"Essel Propack Limited Q4 FY2017 Results Conference Call"

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Moderator: Ladies and gentleman good day and welcome to the Q4 FY2017 results call of Essel Propack Limited hosted by Emkay Global Financial Services. We have with us on the call today the management of Essel Propack Limited. As a reminder ,all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dhaval Mehta from Emkay Global. Thank you and over to you Sir!

Dhaval Mehta: Thanks Stanford. Good afternoon everyone and welcome to the Q4 FY2017 Earnings Conference Call of Essel Propack. We would like to thank the management for giving Emkay the opportunity to host this call. From management, we have with us Mr. Ashok Goel, Vice-Chairman and Managing Director, along with Senior Management Team of Essel Propack. We will start with opening remark by Mr. Goel followed by Q&A. Over to you Sir!

Ashok Goel: Thank you Dhaval. Ladies and gentlemen welcome again. We are pleased to close the financial year 2017 with a strong quarter with sales growth of 11.3% and a net profit excluding exceptional item of Rs.52.3 Crores, representing a 12% YOY growth and 27.4% sequential growth. EBITDA margin for the quarter improved 60-basis point year-on-year to 18.2%.

For the year as a whole, the sales grew at 11% if we exclude the flexible packaging business divested in Q2 of the previous year. We estimate our sales growth would have been around 13% but for the demonetization impact in India since November 2016. But for the demonetization impact in India and the one off cost of Rs.9.2 Crores incurred in the rationalization of Colombia and India manufacturing the year's EBITDA margin would have been around 18.6% versus 18.9% during the previous year.

Should we disregard the change in the excise duty, accounting mandated this year under the Ind-AS, the underlying EBITDA margin of 18.6% would translate to 19.2% under the earlier methodology, which is I-GAAP. Not much away from the previous year's achievement or the mission target of 20%. For the same reason the year-on-year growth in profit before exceptional items, 4.2% would have been closer to 15%.

Clearly the levers for reverting to the Mission 20:20:20 lie in getting back the following, which we believe can be addressed:

For one, our customer development process continues to be robust across categories. With the demonetization impact fast wearing off and the economic fundamentals in India shaping up well, the outlook for high double-digit sales growth is quite promising in India. However ,we would still need to negotiate some bump in the form of transition to GST during next few months , but we are ready with the product, capacity and the capability to seize opportunities thrown by accelerated economic growth post GST rollout and stabilization.

Second, the non-oral category is gaining traction in East Asia Pacific region. In Q4 we grew 24%. As the offtake issue with key customers start to bottom out , we see the non-oral care category driving value growth in the coming quarters in East Asia Pacific.

Third, the performance of the New Colombia unit during Q4 gives us confidence that the capacity ramp up to 1.75 times the previous year is well achievable. Together with the healthy topline being posted by Mexico and the new awards expected in US and Mexico, Americas should revert to high growth in the coming quarters.

Fourth, we are working to get Europe non-oral firing again. Organization and process for new business development has been revamped infusing a sense of urgency and accountability. Europe market continues to offer much potential and a 20% plus growth on our current base is not a difficult ask. Fair progress has been made in debottlenecking and improving the operational efficiency of the German venture that we acquired, which could further contribute to growth in the healthy German market.

Fifth, new innovations such as Mystik and Green Maple Leaf are being actively promoted for opening up new market opportunities, even though for Mystik, which is for hair colorant tubes, not much we have built in the current financial year's projections.

The mentioned levers also will drive up the non-oral share of revenue, which was static at 40.4% during the year. These can quickly drive up the ROCE and ROE which have declined in this year to 17.4% and 16.6% respectively, to our Mission 20:20:20 targets

Profitability continues to be a thrust area with targeted cost saving program across regions. We are all set to pilot '0' quality defect offering to customers as means to reinforce are competitive advantage.

The balance sheet continues to be strong with the exit net debt at Rs.704 Crores down by Rs.129 Crores from the level immediately after EDG acquisition in September 2016 demonstrating a strong cash flow. Average interest cost for the year is 6.4%, which is lower by 1% from the previous year. The debt equity ratio at 0.77 and debt service coverage ratio at 2.33% further underpin financial flexibility to seize any growth opportunity.

I believe we are well on track with strategy execution and equipped to deliver on our Mission. With that, I will open the floor for questions and answers.

Moderator: Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Sameer Gupta from IIFL. Please go ahead.

Sameer Gupta: Congratulations on a good set of numbers, Sir my first question would be on your forex, this quarter we saw forex gain of 45 million and last quarter if I recall we had a loss of around 73 million, which geography is actually baring this gain and given the FX rates what they are today, do we expect more gains coming in the subsequent quarter?

Amit Jain: You are correct that there is a foreign exchange gain in this quarter but it is all depending on the movements in different currency so you cannot predict actually whether it will be a loss or gain in the next quarter also. Also depending on the currency positions it varies.

Sameer Gupta: Sir, which currency is actually gaining?

Amit Jain: That I just need to check on the details. We can give you offline

Sameer Gupta: Sure, I will take that offline then. Sir, my second question would be on China. In China margins we have seen a sharp decline in this quarter despite good revenue growth of 10% and also a healthy growth in oral care. Sir what has given this weakness and is it likely to persist also going forward?

Ashok Goel: China, Sameer we still are straddled with the same story i.e. our cost are rising faster than the revenues and we are addressing that in multiple ways going forward but we assume that the oral care contracted customers offtake slow down has bottomed out, hopefully; even though we have said that couple of quarters ago but looks like it did not stop there and as a result we believe that there is a case for us to relook at our entire cost structure there.

Sameer Gupta: And subsequently the margins as well?

Ashok Goel: That is right.

Sameer Gupta: There is no input cost pressure over there. It is more to do with the operating leverage is what you are suggesting?

Ashok Goel: Absolutely.

Sameer Gupta: Great sir, last question on GST. The rate for plastic packaging or polymers has come at 18% if I am not wrong and this is also broadly similar to what you are paying in the current regime, is this understanding correct Sir?

Ashok Goel: Yes more or less, that is right.

Sameer Gupta: So basically this would be a non event for you except for the fact that there will be some amount of gains from the unorganized sectors. So sir can you give an estimate of how much would be the unorganized share today in the industry?

Ashok Goel: So, let me answer first part and second part I think I will depend on Roy Joseph to answer in terms of unorganized markets in the country. The GST, you are right , will not make a difference because we were in any case getting the credit of everything and passing on to the customers; but what we expect is that in the run up to GST depending on how the customers are taking view in terms of their own inventory shrinkage or inventory boost. But overall we think that there will be pipeline shrinkage of the inventories and therefore in the last month that is June we may see some lower offtake from our customers, but then after that we expect that people will rush to fill their pipeline and therefore in case there was a shrinkage in June then we expect the pipeline to bounce back up and therefore will have extra pressure on demand, for which we have kept ourselves ready in terms of capacity. So that is how we see the GST overall turning out. In terms of unorganized sector even though we do not cater to that sector, in case Roy has some information he will share.

Roy Joseph: Making tubes is more capital intensive. We find there is but very, very small portion of unorganized suppliers in the market. That will not be very significant.

Sameer Gupta: Great Sir that is very helpful. I will come back in the queue if I have more questions. Thank you Sir.

Moderator: We take the next question from the line of Dimple Kotak from SKS Capital and Research. Please go ahead.

Dimple Kotak: Congratulations on good set of numbers. Sir, I would like to ask what was the exceptional item we have on our books, what is it all about?

Ashok Goel: Exceptional items we have already put in the note. It covers couple of things, one is the Trade tax which was relating to the acquisition of joint venture so that is one-off item and the second item is that you are aware that in Egypt there was this currency devaluation once the government floated it from administrated rate to market-led rate so effect of that on the position. These are the two items which have been shown in the exceptional items.

Dimple Kotak: What would be the constitution of EDG to our revenue?

Ashok Goel: Revenue is about Rs.100 Crores for half year.

Dimple Kotak: So half year and in terms of profits?

Ashok Goel: In terms EBITDA it did have about 10% and profit this year the previous half-year has been negative.

Dimple Kotak: So when can you see it turning positive?

Ashok Goel: This year itself.

Dimple Kotak: I missed on the China remarks, how are we planning to see the revenues and the margins coming back?

Ashok Goel: There is two-prong strategy, Dimple there. One is to boost the revenues and therefore bring in the leverage on efficiency. Second is to reduce the costs themselves.

Dimple Kotak: Sir do we have any new customers for increase in the revenues?

Ashok Goel: Yes we do, we have new multiple customers both local brands, multinational brands.

Dimple Kotak: Under oral care.

Ashok Goel: In oral care as well as in non-oral care.

Dimple Kotak: Thank you and that is all from side.

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

Ritwik Sheth: Good afternoon everyone. Sir few questions, firstly you mentioned about EDG, should we assume that going forward in H2 EDG will see full turnaround and FY2019 will be the first full year of profit or should we expect FY2018 full year?

Ashok Goel: Ritwik, it will be FY2018. So for FY2018 for EDG to come to first on profit and then FY2019 for EDG to start giving the margin profile same as rest of Europe and then the whole of Europe to move up the ladder in margin profile in line with the global numbers.

Ritwik Sheth: Should we expect like EBITDA of 10% to 11% say 2 years down the line for whole of Europe?

Ashok Goel: Absolutely yes.

Ritwik Sheth: Sir, now that we have done with the India and Colombia shifting of the unit last year so what kind of cost synergy do you see and what kind of benefits can we expect. Firstly that we will get the 10 Crores back and plus in incremental to that what kind of cost synergies do you expect for FY2018 going forward?

Ashok Goel: Let me answer Colombia part and for India part Ashok Vashisht, the Finance Controller of AMESA will answer. The fourth quarter we saw the unit churning out good production and starting to serve the customers and there were backlog of orders. With that we hope that Colombia this year we will not only not have the one of costs but will be profitable because their production is 1.75 times of their original - that itself will bring in the economies of scale and therefore will push the margin profile. On India I will Ashok Vashisht to talk.

Ritwik Sheth: In the Colombia effect it is right now the production is 1.75 times of the previous run rate?

Ashok Goel: That is right.

Ashok Vashisht: This is Ashok Vashisht. In India we have now integrated all the three plants so in this financial year of 2018 we are hopeful we will be getting the efficiency of 1.5% approximately on operating cost.

Ritwik Sheth: 1.5%?

Ashok Vashisht: Absolutely yes.

Ritwik Sheth: Sir coming back to India although you mentioned that January to February was bad so does that imply that March had normalized and going forward Q1 already stable?

Ashok Goel: Yes you are right Ritwik, March did stabilize and bounced back and so far the order offtake is very good.

Ritwik Sheth: So we should expect like at least quarter-on-quarter growth of the lost sales and plus incremental growth as well right?

Ashok Goel: Yes, so Ritwik till now from March it looks positive. GST rates have only come in now. We are expecting GST will kick in by July 1. Some customers may shrink stocks so that is a risk. We have not seen any decline yet but we are waiting to see how that pans out.

Ritwik Sheth: Sir one last question on strategic point of view say may be next three years or may be five years also, on the non-oral care so we have been seeing last three – four years we have been fluctuating non-oral care on consolidated basis between 40% and 43% so when should we expect this base to move higher stake may be 45% for next three years and may be 50% over next five years so some light on that?

Ashok Goel: Ritwik there is a little bit of dichotomy there in that question. Let me try and demystify it if I can. So far we all have been believing that oral care has nothing more to grow. However, we are constantly proving that we continue to grow in oral care and we continue to grow faster in oral care than in non-oral care, which is why you see the non-oral care ratio fluctuating between 40% and 42%. So having said there is lot of oppotunities still left in oral care ,and I have always said oral care is not a villain it is the critical mass, the future long-term growth will come from non-oral care. T -his year we have grown in oral care at 8% and non-oral care at 6% - so obviously we have grown in both, we have grown faster in oral care therefore I have always maintained that non-oral care target is a moving target and I am not going to turn away our oral care business just to improve the ratio of non-oral care.

Ritwik Sheth: Yes definitely, that is what we have been stating since last few quarters. So basically we should expect lot of massive jump from current from non-oral care as far as the oral- care is growing broadly?

Ashok Goel: Yes.

Ritwik Sheth: That is it from my side, all the best, Thank you.

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

Nihal Jham: Good afternoon to the entire management. Sir first question on the performance in India despite on demonetization we have seen being stable and coming in flat year-on-year, so in the coming year what is our expectation and how do you feel is performance going forward?

Ashok Goel: In terms of India, we have large chunk of non-oral care customers with a strong pipeline both pharma and cosmetic that is growing, so we should see double-digit growth in India for the coming year. We may see in the first or second quarter we look at to see how the GST pans out but on the full year we see a double-digit growth.

Nihal Jham: GST I am guessing would only impact so Q1 and Q2 but for the year itself you would not expect much of an impact from GST?

Ashok Goel: I think we would expect, the demand could be higher post GST so that is what our expectation is and that is why we say full year will be a double-digit growth.

Nihal Jham: Absolutely. Generally the oral care side in India how has that been performing for us, are we be impacted by any change in the market shares as the players are seeing in the oral care side or we are very much insulated from that?

Ashok Goel: We now supply to all customers in the oral care space and so although there is a churn in the market share desk, we supply to all the brands in the oral care space so we are not affected by that.

Nihal Jham: Sure, just continuing on the AMESA region, looking at India, we have seen I think the margins that have really coming surprisingly pretty good in this quarter so any specific reason why this happened. I guess it is mainly related to Egypt and can we expect this to continue on the coming quarter also?

Ashok Goel: Apart from India we have the Egypt business and Egypt in November went through a phase where the currency was floating and it got devalued. We went in for price increases with our customers, which is in a timely manner, which has meant that we have secured our margins on one side while Egypt from a strategy perspective had a strong share in oral care and the entire strategy was to drive non-oral care so we have been growing very fast in the beauty and cosmetic space in Egypt. The investments in the last three years as part of the strategy have gone in that space and we have seen results with significant growth coming in that space in Egypt so that is yielding now in terms of margins and we expect to see that in the coming quarters also.

Nihal Jham: So we can expect to such thing in the margin that we run this quarter?

Ashok Goel: Yes.

Nihal Jham: Absolutely. Just one last question on China or EAP I think we mentioned that may be in this quarter we have not seen the turnaround in oral care, any indication from the customers we could probably understand when this can actually start turning around?

Ashok Goel: Well Nihal, the customers are constantly telling us that they will be taking the required offtake so obviously our customers either they are not telling us the real picture or they themselves believe that they got over the bump. Now whatever the case may be it is for us to really see whether they really stabilize. We believe they have stabilized because we also believe that some of our customers have done some internal organizational changes and new strategy in terms of their marketing and all that stuff. So customers have taken certain steps that we are aware of. Now when they really yield the result is for us to really see when the volume stabilizes and that is as far as the existing contracted customers are concerned but we are winning some business with the local brands and some other multinational brands and we have already begun the supplies to those customers and therefore we believe the volumes will come up. Will it go beyond what we have been or will it help us to maintain that is something we have to watch.

Nihal Jham: Absolutely. So is it the overall the oral market and China as being subdued or is it just that the customers we are serving or we have been facing this temporarily pressure or issues?

Ashok Goel: No, it is not just our customers. We have to understand that in China millennial as they call them that means the young people, there is a basic disruptive change in the Chinese market that has occurred. Now what does that mean, basically just go into the shopping malls in China there are less and less footfalls and why is that happening and therefore the physical shopping malls are coming under pressure? Why because millennial are sourcing 90% of their need through e-commerce and as a result you do not really I mean nobody is able to put a finger on the pulse as to which way the consumer behavior is moving, which product will be picked up by consumers and therefore there is a uncertainty in the overall market forecast and that brings disruptions to our customers and those disruptions are passed on to us and suppliers. That is the reality of the Chinese market today and therefore it is making to have the real forecast two, three, four months hence is becoming tougher and that is what we are challenged with.

Nihal Jham: Thank you so much. I will get back to you.

Moderator: Thank you. We take the next question from the line of Vrinda Aditya from Asit C Mehta. Please go ahead.

Vrinda Aditya: Good afternoon Sir. My first question is regarding the capacity utilization. Can you give me some figure like how much is the capacity utilization right now?

Ashok Goel: Thank you Vrinda. I have been explaining in the previous calls that capacity utilization why you guys look at is that what is the head space we have and therefore you can model how much capex we will do. So I keep saying that our capex will not be more than our depreciation and we are maintaining at that.

Vrinda Aditya: Pardon Sir, how much?

Ashok Goel: Will be same as our depreciation and our depreciation this year will be about Rs.161 Crores.

Vrinda Aditya: Sir if can you provide me on the segment wise how much different region we have capacities?

Ashok Goel: Vrinda, our capacities are fungible. When I say fungible, which means that most of our capacities can be used for either of the categories. So therefore, it becomes difficult to say that how much capacity we have for what.

Vrinda Aditya: My next question is regarding the total debt as you see on the yearly basis, for FY2017 your total debt has increased by 8% so how you are planning to use that debt and second part of the question is like if have any further planning for the debt like for FY2018 and FY2019 as far as your are planning to raise the debt or repayment like how it will be?

Ashok Goel: Yes Vrinda at the balance sheet date, our net debt is at 704 Crores which is down by 129 Crores from first of September 2016. So the debt, if you are comparing March to March that means March 2017 and March 2016 there might have been a increase of about 86 Crores and most of this that was raised for acquisition funding. When we say our capex will be equal to depreciation that means we are still having free cash flows and that does not always necessitate us to raise our debts. So in going forward, is either going to remain same or can come down unless we do some acquisition.

Vrinda Aditya: That is all from my side.

Moderator: Thank you. We take the next question from the line of Mr. Jignesh Makwana from Asian Market Securities. Please go ahead.

Jignesh Makwana: Thanks for the opportunity. I just want know Europe operation excluding EDG is still under pain, reason for the same and when can we expect recovery in our Europe operation excluding EDG?

Roy Joseph: Jignesh, as we mention that basically the non-oral care part of it, which is driven largely by the plastic tube and also some new generation laminated tubes that new business development has not gone to the level we had expected, part of it has also not entirely ours because while we ramped up and we supplied the customer also had some issues in the market place. Therefore, they could not bring up to the level they had earlier projected which means that, we are basically working to expand our new business development funnel. That is where Mr. Ashok was mentioning in the initial address that we tweak our organization as well processes in Europe. In order to be able to address much more comprehensively, so that we are also starting to factor in any risk of any of these projects not materializing with plan B sort of thing. That is where we are going to be focusing for this year and we should be getting back some of these volumes.

Jignesh Makwana: Secondly in the last call you remember that you guys were talking about some long-term contract we got through the EDG acquisition that being all of sudden. If you throw some light on that and what could be the quantum of that contract?

Ashok Goel: So Jignesh that contract was existing customer and we renewed that contract for another 10 years. So has that given me the increased business? Not necessarily, but yes it was expected that they would give some 20% more volumes which has come in.

Jignesh Makwana: Are any other technology or any product material available apart from the laminated tubes that you will be manufacturing?

Ashok Goel: In the tube industry generally yes there are two different technologies, which have come up in last three to four years, one which is called IML (injection molded tubes) and also blow molded tubes. We are closely monitoring the development of these. As we speak, we know that these tubes are more expensive than even plastic tubes, and it is not a scalable model in the sense that the way the process is, that you have setup a machine and the mold and that is the capacity that you can get and if you need to have more they are not very high speed machines like 500 tubes we gone up to. These machines will not be more than 50-60 tubes a minute. So, we are constantly monitoring it. Some customers are experimenting with it but has it seen a huge success, not yet. Can it be? We have to watch but then your logical question would be, would it make an impact on SL technology or testing going forward. I do not think so.

Jignesh Makwana But can we expect some material development over the next 2-3 years in this segment.

Ashok Goel: I do not believe so.

Jignesh Makwana: And last one is like in Europe are we facing some competition from Albéa particularly non-oral care laminated tubes? Because Albéa is pitching very hard for non-oral care laminated tubes in Europe markets?

Ashok Goel: Albéa has been our global competitor. They were, and they are, and they will most likely continue to be. Are they winning more business than Essel it depends which customer, which geography you are talking about and I have been saying that myself in some geography with the particular customer they are the primary supplier, I am the secondary supplier, with the same customer in other geography, I may be primary they may be secondary. So that keeps happening. There is nothing extraordinary that is happening.

Jignesh Makwana: That is all from side. Thank you.

Moderator: Thank you. We will take the next question from the line of Ms. Dimple Kotak from SKS Capital and Research. Please go ahead.

Dimple Kotak: I believe overall you have guided for 15 % topline growth and 20% profitability growth but if I have to put in across the regions, what will be the growth in each particular region from here on own?

Ashok Goel: Each region Dimple we can get you the numbers offline for global averages is what we have what I can say right now.

Dimple Kotak: Thank you.

Moderator: Thank you. We take the question from the line of Mr. Alpesh Thakkar from Centrum Broking Limited. Please go ahead.

Alpesh Thakkar: Good afternoon Sir, and congratulations for the set of numbers. My first question if one thing that you are explaining with regards to China market that the way the consumers are behaving there like they most of their personnel products like online consumers. So I just want to understand how does it change the dynamics for you because, finally the customers they are selling their products and you cater to those kind of customers who sell these personnel products. How is it affecting you there? The second question is on the growth outlook for America that, how will it pan out in couple of year?

Roy Joseph: Alpesh now in terms of China the distribution model change going to e-commerce which Ashok Ji explained. From our existing model as you said it is disruptive, so we have more local brands actually in the e-commerce space compared to the existing established brands actually getting more business. We are having significant share with the existing players. We are in the process of building our business and share with the new players. So there is a churn in the market and that is where we find that the existing players may not be gaining because of the new channels of distribution. That is where the business development and the pipeline in the focus of the China market is going.

Ashok Goel: On US, Alpesh you asked about America. So America as we explained Colombia already. So, in Americas we have three companies - Colombia, Mexico, US. Mexico has been doing very well for whole of last year and we expect the Mexico to grow further because we are getting some new contracts and we will add some capacities there. Same is the case with US where we are focusing more on non-oral care and we have some good pipeline and hopefully will be able to get the commercial business in this year and that is what will ensure that America's are growing and therefore the operational leverage will come back and it will bounce back to the profit level year before.

Alpesh Thakkar: Thank you Sir. That is it from my side.

Moderator: Thank you. We take the next question from the line of Mr. Ritwik Seth from Span Capital. Please go ahead.

Ritwik Seth: Sir thanks for the follow up. Just one clarification that 15% topline was as ex-EDG right?

Ashok Goel: Yes.

Ritwik Seth: Another 200 Crores of EDG?

Ashok Goel: Yes 100 Crores has already come in the last year, so yes 100+100=200 Crores.

Ritwik Seth: So the base business will be 2200 Crores in FY2017 which will be over on 15% and another around 200 Crores for EDG? Is that understanding right.

Ashok Goel: Now say it again Ritwik?

Ritwik Seth: Base business like x-EDG this year and net revenues is around 2200 Crores for FY2017 which will be around on 15% and plus another 200 Crores of EDG business?

Roy Joseph: Ritwik, the way we are looking at 2400 Crore is a turnover this year on top of that we are looking at 15%.

Ritwik Seth: On top of that. So, the base business will be only like 7%-8%, like x-EDG?

Ashok Goel: Now why do you say that if you take 100 Crores out of 2400 of this year so let us say 2300.

Ritwik Seth: Right and another around 85-90 Crores of excise duty?

Ashok Goel: No that excise duty has already come in this 2400.

Ritwik Seth: So 2300 Crore will grow 15%?

Ashok Goel: That is right.

Ritwik Seth: Thank you Sir.

Moderator: Thank you.

Dhaval Mehta: I have a couple of questions Sir. Coming with Europe EBIT margins, ideally this right way to the EBIT margins are sequentially because EDG we did not have in the last year same quarter. The margin they have improved from low single-digit to around 7.5%. Exactly what went right for the continent?

Ashok Goel: For Europe you mean.

Dhaval Mehta: Yes.

Ashok Goel: In Europe Dhaval if you remember we have that patent monetization income. I think last quarter, September quarter I have said that we have given a right to use one of the technologies of the patent we held and we are getting a royalty on that.

Dhaval Mehta: But that if I recollect it was like more of one of item, which should be?

Ashok Goel: I had said that we will get the continuous income for next three years. One year has gone by so two more years we may get income.

Dhaval Mehta: So assuming that if EDG business tax PAT positive next year then should we expect EBITDA margin of Europe to be in lower double digit by next year itself?

Ashok Goel: Europe has been at 11% EBITDA I think. 11% or 12% we will reach to the same level and then the loss in EDG is also not huge, the loss that we have is one of trade tax that tax will not be there anymore. Primarily the loss in EDG is on account of that. So it is not going to be a huge effort and whatever effort we have already in terms of some integration with rest of Essel Propack some of them have already yielding results and therefore, we debottlednecked some capacity already in Germany and that should help to improve the margins.

Dhaval Mehta: Sir, my second question is on India business as actually post demonetization and with expectation of GST in July most of the FMCG companies have clubbed basically new launches or new variants, so most of them are expected to be launched in H2 of FY2018, so there will be a series of new launches by most of the players which will be then H2 of FY2018, so how we will be able to like sustain that kind of huge volumes considering that assuming that volume comes?

Ashok Goel: There are multiple parts in India Dhaval. One is you are probably are talking about existing SKU's that we are servicing and various customers, so that is one and existing variants are also growing.

It does not matter which customer is growing more or which customer is growing less. As Roy mentioned that we are servicing almost all customers so we end gaining the business. Second one is in the non-oral care there is a huge development pipeline, which is been built in for pharmaceuticals, for beauty and cosmetics and for foods. So, some categories may be sensitive to GST in terms of rate variation but some that are benefiting also and some will not get impacted. So, I guess your question will get limited to the variants where the impact of the GST rates are probably going to be higher then there are two-third of it which is either gaining or no impact. We expect some growth there.

Dhaval Mehta: Sir, my last question is on America, so we are seeing from the last two quarters that business was stabilizing, We were seeing healthy growth across all the three facilities over there, so what actually went wrong in this quarter where again Mexico and the US geography started facing problems?

Ashok Goel: We did not face problem Dhaval, it was only Colombia, which took longer to stabilize in terms of new plant stabilization. In Mexico, it has been good all along for the year. One of the quarters may be aberration, which is okay, which kind of levels out for the whole year. US we particularly similar story as in Europe a particular customer had projected in non-oral care some big volumes and the brand did not do as well as the customer expected and as a result their offtake was lower we did not lose the customer or the wallet share just that in non-oral care I have explained in the past that you might win a customer but it depends on that particular brand if it is a new launch. It depends on that product to do well or not to do well. So this is where I have said that these are some new learning's that we are gathering and therefore when we start to fill in let us a capacity of 50 million tubes then we know that 50 million should not be just for one customer, we should have three customers who might need 30 million each and then if one product fails then you still have filled up your capacity, so, this is how we are re-tuning our business development as it is.

Dhaval Mehta: That is helpful Sir. Thank you very much. I do not think there are questions in the queue. Thank you once again for the opportunity to host this call. Would you like to make any closing comments Sir?

Ashok Goel: Thank you Dhaval and Emkay Global for hosting this call and ladies and gentlemen for joining us this afternoon. If you do have any questions you know how to reach out to us. We will be happy to answer. So, have a great day. Thank you.

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