

13 February 2023

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<b>Scip:</b> Equity 500135. NCDs 960311	<b>Trading Symbol:</b> EPL

**Ref.: EPL Limited (EPL)**

**Sub.: Transcript of Investors' call held on 7 February 2023.**

Dear Sirs,

Please find attached Transcript for Investors call held on 7 February 2023.

The above-mentioned Transcript is available on the Company's website [www.eplglobal.com](http://www.eplglobal.com) in Investors, Shareholders Information, Investor call transcripts.

<https://www.eplglobal.com/investors/shareholder-information/#investor-call-transcripts>

The above is pursuant to the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, for your information and record.

Thanking You

Yours faithfully  
For EPL Limited



Suresh Savaliya  
SVP - Legal & Company Secretary

Encl.: As above

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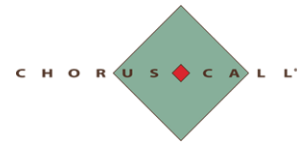
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“EPL Limited  
Q3 FY '23 Results Conference Call”  
February 07, 2023



**MANAGEMENT:** **MR. ANAND KRIPALU – MANAGING DIRECTOR AND GLOBAL CHIEF EXECUTIVE OFFICER – EPL LIMITED**  
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**MR. AMIT JAIN – CHIEF FINANCIAL OFFICER – EPL LIMITED**  
**MR. SURESH SAVALIYA – SENIOR VICE PRESIDENT LEGAL AND COMPANY SECRETARY – EPL LIMITED**  
**MR. DEEPAK GANJOO – PRESIDENT AMESA REGION – EPL LIMITED**

**MODERATOR:** **MR. PRATIK THOLIYA – SYSTEMATIX INSTITUTIONAL EQUITIES**



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**Moderator:** Ladies and gentlemen, good day, and welcome to EPL Limited 3Q FY '23 Earnings Conference Call, hosted by Systematix Institutional Equities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference being recorded.

I now hand the conference over to Mr. Pratik Tholiya from Systematix Institutional Equities. Thank you and over to you sir.

**Pratik Tholiya:** Thanks you, Tanvi. On behalf of Systematix Institutional Equities, I would like to welcome all the participants who have logged into this conference call of EPL Limited for Q3 and 9 months FY '23. On the call, we have with us Mr. Anand Kripalu, MD and Global CEO; Mr. M.R. Ramasamy, COO; Mr. Amit Jain, CFO; Mr. Suresh Savaliya, SVP Legal and Company Secretary; Mr. Deepak Ganjoo, President AMESA region. I would like to request Mr. Anand Kripalu to start the proceeding with his opening remarks.

**Anand Kripalu:** Thank you very much, Pratik, and hello everybody, and a warm welcome to the Q3 FY '23 earnings call. In the quarter under review, the operating environment remained challenging in some areas, while easing in other areas. However, in overall terms, the challenges of the past are clearly reducing and things are surely and steadily moving in the right direction. Importantly, all our cost saving efforts have also started bearing fruit.

With this context, I am very pleased to report solid results in terms of revenue growth and profit. Excluding EAP or East Asia Pacific, which continue to be impacted by COVID challenges, we posted double-digit revenue growth of 12.1%, which is 12.7% at constant currency, AMESA grew by 9.2%, Americas at 19% and Europe at 10.3%.

However, EAP revenue declined by 8%. Hence, overall, top-line growth was 7% on a reported basis and 7.8% at constant currency. Importantly, on a YTD basis, the personal care and beyond category has continued to grow faster than oral and now accounts for 47% of our business. But above all this, after 6 quarters of decline, we have delivered double-digit EBITDA growth and double-digit PAT growth. Excluding the impact of setup costs in Brazil, EBITDA was 16.6%, a rise of 91 basis points versus the same quarter of last year and 33 basis points sequentially. Importantly, absolute EBITDA was 13.2% higher than previous year. PAT at INR 639 million was also 11.9% higher, which included certain one-offs. Adjusted for these one-offs, PAT was 15.9% higher than the previous year.

During the quarter, performance in Europe was impacted partly by normal softening in the Christmas quarter that happens every year and partly due to order postponement by a key customer. Results are expected to bounce back in Q4. Including Brazil, EBITDA margin was similar at 16.6%. Absolute EBITDA was 12.9% higher than the previous year and PAT at INR 628 million was 10% higher. As far as Brazil is concerned, our plans for Brazil remains pretty



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much on track with customer trials now underway. We have included photographs of the plant in the investor deck for your perusal. As far as innovation and business wins are concerned, we have continued to pursue orders for the Neo Seam technology, which allows 360-degree printing. Fresh commercial orders have been received in Europe and Americas. Many of the innovative technologies are in the pipeline as we continue to lead the pack in innovation, be it tube, printing, caps or indeed any other tube-related technology. Some examples are also included in the deck. This quarter, our teams also received several awards and certificates of appreciation from customers like Colgate and Abbott.

We continue to lead the pack on product sustainability. We are on track on our ambition to double Platina, accounting for close to 10% of our volume. Our commitment to sustainability remains our highest priority. Hence, it is encouraging to get external validation for our efforts to build a circular economy.

I'm therefore delighted that EPL has received a rating of A-, which is in the leadership band by CDP, formerly the Carbon Disclosure Project, for performance on climate change. This is an improvement from the B rating last year and is amongst the best in the packaging industry. Also, the Ellen Macarthur Foundation has accredited EPL with a positive rating in progress on all its annual commitments towards the reduced, reuse and recycle targets.

On EcoVadis, on the back of our company-wide Go for Gold effort, we are confident that we will achieve a gold rating this year. Overall, we continue to make substantive progress towards our ambition of becoming the most sustainable packaging company in the world. This will be our route to building sustainable competitive advantage and long-term profitable growth.

Looking ahead, the last many quarters have been exceptional in terms of external challenges and headwinds. While many of these are easing, several do remain, specifically the cost environment in Europe and inflation in the US, which requires continued efforts on pricing. COVID in China is expected to continue to have an impact over the next few months and will be compounded by the annual Chinese New Year holidays this quarter. Thereafter, the general view is that China will bounce back very strongly. Importantly, India, a key part of our business, has performed strongly thus far, and this is expected to sustain. And while there is much talk about a global recession, we are thankfully not seeing any signs of it yet.

As we look ahead, we will continue to keep one foot on the accelerator of growth and the other foot on the brake of costs. Specifically, our priorities include to deliver double-digit revenue growth as China recovers, price increase actions to cover inflation-related cost increases, particularly in western geographies, continued focus on margin improvement through mix and cost efficiency. With supply chain easing, we aim to optimize capital allocation by sharply reducing inventory and further spreading our assets. And we will sustain focus on customer conversion to sustainable solutions, while at the same time, making EPL as a company even more sustainable.



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Considering all these factors, we remain cautiously optimistic about the future. We have faced a huge set of challenges over the last couple of years and are clearly coming out of all this stronger. We remain committed to continuous improvement so as to deliver sustained, profitable double-digit growth with margin recovery.

With that, we will open up the line for questions.

**Moderator:** The first question is from the line of Sanjesh Jain from ICICI Securities.

**Sanjesh Jain:** A couple of them from my side. First on the EAP side, now that China has opened up, the things have eased up a lot. With this, do we expect EAP coming back to a stronger growth starting Q4? And have we started seeing early signs of it now that they're already more than a month into that? That's number one. We talked about order postponement. I missed that comment. Can you elaborate what was that? So this is my first question.

**Anand Kripalu:** Okay. Let me take that. EAP, do we expect a bounce back, absolutely, we expect a bounce back. Q4 is hard for me to comment. And I want to be careful that I don't give anything more than is appropriate on this call. What I said in my opening comments is that the situation of COVID in China continues as of now. And post the Chinese New Year holidays, the infections have probably extended to rural areas as well. So it will take a couple of months for this to subside. Having said that, factories are now operational again.

So in this quarter, we have the impact of both Chinese New Year, which happens every year in Q4, so that's nothing new. But the impact of COVID, which is not behind us. My specific comment was, over the next few months, we expect a strong bounce back in China. And everything that I am seeing and hearing is pointing to that direction. The point of order postponement was on Europe where one specific large customer postponed a large volume of orders from Q3 to Q4. And therefore, I said, we expect a bounce back in Europe in Q4.

**Sanjesh Jain:** My second question is on the personal care revenue. It has declined sequentially. Now what is leading to a decline in the personal care revenue sequentially? Though I know YTD we have done quite well, but sequentially, it is down by 6.4% quarter-on-quarter. Is the lower discretionary spend impacting or it's more of a seasonality considering it's a winter season? What's hurting the sequential decline in the personal care?

**Anand Kripalu:** My recommendation to you is that when you get into categories, please look at YTD. You might have quarter-to-quarter variations and seasonality. The question is, is the business moving in the right direction? Is personal care and beyond growing faster than oral? The answer is yes. And on a consistent basis, on a YTD basis, the growth of personal care and beyond is significantly more than the growth of oral. So while oral has grown, personal care and beyond has grown much faster. And directionally, each year, our contribution from personal care and beyond is increasing.



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And like I said, YTD it's at 47% this year so far. So I don't think there are any concerns. I mean, I just want to say that this year, given the challenge in China, and China actually has a very significant personal care and beyond category, particularly in the area of beauty and cosmetics. And China, the overall market for the last couple of quarters has been unstable for all the reasons that we know, and I don't belabor that point. But I don't think there are any fundamental concerns. And I think the mix is moving in the right direction for the company.

**Sanjesh Jain:**

My next question is on the margins. On the one side, we are talking of reducing inflation both in power and freight cost and supply chain easing up. On the other side, we are talking of taking price increases in the western part of the world. So say, next two quarters should be touching up to that 18% kind of a margin considering it's an effort which may lead into a very quick results?

**Anand Kripalu:**

So I'm not going to give you a number because I shouldn't be giving you a number and probably I cannot give you a number. But our aim absolutely is to progress our margins and bounce back as quickly as we can. Now price increases, part of the inflation in energy and wage costs, so general inflation-related costs. The general inflation in the US is still the highest than it's been in decades. And therefore, there are cost increases associated with that. And that requires specific price increases from key customers, which we are pursuing and also getting. And that effort has to continue as far as Europe is concerned as well.

But overall, what I would like you to think about is the fact that -- and I can't tell you 1 quarter or 2 quarters. But overall, I think what I would like you to think about is the fact that we've delivered 16.6% margin in a quarter where we have had significant challenge in EAP for all the reasons we've discussed and specifically in Europe this quarter for reasons that we've discussed. I mean, you have to think about this business and what it can deliver when these come back to normative levels of performance. And I think that would give you an answer in itself.

**Sanjesh Jain:**

Last question from my side. On the Brazil side, now that we have started doing the customer trial, a commercial billing can be expected starting next quarter?

**Anand Kripalu:**

Yes, yes. Next quarter, definitely. Even this quarter, towards the end, there will be a trickle of commercial billing, if you like. But the real volumes will start -- but I can tell you that the customer is hungry and waiting and will lap up to the moment we are able to produce it. In fact, we have had other positive news from the same customers of wanting to give us more volume in other categories and also from other customers as well. So actually, in a very difficult country like Brazil, with all kinds of uncertainties -- if you think Indian tax is complicated, you had seen nothing if you haven't seen Brazil, and our teams have done actually a great job in managing this project, and the photographs are there in the deck, and to get ready for production.

Actually, we feel confident as we close into the start. And right now, by the way, tubes are already coming out of our line where we are doing checks and so on and so forth. So it's not that the tubes are not coming out of the line, but the customer is doing their own evaluation of the



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plant and the tubes and so on and so forth. So I expect that next quarter, we will start seeing, I can't say now, but I think meaningful volumes coming out of the Brazil plant.

**Moderator:** The next question is from the line of Sameer Gupta from India Infoline.

**Sameer Gupta:** Two from my side. So first of all, these price increase efforts with non-contracted customers, where are we in this journey? So assuming that the current level of RM prices sustain, how much more price hikes do we envisaged? And any quantification, any numerical to this point will be helpful, sir.

**Anand Kripalu:** I don't think we are in a position to actually quantify, but what I will tell you is this. We have got a good part of the price increases that was new to us from non-contracted customers. However, in some parts of the world, like I said earlier, there is continued inflation with continuing cost increases, and therefore, continued effort to get pricing. And in some cases, there have been delays, but now we've started getting a lot of that pricing through. And if you look at just the growth, you will realize that there is a good part of pricing as well coming through.

So I would say that pricing is an ongoing challenge, an ongoing journey, but apart from new costs that are coming, we've got a good part of the pricing. And in fact, if anything, there is some tempering of input costs. Now it hasn't gone back to pre-pandemic levels and there is obviously the foreign exchange issue of the INR versus the dollar. And therefore, the absolute benefit of raw material softening is not as much as we would like, but it is there. And therefore, those are -- that's the other thing that's going to help us to make sure that the pricing that we've recovered is adequate to cover the costs. But whenever there is no cost, we are taking efforts to get new pricing. But I can't quantify this more sharply for you.

**Sameer Gupta:** Second question from me is that, now going forward, fourth quarter onwards, we'll now be starting to enter a period where price hikes that we have already taken, at least in the contracted part and subsequently the non-contracted part, they will start to anniversarize. Now I understand that there is a premiumization angle. There is a personal care growing at a higher pace than oral care angle. But do you see delivering a double-digit growth in the medium term sort of a challenge in the current demand environment given that there will be anniversarization of price hikes taken?

**Anand Kripalu:** No, you're absolutely right. There will be lapping of the price. But let me take the case of at least this last year or so. Price increases have happened through the course of the year. So at any point, you will not be lapping the full year of price increases, you will be lapping some quarters of price increases. Now clearly, the revenue growth in the future have to come as a combination of three things; some level of volume growth, some level of price growth which will become less and more modest and some level of mix growth.

Now actually, we are confident given what we have seen and given our performance despite very, very significant headwinds in couple of regions in our business that as the pricing starts



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lapping and lapping the previous year, but also as we start coming out of COVID challenge in China and some of the shorter term challenges that we have faced in Europe. So it's not that the lapping of the pricing will be the only factor. There will be positive factors as well of the bounce back of regions that have been challenged with all the reasons that we know. And when you look at an aggregate of all this, absolutely, I said this in my opening comments, we remain confident in the medium term of delivering sustained double-digit growth in this business.

**Sameer Gupta:**

Just last one, if I can squeeze. I see a sharp deceleration in the revenue growth trajectory in AMESA. Can you give some color on the performance here? I understand that oral care as a category has been under a sort of challenge, but is there anything else in this part of the business that you are facing?

**Anand Kripalu:**

Sorry. Just repeat that question again.

**Sameer Gupta:**

So AMESA that growth -- Y-o-Y growth has slowed down from 17% to 9% this quarter. And I understand that oral care players this quarter in FMCG they have alluded to a very weak volumes, actually Dabur has said 4.5% decline this quarter in oral care. But apart from that, is there any other reason that we are seeing a softness in performance? If you could give some color on this?

**Anand Kripalu:**

So our constant currency growth in AMESA is 13.8%. So -- and you're aware of the currency challenge. So if I step back, as of today, am I concerned about volumes and revenue in AMESA? Actually, the simple answer is no. I have not felt any stress in our month-to-month performance in AMESA, including some of the customers. And they might have been their pipelines and so on, getting adjusted, and I can't comment on that. But as far as our business is concerned, across key customers, I think we remain fairly confident of continued momentum.

**Sameer Gupta:**

Sir, I mean, if oral care players in India are under pressure, how is it that you are not feeling that pressure?

**Anand Kripalu:**

So I think the simple answer -- and you're right about some of the messages you've given. But I'll tell you, we have a portfolio of customers and we have a very large market share within oral care. Now it is not as if the category is declining on volumes. So if somebody is losing, somebody is gaining. And I can tell you, there are some companies out there and some brands who are gaining very, very strongly. You may want to track them, they may not listed, I don't know. But there are some customers who are growing very, very strongly. So I would say that our volume is an aggregate of all the pluses and minuses of different customers. And our volume given our share is far into total category growth.

And the other thing, by the way, premiumization is continuing in the category. So one is the overall category's growth, but the overall category's value growth based on premiumization, and therefore, a higher revenue per tube. So I mean, I can speak for what we are seeing in terms of our own numbers.





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- Moderator:** The next question is from the line of Sumant Kumar from Motilal Oswal.
- Sumant Kumar:** My question is regarding Europe. So we have seen operating losses. So can you talk about how the -- how is the scenario -- demand scenario in Europe and margin scenario going forward?
- Anand Kripalu:** So I've already commented on Europe in my opening comments. And I have specifically called out the fact that there has been a volume-related challenge in Europe this previous quarter. And that lots of leverage, that lots of scale has impacted the overall P&L performance of Europe, and we've said that upfront. All I can tell you is that, it is not as if, that yes, there is any kind of formal drop to that business and we are beginning to see the volume. And I can share with you that that bounce back is starting in Q4, sitting where I'm sitting and as we speak.
- So it has basically largely to do with volume and scale leverage or deleverage, if you like, of the P&L and this is expected to get much better in Q4. Beyond that, Europe is a challenged region because of the macros in Europe. And Europe is one region where the effort on price increase is a daily affair. It's not a monthly or a quarterly affair because it's been a constant increase in costs as far as Europe is concerned. And minimal wage have gone up again in places like Poland and so on, and therefore, you need to go and get that from the customer. So the effort on price increases in Europe is constant. And therefore, that's one region where I will never say that we have done the job on price increases at all. It's ongoing and our teams have continued to get price increases consistently.
- Sumant Kumar:** So can it -- you were talking about the Q4 onwards we have a meaningful contribution from Brazil, okay?
- Anand Kripalu:** No. I said not from Q4 onwards. Q4, you might have a trickle of volumes coming out of the Brazil factory as we commission the plant. But from Q1 next year, next fiscal, we shall start see volumes that are a bit more substantive coming out of that plant. It will still not be operating its capacity, no plant operates in its capacity in its first quarter. But I think the ramp up will start in Q1 next year. That's what I said.
- Sumant Kumar:** And directionally, we had an issue earlier also. The Europe was dragging overall performance and even America was dragging. So now America has started performing and we have still problem in Europe. So can we expect from the next quarter onwards we have -- all the geographies, ex of Europe, there will be improvement. So all the geographies going to perform at one go?
- Anand Kripalu:** Well, that is absolutely our effort that every geography must improve and perform better. So I agree with you that Europe has been challenged this quarter for all the reasons we've discussed. But our plans are in place that every region must do better as we move ahead. And China probably will do better as the impact of COVID, the shorter term impact of COVID, which is likely to continue for the next few months. As that disappears, the general feeling is that we will have a big bounce back in China, and that might really happen Q1 onwards, the bounce back I'm



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saying as far as China is concerned. But over the next few months, absolutely. And certainly over the next couple of quarters, we should see all regions performing better than they have been performing right now.

**Sumant Kumar:** And as you have taken price increase in the past quarters because the pricing was higher -- raw material prices are higher. Now prices have corrected, are you going for renegotiation for the long-term contract?

**Anand Kripalu:** So prices have corrected but have corrected modestly. Once the polymer prices have also not corrected back to where they used to be. And secondly, part of that has been negated by the INR to dollar FX. Now where contractually we need to pass on something that you have to do contractually. But if there are other inflation-related costs, then our conversation will be more holistic to make sure that we don't give up on polymer-related pricing, but we also retain other inflation-related pricing. But clearly, based on contracts, you will need to do what you need to do, but our conversations will aim to be holistic both for contracted customers and even more for non-contracted customers.

**Moderator:** The next question is from the line of Douglas Turnbull from Invesco.

**Douglas Turnbull:** Could you just talk us through what is going on with the tax in this period? I'm not sure if there's some seasonality around that and there seems to be a few moving parts in the financial results. If you could just help us understand how that ended up being quite similar would be really helpful?

**Anand Kripalu:** I'm going to pass it on to Amit Jain, our CFO, to tell you about the taxing and throw a bit more light on those numbers.

**Amit Jain:** So the tax is the combination of various assessments, which happens. And if you see, normally, we should see tax as a YTD or a full year basis because there are quarters there will be pluses and minuses on the tax. So if you ask me the full year basis, the effective tax rate will be in the range of, say, 26% to 27%.

**Moderator:** The next question is from the line of Shalabh Agarwal from Snowball Capital Investment.

**Shalabh Agarwal:** Sir, I wanted to get some perspective on our growth vis-à-vis industry or some of the other leading competitors we have across the globe. If you can give some idea how we would have grown versus the industry last 9 months?

**Anand Kripalu:** So unfortunately I don't have specific numbers of how we've grown versus the industry. Our understanding is that our growth have more than kept pace with the industry. So we have a worth held share, but more likely, we have gained share. When you look at our growth versus competitors who have announced results in India and so on, you will see that our growths are ahead, both in India specifically, if you compare India-to-India results, our growths are ahead,



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but also globally when you compare, our growths are ahead. So therefore, in overall terms, I would say that we have more than kept pace paid with the industry based on the data that we have available.

**Shalabh Agarwal:** And sir, when we say that we probably have grown a little higher rate than the industry, not only these 9 months, let's say, over the last couple of years where probably our volume growth has been higher than the industry. So this incremental market share that we typically get, is it for new brands or new SKUs or we end up getting slice of the business from an existing SKU, existing brand which was probably getting -- taken by a competition? How does that work?

**Anand Kripalu:** Obviously, it's a combination of all of these. Existing customers growing and other new customers coming in and sometimes new brands coming in, new SKUs coming in. As you know that we have had good deals through innovation. Most of those by design are new brands, new SKUs, new formats. And largely speaking, because our growth in personal care and beyond, which includes beauty and cosmetics and pharma, is outpacing oral care. A good part of the growth -- incremental growth is coming from new customers, new business by calculation. So that's how at a very overall level it plays out.

**Shalabh Agarwal:** No, sir, what I was trying to understand more is at the overall level, given tube manufacturer or the tube vendor is quite intertwined with the entire product in terms of I guess the vendors get associated at the time of designing and printing and everything. How easy really it is to get a slice of the business from an existing SKU or an existing brand which has already been Catered by a competitor.

**Anand Kripalu:** Sorry. So your question is, how easy is it to get growth from an existing brand versus from a new brand. Is that the question?

**Shalabh Agarwal:** No. How easy is it to get growth from -- to get share from competition given other vendors are also equally intertwined with the principles of the customer process from the stage of designing and printing on the tube. So how easy is it to get that business from competition?

**Anand Kripalu:** So not easy. This business has high stickiness with customers. And therefore, our customers -- we have high stickiness with our customers and our competitors have high stickiness with their customers. Once in a while, you get disruptive shift of a significant volume from a competitor to us. And in the rare occasions, we may also lose something. So by and large, what happens is, you grow with your existing customers and hold on to them as best as possible. And it is their business to grow.

So if you look at some of the top customers in the world, I mean, they are also investing significant marketing dollars to grow their brands and grow their business and you grow with them. But constantly you look at your business development pipeline, which we do regularly, and make sure that you capture a higher share of innovation, a higher share of new formats, a higher share of new brands. That's what we do. And therefore, when you look at the aggregate,



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that's how you try and grow faster than the market. But to unlock a big global customer who have been loyal to another competitor for many, many decades, that's not easy. Equally, it's not easy for somebody to steal a big customer like that from us.

**Shalabh Agarwal:** So sir, our volume that we expect to get in Brazil, the customers would be getting those tubes from some other vendor, right? And are they committing those volumes to us or these are totally new brands or new products which these customers envisage launching in that market?

**Anand Kripalu:** No, no. Brazil from that customer is 100% share gain for us, just to be clear. So Brazil is not just shifting something. It is a 100% share gain in terms of volumes particularly that we are going to get over there. So somebody else is supplying that volume right now. And we will be getting that volume by setting up a plant that is the fit for purpose plant to supply this customer.

**Shalabh Agarwal:** And sir, I was just wondering, because Europe, as we said, is facing a problem and we're also experiencing that. And if you go through ETMA website, European Tube Manufacturer Association website, we see a lot of names which are private, obviously, Albea is private to that extent. Probably, Albea is a bit bigger one. So are you seeing any companies becoming available for M&A given what Europe is facing currently?

**Anand Kripalu:** I think that's a great question. And listen, we remain hungry for strategic M&A that will be growth and margin accretive. So we remain hungry. We have looked at some companies. And ultimately, we also have to get the right value for money. So you have to get it at the right valuation. So we have been hungry to scope out possible M&A opportunities. We've looked closely at a few in Europe, to your point. But it either hasn't had the right strategic fit or not commit the right price. But we absolutely remain open.

And you're right, in Europe, there is a large number of tube makers, some small, some medium and a couple very large. So if that environment remains right for M&A, and just watch this space, but we remain absolutely vigilant to try and exploit any opportunity that comes our way there. And honestly, it is part of our growth strategy. And we've only done one in the last couple of years which is CSPL in India. And to your point, I think Europe or anywhere else would be appropriate geographies for a targeted acquisition.

**Shalabh Agarwal:** And just sir lastly, how would Albea be -- like we are close to around INR 34,000-odd crores of sale. Would Albea be half of that or where would they lead broadly in terms of what your marketing intelligence tells you?

**Anand Kripalu:** We don't have fresh data on Albea because it is not published. We have old data. But give or take a bit, the two companies are similar scale, give or take a bit. Now their strengths are in Europe. And to an extent in the US, our strengths are in the eastern part of the world, so in the more growing markets, the like of India, China, etcetera, etcetera. So there is a difference in the footprint of our portfolio versus Albea. But broadly, I would say, the scale of the organization is similar or in the similar band.



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- Shalabh Agarwal:** Because I remember, in one of the earlier calls, you had mentioned that our nearest competitor would be in terms of volume will be half or some number like that. So I'm not sure if that was Albea or you were referring to some other companies?
- Anand Kripalu:** No, no, we'll talk about Albea only, and I'm not going to compare volumes. But broadly, I think their revenue will be somewhat higher than us because their ASPs tend to be a little higher, because like I said, their spotlight is on the Western world where ASPs tend to be a little higher and our spotlight is in the eastern world where ASPs tend to be a little lower. Something thing broadly is with a similar scale, but with strengths in different geographies.
- Shalabh Agarwal:** And sir, since you touched upon the ASP...
- Moderator:** Can you please join the queue back? The next question is from the line of Bhakti Thacker from Investec India.
- Bhakti Thacker:** Sir, on raw material front, so our COGS is up 7.5% and revenue growth is up 7%. So in light of polymer prices in INR terms coming down by at least 10%, why are we seeing this 7.5% increase in RM cost? Sir, basically, it's on gross margin.
- Anand Kripalu:** I'll just hand it over to my colleague to answer that question.
- Amit Jain:** See, I think you are comparing Y-o-Y as far as raw material is concerned. If you see raw material has gone up to the Q2 of this year and then it started softening. So if you see the sequential number, you will see that it is down by almost around 80 to 90 basis points.
- Bhakti Thacker:** So you are saying that to reflect on Y-o-Y terms, it will take -- it will come in lag?
- Amit Jain:** So sequentially, if you see, there is a softening on the price which is visible in the numbers as far as RM is concerned.
- Bhakti Thacker:** But Y-o-Y basis also it is down by about 10%.
- Amit Jain:** No. Y-o-Y basis -- on the landed basis -- landed cost basis, it is not down. If you see the polymer investors and if you convert that on a landed basis, it is not down 10%.
- Bhakti Thacker:** Okay, I will get back to you on that. Then one more other question is just to go back to one question that has been asked on oral care. Companies in India reporting slower revenue growth and even talking about category weakness. So in that sense, do we expect pressure in the coming quarters in AMESA?
- Anand Kripalu:** I think I've answered that question. See, the thing is, we don't know what we don't know. And our customers are probably closer to what consumers are doing and what's happening to the category. From our standpoint, we have not seen any softening of overall volumes as far as oral care is concerned or indeed our total volumes of AMESA is concerned. We have not seen any



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softening thus far. So I mean, I don't know what other people are saying, but I can tell you, our order books are intact.

**Bhakti Thacker:** Just last question. So now do you think for Americas the margins will expand from here on? We have seen a good amount of expansion this quarter?

**Anand Kripalu:** That is absolutely our intent that that will happen. In fact, there were some price increases that didn't come when it should have come in the previous quarters. They've all come now. So we should see the benefit of that. And as far as Americas is concerned, soon, it will start also benefiting from the Brazil investment that we've made. And that is also expected to be accretive to the Americas region. So yes, absolutely, the intent is to see margin progression in the Americas.

**Moderator:** The next question is from the line of Nikhil Upadhyay from SIMPL.

**Nikhil Upadhyay:** Two, three questions. One is, again, coming on the RM side. In this quarter, there would still be some cost of the high cost inventory we would be holding. So the sequential price drop would have -- I believe wouldn't have completely reflected in the gross margin expansion. Would that be right?

**Anand Kripalu:** Ramasamy will answer that.

**M. Ram Ramasamy:** You're right, we hold certain amount of stock. So Ind AS thing has not happened in Q3. It doesn't happen going forward. A little bit of cost reduction will happen going forward.

**Nikhil Upadhyay:** So in light of the price increases which we are talking of and along with the price reduction, if we look at historically, it's not on a quarter, but over last 10 years, if you look at our gross margin operating profile, we had been around that 56%, 57%. So do you believe that the combined effect of these two, we should come back to what we've always been doing or would it still take some time for us to reach there?

**Anand Kripalu:** So we've never given guidance on gross margin and I'm not going to do that today. However, my response to one of the earlier questions, as far as total operating margin is concerned, we absolutely aim to get back to where we used to be. And we are taking step-by-step actions to make progress towards the goal of getting back to where we used to be as a business. I've also indicated that today we have managed our margin progression and absolute EBITDA growth despite significant specific challenges in a couple of geographies. This is not going to continue.

And I think the time is not far away, but with those exceptional headwinds in some of those geographies. So when you put all this together, the commodities softening to the extent that we've discussed. The regions that had some kind of external challenge or the other, coming back to normative performance. And our overall ambition, which is also bolstered by our cost selling efforts, which are significant. When you put all this together, I would say our ambition on

operating margin is exactly what I said, is aimed to get back to where it is with continuous improvement in margin recovery -- continuous effort towards margin recovery. That's the story. I don't want to get into a line-by-line ambition on what is the right number.

**Nikhil Upadhyay:**

Sir, secondly, just a book-keeping question. Now what we've seen across most of the export-oriented or a multi-geography companies is that there has been a large forex losses which companies had reported because of the euro depreciation and everything. So is there any forex loss element for us in the European part of the business also or is this normal operating loss only without any forex loss?

**Amit Jain:**

So in the Europe, there is not any major foreign exchange fluctuation because we have a clear-cut strict hedging policies in place every country, wherever the hedging is possible. There are some countries where hedging is not allowed as a regulation, there we get hit. But otherwise, if your question is on specific Europe, no, we do not have a big amount to highlight that there is a loss on the foreign exchange.

**Nikhil Upadhyay:**

Sir, last question, Kripalu sir. If we look at our performance over the last 5 years from 2018 to YTD, basically on America and Europe, now at the run rate which we are in America and Europe at close to somewhere INR 200 crores, INR 210 crores quarterly, initially when we had reached that level, we were at a double-digit margins in America and i.e. single or mid-single-digit margins in Europe. Now given the same level of sales is there, the margin profile is still way below than what we were. I'm not including the COVID period, I'm talking pre-COVID because COVID was a disruption in terms of high growth and everything.

Now considering the cost element, inflation and everything, one is, do you believe that we can come back to those kind of margins which we were reporting pre-COVID in US and Europe? Secondly, for that to be achieved, is it a lot of higher volume, which will -- growth which will drive us towards that or are there cost elements which we can reduce and probably achieve?

**Anand Kripalu:**

No, I think it's a great question. So first and foremost, we absolutely believe that both Europe and Americas can get to mid-teens margin or thereabouts. We absolutely believe that. Now to your point, again, half the story is volume and revenue growth, but there are absolutely opportunities to optimize the cost base of those businesses as well. And we are looking at all those opportunities, which could include what we're sourcing, whatever else, optimizing factory cost, running cost and so on and so forth.

So I think the ambition to get back to the zone of mid-teens margins for both the western geographies, absolutely, intact is there. And yes, I have to accept the fact that we've been shy of that, but the ambition is there. And I think it will come through a combination of the two. And it just becomes hard to read, because unfortunately, the headwinds have been just so dynamic and unpredictable that when you take two steps forward then one step back happens because of something that you couldn't have forecast or anticipated. But we will absolutely be looking at all of these levers and vectors to make the business get back to that kind of margin zone.



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All I can't tell you is that whether it will happen in one quarter or two quarters or one year or two years exactly, but it won't be in the very distant long-term. It will be in the more medium term where we will absolutely aim to get back to those levels.

**Nikhil Upadhyay:**

Just one last question, if you permit me. You mentioned in previous question on acquisition that you would be looking at acquiring a facility in Europe. Now if we look at our own journey over the last 15 years. So if we look at our -- follow our annual report and our journey strategically in Europe, Europe has never been a period -- a very limited period when it's not been a pain point. So considering our own experience in operating in Europe and everything, would you still like to go for an acquisition in Europe?

**Anand Kripalu:**

No, I think that's a fair point. And I suppose your question then is, if you have an acquisition target that's margin and growth accretive, then do you have the management capability to manage it effectively, right? Effectively, that's what you're saying, that we are not able to manage a business in Europe because apart from a couple of years, Europe has been some kind of a pain point in one form or shape. That's what you are saying. I think we have to believe that we will do what it takes to make sure that if we put our money behind an acquisition that is strategic, then we will manage that to create value, otherwise that will be a big failure and disappointment, and I don't think we're going to let that happen.

I must also say that Europe had been through a lot of pain historically, since you're going back many, many years, and that business was fixed. I mean, decisions needed to be taken, plants needed to be shut down, machines needed to be moved. All of that was done to restructure the Europe business to get back to a reasonable level of profitability. That was done in Europe. And then it came through a period where things were better and then the last two years and in the last two years, it has been challenging. But please do recognize in the larger scheme of things, Europe still remains a relatively smaller part of our total business. But our intent is to make sure that we become a more meaningful player here. And M&A is a possible route to leapfrog in scale in Europe. Now clearly, we buy something and don't manage it well, then that will be management failure. So you have to believe that we are putting that kind of money behind it and we will also put the money behind managing it effectively.

So that's what I would say. But I think the -- I mean, there's nothing in Europe that says that it cannot be managed properly. And I think our own track record has shown that it was possible to do it, albeit a couple of years in the middle where we've had to take a step back in Europe for some reasons that I think is within our control, but many reasons that were outside our control. So that's our philosophy. And I think we will evaluate any opportunities, whether it is Europe or anywhere else, based on our ability to manage it and then what's the management resource we need to put behind managing it effectively to create value.

**Moderator:**

Due to time constraint, that was the last question for today. I now hand the conference over to Mr. Pratik Tholiya from Systematix for closing comments.





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**Pratik Tholiya:**

Thanks, Tanvi. On behalf of Systematix Institutional Equities, I would like to thank all the participants who had logged into this conference call. Thanks to the management for allowing to host the call and giving all the detailed answers to all the questions. I would like to hand it over to Mr. Anand Kripalu for any closing comments.

**Anand Kripalu:**

No, nothing else really. I just want to thank everyone who is on this call. First of all, who took time for this call. And more importantly, for having supported us through what has been a choppy period in this business certainly over the last couple of years because of all the reasons we know. And I just hope that step-by-step you are seeing us making progress towards not just recovery of this business, but actually taking this business forward. So thank you very much everybody for your faith and your time.

**Moderator:**

Thank you so much. On behalf of Systematix Institutional Equities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.