



“EsSEL Propack Q1 FY2019 Results Conference Call”

July 27, 2018



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Moderator: Ladies and gentlemen welcome to the Q1 FY2019 results call of Essel Propack hosted by Emkay Global Financial Services. We have with us today Mr. Ashok Goel – Chairman and Managing Director, Mr. M.R. Ramaswamy – COO, Mr. Roy Joseph – Regional Vice President – AMESA, Mr. Vinay Mokashi – Global Financial Controller, Mr. Amit Jain – Head Treasury, and Mr. Ashok Vashisht – Regional Finance Controller – AMESA. 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 “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ashit Desai from Emkay Global. Thank you and over to you Sir!

Ashit Desai: Thanks Stanford. Good afternoon everyone. We would like to welcome the management of Essel Propack and thank them for giving us this opportunity. I would now like to hand over the call to the management for opening remarks. Over to you Sir!

Ashok Goel: Thank you Ashit for hosting this concall.

Ladies and gentlemen, good afternoon; welcome to the JQ 2018 concall of Essel Propack. I assume that all of you have received the financial numbers as well as the investors’ note and therefore I consider it futile for me to repeat what you already know. However, I will be happy to answer questions.

I was reflecting upon the last concall as I was reading through the transcript. It reminded me that sometimes it is easy to get bogged down on quarter-over-quarter numbers and if we build in too much pressure on ourselves, we may lose focus on the long-term business prospects. Having said that, our stated objective of CAGR growth of 15% topline and 20% bottom-line remains intact. Quarter-over-quarter it may vary. Sometimes it may vary year-



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over-year, but on a CAGR basis, we still believe that we will deliver. Therefore I think it would be prudent for me to also focus on some long-term things that we are working upon. Last time there were a lot of interesting questions that came from the participants and I would like to build upon that a little bit.

Last time we discussed extensively the new delivery or distribution methods, which essentially means 'e-commerce' and the amount of disruption it is causing to our business in almost every geography. What disruption it causes, just so that all of us are on the same page, is that if there are newer brands, which proliferate because of the easy distribution through ecommerce. The new brands gets easy, faster acceptability thereby challenging the established brands; and because we traditionally have been with the established brands, their forecasts become more and more volatile and brings in uncertainty in our business. We have to find ways to capture the new brands' business and also, as new brands crop up, the established brands also react albeit at a slower pace. Once they start reacting, the fact still remains that their forecasts would be increasingly more volatile and therefore that requires a new set of thinking in the way we do our business. I had alluded last time that we are focusing on what the bottleneck processes in our system are and whether these are caused by our internal processes or by the technologies that we use.

The answer I find is a bit of both, but more so in the technologies that we use in the bottleneck areas and therefore, company needs to focus on developing certain new technologies. I am happy to say, that we have worked on this and we have initial solutions and hopefully we will settle with the same solution in the long-term; but any new development brings its own uncertainty in terms of time. We know, based on the technical knowledge we collectively have in our system, that if we decide to go after something in terms of technology, we will get it. The question is - time. So to that extent, I am happy to say that we have identified some technologies, which we are putting on prototype. Some technologies we had spoken about last year viz. on zero defect has become essential. What does zero defect mean - it means that every value addition we do to the tube in terms of process has to be automatically checked and inspected at every process and if it is good quality, it passes for further processing. If not, then at that very same process it

should be rejected. That is what zero defect means. We have been prototyping zero defect systems over the last year and continue to do that in this year, which essentially means that we have to look at investing in these systems so that we are ready to meet the newer challenges that are facing us.

The other challenge is that in some geographies, only in some geographies, we are facing is availability of human resource, the examples being Poland and U.S. Getting people for the shop floor or at the managerial level is becoming more and more difficult in both these geographies. In China also getting people for the shop floor is increasingly difficult. We do not know how it is going to be in the future, but certainly the minimum wages are rising and therefore we have to again think a little differently as to how do we address these challenges and implement some of the solutions that we have discussed in the past. We will accelerate development and investment on technologies like automation that we have not implemented in some geographies, which will help in reducing dependence on human capital and also deploy high speed equipment in those geographies where availability of people is a challenge.

Then the third challenge we have is that as the business becomes more complex, what I mean by complex is the geographical spread, the number of customers that we deal with and therefore the number of SKUs that we produce in each factory, is increasing in terms of complexity. This, coupled with the issue of availability of people, we have to run a program to somehow find ways to deskill the people. When I say deskill the people, we are not saying that we will actually deskill them. I am talking of requirement of skilled people on our equipment, which can be complicated for untrained people to run, and therefore that is another area for us to work upon.

I am happy to say that in almost all these areas, we have made some initial inroads. Some are at advanced stages and some we will go in for investments; which is why I say that sometimes the quarter-over-quarter focus can derail ROCE, and expose the business to long-term risks, which we at Essel, are careful about.

With that I open the floor for questions and answers on the numbers or on what I have just said. Thank you very much

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Bharti Mundra from CD Equisearch. Please go ahead.

Bharti Mundra: Good afternoon Sir. Sir I would like to know the objective for your relocation of the Russian unit?

Ashok Goel: Bharti, Russian unit we setup in I think about 2006; so it is about 12 years and obviously it was an entry point for us and we went into a small factory and we tried to bring that up to the GMP standards, which were valid in those years. Now since the business potential is growing we need to improve the GMP standards. It was a leased factory - where we are going is also leased, but it is newly built versus the old building we entered and tried to spruce up as much as we could with least amount of money. So this one is a new factory for us to harness more business; also, for pharma quality GMP standards we needed to move from this place, which is why we are moving. The amount of money we will spend on this is about half a million dollars.

Bharti Mundra: Sir how much revenue do we generate from the Russian unit at the moment?

Ashok Goel: Vinay, can you answer that please. It is a small revenue that much I can say. Let me see if Vinay has it ready otherwise we can answer that later.

Bharti Mundra: Sir basically as a result of the relocation , what financial impact can we see in the near future?



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Ashok Goel: Right now, it is only about \$4 million to \$4.5 million revenue that we generate from this unit- about Rs.25 Crores. But as our European business development teams have been moving around in Russia developing more business, we see a good potential. Some Pharma customers are willing to commit almost 100% of the volume that we currently do and also Russia is a big market for hair care with hair colorant. Also we hope that our Mystik Solution can be faster accepted in that geography.

Bharti Mundra: Sir what is your business growth in US in Q1 what was it?

Ashok Goel: In Americas it was 25.7% - that is for the region and for US it was about 22%.

Bharti Mundra: 22% and so in FY2018 if you could just let me know?

Ashok Goel: FY2018 Americas?

Bharti Mundra: Not Americas; particularly U.S.?

Ashok Goel: Particularly US for 2018 you mean previous year is it?

Bharti Mundra: For the previous financial year the financial year just gone by?

Ashok Goel: We will get you that Bharti. What else?

Bharti Mundra: How are we actually getting so much of growth in U.S., if you could just throw some light on that the business growth?

Ashok Goel: We mentioned last time that we have got some increased business from existing customers - that too value added business growth - coupled with that we are now getting some non-oral care business,



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which should begin to commercialize already and it will ramp up; so therefore U.S. , if we do everything right in terms of delivery and quality ,we should grow at high double digits- may be 18% to 20% for the year.

Bharti Mundra: Sir it is fair to assume that growth that we got at the moment is majorly from the new business or what is that we have got or it is also from the existing customers?

Ashok Goel: Let me answer this a little differently. It is certainly from the existing customers in the existing category. We also have got some business from the existing customer, but in different category. For example, if oral care customer was existing customer, we have got increased business in oral care at the same time we have got some business in non-oral care from the same customer, and of course there is addition of new customers as well.

Bharti Mundra: Sir if you could just divulge what is the contribution of U.S. to the Americas region, the revenue contribution?

Ashok Goel: Country wise. We will give you offline if you get in touch with Amit. We will give you offline.

Bharti Mundra: Sure Sir. Thank you so much Sir.

Ashok Goel: It is about 70% of the regions revenue coming from the U.S.

Bharti Mundra: Thank you.

Moderator: Thank you. The next question is from the line of Nihal Jham from Edelweiss. Please go ahead.



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Nihal Jham: Good afternoon. Sir my first question was on the EAP region. You did mention in the release that there has been highest sale of laminates, which has led to good growth, but why is it that even on a year-on-year basis our margin or our reported EBITDA still fallen in that region?

Ashok Goel: That is precisely the reason; Nihal why it has fallen because of EBITDA margins on laminate sale is lower than the tubes.

Nihal Jham: Sir our absolute EBITDA has also fallen Sir, so I was just wondering maybe the margins could have corrected, but we would still have made more money selling them?

Ashok Goel: There are a couple of things there. One is that they have sold more laminate. Second, their product mix within the tube business has changed to more of lower diameter sales and third, they had minimum wage increase as compared to the same period last year, so therefore all three have caused the margin to be depressed.

Nihal Jham: On the e-com issue that you were discussing at the start , and I think you mentioned in the last quarter, is it specifically in China that we are speaking or some of the other regions also where the business is being impacted because of the shift that ecommerce is causing to your clients?

Ashok Goel: It is not just China. Nihal. Last time I think Percy Panthaki asked me a couple of questions on this. It is a global phenomenon. Customer forecasts that we receive, are generally for received forecast for the next three months. Of course, we get yearly forecast, from contracted customers, based on their budgets. Here I am talking about non-contract customers from whom we get three months forecast and we also get monthly forecast and then we get , depending on what lead



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time we have agreed with the customer, the range of lead time can be seven days or it can be three days. We know that yearly volumes change. It has always changed. We also know that three monthly numbers also undergo change, but the firm zone change that is seven days and three days' change are so volatile today that even customers have no control and that typically is caused by e-commerce ; do not forget e-commerce does not mean that only the new brands come into e-commerce platform. The existing brands are also on e-commerce platform and therefore the volatility. Nobody can predict consumer will pick up what SKU or what brand and therefore the volatility is increasing and therefore we need to change.

Nihal Jham: Just asking a little more on this that are we seeing this more in the oral side and non-oral side, specifically which regions is it that this impacting the most right now?

Ashok Goel: Everywhere.

Nihal Jham: Even across oral and non-oral.

Ashok Goel: Absolutely.

Nihal Jham: Just one more question, if I could slip it in. In Europe how is the transformation relation to EDG going? I think it is now a year and a half since we have gone ahead and acquired the business, so just wanted to know that is it something on track or there is still something that we need to do to get it on track at this point of time?

Ashok Goel: Yes, Nihal as we discussed during the last call it started to get better from February this year; that means the fourth quarter of last year and it continues to be better and as we speak their efficiencies are far

better. Their management there is much more engaged. The people are much more engaged and therefore their sales are also increasing. They have reached or would have crossed their pre-acquisition levels now already and as they continue the journey, we expect that they will soon be out of capacity and therefore, we may have to expand the German unit. That decision would probably happen towards the end of this financial year or early next financial year.

Nihal Jham: What is our target for internal profitability for this year for this region?

Ashok Goel: Overall target is 20%, EBITDA margin. They are currently tracking at 8% or 9%. I think 9.8%. Europe for this quarter was 9.8%. Germany could have been a little higher than the rest of Europe, so it is about 11%. Our objective is 20%. Every region and then unit has to look at 20%, so as we increase the volumes, more value added sales and critical mass, the easier it becomes. These are all the moving parts that contribute towards 20%.

Nihal Jham: Sure Sir. I will get back in the queue. Thank you so much.

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

Sameer Gupta: Good afternoon Sir. I know you mentioned about how business will run on long-term, but sorry my questions would be on the quarter, so first question would be this inventory correction in Pharma because of regulations and would you say that these are like lost sales or would you say that we can recover this lost ground back in 3Q as this inventory correction comes back?



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Ashok Goel: Sameer, for everybody's understanding, what has happened is that there is a change in regulation in India on pharmaceutical, which emphasizes the need for generic name, generic molecular name to be more prominent than the brand name which is the name of the company. This requires a change in packing artwork; coupled with this, there is some other change, viz. that certain products in dermatology (skin care) cannot combine two different molecules, probably because they do not want people to circumvent the price control regime by combining different molecules. Therefore, a new regulation, which specifies that only single molecule stuff can be sold; we do not understand the technicalities of it. What we certainly understand is that there is some sort of a discussion is going on between the Government of India and the Pharma industry, which has actually caused the Pharma companies to have much reduced buying of tubes. I do not know if they have reduced buying or production of other format of pharmaceuticals, but for the paste or the creams that goes into tubes for Pharma has certainly taken an impact. Now we cater to Pharma customers, which also have exports. I do not believe that on exports it would have any impact. The impact would be only for domestic sales. So it is an impact on our capacity. Capacity lost is lost is ; so if the customer has not taken the orders and we have not run our machine produced from our machine it is lost forever. However, that does not mean that the customers are not going to come back. We do not believe that they will continue the standoff ; or, in other words, resolution will emerge. When will it emerge we do not know, but we are estimating it may emerge by October or November of this year, so till then the sales for domestic consumption of Pharma may be impacted.

Sameer Gupta: Right Sir very clear. Sir again on the EBIT margin in China somebody touched upon this question, but the reasons you mentioned for the decline seem more structural, so I would assume that this is like more than normal 11% to 13% margin going from now, which was around was around 16% in FY2018? Would that be a correct assumption Sir?

Ashok Goel: The structural Sameer you could only say is the minimum wage because that has increased.

Sameer Gupta: I am saying the mix of more laminates to power growth that also will remain right?

Ashok Goel: I was coming to that. Let us go step by step. The structural change terminology that you have used is more applicable for the labour cost increase. Our solution to that , as I have already mentioned, may not be immediate, but in the long-term, we have to see. Also, availability of people on the shop floor in China is a challenge. Therefore, we have to automate a little bit more in China and invest some money for that to alleviate that change; but laminate sales if we continue to sell, the capacity is there. We are not investing anything new. The margin is lower. but there is nothing fundamentally wrong with that. The smaller sized tube sales and bigger size tube sales are something that keeps changing, is always dynamic, and therefore cannot all be calssified as structural change.

Sameer Gupta: Got it Sir. Sir lastly on the America again the margin is a tad lower at 11%? This is despite a healthy revenue growth so we are not able to get the leverage benefit, so just wanted to understand what is the story there?

Ashok Goel: America was 12% earlier.



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Sameer Gupta: For FY2018 it clocked around 12.5%?

Ashok Goel: Which has now gone to 16%, so it is only improved right.

Sameer Gupta: I am saying right now it is around 11.3% America EBIT margins?

Ashok Goel: EBIT margins, so EBIT earlier was lower than 11%, which is now at 11%. Let us say EBITDA - I have EBITDA figure right in front of me. Last year it was 12.7% and this year Q1 is 16%, so EBIT would have changed in the similar proportion.

Sameer Gupta: Sir but last year in America there was some issue is Columbia if I recall about shifting of machine and that impacted that quarter margin. If I look at full year margin at least EBIT margin it is at 12.5% for the full year and I am assuming there is not a lot of seasonality between quarters and EBIT margins so it is coming at a lower and this despite a healthy revenue growth? Now if look at the history this is a double-digit revenue growth after a lot of quarters, so just wondering why the leverage benefits were not there.

Ashok Goel: No do not jump to conclusions. Let us look at Americas in different buckets. Colombia, yes you are right we have been losing money in Colombia. This time we have stopped the loss. Is that a correct statement? We have stopped the loss in Colombia right at EBIT level. Last year, we were losing money. Mexico - practically no change; what was there last year is the same this year. U.S. has clocked higher sales and therefore higher margins, so therefore I do not see what you are referring to in terms of figures. According to me last year EBIT margin was 7%. Same quarter last year was 7% and this quarter 11.3%.

Sameer Gupta: Fair Sir. I will take it offline thank you.



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Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you for the opportunity. It is very reassuring to hear your remarks at the beginning of the call, but the focus remains on the long term. I have only question. I have been tracking this company for the last three- five years and I have been shareholder for the last five to six years and the only fault just leg picking here, the OC versus non-OC revenue that mix are five years back my expectations were slightly higher and we have not reached those levels? There have been a number of disruptions over the last five years, so I was just wondering if you have adjusted for exit time are you satisfied with your non-OC performance and how do you see this panning in let us say next five years that is my first question? That is my first quarter and there are a couple of clarifications, I missed the reason why the Russian plant has been moved I missed a couple of sentences, the line was not particularly clear, so if you could repeat that and also you gave revenue growth numbers for US you said is the 22% or 33% I missed that number, for America you said 25.7%, but the US number I have missed, if you could repeat those?

Ashok Goel: Thank you for your comments. Let me take the last two questions in that order. So US yes it was 22% not 32%, whereas region is 25.7%. Russia plant why it has been moved is because we setup the existing plant about 12 years ago. It was a leased location, which was in heavy industries building, where the GNP standards, we had to do a lot, but still as per today's requirement, particularly for pharma requirement, we believe that that is not the best site and therefore we need to move into a nearby absolutely new and bigger building . The current site cannot also expand and therefore we are doing that. Now your

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question on non-oral care. I think I can understand your frustration. But I have always said this and I still maintain it that our stated objective is to have the revenue share coming from non-oral care at the rate of 50%, but it is always a moving target. Why do I say that? because we are not going to turn away the growth in oral care business. Now, if I stop growing in oral care business then you would see this percentage moving up higher, but will that be wise I do not believe so. So therefore while we grow in non-oral care, we will continue to grow in oral care and that is what has exactly been happening. As we grow in non-oral we have been growing in oral care as well and oral care, do not forget ,provides me the critical mass therefore economies of scale. It is not a villian and we will continue to put our efforts for growth on both areas. Now, your specific question am I happy on non-oral care growth? Of course not; but having said that, because we have been growing we will continue to grow. Now US, as I was explaining to Bharti who was the first participant to ask question about U.S., we are winning non-oral care business in U.S. In fact there is one customer where we have a lot of non-oral business, which is a global programme for that customer and we are the preferred partner, which means that we are going to do business not just in U.S., but also in Europe as well as in China. I am quite satisfied the demand of pipeline that we are running right now of customer wins and the various stages. We have a customer pipeline just for your knowledge. We monitor that on a six scale or stage gates as you may call it, of a customer development. That starts from the engagement with the customer to final commercial order and this is now standardized stage gate process across the world; everybody understands what it means and we monitor the pipeline growth on the stage gates basis and therefore I feel confident that our growth is going to come from non-oral care. Now having said that I am also must add



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here I just learnt day before yesterday that our European team has also won oral care business. When will it get commercialized we will figure that out. Now tell me if my ratio is still stays at 41% should I be blamed? I leave it to you.

Agastya Dave: Correct me if I am wrong, in long-term perspective, I was just wondering and I understand nobody would obviously like to miss opportunity for the sake of change and the answer that I was looking for was what you gave me initially you are obviously not happy with the non-oral, but perfectly alright. Sir, one last question, you have been mentioning that you are doing a lot of R&D on recyclable materials. I was just wondering across all legacy, across all products, what percentage of your material is now recyclable and when we will see 50% or 75%, you have been mentioning this for the last couple of quarters I was just wondering and that is it from my side, thank you?

Ashok Goel: I think last time also somebody asked me this question and I explained that in detail - that the three kinds of recyclability that we looked at and we have developed. One is one tubes made of one family of polymer, which means same recycling code; second one is where we are using the recycled material to the extent of 25%-30% as part of the construction of tubes, which cannot be recycled. Tubes, which we did not talk about last time were those in which 25% to 30% of the polymer are sourced from so-called sustainable source; that means agriculture based as opposed to oil based polymers - organic polymers. Now, that does not mean they are biodegradable. Some people get confused with that. Now we spoke about recyclability of the aluminum based laminate and we talked about project Liberty. Now, we have all the solutions- we have been having a lot of the solutions, except for Liberty ,for many years. Some customers have adopted it. Many have looked at



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it. Many are looking at it. Almost everybody says very interesting, very nice, very good, but the commercialization is something that that we continue to work with the customers. Project Liberty I am more bullish on and the work on that is ongoing and we believe that by September or mid October '18, the first project Liberty in India would be commercialized.

Agastya Dave: Thank you, Sir. Good luck. See you in the next quarter.

Moderator: Thank you. The next question is from the line of Hitesh Taunk from ICICI Direct. Please go ahead.

Hitesh Taunk: Good afternoon Sir. My question pertains to mainly AMESA region. The region have been impacted previously due to demonetization or sale, say the GST impact and have not registered as growth as per our requirement, so I just wanted to know given the fact one thing is that there is some issue with the pharma volume offtake and you have also mentioned that there is an inventory correction by key customer apart from that also apart from the pharma business lower offtake, so I just wanted get a sense as to why this lower offtake from the key customer despite the fact that GST problem has been now almost over?

Ashok Goel: Hitesh you are right and pharma is very clear, so I will not speak about it. On the lower offtake by some Customers, this was a big surprise to us as well. These are two specific customers, obviously I cannot give the names. For the first month we did not even understand why they are not buying and then when we checked, they still said no, no just inventory correction and demanded is there. So we believed them. The only plausible reason we can give you is that they were still correcting their pipeline to the GST, but in my view these were the

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same two customers I am referring to. While the GST problems were there these two customers did not stop buying from us. Their sales were more or less intact while the others sales were low; therefore we have reasons to believe. The customers have obviously not said in so many words that now they actually have corrected their pipeline. Therefore it is not a lost cause, it is not that we have lost the share, it is not that they are buying from somebody else and out of those two, one customer is already back with a bang actually and they have placed more than what the normally take, but because of the transport strike that is currently ongoing we cannot ship. There is a connectivity issue of the raw materials as well as dispatch of finished goods because of which we are right now, operating at one-third of our capacity in India. As the transport strike continues, it is going to impact us for the second quarter. One customer is back and another one we are still waiting for them to be back ; whether they are not back because of the transport strike or not, my guess is probably by next month they will be back again.

Hitesh Taunk: No problem, the region which contributes nearly 40% over topline will take a hit and the growth what we anticipating of around 15% would not come in this region is it say to assume Sir?

Ashok Goel: This region Hitesh that is the other part. I actually missed your second question because probably you are in mute and then unmuted little later, so anyways I will ask you later what you meant. So, Egypt is growing at 18.8% in this quarter and will continue to grow. India obviously we were expecting 15% topline or may be more, which is a disappointment yes, but as I said out of the two big customers, one is already back and the other one probably will be back next month. Pharma I have already explained my spillover to October, November of

this year and we had a lot of growth plans around pharma. We have made a lot of investments on pharma last year; but Assam will be a bit of a saving grace; and so yes, it may not be 15%, but it may be 9% to 10% in India.

Hitesh Taunk: Fair enough Sir. I just wanted to know one more thing what could be the revenue potential of this Assam plant for us going forward?

Ashok Goel: Hitesh, we have now put about 200 million tube production capacities and as it goes for this 200 million the revenue will be about Rs.40 Crores for this year because we started in the middle of the year. Now, out of this 40 Crores, 1/3rd of the revenue will be from the rest of India. 2/3rd will be the additional revenue. Of this 40 Crores, 2/3 will be new revenue, one-third will be shifted from rest of India. As we expand the capacity in Assam, then in that proportion revenue grows.

Hitesh Taunk: Sir, my next question is pertaining to our European region. Since the last year we had an issue with the lower offtake from our Poland customers and Russian unit is not making the profit and the whole growth now depends on the EDG and the performance of the EDG we have seen that it has improved as per your FY2018 annual report and making up EBITDA margin of around 11.5% kind of, but my question pertain to these two regions, Poland and Russia, which is still yet to fire, there was a issue probably of your back also in the Poland region and the issue has again come in the region and then again Russia unit as you explained already that unit you have shifted for some reasons, so just wanted to know this regions will grow by the rate of 20% as you estimating for the cost regions you thought on that for FY2019 at least?



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Ashok Goel:

Let me say first Russia unit is not yet shifted. We are in the process of shifting which means that we have the new site already in possession, the retrofitting is going on and probably by November-December this year we will shift from the old plant to the new plant completely. We have hired new crew, who are being trained because the existing crew will not shift to the new location etc. Russia, yes, was practically not making profit last year. This year the situation remains the same, but because we see the potential we are not losing our ground there. As far as Poland is concerned, there is one unique factory where we make both kinds of tubes, laminated as well as plastic. Plastic tubes, its capacity is limited, we have not expanded the capacity. Last time in the call, I had mentioned that we are looking at replacing some of the old equipment with some pre-owned newly acquired equipment; that has not happened. We have not been able to acquire the pre-owned equipment. Now, we have to figure out whether we will invest into the requirements or not. That is as far as plastic tube is concerned. With respect to laminated tubes, we have one big customer whose volumes has been oscillating; that means sometimes the demand is high, sometimes demand is low. Last year obviously demand was low. This year also they started with lower demand, but we have a penalty clause with the customer, so we the kind of claim that penalty and once you start to claim the penalty, the volume is back; As we speak from this quarter, actually from June month, the volume is back up again from this customer. Then we have the pipeline growth as I mentioned to Agastya in his question, that we have day before yesterday, verbally confirmed by a customer that we are going to get some business in oral care and when will that commercialize is still not very clear because the customer was on vacation. When the customer comes back vacation we will get it in writing and also know more details. So obviously we

have the pipeline for growth, we will grow in Poland. Poland is not a lost cause. That pretty much covers Poland. Germany I think I have already explained, more or less close to their full capacity and if they continue to sustain at that level we may have to expand the capacity in Germany.

Hitesh Taunk: Okay Sir. That is all from my side. Thank you Sir.

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

Ritwik Sheth: Good afternoon Sir. Most of the questions have been answered, just a couple. Firstly, what is the transport strike impact on us like you said we are running at one-third utilization right now so is it that in Q2 we should expect a significant drop to revenues from India?

Ashok Goel: Ritwik, I am neither a politician nor a transporter. So I cannot really know how long will this strike go on, it is already running into fifth day I think sixth day. We were hoping that the strike will last only for 3-4 days. We had prepared ourselves, had stocked our factories with raw materials, but from a flat raw material to voluminous finished goods, my factories cannot hold the finished goods more than what it has been designed for. Typically no factory is designed for holding finished goods for more than three days production; so obviously one way or the other, I have to stop the production. However, we are able to make some shipments where the factory and customer is located very close by and local transport is really manageable. 10 days' loss in a quarter means what percent over 90 days, 10 days, so that you can imagine the effect.



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Ritwik Sheth: Okay and as a pharma you mentioned that another three, four months you will definitely see some correction because already you gave explanation, so that would be very significant for us right in India that would be less than 5% of the total AMESA region?

Ashok Goel: You found a way to ask the question.

Ritwik Sheth: Just wanted to see the impact of like non-oral care revenue and Q2, Q3 revenue like FY2019?

Ashok Goel: Ritwik, what is not important is that what I was doing for pharma. What is important is what was planned for pharma and this year India's growth we had planned based on pharma growth and to that extent, is a dampener. We have invested money, we have won the businesses and we are in the process of winning more business as far as contracts are concerned, it is just that the offtake is not there because of this new regulations.

Ritwik Sheth: Fair enough and on Assam unit we have already spent Rs.60 Crores, so from this 200 million to 750 million how much additional do we need to spend?

Ashok Goel: Ritwik, since I have hinted that some of the volumes will be shifted from Rest of India, so we have to see the threshold of the fresh investment in Assam and we will calibrate that very carefully.

Ritwik Sheth: Once we see ramp up in this 200 million then we will look to spend the balance?

Ashok Goel: Yes, and that would determine.

Ritwik Sheth: Sure Sir and one last final question, in the beginning you gave a pretty cautious statement for the next few quarters, but if I see the quarterly results for this Q1 FY2019, revenue growth has been the highest in the last six quarters year-on-year, so what you are saying is somehow I feel it is not in sync with the numbers that we have reported and if I go five years back this is a highest quarterly Q1 profit that we have reported, so I am not able to connect your opening remarks and the financial figures you have published, so if you can throw some light that whether we are overcautious or how do you see that?

Ashok Goel: Are you saying the revenue growth has been highest in this quarter over last six quarter?

Ritwik Sheth: Yes, year-on-year.

Ashok Goel: That may well be.

Ritwik Sheth: It is 13% and last five quarters if I see it was around single digit and the highest was 10%.

Ashok Goel: Because last year Europe was dampener right, we have discussed this.

Ritwik Sheth: But even on profitability Sir like Rs.43 Crores of profit, Rs.42 Crores of profit in the first quarter we have not seen since last five years, so somehow I feel, just wanted to some?

Ashok Goel: I think you have to see line by line and see on the Rs.43 Crores or whatever, Rs.41.3 Crores. There is some increase owing to Ind-AS, so Ind-AS is playing some trick there.

Ritwik Sheth: All the best and thank you.



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Moderator: Thank you. The next question is from the line of Romil Mehta from ICICI Securities. Please go ahead.

Romil Mehta: Just I wanted to ask you a couple of questions regarding Russian unit, not the Russian unit, the EDG unit, so since you are hinting like we would be reaching the entire capacity utilization by the end of the year or may be start of the next year, so any ballpark figure or anything which any capacity expansion which you would be, have you all planned anything yet or is it yet to be done?

Ashok Goel: You are talking about Germany right?

Romil Mehta: Yes.

Ashok Goel: Germany in some sense we have already expanded some bit of capacity. There are two parts of expansion of Germany. One part is that the factory footprint, the real estate footprint that we have there, how can we maximize that and second expand the capacity that can happen through reconfiguration of their equipments. So they have two such equipments which could be reconfigured and out of two one has been done and that has increased their capacity by 20 million already and if we do for the second one without expanding the factory we will add another 20 million. But that may not be good enough. So we may then have to expand the factory building first and that requires a bit of iteration and alternatives have to be looked at; and then only we will take the decision. So easier decision we have taken, the long term one we will see.

Romil Mehta: Okay and just one more question like how do we see the debt levels moving from we generate a good amount of cash flows, so do we see any muted coming out I do not think should be coming up, should we

expect the debt levels to go down from the current about Rs.600 Crores?

Ashok Goel: Amit Jain will answer, but directionally, as I mentioned in my opening remarks, I have to look at investments which are not necessarily revenue add because of the reasons I explained. We will also have to take care of the growth requirement and therefore we may have to make an exception this year for the "investment equal to depreciation." Having said that Amit will answer the rest of the question.

Amit Jain: Romil, how we track the levels are based on our various financial ratios. As far as absolute numbers are concerned, the gross debt is around Rs.742 Crores and net debt is around Rs.700 Crores, so that is the level of debt and now we track, based on our various ratios, the debt service coverage, debt to EBITDA and debt equity, so till the time we are comfortable on those ratios which we are benchmarking with the good industry practices and that is how we move on the debt.

Romil Mehta: Okay, that is all from my side. Thank you so much.

Moderator: Thank you.

Ashok Goel: While people are thinking I must say I do not know if I said last time I think I did. We are expanding our lamination capacity here in India, which is at advanced stage - that is the factory called Vasind where we are more than doubling our lamination capacity. The laminator we added 3-4 years ago is now absolutely full and we do not have head space. We believe the growth will come and therefore we need to expand the capacity. That expansion should be completed by October this year; then we are expanding the Wada factory, which makes plastic tubes. That expansion is also ongoing. Assam we have already talked



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about and other expansions that are already going on we have discussed and we may have to plan for Germany and Poland as well.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Ashok Goel: Thank you ladies and gentlemen again for participating and asking smart questions. Thank you so much. I look forward to seeing you again soon. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.