and we have done the following things; so let me try and walk you through 5 of these pillars, which we think we have done very well as a management team and all the people at EPL.

All our 20 plants across the world are operational. So all our 20 plants are working; they are working at reasonably good capacity depending on the intensity of COVID in the country in which we operate or, specifically in India, the states in which we operate. The capacity utilization varies a bit, but I think all our 20 plants are fully working and more importantly, working with regulatory authorities, we have managed to classify EPL as essential services category, and that is very helpful in this period.

I think the second thing which we have done, and this plays out to the second comment which I made, which many of you may remember, when I talked about my initial impressions and what I am very impressed with, about technical expertise and enterprise. I think what basically I wanted to share with you is, as a team, we have managed to launch a new category - hand sanitizers in tube - within 15 days. So, in all of 15 days, ladies and gentlemen, we have managed to convert from not being present in this at all, to be able to give it to many customers. I think this, basically, has already made us, as we speak, a leading hand sanitizer tube supplier with a reasonably robust order pipeline across the globe. So as we are doing it -we are doing it across the globe - we now have a pipeline of close to about 150 million tubes annualized on this already. So I think you know for this year that is the volume which is available to us. It is also giving us an opportunity to increase our wallet share in other categories I think. Therefore, in this period, we are being able to increase our wallet share in other categories as well. So this piece is interesting, and we will talk about it more as we go forward. This singularly defines our agility, our technical expertise, our understanding of the market and our capability to work closely with the customer.

I think the other quick point I wanted to share with all you guys is, how are we managing this from the 'how' perspective. There is a crisis committee which is constituted, which has all the senior people, I think, and some of us are on this call with you today. So Ram, Parag, myself, Deepak, who is there in on the call, our other regional heads and all our key people, are part of this committee. We meet very, very frequently - three times a week- Monday, Wednesday & Friday. We take notice of everything, how are things happening from the supply side, from the raw material availability, movement of goods, our contacts with customers, what are the things which we are doing and above all, and more importantly, we take a detailed account of our employee wellness and our standard operating procedures in the plant - how are we working and how are we doing these things. So this is the 'how' which is relating into 'what' and into the 'output' which you saw in hand sanitizer and overall business.

I think the other thing which we continue to remain steadfastly focused on is cost management. Because in these times, ability to manage cost is very, very important. You may have heard from our teams earlier, we had, last year, embarked on a project called Project Phoenix I think, which contributed a large part of the 176 bps or close to that, improvement in EBITDA, we are continuing that. As a matter of fact, it was well timed because we are able to now work on that and continue to build on it.

Lastly, I think we have been prudent about liquidity management as well. We have increased our cash position with a strong balance sheet; we have further strengthened our cash position for any emergency, which may be needed. So to me, I think the important thing I wanted to share with you about COVID is, I think, our DNA and our agility is coming really useful at this point in time to convert it into a big opportunity which is based on our consumer and customer understanding, our science and technology, our agility and our ability to deliver packaging solutions. Our teams are going out of the way to help the customers to not only get the tubes, which is one thing we should do, but to help them find fillers in many cases; to help them find secondary packaging. So we are basically becoming a catalyst and becoming a solution provider, which is another interesting thing that is going on as we speak.

Now moving your attention to page 10, I have spoken about it, but just to give you a sense that these are a few labels you can see, but there are many more of them. We are working with large multinational big brands, many of them across the globe; we are also working with the local companies. So we are doing this with a mission. It is both business for us and it is also a mission because we are fully aware that it helps save lives and which all of you across the table are aware. So I think that, indeed, is the work which we are doing. It is energizing our teams enormously and I think helping us and I can tell you, just to sort of give you a headline thought, that as we have entered into Q1 FY2021, our business is looking quite healthy and it is trending very well because all the work which we are doing on hand sanitizer, with the missionary zeal we are working with, for both people and the customers and our ability to increase the share-of-wallet - 150 million tubes pipeline for sanitizer, which we talked about catering to marquee brands and so on and so forth.

If you come to page 11, I think, the only thing I want to share with you here is you may be thinking' what is this' pro-forma"? How have we arrived at 'pro-forma'? Basically, what we are trying to explain to you through slide 11 is that we have actually taken orders on hand when this pandemic struck, and if these orders on hand we had fulfilled in the month of March, this is what we would have been able to deliver in top line, this is what we would have been able to translate into EBITDA for that period. As you know, through February and March, COVID hit more in China and India towards the end of the quarter. So we have taken these two geographies and taken the impact; it is just a summation of our pipeline commitment, which basically we had to service. So this is, in some ways, numbers which we are confident and slightly conservative, because we have not taken the impact on the customer and therefore, if there was a possible upside or anything else which could have happened, we have not done that. So I think that is how it is in page 11.

I think, just to finally sum up before I hand over to Parag Shah to walk you through our levers, I just want to once again leave you with our mission which is something which we have steadfastly focused on - capital efficient, consistent growth; and I think if you look at prudent Capex spend, basically, this year, it has been Rs.1,286 million compared to a number of close to about Rs. 3,000 million before that- about Rs.3 billion, leading to reduction in net debt, which you can see very clearly, which we talked about earlier as well. We now have a net debt of about Rs.276 Crores or Rs. 2,760 million and basically, that indeed is leading to our ability to give higher dividends to the shareholders. I think today, the board approved the final dividend per share of Rs.2.05. With the interim dividend, which we had already approved of Rs.1.25, we have now declared a full dividend for FY2020 at Rs.3.30 per share. So I think that is indeed the first results, which you can see, of the way things have started working and the outcome which we have seen through this mission and our ability to already share the output and outcome and the improvement in productivity with all our shareholders. This we wanted to put forward and we wanted to share that; and show our commitment and walk the talk and that is why we have done this on the declaration of dividend.

At this stage, thank you for your time. I would like to now hand over to Parag Shah to talk to you through the four fundamental levers which you have heard of earlier, and we will continue from there on. Over to you, Parag!

Parag Shah: Thank you, and a very warm welcome, Sudhanshu, to Essel Propack. We really look forward to working with you and your leadership. Good evening friends on the call. Let me first start with the first business highlight, accelerated growth in personal care segment. As you all know, personal care has been a major growth driver for the company over the last eight years, which has been growing at a CAGR of 16% and now contributes 35% of the revenue, compared to 34% about five years back. We have been industry leaders in converting laminated tubes to newer subcategories, like shampoos, hair conditioners and also we continue to expand the market into newer categories, such as eye care and hand care.

Personal care grew by 9.1% year-on-year in FY2020 and this, despite the impact of COVID-19 and the weak demand environment in India, 9.1% growth in this environment. Personal Care segment grew by 17% year-on-year in the Americas, 5.4% year-on-year in EAP and 17% year-on-year in Europe. As is evident, and we already heard this from Sudhanshu, in case of hand sanitizers, we continue to provide innovative solutions to our customers, in beauty & cosmetics as well as pharma categories across the globe. That is about the first lever about accelerating personal care growth.

Moving on to the second lever, which is about oral care, where we continue to provide a solid, stable and resilient base of the company and EPL continues to strengthen its market leadership in the oral segment globally. We continue to be the preferred supplier to major global and local oral players worldwide. This has been enabled by constant product innovation and agile supply chain models suited to the customer needs. We recently won a large contract from an Oral customer in Europe who we didn't serve previously, and with this EPL now serves all major oral care customers in the region. This highlights our unparalleled leadership in the Oral category.

The EBITDA margin for the region improved 12.8% in FY2020 compared to 10.3% in FY2019 and this margin has been driven by fixed cost leverage as well as productivity initiatives taken under Project Phoenix.

Lastly, but equally important, the fourth lever, we continue to be industry leaders in innovation and providing eco-friendly solutions to our customers. As you know, we have now the Platina laminate, which is 100% recyclable and has been certified as recyclable in code 2 stream by the Association of Plastic Recyclers, USA. We are happy to report that our new laminate has seen strong traction with customers globally. One of the largest global oral players recently launched its first recyclable tube in partnership with EPL. Similarly, Platina laminate was launched in India for the first time by a major regional brand. The Platina laminate has now been approved for a broader thickness range, and thus, is ready to be used in various cosmetics and hair care applications. Clearly, we continue to be the torchbearers for the industry in the sustainability journey. Now I will hand over back to Sudhanshu to conclude the presentation. Over to you, Sudhanshu!

Sudhanshu Vats: Thanks, Parag. I want to also share with you one other news before I sort of summarize and close this and take questions. I want to also share with the investor community that we have taken a decision to change our statutory auditors. Audit committee and the board took that decision today in the board meeting. We have appointed Walker Chandiok & Co LLP, WCC as they are popularly known in our community - member firm of Grant Thornton - to be our statutory auditors. The rationale for that is to further strengthen the way we go about our reporting processes and to be able to have one firm which can look at all the major entities of Essel Propack across the world. So I think this has been the fundamental rationale. We of course, thank our earlier auditors for the work they have done, but they were not able to provide service across the globe. So we have now taken a member firm of Grant Thornton to be able to do that for us. This is also effective, and this is for you to know, that this is an appointment of an international audit firm to be able to look at Essel Propack, and to help us further improve on our process, to be able to look at the globe with one lens and help the management.

Lastly, let me sign-off by four or five key messages for you. I think our ability to navigate through COVID and convert it into an opportunity is a very, very welcome sign for us and gives us strength and assures us that our strength of geographic portfolio and product portfolio in staple end of the business that we operate in will give us huge resilience and will make sure that we emerge stronger than when we have entered, and will allow us more ammunition to continue to grow.

Our management capability and agility, I talked to you about already, which is there and we have further strengthened it and with Blackstone coming in as a leading investor and with the fit-for-purpose board advisory network and management team already in place now, we are very excited with the opportunity that comes across for us.

We are also steadfastly resolved to continue under strategic agenda, which we have set for ourselves and if I can, in the end, I want to tell you, I am quite convinced that in this period, the strong will get stronger and to that extent, I think, we will be able to dial-up capital efficient, consistent earnings growth with our ability to grow the market and to dial-up our revenue growth, both organically and there may be opportunities which may come our way, and we will evaluate them.

So on that note, I want to sign off by saying I am very excited to be here. In the last 40-odd days, the work which I have done with the team, the welcome which I have received from Ram and everyone else in the team is heartening. It has been a unique experience, which I can share with some of you over a cup of coffee later on - how to onboard as a CEO in COVID times in a virtual way. But all the way, it has been a fantastic experience. I am very excited and on that note, I would like to open up your questions. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Anand Trivedi from Nepean Capital. Please go ahead.

Anand Trivedi: Sudhanshu, welcome to Essel. My first question is you talked about Phase 2 of Project Phoenix to be launched. Can you tell us a little bit more about that? Also, you are already at an EBITDA margin of 20%. So how much do you intend to increase or target to increase that in Phase 2?

Sudhanshu Vats: Thank you, Anand. First of all. I thank you. Good to hear from you. Let me just talk to you quickly about the headline, and then I will ask Ram and Parag to further elaborate on it. From a headline point of view, our EBITDA margin is, as you're right, inching towards 20% but if you look at our different geographies, it still is variable and I think we have a job on hand to continue to improve our EBITDA margin in Europe, and then to be able to dial it up a little bit more in other geographies as well. So I think if you look at it, we are confident that the weighted average impact of this as we go forward, will continue to accrue into two to three years, and we should have a northward trend movement in that direction.

On Project Phoenix 2, let me flip it over to Ram to talk to you in some more detail with the assurance that we are looking at every cost item as Phoenix 2 will build on Phoenix 1. So Ram, if I could request you to talk Anand through a little bit more in detail on Phoenix.

M. R. Ramasamy: Yes. Thank you, Sudhanshu. See, the project Phoenix 2, as in Project 1, we concentrated on cost. Project Phoenix 2, we will concentrate on cost but with different style. We will make processes easier. We will simplify all operating procedures, so that people become more efficient and more agile. So this is going to be the theme for Phoenix 2 and we are already outlining a few programs, and we will do that. Ultimately, it will end up in cost savings. As Sudhanshu explained, we do have opportunities in some regions to bring the EBITDA levels up, but overall, your company will become far more agile, far more future-focused - even for a COVID situation you take, cost of vehicle (transportation) is also high. So now we have an added responsibility. We cannot charge back to the customer; we need to find ways and means; how do we maintain our EBITDA first in the COVID situation, then we improve upon. So this is far more detailed - Phoenix 2 compared to the Phoenix 1, in terms of making the processes easier and simpler.

Anand Trivedi: And is there a target EBITDA that you want to reach? Is there a time frame within which project two has to be completed?

M. R. Ramasamy: See, this is a full year project. Some of the projects may mature quicker. Some of the projects will mature in a year but internally, we have a target to improve EBITDA. I do not want to be heroic in saying a percentage but you will see- as we go along, you will see improvements.

Sudhanshu Vats: Thanks, Ram. Just to quickly add - I think we will continue to improve and I think projects like Project Phoenix are also a journey. So I think as many of you , across the table in this virtual table, know that I'm a runner; so I think cost improvement is a continuous journey, and it is something which we will continue. So I think we have a dedicated Phoenix Project 2 - phase 2 of this. We will see how we are progressing and then accordingly, see if a dedicated Phase 3 is needed or how do we go about this. The cost reduction, process improvements are an on-going journey.

Anand Trivedi: My second question is on the topic you touched about- on organic growth and I know it is still early days that you are in but given your comfortable cash position and given that there could be a lot of the players out there, which may be under stress, would you all be actively considering looking at a couple of opportunities right now? Or is this something that is on the horizon if something interesting comes along you will look at it?

Sudhanshu Vats: So Anand, again, once again, thanks for the question. We do not give any guidance and all I can tell you is, we will continue to talk to people from time-to-time and when the opportunity is right, the fit is correct and the price is correct, we will definitely do it and I think your observation that we have a strong balance sheet, we have cash on hand and are we better equipped to be able to do some of those is absolutely correct and as and when something happens, you will hear from us.

Anand Trivedi: Great, Sudhanshu and Ram. I am done with my questions.

Moderator: Thank you. Next question is from the line of Karthik Sambhandham from Unifi Capital. Please go ahead.

Karthik Sambhandham: Hello good evening Sir. Thank you for taking my questions. So I just have 2 related to the COVID side. So what are the cost levers in place in the company right now that everyone is facing? The second question would be regarding the beauty products industry, which is majorly discretionary. So what is the risk that you think will probably be there going ahead?

Sudhanshu Vats: Good. So I will ask again, Ram, to talk to you more in detail, but let me give you one headline thought on this. See, the challenge in some of the categories is more than in others, and you are pointing out to beauty & cosmetics is, to a large extent, correct. I would not say it is entirely correct because some of the stuff which we operate in is not truly discretionary. It is not luxury beauty & cosmetics or prestige beauty & cosmetics as some of my FMCG customers would like to call. A lot of that is also basic beauty & cosmetics. So that should get less impacted and in a period of time, we will recover quite well in our opinion.

We have already seen that in China, where we are beginning to come out of the COVID. Therefore, I can tell you with some level of confidence. So I think that will happen. The other thing is that we will also build newer categories. I think as we talked about sanitizer, so I think that allows us to hedge some of the stuff in the short term for sure and to build our opportunity moving forward. Finally, because of the work which we are doing with pharma and with sanitizers with many of the FMCG players, and as you may be aware that many of them have jumped on to sanitizer bandwagon with their brands, I think it will start giving them more confidence on this format. So that is good news for us. The confidence that they are getting on the format and on our packaging solutions and our ability to provide that solution will hopefully further accelerate the share-of-wallet and conversion agenda. So there is some headwind from the demand side but we are confident of balancing it with our other categories, and also hopefully bringing in competitive advantage on a share-of-wallet gain on the supply side. So I think with that, I will also hand over to Ram to elaborate on it. Ram, over to you.

M. R. Ramasamy: Yes, Karthik. One thing what we have seen in China is when we recovered from COVID, people want to look better than what they looked in the house. During the COVID time, beauty & cosmetic basic products were not selling, that is a fact but when they recovered back we also seeing the market is coming back. I think there is a general psyche for people to look better, I think that we will leverage. As Sudhanshu said, that we have also in the meantime, developed a lot of categories like sanitizers, probably extensive use of the sanitizer, lotions will become another category to concentrate. We are working on many and I think temporary setback on beauty & cosmetics in the beginning, probably we will be able to catch up, if the trend like China continues everywhere.

Sudhanshu Vats: Thanks Ram and Karthik, we can already tell you that we are seeing a very good balance as we go forward.

Karthik Sambhandham: Sure Sir. Sir, regarding the cost levers in place to go ahead with the operations right now, any comments on that?

Sudhanshu Vats: Yes. Ram already spoke about it, but I do not know if Ram, you want to further elaborate.

M. R. Ramasamy: Yes. See, what we have also done using the time that is available to us with some kind of a lower utilization at some of the plants, is working on other productivity improvement levers to ensure the assets are utilized better. Our output increases. We are able to do quicker job changes - that program is also part of simplification. We call it as Project Simplification; that is also on. So with all that, you will see the confidence on leveraging our existing assets also has improved. I think you will see net effect is very capital-efficient prudent usage of assets.

Karthik Sambhandham: Just one last question. We have a lot of marquee customers, like Colgate, HUL, Nestlé or all these. So how is the order book demand that has been there for the next few months that you are foreseeing?

Sudhanshu Vats: Karthik, so basically, overall, it is improving consistently as you know. India is slowly coming out of a very long lockdown and I think the month of April was quite impacted but steadily, we are improving. I think May is far better, and hopefully, June should be inching up slowly towards normalcy. At a global level, however, we are seeing reasonably robust pipeline from our global customers. Many of them, as you talked about, are also global customers. I think we have been able to improve our share-of-wallet with some of our, say, big customers as well. As you may have seen on our sanitizer, we have worked with big ones, particularly Unilever in certain outside geographies as well, so on and so forth. So we are basically continuing to do that work and working with the marquee guys. So I think overall, it is looking quite healthy.

Karthik Sambhandham: Great, Sir. Just one last question, is there any guidance for FY2021 that you are giving right now it is too early to ask, but just curious.

Sudhanshu Vats: Karthik, as a policy, we never give guidance but all I have said to all you guys earlier as well is that we are emerging stronger in the COVID time and I think what we have seen from the work which we have already done in the last 2 months roughly of this pandemic, more than 2 months I think, gives us confidence that we will navigate this better, but not only navigate this, we will come out stronger in this and then convert it into an opportunity to grow and accelerate growth.

Karthik Sambhandham: Sure Sir. Thank you so much for your time all the best.

Moderator: Thank you. We take the next question from the line of Rukun Tarachandani from Kotak Mahindra Asset Management. Please go ahead.

Rukun Tarachandani: If you see the last year's earnings growth, it is predominantly led by a margin expansion, both at EBITDA margin side and at EBITDA cost level. However, the revenue growth was close to around 4%. So from a medium-term perspective, how do you see the revenue growth trajectory? Is this 3% to 5% kind of a revenue growth is what one should expect or are there levers to move this higher?

Sudhanshu Vats: It is a good observation and good question. I think you will see us changing gears on growth and as I again earlier touched upon the example of sanitizers, but overall wallet share growth, I think our pipeline overall is well poised. So we want to continue to dial-up growth and the number you may have seen in the past are not reflective of how we are seeing the future. We would like to grow and I think, as I said in my earlier statement as well, it will come out of our innovation. It will come out of our sustainability agenda. It will come out of our ability to create new segments, which we have just demonstrated and it will come out of our wallet share gain with key customers. We will also be open moving forward to look at both organic, which I enumerated a few things and also inorganic. So I think we will continue on this journey, and you will see us accelerating this.

Rukun Tarachandani: Sure and on this aspect of low capital intensity, so last year, we have seen a much lower capex but beyond a point, as the capacity starts getting reasonably utilized, do you believe that the capex intensity will once again increase or has there been some change in the business, which makes us believe that this low capex intensity is there to last for, at least, in the medium term?

Sudhanshu Vats: So basically, we are talking of capital efficiency. Now I would urge that we do not get carried away by exact numbers because it will be dependent on the growth which we need to deliver, how do we go about that; but as Ram explained about it and I will also ask Ram to further build on this one. Through Phoenix 2 we talked about our ability to more efficiently utilize capital so that is continuously going up. It will be dialed up even further so to that extent, you will continue to see these results in the medium term but when we get growth, when we get big customers, when we need to produce more tubes, do we need more lines, the answer is yes, and that will not change. I think that does not change; that is at the heart of the business and I think at this stage, that is the point, but we will continue to remain capital efficient. I think that is what we are committed to and I will also ask Ram to elaborate more on this point.

M. R. Ramasamy: General guidelines in most of the costs that we have always maintained this, we want to be well within our depreciation. That is a general guideline but as Sudhanshu pointed out, as you understand, capital is a driver of growth ; at the same time, internal efforts to use the assets to the betterment will give some improvements, but at some point of time, we need to continue to invest to grow.

Rukun Tarachandani: Sure thank you that is all.

Moderator: Thank you. The next question is from the line of Varun Kumar from Flowering Tree. Please go ahead.

Varun Kumar: So could I ask a bit about the divergent growth in AMESA and EAP compared to Americas and Europe because the drop is pretty sharp in those regions?

Sudhanshu Vats: Yes. So Varun, it is a good observation, but if you look at the COVID impact, first of all came in China so therefore, in Q4 of FY2020, China saw it for a longish period of time and I will again ask Ram to give you even more details, but our plants were shut down for a specific period of time, about 20 days or something and we tackled it with a very, very strong approach in shutdown and thereafter, it came into India - initial slowdown before the lockdown and then the lockdown. So I think these are the two geographies which faced most of the difficulty in Q4 of FY2020. I think Europe and America have tackled this differently. Each country tackled it differently. We are also part of the essential goods so therefore, our ability to be able to continue to deliver on this basis, is better in those parts of the geography and even in India and China. So China has recovered now. India also, while the impact was there in April and will remain somewhat in this period, we are basically slowly coming out of it. Everybody is aware that these are essential items. We supply to pharma, and we also do daily essential good items, which are important. So Ram, if you want to quickly add more color to this, please.

M. R. Ramasamy: If you look at quarter-on-quarter results, Q1, due to macroeconomic conditions in both the countries growth was lower. But Q2, Q3, we catch up really well. Q4 is an unexpected COVID. Given the circumstances, we have done well, and we see the tractions going up in the coming quarters, in both AMESA and EAP.

Varun Kumar: Understood. Also, Sir, on the margin expansion for Europe, I mean, there is other business are pretty high. So is it only a mix of personal care versus product segment-wise or there are some structural hindrances also could be there, for example, subscale production facilities or structurally higher fixed costs, is there something for that?

Sudhanshu Vats: So again, let me give you a headline, and I will ask Ram to elaborate a little bit more on that. I will tell you- the question is that we have got to utilize the assets which we have better, for better growth, better opportunities, which you will continue to see. I think that is the piece which we are doing and I think Europe has also been actually leading in being able to develop many partnerships on sanitizers as well, both global and local customers - large global customers, and also local customers in that space. They are also doing certain initiatives on conversion in beauty & cosmetics, which are bearing fruit now and will hopefully accelerate. So I think from the demand side, basically, we are seeing some good news, and we are doing some work there. We will continue to tighten our operations, look at each element and the costs as we go forward. So I think it is a mix of both which will allow us to continue on this journey. Ram, over to you, if you want to give any further addition,

M. R. Ramasamy: I think as you have seen, between the last year and this year, the cost leverage has started happening. See, Europe is one word, but it consists of 30, 35 active countries that we are servicing in. So there is a large amount of front-end team that we have. This is built in with purpose because you need to grow and as the volume and the revenue grows up, this leverage will get in. So we are already seeing about 200 basis points improvement and we will continue to see that as we go along as we grow. The pipeline is really, really stronger.

Sudhanshu Vats: So I think, just to sort of quickly sum it up, you will see growth improving as we go forward in the two geographies you talked about and we will continue our program on EBITDA expansion in each one of our geographies.

Moderator: Thank you. The next question is from the line of Dhruv Bhatia from BOI AXA Mutual Fund. Please go ahead.

Dhruv Bhatia: So if impact was only in the two regions. Could you just talk about the capacity utilization of the regions in the Q4 and how it is in May currently?

M. R. Ramasamy: Primarily each country has its own restrictions for ensuring safety of people, so we have shift change, over time, lags in some countries. Some countries allow certain percentage of people to operate. So primarily what we could say is that in western part of the world, we are somewhere around 95% of the normal levels we operate in, and India is improving, as we said. May is better than April. June is going to be far better. We are more than normal in China because the recovery has been fast.

Sudhanshu Vats: Yes. So I think it is varying from geography to geography and from time to time, especially in this time, if your question was more about the COVID time, but on the whole, I think, as Ram explained, big key operating quite well.

Dhruv Bhatia: The second question is that the raw material prices to just crude has fallen quite sharply. Could you talk about the inventory levels that you see for raw materials and would you play this as your advantage because you talked about adding new customers and increasing share-of-wallet from the existing customers. Would you with this advantage, try to get new customers through better competitive pricing to the customers?

Sudhanshu Vats: Yes good question. Basically, the way I would look at it is 2 or 3 things. I think first, yes, crude has dropped sharply, but some of the things which we buy and especially the quality of stuff which we procure, the drop may or may not be that sharp and I think just to give you a headline thought, but I guess, is there room for savings? Yes, there is room for savings. We are fully looking at it. We are tracking it and tapping it. But just I wanted to set the expectation that the correlation is not absolutely direct. The second thing which we are doing is that we are basically, in any case, looking at raw material from a slightly different lens in this period, from the supply security point of view, basically supply security of raw material and our supply chain and supply commitment to our customers. So I think to that extent, yes, are we keeping it a little higher, answer is yes. The third thing is, in this period, with the opportunities coming in, I think, will we be pricing for growth appropriately with certain customers; we will obviously do that. That is part of our strategy all the time. It will be perhaps even here. But is it a blanket price ? not at all . I think we will look at it from the opportunity, from the customer, from the deal size, all of that kind of stuff. Ram, if you wanted to add anything, I think this is what I was saying.

M. R. Ramasamy: I think you have covered really well.

Moderator: Ladies and gentlemen, due to time constraint, we take the last question from the line of Manish Poddar from Nippon Life Asset Management. Please go ahead.

Manish Poddar: So just had two questions. First thing, that if you look at the EBITDA number for the full year, the delta change is roughly about Rs.58-odd Crores, and that has largely come from Project Phoenix. So the share of personal care, which has increased for the overall business and the profitability for the Europe business, which has increased, what is that getting offsetted by?

Sudhanshu Vats: So just to highlight, I will flip this over for details to Ram, but I want to clarify. Project Phoenix is contributing to our EBITDA expansion. The full EBITDA expansion is not coming from project Phoenix and I said that earlier as well. So I think that is an important point. I think it is an important project, which is contributing, but there are multiple levers, which are leading to EBITDA expansion, including some of the ones which you pointed out. So therefore, it is in my humble opinion to you, it will be incorrect to say all this has been delivered by Phoenix. I think if that is the impression which came, it is incorrect. It is contributing to that expansion of 180 bps, but not all of that 180 bps. So I think it is there are different levers. I think, Ram, if you want to add a little bit more color, over to you.

M. R. Ramasamy: See, we explained in the beginning. Our personal care market share is increasing so it is a good growth. So product mix plays a very important role on the gross contributions; so compared to the revenue growth, our gross contributions growth is higher. It comes majorly from our product mix, our ability to get newer segments. The second lever there is our ability to buy better, our ability to consume better so all that is reflecting on the cost contributions. Our ability to operate better as we go lean, better utilization of assets, a better management of daily output that reflects in the operating cost thereby EBITDA goes higher. So EBITDA has all the 3 levers, product mix, pricing of products, newer variants, ability to buy better as well operate better. I think it has every leverage on that. That is why you see a margin.

Manish Poddar: So you mentioned that project Phoenix is contributing 176 bps to the EBITDA margin expansion in FY2020. Is this over some different period, let us say, FY2018 to FY2020 or it is only FY2019 to FY2020?

Sudhanshu Vats: No let me clarify this to you once again, that project Phoenix is not contributing to 176 bps or 178 bps. 178 bps is our bps improvement in FY2020 over FY2019. Project Phoenix has played an important role. It is basically, so I think that is what I want to clarify, so basically it is one of the big contributors and as Ram told to you, there are 4 levers; we are using all the 4 levers. There is a mix efficiency lever. There is a pricing lever. There is a buying efficiency lever, and then there is the productivity improvement lever and Phoenix comes a bit on the last 2. So, therefore, there is the mix efficiency lever and the pricing lever, which is also there.

Manish Poddar: Okay. Got it and just one more, if I may so let us say, in this environment where, let us say, personal care category growth across, at least in India remains tepid, and not sure about how it is performing in the other parts of the world, so how does this margin expansion, given a large part of our cost, given it is a fixed cost business, so how do you manage cost in this interim because utilization levels could remain tepid in this year or for the near term?

Sudhanshu Vats: No, let me clarify that. I think maybe both I and Ram spoke at length about it. I think this assumption that the utilization level will remain tepid, if I can be absolutely candid and a bit blunt, is incorrect. I think basically, this phenomena, I can tell you about one geography, which we have already seen getting into COVID and coming out of COVID, which is China. Basically, we had a problem for about 2 months, maybe about between 2 to 3 months, if you want to look at it, but we have come out of it. We are operating fully, all our plants are operating. We are operating at near 100% capacity so therefore, this remaining tepid for short-to medium-term is entirely incorrect; entirely incorrect, I want to tell you. Because we operate in the staples end of the business, we basically are essential and the other thing, which we are also demonstrating and which we are very delighted with, is our ability to create newer categories and we talked about hand sanitizers, which is already 150 million plus pipeline. We are also being able to improve the share of wallet in this period because of our competitive strength, the strength of our balance sheet, and our cash position, raw material management and all that. So therefore, our capacity utilization is going to remain tepid over a medium-term period is an incorrect assumption, and that is not true at all. There will be, of course, hiccups, and there is a little bit in India as of now as we speak, but in India also May is far better than April and we hope to see June coming very close to normal. See, we are not going to stop brushing our teeth and basically using shampoo or hand cream or hand sanitizer. So of course, pharma, which has a big opportunity, which, in any case, grows in these times. So I think there is absolutely no reason, both from demand side and supply side. With lockdown, basically allowing for us to produce, there will be no problem at all on that count.

Manish Poddar: Thank you.

Moderator: Thank you. I now hand the conference over to Mr. Ankit Gor for closing comments.

Ankit Gor: Thank you management of Essel Propack to give us this opportunity to host this call. Sudhanshu, would you like to make any closing comments or we should close this call?

Sudhanshu Vats; Just two minutes from my end I think, Thank you for this. So first of all, thank you to everyone. I am aware it is a Friday evening and although we are living in COVID time all locked in, but thank you for dialing in at about 6. Also, apologize for 3- 4 minute delay from our end, but I think it has been a very fruitful and very engaging discussion. Thank you for your time. I would like to again sign-off by leaving you with those 3 or 4 messages. We are looking at everything which is happening around us as opportunity. There is an opportunity for us to grow business, to build categories, to grow our share of wallet, to look at more brands; basically, to be able to pivot more and more as packaging solution providers. So this is fantastic news from our point of view. We have demonstrated our agility and our ability to manage in this crisis period and I think the entire management team, all of us on this call, Ram and everyone have basically risen to the challenge, and we are working doubly hard to make sure that things are delivered. We remain confident and positive about even the immediate future and I think therefore, that is looking good. I think one of the geographies where we see the cycle go in and out is looking very promising. I think we will see how things play out everywhere else. On a personal level, I am very excited to be here. I think we will look forward to drive this, and we have demonstrated through our results Q4 FY2020, that our results are superior to the peers in staple, both front-end facing companies and supplying companies like us. So thank you very much for your time. We are strong, we will become stronger and I think that is the message I want to leave you with. Thank you for your time, and thank you for your interest.

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