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Ladies and gentlemen, good day, and welcome to the Q1 FY '20 results conference call of Essel Propack hosted by Emkay Global Financial Services.

We have with us today from the management, Mr. Ashok Goel, Chairman and Managing Director; Mr. M.R. Ramasamy, Chief Operating Officer; Mr. Vinay Mokashi, Chief Financial Officer; Mr. Amit Jain, Head Treasury; Mr. Suresh Savaliya, Head Legal, Company Secretary and Compliance Officer; Mr. Deepak Ganjoo, Regional Vice President, AMESA; and Mr. Ashok Vashisht, Regional Finance Controller, AMESA. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr. Varshit Shah of Emkay Global. Thank you, and over to you, Mr. Shah.

Varshit Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [2]

Thank you, Margaret. Good afternoon, everyone. I would like to welcome the management of Essel Propack and thank them for giving us this opportunity. I would now hand over the call to management for opening remarks, post which we will open the floor for Q&A. Over to you, sir.

Thank you, Varshit. Good afternoon, ladies and gentlemen. Thank you for joining the quarterly call of Essel Propack. The quarter that -- the numbers have been shared with you, so in my opening remarks, I will not touch too much on the numbers, but of course, we'll be happy to answer the questions afterwards.

The performance for the quarter has been a bit of a mixed bag. While India and China macros have not been very good, therefore, the India business has suffered a little bit. We are all aware of the macroeconomic situation in India. On the other hand, Europe has been growing very nice, and we are happy on the growth, which also demonstrates that once there's the economies of scale, the margins tend to improve, which is what is the case in case of Europe. America is also growing quite nice, and we had seen good growth in Colombia, particularly.

It is also heartening to see that all geographies across the globe have grown in Non Oral Care with a significant increase of 5.9 percentage point, while India and China actually for the quarter de-grew in Oral Care, and which is why you see the gap. What has also impacted the margin is that we have -- last year have -- had a good amount of CapEx. That has caused an additional INR 5.5 crores of depreciation for the quarter coupled with INR 1.1 crores of additional full ramped-up costs that have come in this quarter of Assam unit while the markets opened, and therefore, that has had an impact of INR 1.1 crores. So INR 5.5 crores plus INR 1.1 crores is INR 6.6 crores is the additional cost, and that has impacted also the EBIT margin.

Sustainability has become important element of doing business. In Essel Propack's case, we have been foreseeing this, and I think I have shared this in the past, therefore, the company's R&D teams have been working on developing sustainable laminates; in a layman's language, a product which is made of single family of polymers yet providing the efficacy of the product filled inside what we call barrier properties inside-out, outside-in that you might have been familiar with this term when I have been talking in the past.

So we have 2 products that have been developed. One is Green Maple Leaf, which was probably announced earlier also, but GML, Green Maple Leaf, can -- was built in a way that only a certain category of products could be filled in those tubes and certain could not in terms of barrier properties. So therefore, while taking that forward, we have developed a new product called Platina that effectively can package any kind of product in the tubes while removing the aluminum layer from the laminate.

Now therefore, you might have heard of the terms ABL and PBL, aluminum barrier laminate and plastic barrier laminate. Now these 2 laminates that we have developed are Code 2 recyclability, which means that

Code 2, you might have seen us recycling triangles. That is a global sign for recycling, and then there are numbers in between those recycling. That depends only what material has been used in making that product.

In our case, we have Code 2. Code 2 denotes high-density polyethylene, HDPE. And for GML, we have a global certificate of recyclability, which comes from U.S. For Platina, we are expecting that certificate to come in a couple of weeks.

In the meanwhile, this product had been given to various customers for stability tests. The global need is, that by 2025, all the packaging material has to be recyclable. In case of India, it has to be recyclable by 2022. Therefore, your company is well positioned, but there is another catch. That catch is that this laminate is not just because of the barrier properties, but the way the technology evolved, the aluminum layer in the laminates were at center of developing the technology in terms of tube forming. Therefore, that aluminum layer in the laminate was acting as a conductor for energy for forming the tubes.

Now if you remove this aluminum layer, those machines don't go -- developed around the aluminum layer. There is a huge amount of capacity in the world which will become redundant, or if -- some will get redundant and some will have to be retrofitted to be able to form the tubes out of PBL. And we reckon that there will be a lot of capacity that will go out of use by that time, and that offers an opportunity for your company. Why? Because your company, Essel Propack, has 85% of its capacity which is PBL compatible. It's only 15% which we can -- with some investment, can modify.

Now that also will necessitate some of the customers who own their own tubes or have contracted the third parties to form their tubes in-house, will also face challenge, and therefore, they will also have to rethink their strategy, and therein lies the opportunity for Essel Propack to grow. And that, again, we are saying, as we've been saying 14 billion is Oral Care tube market, out of which Essel Propack supplies about 5 billion, balance is that 9 billion of tubes that will go through a churn and that will offer an opportunity for growth for Essel Propack apart from selling the laminate itself because we have these patented laminates, and that will help us to grow the revenue in the future.

With that, I will open the floor for question and answers. Thank you.

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#### Questions and Answers

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Operator [1]

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(Operator Instructions)

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [2]

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Yes. So some of the questions I have received in advance while the participants think of their questions. One question I have from Kotak Security, which is asking what is this INR 10 crore exceptional gain that has come?

That has come from the sale of the land and building which was from -- which was acquired from RAS Propack. And since we shifted that factory into Vapi, the land and building was spared, and therefore, we sold that land, and that's the profit we have -- exceptional profit that has come.

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Operator [3]

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We will take the next question, which is from the line of Sameer Gupta from India Infoline.

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Percy Panthaki, IIFL Research - VP [4]

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This is Percy. I'm sorry, I was not very clear on some of the initial remarks you made. Is it -- is understanding correct that there is some regulation which will make this aluminum barrier tubes -- I mean, will they be no longer compliant with the regulation, and therefore, it will have to be only plastic barrier tubes which will get sold after a few years. Is that understanding correct?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [5]

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Yes. Percy, in -- that is the translation of the regulation, the regulation which says going forward that any packaging material has to be sustainable. Now the definition of sustainable is that, that it should be -- and ultimately graduating to what is called circular economy, which means that you should be able to recycle the product without doing any intermediate process and should go into a recycling chain 100% without worrying about removing something or the other.

So therefore, how it translates it is that, in our case, we better remove the aluminum layer itself. Even though we did tell you that we have a solution for even recycling of ABL also through the project as we call Liberty, while that is there, but we thought let us stay ahead of the game and develop ABL structures. So yes, you're right. Your understanding is correct to that extent.

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Percy Panthaki, IIFL Research - VP [6]

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Okay, okay. And how is this a benefit for our company?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [7]

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How will it benefit? Because we are the probably first company who has the solution of PBL. Second, 85% of our capacities globally are PBL capable, while most other capacities are not. And therefore, it will offer an opportunity for us to grow. And in these laminate structures, we can use up to 30% of postconsumer recycled material. So we are already also working towards circular economy as well.

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Percy Panthaki, IIFL Research - VP [8]

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So when is this regulation actually coming this? You said in India 2022 and globally 2025.

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [9]

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That's correct.

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Percy Panthaki, IIFL Research - VP [10]

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Okay. So when are we actually going to at least in India start selling toothpaste with the plastic barrier tubes?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [11]  
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So Percy, what we have done is that we have put this laminate what is under stability test for the customers. So we have, obviously, tested that in our own laboratories. Now we have given these laminates to various customers across the world. They are put back in under the testing as to protocol. And we expect in next 3 to 4 months, various customers will come up with their answers. And that is a mandatory thing, but we are very confident because we have already tested that in our -- those in our laboratories.

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Percy Panthaki, IIFL Research - VP [12]  
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So like, do you think realistically the production of these tubes will become commonplace in India in the next 12, 18 months?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [13]  
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That depends on the customers' view, Percy, which customer takes what view. Some customers, which are possibly -- the global customers will be the first adopters of this because they have global operation and their global -- their CEOs have made announcements -- made public commitments -- that various kind of commitments. One, for example, is that they will reduce the consumption of plastic in their products by 25% by year 2022 or something. And some -- and then it is -- going forward, they are saying that we will make everything recyclable. So yes, it will become commonplace increasingly, but all of it will not happen, obviously, in one go, but that's the direction the world is moving.

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Percy Panthaki, IIFL Research - VP [14]  
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Right, sir. Coming to the quarter, India has -- AMESA has seen like almost 5% kind of decline. So first of all, what is the reason for this? And secondly, if you could just split out what is the growth or decline for Oral Care and Non Oral Care separately in AMESA?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [15]  
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So AMESA -- between AMESA -- let's keep Egypt out because Egypt has been growing good numbers, so its only culprit is India. In India, we have -- Non Oral Care has grown about 6%, whereas, Non Oral Care has declined about 10%.

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Percy Panthaki, IIFL Research - VP [16]  
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Oral Care has declined.

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [17]  
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So decline -- reason for decline is some of the brands that we service have suffered and partially also some brands probably we did not realize that have -- we have probably lost some wallet share. And having recognized that now, we have already started to repair the relationship, and I'm happy to say that we are progressing positively. And therefore, we may gain back that -- those volumes. And then the Platina solution or Green Maple Leaf solution will help accelerate that because that's one off the wish list of the brands to have a PBL solution.

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Percy Panthaki, IIFL Research - VP [18]  
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Okay, sir. Okay. And is it that -- I understand the wallet share point, but apart from that, is there a substantial sort of slowdown in the industry growth itself in Oral Care?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [19]  
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It's not -- what is happening is consumer has become price sensitive. And therefore, some of the shifts of the consumer have happened towards lower costs -- even the lower-cost brands or lookalike brands, which lookalike brands we as a policy, Essel Propack, do not service. And therefore, there is some impact on that. Some impact is because some brands we service have lost market share. I can't give you the names. So that has been the challenge, but de-growth is not so huge what we have seen actually.

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Percy Panthaki, IIFL Research - VP [20]  
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Okay. And sir, finally, on China, we understand there are 2 parts. One is laminate sales itself has fallen. So firstly, is that some normal phasing type of issue, and it was sort of just a timing difference? Or is there something else? And secondly, even excluding that, there is a 2% decline. So again, what is the reason for that 2% decline as well?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [21]  
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So again, China has grown nicely on Non Oral Care, the decline is in Oral Care. That decline in Oral Care is that the customers have lost -- our customers have -- some of our customers have lost their market share, which we have tried to compensate with the other brands, but it has not been enough. That's one.

Second, on the laminate sale, we stopped in U.S. owing to expecting the Trump tax coming in, and therefore, that excess inventory is now being consumed. And therefore, there was a less sales from China to U.S. That has impacted the lower sales of laminate. Besides, there is, again, as I said, PBL laminate that is being consumed are also partially exported out of India. So therefore, China has had some impact on that account as well.

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Percy Panthaki, IIFL Research - VP [22]  
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Basically, just a transfer of the volumes from China to India because, ultimately, the end consumer, which is U.S., would need that requirements fulfilled from one place or the other.

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [23]  
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Yes. So what we are trying to do now is that, while we have developed these PBL laminates in India because this is where our center of excellence is as far as laminate is concerned, we will transfer the knowhow of PBL to China going forward, and also the full normalcy of exports from China will begin from September onwards.

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Percy Panthaki, IIFL Research - VP [24]

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So is this the reason why the U.S. sales also -- I mean Americas sales also has been a little poor at 3% because, last quarter, you had done like 25%, 30%, and you were quite confident of growing America as well. So is this a lack of laminate the reason that the America sale has been poor?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [25]

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No. Actually, America sale has not been poor, except that we had expected a faster ramp-up of the expanded capacity in U.S., which we will now see the ramp-up will happen. Therefore, Americas is not a cause of some worry for us as far as growth is concerned. Colombia is growing nicely. We did have some dip in demand in Mexico in the pharma space because of the local conditions somewhat similar to India's on the pharmaceutical we spoke in previous quarters, but since that has been normalized in the month of July. So we have no -- absolutely no concern as far as Americas are concerned or Europe is concerned.

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Operator [26]

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(Operator Instructions) The next question is from the line of Ritwik Sheth from Deep Finance.

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Ritwik Sheth, [27]

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Sir, a couple of questions. Firstly, on your opening commentary, you mentioned that 9 million tube globally. Out of that, what percentage would you have any figure that would be not ready with this plastic laminates?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [28]

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Ritwik, 9 billion. We have actually asked our global technical guys to start getting the market intelligence and also the front-end guys to start looking at and assessing as to how much of such capacity will be absolutely redundant and how much of it can be retrofitted. So we're yet to have a real fix on this, but I reckon at least 3 billion to 4 billion of capacity will go out of market.

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Ritwik Sheth, [29]

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Okay. So that gives a player like us who have capability to step into that market.

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [30]

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Absolutely.

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Ritwik Sheth, [31]

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Okay. And what organization or what regulation would it cover -- that it covers entire Western region? So any particular guidelines?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [32]

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I'm not clear on your question, Ritwik.

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Ritwik Sheth, [33]

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No. In terms of regulation, because this -- we are hearing for the first time that it is compulsory to switch to recycled products like, as you said, sustainable materials.

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [34]

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Yes.

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Ritwik Sheth, [35]

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So what is the -- who is the regulator behind this?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [36]

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It was this Global Climate Summit, no, is part of that, actually.

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Ritwik Sheth, [37]

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Okay, okay. Are they applicable to everyone?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [38]

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Yes. U.S. has gone out of it, but that's the official position of the U.S. government, but the brands may not follow that, and therefore, brands will follow according to us. Under our understanding, brands will follow that trend and guidelines.

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Ritwik Sheth, [39]  
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Okay. Great. And you mentioned that INR 10 crores is exceptional gain from the land sale. What would be the total quantum?

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Unidentified Company Representative, [40]  
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INR 10-point-something crores, Ritwik. Whatever is the amount...

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [41]  
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INR 10.9 Crores.  
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Ritwik Sheth, [42]  
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Okay. So the entire amount is gain only, so it may be historical piece of land?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [43]  
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Yes, exactly.  
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Ritwik Sheth, [44]  
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Okay. And sir, how is the transition shaping up and has the new management? If you could throw some light on that, then it would be helpful.

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [45]  
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What transition, Ritwik?  
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Ritwik Sheth, [46]  
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No, the new acquirers coming in and in case there's any headhunting procedure going on? And if you could throw some light on that.

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [47]  
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So far, I'm the owner, boss, right?  
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Ritwik Sheth, [48]  
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Of course, sir.  
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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [49]  
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Yes. So that -- okay, since you have touched upon this, so let me give you whatever little I can share at this stage is that the open offer was closed on 9th and the Blackstone will have technically, I think, 2 weeks to scrutinize and to make payment to the people who have made us an offer. I do not know the quantum. I haven't had the time -- chance to speak to them. Once that is over, then they will complete the transaction with me.

So obviously, from 9th, about 2 weeks or thereafter, that's likely to happen. And then we will obviously have Blackstone coming in, but don't forget that Blackstone is not bringing in their management into it. The current management continues. As for me, I will not be, obviously, Chairman and Managing Director. The rest of the management is completely intact as far as Essel Propack is concerned. As I hear, as I have discussed, the management will remain intact going forward as well.

And as I said that, yes, Blackstone will have to look for my replacement, but in the meanwhile, as the transition service agreement provides, my services in a nonexecutive capacity will be available to the company and to Blackstone. So therefore, there is no hurry and pressure on that front, but I certainly see that Blackstone will bring in the relationship -- customer relationships on table and that will help us accelerate the growth and business wins.

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Ritwik Sheth, [50]  
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Okay. Great. And sir, just touching on the India part, what is the kind of expectations you would have for the second half of the year? Would we be looking to touch north of INR 250 crores on a quarterly basis? If you could throw some light on what is happening generally on the Oral Care because Oral Care, we are seeing that it's kind of going south since a few quarters, so just when Non Oral Care wasn't performing, Oral Care was performing, and this time, it's the other way around. So if you could throw some light on that.

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [51]  
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Yes, first quarter, Ritwik, was unusually soft. Since we have gone into the year with the second quarter, the trend that we see that July and August start faring better than the first quarter. And unless something extraordinary happens to the macroeconomic situation in India, we see that the second half will be BAU, business as usual. And that I would only say that if Blackstone is able to bring in the relationship which we know worked and where, at least in context of India, that can only help the revenues to be better.

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Ritwik Sheth, [52]  
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Okay. Okay. So we could expect this to be the trough quarter and then, going forward, things should improve?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [53]

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Yes. We are already seeing improvement in this quarter. Our teams have put in a lot of efforts to compensate the loss with smaller wins in different categories. They have been successful partially. And the pipeline on that is not just the pipeline, but the orders on that are becoming stronger by month. For example, they have -- they got a new customer -- new -- couple of new customers packing henna, Mehndi, right, which was not in tubes earlier. So those kind of things -- efforts are going on, and we are confident that we will be able to do that.

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Ritwik Sheth, [54]

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Okay. And since Q1 was a pretty soft quarter, should we assume a high single-digit growth for FY '20? Or could we still do double digit?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [55]

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See, we still are shooting for low double-digit growth, but geography like India right now is very volatile market, uncertain market. That's what is kind of making things uncertain. So certainly, high single digits will definitely be the growth.

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Operator [56]

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(Operator Instructions) The next question is from the line of Varshit Shah from Emkay Global.

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Varshit Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [57]

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Sir, firstly, Oral Care, so if I see Oral Care Y-o-Y revenues have been down by 10%. So is there any realization of it because of the passing nature of lower crude prices element into this? Or is it largely volume decline itself?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [58]

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I won't say much on the raw material price...

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Unidentified Company Representative, [59]

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Varshit.

Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [60]

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Varshit. It's mainly the volume of Oral Care in India.

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Varshit Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [61]

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And largely in India only, right, the decline?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [62]

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Yes. India and some bit in China, as I said.

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Varshit Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [63]

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Right, right. So again which you spoke earlier on the call.

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [64]

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Exactly.

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Varshit Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [65]

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Right, right. So sir, out of the (inaudible) decline, how much would be on account of your wallet share loss? Have you been able to quantify that number or it's difficult to say?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [66]

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Wallet share loss would be about 3%, I guess. 2% or 3%.

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Varshit Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [67]

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Okay. So largely the other part was due to lower demand for the end consumer for those products.

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [68]

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For certain brands which have lost market share, yes.

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Varshit Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [69]

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Okay, okay, okay. And sir, so this 2% to 3% probably can be gained back by you then?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [70]

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Yes, absolutely.

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Varshit Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [71]

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But the balance part looks like difficult to recover, particularly from an India perspective?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [72]

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No, no, no, Varshit, First of all, that 3% wallet share loss can -- the gain can be more than 3%, and the reason that I explained to Ritwik when he was asking question. And then some what we call BCP volume, business continuity plan volume, that I mentioned an example of henna or a Mehndi similar jump -- and similar products are being -- the customers are being won. So for example, if I lost, let's say, 50 million tubes from 1 single customer, I'm trying to gain that back from 5 or 10 customers same volume. So that's a bit of extra work, but that's okay. That's life, but that's how we will win back.

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Varshit Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [73]

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Sure, sure. Understood. And sir, just thing on (inaudible) China was stabilized now in the Q2, and as you mentioned, I think that Q1 you had this impact of tariffs. And I think that would have been now stabilized?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [74]

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So on account of laminate, Varshit, we will start to have normalized state from September onward, not before. So September for second quarter, as far as laminate sale is concerned, may still be soft, but we are trying to accelerate the growth on Non Oral Care, which China has grown nicely. We will push that a little harder.

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Varshit Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [75]

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Right, right. And sir, if -- one more last question on Non Oral Care. So I think pharma has been soft overall. So are you seeing growth compensated by higher -- by cosmetic and beauty segment industries? Or there's some other element also?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [76]

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Yes. Globally, generally, most of the growth in Non Oral Care is B&C, beauty and cosmetics, also some of it in pharma. And we are seeing re-bounceback in India on pharma space. For example, a very popular brand, Soframycin, has been converted into laminated tube and that has been sold, now is already in the market. That should put pressure on some other brands of pharma to convert to lami. And therefore, we are expecting good [news], while some existing customers' sales were lower in pharmaceutical because they had some stock for some reason, which I expect that those sales to come back faster.  
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Operator [77]  
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(Operator Instructions) The next question is from the line of Naushad Chaudhary from Systematix.  
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Naushad Chaudhary, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [78]  
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One question I have on the margins, sir. In this quarter, Non Oral Care revenue share has gone up substantially from around 41% last quarter to 47% this quarter. Despite the substantial jump, I don't see there is much move in the gross margins. So can you elaborate much more on this and help me understand why is it so, sir?  
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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [79]  
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Yes. Thank you, Naushad. Great point you make. So obviously, we have gained in Non Oral Care, but the gain in terms of volumes, while in percentage, it looks good because our Non Oral Care volume is still very low, but the loss on Oral Care of 10% has been more than the gain that would have helped in terms of delta margins. And therefore, you don't see that uptick in the margin while the Non Oral Care has grown. So that's really the issue there.  
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Naushad Chaudhary, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [80]  
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So in that case -- if you -- if you would recover your loss of share in Oral Care markets, that could be a substantial jump in the margin if understanding is correct.  
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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [81]  
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Exactly. So the -- so effectively, the economies of scale, or as we call them, the scale benefit, that will kick in also. So any additional volume sale will straightaway flow into the middle and bottom line.  
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Naushad Chaudhary, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [82]  
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Sir, in those cases, would you be able to surpass your barrier of 19%, 19.5% of margin and can go beyond 20% if your market recovers in Oral Care business?  
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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [83]

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Yes. So in steady state, Naushad, if this dip hadn't happened in India and some bit in China, the lowest margin, as you see in the segment reporting, is in Europe, and that is -- we are seeing that is, as the volume goes up in Europe, the scale benefit is coming in. And therefore, the profit ratio are rising faster, which you may not be seeing the -- be able to see in the first quarter, but since we have July month numbers and the visibility on the months going ahead, the margin improvement is significant in Europe. And therefore, that will -- and also in U.S. And therefore, we see that overall margins will push up, and it can go closer to 20%. And going forward, if everything goes as planned and as has been the business plan, it's -- yes, it can exceed 20%.

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Naushad Chaudhary, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [84]

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Okay. Any guidance you would like to give for this financial year full year margin?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [85]

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Full year margin guidance?

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Naushad Chaudhary, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [86]

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Yes.

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [87]

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We'll take that off-line, Naushad, because that's a little bit difficult.

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Naushad Chaudhary, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [88]

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Yes. No problem, sir. Qualitatively, last financial year, we did around 18.5%. Would it be better than last financial year or at par or below?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [89]

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Yes. So we are estimating -- previous year was about 18.6%. That is EBITDA margin. We hope that we will - this year, we will be able to maintain or grow that by 0.5 percentage point.

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Operator [90]

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The next question is from the line of Sameer Gupta from IIFL.

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Percy Panthaki, IIFL Research - VP [91]  
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Percy, once again. Sir, again, coming back to the Oral Care business of India, you mentioned that about 300 basis points is the market share loss, which means that even excluding the market share loss, the decline is about 7 percentage points. So basically, that's a huge amount of decline, sir, given that the market leader is 100% sort of -- we are 100% supplier to the market leader. For the overall business to have fallen 7%, it means that some other player has sort of declined in a huge fashion. I mean I'm not able to make sense of the numbers. If you can just give a little more granularity on this, it will help.

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [92]  
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See unfortunate -- I understand, Percy, what you are asking, and it's not unfair to ask. It's a fair point, but my tongue is tied because I can't give the names of the customers for you to be able to relate easily.

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Percy Panthaki, IIFL Research - VP [93]  
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Is it, sir, a case that maybe just the amount of tube stock with them has been sort of at a high level, and they are just running down their tube inventory, and once the inventory is in line with their comfort level, they will start ordering again. Is that the case, sir?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [94]  
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No. I -- In the first quarter, Percy, there is not a case of inventory correction. One major brand has lost significant market share, or it may be stock, a couple -- or both and where we were very strong with the customer has lost. And one customer, we have lost some wallet share, which we are trying to gain back more than what we have lost, so that we can compensate the other customer that we have lost. So that is the major impact.

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Percy Panthaki, IIFL Research - VP [95]  
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And what was the reason that this wallet share that we've lost that means that the customer has basically reached out to some other suppliers. So what was the reason? Has there been a capacity constraint or some quality issues on our side? So why is he reaching out to another peer? This is what I want to understand.

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [96]  
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So there was no complaint. No nothing. It's just that we have dropped the ball somewhere. That's the fact of the matter. I can beat around the bush and tell you stories, but that's not the fact. The fact is we have dropped the ball, and we are trying to pick that up again.

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Percy Panthaki, IIFL Research - VP [97]  
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Okay. And when you say that you're trying to make good that lost wallet share, is it with the same customer? Or are you just trying to find some new customers to compensate? And this particular loss that has happened with this particular customer, that is sort of permanent?  
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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [98]  
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No, no. We are doing both. We are trying to win back the same customer more than what we have lost and also trying to win some other customers.  
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Percy Panthaki, IIFL Research - VP [99]  
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And lastly, sir, there has been one sort of risk associated with Essel that basically with the world over Colgate does its own tubing, and in India, we are doing for Colgate. So can you just confirm that whatever wallet share loss, it is not from Colgate at least?  
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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [100]  
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Yes. It is not.  
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Operator [101]  
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(Operator Instructions) The next question is from the line of Ritwik Sheth from Deep Finance.  
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Ritwik Sheth, [102]  
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Sir, a couple of questions. Sir, what is the percentage of laminates in China revenue for the -- for FY '19?  
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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [103]  
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I think I'm giving you a [split off] answer. We may not have it ready, but it's about 50% of China revenue, I guess.  
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Ritwik Sheth, [104]  
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Okay. And that you said will get shifted to India from September -- from October onwards?  
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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [105]

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No, no, no. [We would mix parity]. What we are saying is that China will regain their sales of laminate from September onwards. That gap will be bridged. Then we are also -- because the world is going to move towards PBL laminate, which is already starting to happen in U.S., so some of the volumes of the laminate sale has also happened in favor of India. And therefore, what we are trying to do is we are trying to pass on the knowhow of making the PBL laminate from India to China so that China can continue to have their wallet share -- their share of exports.  
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Ritwik Sheth, [106]  
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Okay. Okay. And what is the CapEx plan for FY '20?  
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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [107]  
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Very low, Ritwik. We have been very, very cautious because, last year, we spent a lot of money. This year, we've been very careful. We've been holding on the purse very tightly. And we believe that, that will continue.  
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Ritwik Sheth, [108]  
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Okay. Any guidance you would like to give, like any number?  
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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [109]  
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Numbers, I don't remember, Ritwik. I can tell you off-line, but it will be less than 100, I guess, about 100.  
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Operator [110]  
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(Operator Instructions) The next question is from the line of [Arun Kumar from High Yield Fund].  
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Unidentified Analyst, [111]  
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Hello?  
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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [112]  
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Yes, Arun, go ahead.  
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Unidentified Analyst, [113]

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(inaudible) our Non Oral Care category performance, sir? And regarding the depreciation, is the trend expected to continue for the next 3 quarters?  
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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [114]  
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I'm not clear, Arun, of your question. Can you repeat, please?  
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Unidentified Analyst, [115]  
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Depreciation has increased by around INR 13 crores Y-o-Y. So is the trend expected to continue? Or this is one-off due to Assam commissioning?  
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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [116]  
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Depreciation. So depreciation, as I explained, in the first quarter, we have INR 4 crore -- about INR 5.5 crores on the first quarter, which came -- which wasn't there same period last year. So that, I assume, will continue because some of the CapEx may have been spread over the year. So we will simulate that for the subsequent quarters. But that is generally the trend. And there is this accounting standard change, where leased assets are taken as...  
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Unidentified Company Representative, [117]  
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Right to use -- Right-to-use basis. And therefore, that is giving an additional depreciation of INR 6.86 crores. So we have created that as an asset and, therefore, is being depreciated and that impact will continue. Therefore, INR 6.86 crores is a Q1 impact and that will continue.  
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Unidentified Analyst, [118]  
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Okay, sir. And sir, can you give a sense of the EBITDA margin for Oral and Non Oral separately, sir, on a conservative basis?  
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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [119]  
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That, Arun, is the same as far as percentage is concerned, but the sales price varies. Therefore, percentage absolute amount varies, but percentage will be a percentage.  
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Unidentified Analyst, [120]  
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Okay. Okay. And sir, (inaudible) East Asia Pacific, so how is the pipeline for the next 3 quarters? Do you see any pressure on that? Hello?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [121]  
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Yes, Arun, I'm not sure of your question again, sorry.  
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Unidentified Analyst, [122]  
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Yes. The pipeline for East Asia Pacific in the next 3 quarters?  
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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [123]  
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Pipeline for East Asia Pacific?  
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Unidentified Analyst, [124]  
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Yes, yes.  
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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [125]  
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The pipeline we are monitoring very closely. So in East Asia Pacific, Philippines is growing, continuing to grow nicely. We have -- putting in huge efforts on Non Oral Care growth and monitoring that, and China will maintain that growth momentum.  
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Operator [126]  
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(Operator Instructions) The next question is from the line of Abul Fateh from GeeCee Investments -- sorry, GeeCee Holdings.  
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Abul Fateh, Geecee Investments Limited - Senior Equity Analyst [127]  
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I have a question specifically on Americas. Your EBIT margin has fallen sharply to 9.6% this quarter. Was there any one-off in this? Or this is a thing that we need to take forward?  
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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [128]  
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Abul, that's the same thing I answered with the additional depreciation which has hit, while the ramp-up is yet to happen. So that is the one which is affected.  
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Abul Fateh, Geecee Investments Limited - Senior Equity Analyst [129]

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So the number that you mentioned INR 1.1 crores?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [130]

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No. That INR 1.1 crores was on account of Assam. Americas specific number I don't have right now but overall was INR 5.5 crores other than Assam. So overall was INR 6.6 crores globally, and additional INR 6.86 crores is coming due to the accounting standard change on account of leasing.

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Abul Fateh, Geecee Investments Limited - Senior Equity Analyst [131]

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Okay. So INR 6.86 crores impact on depreciation is due to Ind AS new standard?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [132]

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That's right.

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Abul Fateh, Geecee Investments Limited - Senior Equity Analyst [133]

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Okay. Got it. And what was the interest on the impact of Ind AS on the interest?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [134]

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On the interest, INR 2 crores increase on account of..

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Unidentified Company Representative, [135]

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Because of Ind AS.

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [136]

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Because of Ind AS.

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Abul Fateh, Geecee Investments Limited - Senior Equity Analyst [137]

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So in fact, your EBITDA margins would have got impacted positively due to Ind AS 116?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [138]

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Correct.

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Abul Fateh, Geecee Investments Limited - Senior Equity Analyst [139]

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So can you quantify that impact on the consol numbers?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [140]

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One second. INR 7.6 crores positive impact on EBITDA.

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Abul Fateh, Geecee Investments Limited - Senior Equity Analyst [141]

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Okay, okay. Thank you so much, sir. Thank you. Confirm, this is?

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [142]

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Yes.

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Operator [143]

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Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

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Ashok Kumar Goel, Essel Propack Limited - Chairman & MD [144]

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So thank you so much, ladies and gentlemen, for joining. And thank you Emkay Global for arranging this. Any questions, we are always available. Thank you so much.

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Operator [145]

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

