"Essel Propack Limited Q3 FY 2017 Earnings Conference Call"

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Moderator: Ladies and Gentlemen! good day and welcome to the Q3 FY 2017 Results Conference Call of Essel Propack Limited hosted by Emkay Global Financial Services. We have with us today the Management of Essel Propack 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 like to hand the conference over to Mr. Dhaval Mehta - Research Analyst of Emkay Global. Thank you and over to you, Mr. Mehta.

Dhaval Mehta: Thanks, Lizann. Good afternoon everyone and welcome you all for Q3 FY 2017 Earnings Conference call of Essel Propack. We would like to thank the Management for giving Emkay the opportunity to host this call. From the management we have with us Mr. Ashok Goel -- Vice Chairman and Managing Director along with senior management team of Essel Propack. We would like to start with an opening remark by Mr. Goel followed by a Q&A. Over to you, sir.

Ashok Goel: Thank you, Dhaval. Good afternoon, ladies and gentlemen. During the third quarter ending December 2016, the consolidated revenue of Essel Propack grew year-over-year by 17% to Rs. 608 crores. As you are aware EDG Germany, erstwhile was an associate, became a fully owned subsidiary effective 30th September, 2016. Its Q3 numbers therefore have been fully consolidated in this quarter's results whereas in the previous year only Essel's share in its net profit was considered.

On a comparable basis, the consolidated revenue grew by 7.2% for the quarter and 7.6% year-to-date. This growth would have been even higher at 12.3% for the quarter and 9.3% for Y-T-D but for the unforeseen shrinkage in the FMCG off take in India post demonetization. We believe the India demand would soon recover and with the new customer wins already under ramp up, India should revert to growth level of 15% plus registered during the Q2 of this year.

We also see indications that the de-growth in key Oral Care customers in China is bottoming out and an additional award in the U.S. is ramping up. New business development in Europe is showing progress and should further benefit going forward. That gives us confidence that the consolidated revenue growth will track a 13% to 15% band in line with our strategy.

EBITDA margin for the quarter is 16.4% as compared to 19.2% in the previous year. On comparable basis excluding EDG in this quarter the margin is 17.2%. Adjusted for the impact of sales loss in India post demonetization and one-off cost of Rs. 1.38 crores in this quarter incurred as part of rationalization of manufacturing locations in India and Colombia, the EBITDA margin on underlying basis is healthy at 18.7%.

Along with the improvement in the revenue growth indicated earlier, some major cost savings that we have embarked on including the rationalization, realization of synergies in EDG should help the EBITDA margin to improve going forward in line with our mission 20:20:20.

Finance cost increase in this quarter is arising mainly due to increase in debt following the German acquisition. The gross debt which was at Rs. 908 crores at September 30th following the acquisition, has now reduced to Rs. 892 crores by end of December 2016 helped by operational cash generation. The debt equity at 0.87 and DSCR at 2.03 continue to reflect a healthy balance sheet. The average borrowing cost has reduced by 130 basis points to 6.1% over the last 12 months.

The PAT for the quarter at Rs. 37.9 crores is impacted to the extent of 19% on account of one-off cost - India sales loss post demonetization and EDG consolidation. All this put together has impacted the PAT to the extent of 19%. With top-line improvement, the PAT growth also should track our mission 20:20:20. We believe there is a significant value to unlock from

EDG acquisition. Our integration team is actively pursuing the synergies identified; Europe continues to present big opportunity to drive growth. While the last couple of quarters have remained muted in Europe, the new business development is making good progress and gives us confidence that the growth will resume soon. We see the growth momentum in the rest of the regions and have capacity and capability in place.

Customer engagement continues to be strong. We are actively marketing Mystik -- the hair color tubes among target customers and the initial response has been quite encouraging.

Overall, we believe our strategy is on track, barring some unforeseen headwinds in the recent months. The growth and cost savings projects that we are working on should help us sail and attain the preidentified orbit.

With that, I would open the floor for Question-and-Answer please.

Moderator: Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Sameer Gupta from India Infoline. Please go ahead.

Percy Panthaki: Hi, sir this is Percy Panthaki here. Just wanted some details of your European business. So, two parts to that question. Firstly, the continuing business has seen a decline and we have seen for the last few quarters that the Europe business is struggling because your customers are not having the kind of success in their products that they forecasted. So, one is what visibility do you have on this in terms of this part of the business turning around and returning back to growth and by when do you expect that to happen? Second part of the question is the German acquisition which you have that I think has posted a loss. So, just wanted to understand, again, what are the steps you are taking so that this business returns back to profitability and what are the timelines for that?

Ashok Goel: Yeah, Percy as usual you are the first one to ask the question. In last call also your question was on Europe. I think, on Europe there are a couple of things. One is that on the laminated tube side Europe, other than Germany, has performed well. The margins have remained intact or improved in Poland. In Poland, what has not materialized so far is the plastic tube business that is mostly Non-Oral Care. As we have reviewed recently, there is strong growth pipeline that is happening. Usually we do not name the customers, but we had won some business with a customer, who divested part of that business and therefore, now we have to start all over again with the new teams. These are some of the things that have delayed the pipeline growth in Europe. We feel that towards the end of the fourth quarter or the first quarter next year, we will get business rolling there - the additional business that we are expecting in Europe. With respect to Germany, I think at EBITDA level, German business is profitable, it is the EBIT level which is negative and that is why we have regular integration calls between the European team and us and we see some progress happening and soon, may be in three months to four months, we will have Germany giving the similar profit profile as rest of Europe for Essel Propack.

Percy Panthaki: So, sir the Germany business is it into plastic tubes or laminated tubes?

Ashok Goel: It is all laminated tubes, there is no plastic. Germany by and large, has been Non-Oral Care business; however, while we signed the purchase contract for EDG, we have signed a long-term contract - ten year contract, with an existing Oral Care customer. It is not business or orders which is a problem in Germany. In Germany, we have to bring the efficiency and the utilization levels to that of rest of Essel in Europe.

Percy Panthaki: Right, sir. And also if you could give some clarity over the next two years or three years is there any CAPEX built in and again for which geography this would be built in if at all?

Ashok Goel: Is it a general question on CAPEX global - is that what you are asking?

Percy Panthaki: Yes.

Ashok Goel: So, our objective of CAPEX remains the same - equal to depreciation - and we hope to maintain that with the expected growth 15% top-line and 20% bottom-line.

Percy Panthaki: But sir, would you be able to give some idea whether this CAPEX whatever it is, in line with depreciation is it just a maintenance CAPEX or will it actually go towards increasing your capacity and if so, in which geographies?

Ashok Goel: Okay. This question has been coming in the past. So, let me reiterate - most of our CAPEX goes for revenue increase. There is very little we spend for maintenance CAPEX that typically as you understand. We have various filters that we apply while approving the CAPEX. If it is a non-revenue add CAPEX, we expect the pay back of that CAPEX to be within one year or not longer than 18 month. For a revenue add CAPEX, our guidance is 20% return on capital employed and we maintain that way. So, therefore, we are quite stingy when it comes to non-revenue add CAPEX and therefore most of our CAPEX goes for capacity additions. Even in this financial year, our CAPEX is about Rs. 158 crores; in the first six months it was about Rs. 150 crores. So, in the third quarter there has been minimal CAPEX. Even in the last call, I had said this year we have frontloaded our CAPEX and with the expected growth we have more or less equipped all geographies with the head space or we would be by the time we close the year and therefore, next year we would probably spend CAPEX less on capacity, more on what we call customer facing investments. What we mean by that is that we may undertake some initiatives, like for e.g. 100% inspection of all our tubes - our customers will not get a defective tube at all, irrespective of agreed AQL and various other levels. We are going to undertake some long-term impacting and unique positioning for Essel Propack when it comes to delivery to the customers. To sum up, those (Customer facing) initiatives may take large part of CAPEX next year. For the capacity, we have built a lot of capacity already this financial year.

Percy Panthaki: Okay. So, the current capacity you have sir, will hold you in good stead for the next couple of years, given your sales growth aspiration?

Ashok Goel: Not couple of years but certainly first-half of next year.

Percy Panthaki: Okay. And one more question if I might sir, supposing in second-half of the next year you do some CAPEX for increasing your capacity then we also again have the startup losses which we have seen in India and Colombia in the last couple of quarters. So, is that a normal thing which happens whenever you increase your capacity?

Ashok Goel: No, I think I need to explain that better. The way we are organized in terms of plants, we have the infrastructure pre-built for a certain capacity which is already existing and headspace for more machineries to come in. Now when more machinery come, that means only the plug and play (operate) machines that come in. So, therefore we always say that our capacity expansion is modular. What has happened here is consolidation of plants, which means that we have consolidated three plants into one new plant and in shifting existing capacities while at the same time continuing to service the customers. It is like overhauling a Harley Davidson while the engine is running. This was the situation and therefore we have certain one-off costs that normally otherwise in CAPEXs we do not have. So was the case in Colombia where we had shifted the existing plant and added new capacity in our new plant.

Moderator: Thank you. We will take the next question from the line of Nehal Jham from Edelweiss. Please go ahead.

Nehal Jham: My first question on the India operations- we see that one of our major Toothpaste players has seen a strong volume de-growth this quarter. However, our India revenues are flat. So, is it fine to assume that we serve all the major players in the Oral Care market and we would not be impacted by the market share shift that will happen in this category going forward?

Ashok Goel: India Oral Care specific customer order shrinkage I do not think there is anything specific customer here. It is an overall impact of demonetization which we are already seeing. If your specific question is Oral Care then we are already seeing the demand bouncing back for the fourth quarter, unless I have not understood your question completely.

Nehal Jham: Yes, actually on the Oral Care side I specifically pointed to the fact that major of the players has shown us big volume de-growth. However, our volumes and revenues are flat. So, maybe I am understanding that we serve a lot of other customers any change in market share in that segment should not ideally impact us because of the kind of customer base we have, so just wanted to confirm that point with you.

Ashok Goel: Yeah, so we have won new contracts also, so that has been compensated.

Nehal Jham: Okay. We won new contract in the Oral Care side and how is our volume trajectory in China Non-Oral Care this time down?

Ashok Goel: China Non-Oral Care grew at 17% this quarter.

Nehal Jham: That is year-on-year.

Ashok Goel: Year-on-year, yes, but keep in mind that the base of China in Non-Oral Care is still small.

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

Bobby Jairam: For the past few quarters there have been a lot of one-off costs and other unforeseen expenses and so forth. But from an investor standpoint, the complexity of your business two set of things that the one-off costs are part of your normal business because you have spread all over the globe and something or the other is bound to happen every quarter, would you agree with that?

Ashok Goel: Bobby, this is not last two quarters, I think this is for this financial year. The one-off cost is only on one account which is on rationalization of plants in India and Colombia which we had partially factored in and partially not factored in; the reasons I explained last time and even now that the demand in the first-half of this year was strong in India while we were doing the shifting and therefore, we had to slow down the shifting of plants. It is again, as I mentioned while answering the previous question, that we were overhauling the Harley Davidson while the engine was running: and that is the only one cost that we are talking about which you will probably see partially coming even for next quarter. Other than that, there is no one-off cost; we are now talking about demonetization impact which obviously no one knew.

Bobby Jairam: Why I am pushing you at that my observation was more long-term. I have been reading your Annual Report from 1996 and something or the other seems to happen every year there.

Ashok Goel: You are right Bobby, I would say you are not wrong in that observation since we are geographically so spread-out that something or the other keeps happening. But we could have absorbed the onetime cost but for demonetization; this is something which nobody could have predicted unless you were sitting in the PMO yourself. So, yes, one-off things keep coming but we also have simultaneous cost efficiency programs which run parallel to take care of this so called one-off things that keep happening.

Moderator: Thank you. We will take the next question from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Sir, just a couple of things. I am sorry, I would probably have missed this in the earlier calls. Just wanted to understand, see first is on China business I mean if you look at few quarters we actually seen growth coming back over here, although it is very modest number but still just want to understand what is really happening over there, you just kind of also highlighted somewhere of the Oral Care business is bottoming out there. So, could you just explain a bit as to what is happening over there and what could be the marginal levers incrementally over there?

Ashok Goel: Yeah, Prashant. In China, there are three things that we are looking at. One is to see where the bottom is for the pre-contracted customers because they have been losing market share. So, the first thing is that there are indications that they have bottomed out. Second, we were to win non-multinational customers business partially that has also materialized. And the third is to grow Non-Oral Care. So, these are the steps - some bit of progress in all three is happening. Now the question is will that growth be higher than the cost growth? Because the cost growth is there and that is one challenge that we still have to manage as far as China is concerned. Once we are able to create a gap between the cost growth and the business growth and obviously, we would like the business growth to be higher than the cost growth, that is when the margin would expand.

Prashant Kutty: Sure. But sir, if I typically look at it just want to understand one point if I look at the you spoke about the bottoming part of it. I mean any specific indication as to why you say that bottoming has actually happened or something of that sort? I mean any kind of traction which you have actually seen I mean what makes you say it is actually the bottom, I am just trying to understand.

Ashok Goel: Yeah, so what makes us think is that it has bottomed out is because they are picking up the volume as they have indicated; of course, not at the levels of the contracted volumes but they have been short month-after-month on their forecast and were actually picking up less volumes. Now they are picking up the forecast and sometimes even higher than forecast volumes.

Prashant Kutty: Okay. And on the Non-Oral Care of it also obviously what exactly happening over there because I guess obviously, that segment is growing pretty much for us as well. I am just trying to understand, it cannot be a little more faster growth over there as far as the Non-Oral Care business is concerned? because I guess there is no capacity constraint as far as that business is concerned?

Ashok Goel: Ramasamy, will answer that question.

M. R. Ramasamy: Yeah, Prashant, there are two aspects to this - cosmetics is growing, as we were explaining, there is a growth of 17% in this quarter. Pharma there are a lot of opportunities that we are working on but it is a far more strict and regulated market, but we will see a traction as we go along in the next two quarters to three quarters. There are a lot of tubes on stability test with Customers and things like that. So, as Ashok Ji was explaining, while Oral Care MNCs we believe bottomed out, non-MNCs we are getting the growth . Similarly, on Non-Oral Care, cosmetics have started yielding results; we should see a results on pharma as we go along and when both things happen I think China will be showing better results.

Prashant Kutty: Okay. And there is a possibility that we could actually hope to get back to that 18%, 20% kind of EBIT margin in the business? Let us say the growth comes back on track?

Ashok Goel: China is already at that level.

Prashant Kutty: EBIT level.

Ashok Goel: 18, 20, EBIT?

Prashant Kutty: Yeah, about 17, 18, EBIT I guess there was a time when we used to actually do that number.

Ashok Goel: Yes, that was a case five years ago and then we came down to almost 12 EBIT margin; now we are around 15%. In China the basic driver for margin improvement has to be the top-line growth. Top-line, as we already explained to you, has been concealed by the continuous decline we were seeing in the key contracted customers. Once that gets fixed and we start seeing growth, the margins have to start improving. Now the question whether we will reach 20% in a year's time or two years' time - that, we will have to wait and see.

Prashant Kutty: But any guidance on the growth for this region?

Ashok Goel: Growth should be in the high single-digit next year.

Prashant Kutty: Sure. Second question is on the Americas part of the business. Again, that business has been seeing a bit of traction for the last couple of quarters now. I am sorry, I would have missed my comments of the last part if you would have made any on those business as well. But you just also highlighted about Colombia also doing well as well. I mean, if you can just probably explain to what is happening over there because here, we have also seen a bit of not only growth improving but like the way you said even the margin section also has actually kind of moved pretty significantly over here. So, just understanding what is exactly happening on that side and are we pretty much there as far as the capacities are concerned to probably pump in for the growth and which segment they are helping to drive the growth?

Ashok Goel: Yeah, Prashant first of all, Mexico was loss making; now it is making good profit. So that is first. Second, Colombia has now ramped up and is churning out good volumes and as the one-off costs even out, it should be back up to its normal profit level. U.S., we already said, we have installed the high speed SHOT line on the back of increased contracted volumes from a customer which is now beginning to come in. So, all of that is helping. It will help even better, if our Non-Oral Care customers picked up the volumes as they said they would; but nonetheless, other customers pipelines are building up and therefore, we believe that Americas margin should come close to India or China margin as we go along.

Prashant Kutty: Okay. And just last one part - this integration which you are talking about Germany is there any timeline which you have actually kept in your mind as to what would be the timeline for the integration?

Ashok Goel: Yeah, we give about five months to six months from now for the integration of Germany in all respects.

Prashant Kutty: So, that should say let us say six months down the line or so maybe you can expect Europe to be back to those old EBIT margin numbers.

Ashok Goel: Yes, EBITDA in Europe is 11.7%. Germany is lower than that - at about 8.4%. If Germany comes up to 11.7% and Poland also pushes up so, there will be win-win both the sides.

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

Ritwik Sheth: Sir, just a couple of questions. Post December how has been the Non-Oral Care in India, has it picked-up or it is still the same as….

Ashok Goel: Post December Non-Oral Care is yet to pick-up Ritwik.

Ritwik Sheth: Okay, Non-Oral Care has not yet picked-up.

Ashok Goel: Yeah, but expect it to come back in February, March.

Ritwik Sheth: Okay. And sir, in EDG, it is surprising that since significant portion of the revenue around 60%-65% is Non-Oral Care, it is making EBIT losses, any particular reason?

Ashok Goel: Yeah, there has been some inefficiencies Ritwik, which our teams are helping them to cope up with, to get over with.

Ritwik Sheth: Okay. You mentioned that in six months you expect to track normal in European business?

Ashok Goel: Yes, absolutely.

Ritwik Sheth: Right, okay. And sir, one question on the Colombia unit sir, last year Mexico was loss making FY 2016 which you have turned it around. So, should we expect a similar track record going forward for the Colombia unit as well?

Ashok Goel: Yes, absolutely, Ritwik. Colombia has to, now I think the worst is over unless some catastrophe happens, which I hope not.

Ritwik Sheth: Right. Is Colombia currently breakeven or it is still negative?

Ashok Goel: Colombia this quarter is almost break even in PAT terms.

Ritwik Sheth: Right, okay. And sir, one last question on the Non-Oral Care part. How is your Non-Oral Care going and what is the trajectory of the next few years that we are targeting?

Ashok Goel: Ritwik, actually both have grown but Oral Care has grown faster than Non-Oral Care. So, the ratio is 58 point something in Oral Care and 41 point something in Non-Oral Care which is this year's number against our wish of atleast 50% in non-oral care.

Ritwik Sheth: Okay. And what do you foresee for the next three years by FY 20:20:20?

Ashok Goel: We have to bring it to 50%.

Ritwik Sheth: 50% and which will be one of the biggest drivers for pharma?

Ashok Goel: I think all of it. India, we are seeing good pharma growth. China also pharma growth we are expecting along with beauty & cosmetics; Europe is beauty & cosmetics. Mexico, Colombia is also beauty &cosmetics and so is U.S. While Oral Care continues to in grow in all the geographies beauty & cosmetics has to grow faster.

Ritwik Sheth: Right. One final book keeping question, what is the net debt? I missed the net debt figure as on December.

Ashok Goel: Net debt is Rs. 787 crores.

Moderator: Thank you. The next question is from the line of Alpesh Thakkar from Centrum Broking. Please go ahead.

Alpesh Thakkar: My first question is regarding the increase in the raw material cost this year, I see almost 400 bps increase in the raw material cost so, what is the major reason behind that because I understand that we have a pass on mechanism when it comes to raw material. So, can you please throw some light on that?

Ashok Goel: Sequentially the raw material costs have not increased much. It is about 1 percent sequentially, but I think the ratio of EDG is kind of skewing it up because EDG is mostly Non-Oral Care and Non-Oral Care raw material cost tends to be higher.

Alpesh Thakkar: Okay. But in Non-Oral Care even margins are better, right?

Ashok Goel: Yes. So, your question was on the raw material.

Alpesh Thakkar: Yeah, raw material cost. Okay. And sir, the second question is we have made a FOREX loss this quarter like. So, what is the reason behind that, if I compare it on year-on-year basis it is Rs. 7.3 crores versus Rs. 1.1 crores last year. What is the reason behind that?

Ashok Goel: I think it is a good question. Let me explain. This will answer the question on FOREX loss as well as the other income. This is primarily originating from Egypt. Egypt you may know was a controlled currency until three months ago, when it was made fully floating. As a result, the currency depreciated about 80% more or less 100%. And not only that, Egypt no longer had any foreign currency available for the normal trade to happen. So, what we had to do because we import raw materials into Egypt and therefore we had foreign currency requirements to be met, was that we sold a machine which we had recently purchased and leased it back because it was an imported machine. We sold it for the same foreign exchange value and leased back. So, in the sale process we made about Rs. 14.5 crores profit. But because the currency had depreciated and we had to do mark-to-market for our purchase, we had a loss of Rs. 8.2 crores. So, this profit and loss goes in different line items by Rs. 14.5 crores other income and Rs. 8.2 crores as FOREX loss, okay. So, the differential is Rs. 6.3 crores that is on PBT basis. On PAT basis, I take out the tax then it comes to Rs. 5.4 crores. Egypt is a joint venture so, I eliminate the minority interest of 25% so, I take Rs.

1.3 crores from there. The net income is Rs. 4.1 crores as against the overall numbers that you see the way it is presented. So, it explains you the currency loss and it also explains to you the other income.

Alpesh Thakkar: Okay, got it. Sir, just one clarification again, why did we meet this Rs. 8.2 crores loss what was that because of?

Ashok Goel: Because we had to pay for the raw materials, right. Raw materials originally was booked always at the local currency controlled rate but then when it became floating and 100% depreciation so mark-to-market in Egyptian pounds - that was the translation loss.

Moderator: Thank you. The next question is from the line of Abhishek Jain from SKS Capital. Please go ahead.

Abhishek Jain: Sir, sorry, I joined late. I have two questions. How is the China business shaping up at this point of time? Second, how is the life during demonetization and what kind of tracking you are seeing in especially in Oral Care business at this point of time, sir?

Ashok Goel: Okay, Abhishek. China we talked about so, there are three things there. One is that we believe that the existing contracted customers who were not able to pick-up the volumes, in fact they were continuously sliding down in their volumes even through our wallet share remained the same and we did not know where the bottom was. We now believe that it has bottomed out. So, we are not seeing any further drop from there - that is one. Second, was that we were expecting to win some local customer contracts in Oral Care which partially had materialized. Third is that we have to expand in Non-Oral Care which is beauty & cosmetics and pharma. So, that has grown about 17% over the same period last year albeit, the overall Non-Oral Care share in China revenue share is still lower. So, we see some traction coming in beauty & cosmetics and going forward we will also see some in pharmaceuticals. So, that is as far as China is concerned. About India demonetization and post-demonetization, demonetization impact was at the EBIT - we believe that we lost about Rs. 12 crores in the third quarter. We now see the Oral Care demand already back and Non-Oral Care we see the demand to come back in February or March.

Moderator: Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.

Sameer Gupta: Two questions from my side. So, first question is spill over cost that you are seeing from the rationalization of your units in India and Colombia are we largely done with them or they are still some remaining and will be carry forward in the fourth quarter?

Ashok Goel: Colombia is done Sameer already. India, we still have one more quarter left.

Sameer Gupta: Okay. And this will be in the similar range?

Ashok Goel: Say about Rs. 1.3 crores.

Sameer Gupta: Okay. And sir, just a bookkeeping question, could you just give a Non-Oral Care share among of their geographies?

Ashok Goel: Among each of the geographies, Ganesh will give you.

A. V. Ganapathy: Yeah. So, in AMESA 49.6% is Non-Oral Care; EAP is 27.2%; Europe is 59%; and America is 21%.

Moderator: Thank you. We will take the next question from the line of Rahul Khandelwal from Systematix Shares. Please go ahead.

Rahul Khandelwal: I wanted to know on the China business. Is there any traction on the organized player side? because we were more into the unorganized local players, so any traction on the organized sector over there?

Ashok Goel: There is nothing called unorganized; we practically do not deal with any customers who typically would fall into any unorganized sector because there the trade practices would not confirm to the governance standards. Therefore, in no market we deal with any customers who would fall in the categories of unorganized. I think the question that you are asking is the multinationals and local customers.

Rahul Khandelwal: Right.

Ashok Goel: So, yes, I have said that we have won some business with local customers and some are in the pipeline. In the multinational customers, we believe that the business has bottomed out.

Rahul Khandelwal: Okay. So, you expect better volumes from the local customers or the multinational?

Ashok Goel: So, we see that the reduction in the multinational customers in the volume off take will stop now and any win we make with the local customers will be additions.

Rahul Khandelwal: Okay, great, sir. And this is on the plastic tubes or laminated tubes or both?

Ashok Goel: We normally talk about Oral Care and Non-Oral Care but in any case, in China we do not make any plastic tubes, all are laminated tubes.

Moderator: Thank you. The next question is from the line of Alpesh Thakkar from Centrum Broking. Please go ahead.

Alpesh Thakkar: Sir, just a couple of more questions. First one is like can you throw some light on customer facing initiatives CAPEX that you will be taking up in next year? So, what exactly that would be just a clarity on that.

Ashok Goel: Yeah, Alpesh. I think my response was to a question that what amount of CAPEX goes for capacity expansion and what amount goes of maintenance. So, when I said that most of our CAPEX goes for capacity expansion and for next year's first-half of growth requirement we believe that we already have built in the capacity unless we make some big customer win which we should normally know by this time - at least six- eight months ahead. So, it is not likely to be the case. What I said was that there are, in any product that you manufacture and our kind of products, certain quality standards which are acceptable. As the markets become dynamic, for you want to be better than your competition , you have to make sure that the quality of the tubes is way above AQL although we have customer accepted AQL, (accepted quality levels), norms. We are taking an internal target whereby, we are questioning ourselves, can we state that whatever tubes we dispatch to the customer, will be 100% defect free. So, in that connection, we are doing a lot of technological research. And in doing so, we might undertake some prototyping and in those prototyping we may put some CAPEXs. That is what I meant by customer facing investments.

Alpesh Thakkar: And sir, one more question, in this quarter we had this other comprehensive income which is like Rs. 40 crores. So, can you just throw some light on that front?

Ashok Goel: Ganesh will take.

A. V. Ganapathy: Yeah, this line other comprehensive income is arising from the new IndAS requirements. Essentially, we have overseas subsidiaries and as per the accounting standards, at every period end we will need to do a translation of their balance sheet. Now, when you do the translation of a balance sheet, any difference arising on account of currency movement is normally carried in the balance sheet. So, depending on the currency movement, it can be plus or minus and the net amount is called foreign currency translation reserve which is kept in balance sheet ;previously under the I-GAAP it was shown only in the balance sheet. The IndAS requires all companies to disclose this as other comprehensive income after the profit computation. So, then the movements are known, what sort of movements have happened during this quarter and the year-to-date.

Alpesh Thankkar: So, this has no impact on **P&L**?

A. V. Ganapathy: It has no impact on the PAT or on the EPS.

Alpesh Thakkar: And sir, one more thing that you have this model called CoCo Model in America that you follow that is because it gives you better ROCE. So, can you just quantify on that how much improvement you get on ROCE if you go through such model or go for such a model?

Ashok Goel: This is first of all, only in India and we don't track ROCE separately.

Moderator: Thank you. We will take the next question from the line of Dhaval Mehta from Emkay Global. Please go ahead.

Dhaval Mehta: Sir, my question is pertaining to the India business. So, if you see our EBIT margin in the AMESA has basically fallen by around 450 bps; it has come to single-digit. So, when the packaging product the business was with us we have never delivered a single-direct margin. So, apart from lower operating leverage is there anything to read to in this?

Management: See, basically the AMESA margin is being impacted by India. If you see the India top-line growth has been only some 2.3% in India standalone numbers and so, the sole impact is coming from the Indian results post demonetization.

Dhaval Mehta: Actually if you see our input cost has been firming up. So, is there any case that we are not able to pass on the price for which the long-term contracts are not there, we are not able to pass on the price because of the challenging market condition. Is there anything like that or the business is as usual only the demonetization has impacted margins because of lower operating leverage?

Management: Yeah. In India what has happened is - one, the volumes have dropped and as you know that we have been putting up the new site and capacities basically expecting growth. Demonetization was a sudden hit while we were expecting good traction in growth - even in quarter two 15% was the growth. So, we are expecting the same to continue with new business wins. We have capacities and all infrastructure built for meeting those requirements and the demand actually collapsed over a month or two months. That is the reason why we find that the impact is higher as far as India is concerned. However, we see that Oral Care has already come back and now in February /March we expect the Non-Oral Care also to come back and these capacities will be utilized and things will come back to normal.

Dhaval Mehta: Okay. Sir, can you give us the utilization rate for the December quarter for the India business? PAT number will be fine sir.

Ashok Goel: I think, we would say about 60%-65%.

Dhaval Mehta: Okay. So, it is from the September quarter that might have come down by around 500 bps is this assumption right or?

Ashok Goel: Yeah.

A. V. Ganapathy: Yeah, Dhaval if you see, basically impact to revenue we have estimated is around Rs.27 crores and the impact to EBIT is around Rs.12 crores. So you can see how the operating leverage works. As the volume picks up because India has been growing and it will continue to grow and infrastructure and the cost are based on that.

Dhaval Mehta: Okay. Sir, my last question on India business is that when your talks with the FMCG players, have the innovation ride up and are they reframing from innovation let us say even in this quarter or Q4. So, do you expect that because of postponement of innovation there might be a longer impact to us than what's envisaged earlier?

Ashok Goel: I think, what you probably mean by innovation is the new product launch.

Dhaval Mehta: Product launches be it existing products or a new product.

Ashok Goel: Yeah. Obviously whatever the plans for new product launches were made by the brand owners, due to demonetization they have put them on hold. We expect them to start the launches from February, which is why we believe the demand will start to pick up.

Dhaval Mehta: Okay, thank you, sir. Sir, I do not think there are any further questions on the call. So, thank you very much for giving us the opportunity to host the call. Would you like to make any closing comments?

Ashok Goel: No, I greatly appreciate all you gentlemen who have joined. We believe, I think Bobby Jairam made a nice observation, that given the geographical spread we might have one-off here and there. But what we do is, we always have concurrent cost saving projects which are always kept outside of our projections and those cost saving projects are basically built to absorb any such one-off shocks. Most of the times we are successful, sometimes we may not be successful. Having said that and given the present situation, the story of business remains intact and we are confident that we will deliver on our promise of Mission 20:20:20. So, thank you very much again.

Dhaval Mehta: Thank you, sir. Thank you everyone for attending the call. Lizann, you can close the call.

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