

Management Discussion and Analysis

Your Directors are pleased to present the Management Discussion and Analysis for the year ended 31 March 2020

BUSINESS OVERVIEW

Europe and Americas Region have had a good year in terms of revenue and margins. Our strategy of growing personal care category share in revenue has yielded good results. Our EBIDTA margin continues to improve on the back of favorable revenue mix, cost optimization and productivity gains.

The year for India and China has been challenging in terms of tough macroeconomic environment. Offtake for our customers was impacted. Our wallet share with key customers remains intact. In addition, we have been able to drive conversion to laminated tubes across categories. Notably, the conversion of a leading ophthalmic solution for a domestic major opens up new opportunities for us in the pharmaceutical segment.

However, we have a sticky & high wallet share business with global MNCs and emerging local leaders.

Sustainability is a key goal for all global majors in the FMCG and pharma industry. Your Company was the first in the industry to obtain the certification from the Association of Plastics Recycler (APR, USA) for a 100% recyclable laminate, christened as Platina. Within packaging, lami tube is a winning packing format over rigids and plastics. Your company is the global leader with end to end capability in lami tube manufacturing, which is well positioned to capitalize on the above trend. We partner with marquee global companies on sustainability initiatives. Our commitment to sustainability is reflected in offering innovative solutions across product categories. In the fully recyclable category we have Platina which is suitable for oral, hair and food products. Green Maple leaf is another fully recyclable solution that maintains product freshness and is suitable for beauty & cosmetics, toiletries and food products. Our tube laminates are designed to reduce plastic consumption. We also offer post-consumer recycled (PCR) tubes through our Etain format. These are made using a percentage of recycled plastic and is used in skin care, hair and oral products.

The World Health Organization declared the outbreak of COVID-19, a novel strain of Coronavirus, a pandemic. The coronavirus outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of the outbreak on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers, employees and vendors, and governmental, regulatory and private sector responses.

Employee safety measures have been adopted across all plants. These include use of personal protective gear, temperature checks, hands and machine sanitation and social distancing protocols.

The management is monitoring the developments and are taking necessary measures to mitigate the impact on the Company. We have been classified under "essential services" category.

We see ourselves as a play on growing consumerism across the world. We remain confident and are well poised to grow profitably and consistently.

We remain committed to our mission to deliver capital efficient, consistent earnings growth.

OPERATIONAL PERFORMANCE REVIEW

During FY20 your Company's consolidated revenue was ₹ 276007 lakhs, higher by 2% over previous year. EBIDTA at ₹ 55997 lakhs grew by 11.7% and margin expanded by 176 bps to 20.3%, mainly on account of revenue mix, cost optimization and productivity improvements. Operating profit before interest and tax (EBIT) grew by 4.7%. to ₹ 33018 lakhs with the EBIT margin improving by 31 bps to 12%.

- The personal care category revenue share improved by 223 bps to 44.8%.
- Revenue in India and China was impacted due to tough macroeconomic environment during the year and also due to

Covid-19 in the last quarter of FY20. Europe has posted robust revenue growth contributed by both oral care and personal care categories and also new customer wins.

- In Americas, there are new customer wins across categories and cross selling Personal Care products to existing Oral care customers. Region also gained wallet share in the leading oral care brand.
- Prudent capital allocation & spend across the regions.
- Business Development Pipeline across regions is very strong with focus on sub segments of personal care by applications.
- Healthy EBIDTA growth driven by revenue mix, cost optimization and productivity improvement initiatives.

The operational performance has been analyzed by business segments below.

SEGMENT PERFORMANCE REVIEW

The business is managed by four geographical segments viz.

- 1 Americas (with operations in the USA, Mexico and Colombia)
- 2 Europe (with operations in the UK, Germany, Poland and Russia)
- 3 AMESA - Africa, Middle East & South Asia (with operations in Egypt and India)
- 4 EAP - East Asia Pacific (with operations in China, Philippines)

SEGMENT FINANCIAL HIGHLIGHTS

The table below sets out the segment financial highlights for the year:

Particulars	₹ in lakhs		
	FY ended 31 March 2020	FY ended 31 March 2019	Growth
Revenue:			
Americas	61,837	58,888	+5.0%
Europe	67,714	58,517	+15.7%
AMESA	93,518	95,963	-2.5%
EAP	62,300	66,730	-6.6%
Profit Before Interest and Tax (PBIT)			
Americas	8,880	8,180	+8.6%
Europe	3,826	1,790	+113.7%
AMESA	10,756	12,721	-15.4%
EAP	9,978	10,473	-4.7%

Developments in each of the regions are set out below:

AMERICAS

Your Company has a strong market presence in both North and South America, through its wholly owned subsidiaries in USA, Mexico and Colombia.

The region's revenue growth is contributed by robust Personal Care Category growth of 17.1%. There are new customer wins across categories and cross selling Personal Care products to existing Oral care customers. Region also gained wallet share in the leading oral care brand. The Personal Care Category share of revenue improved by 240 bps.

The favorable revenue mix, productivity improvement and cost control measures ensured that the EBIDTA grew by 13.8% and the EBIDTA margin improved by 1.6% to 20.3%.

EUROPE

Your Company has units in Poland, Russia and Germany, from where laminated tubes and extruded plastic tubes are manufactured and sold.

Europe delivered a strong revenue growth, contributed by both oral care and personal care categories. New business was won in both the categories with large customers.

EBIDTA growth was 43.6% and EBIDTA margin at 12.8% improved by 2.5% versus last year, largely due to fixed cost leverage on the back of strong revenue growth.

Europe continues to have a strong business pipeline for future growth.

The key drivers for revenue growth are strengthening of the front end organization, high customer engagement focused on delivering best-in-class service and new business projects. Personal Care grew by 17% also reflecting increased share of “premium” revenue. Personal Care Category revenue share improved by 162 bps. Europe also won new business in the Oral category.

AMESA (Africa, Middle East and South Asia)

This Region is serviced by your Company from its six units across India and its subsidiary in Egypt.

AMESA revenue at ₹ 93518 lakhs declined by 2.5% due to tough macroeconomic conditions in India during the year and also on account of the Covid-19 pandemic impact in India during last quarter of the year. The decline in India revenue (₹ 80327 lakhs) by 5.1% was offset by strong revenue growth of 16.7% in Egypt. The Personal Care category revenue share improved by 105 bps.

We have been classified under “essential services” category. All our plants in India have largely remained operational, at varying capacity utilization, ever since the lockdown was announced in late March 2020. We already see significant improvement in capacity utilization post the balance sheet date.

Despite, the tough macroeconomic conditions in India, Covid-19 pandemic impact on revenue, the region EBIDTA margin improved by 92 bps to 22.2%, reflecting the cost optimization and efficiencies implemented across the plants.

Egypt continued to post robust revenue growth on account of both oral and personal care category.

EAP (East Asia Pacific)

Your Company operates out of 5 units in China and 1 unit in Philippines.

EAP revenue at ₹ 62300 lakhs declined by 6.6% on account of the Covid-19 pandemic impact in China and also lower offtake in oral care category by MNC customers. The decline in China revenue (₹ 59246 lakhs) by 7.3% was offset by strong revenue growth of 15.8% in Philippines. The personal care category revenue share improved by 261 bps.

All plants in China are operational and working with all safety measures and protocols in place. In March 2020 we saw significant improvement in operations and revenue compared to February 2020, the month in which the pandemic peaked in China.

EBIDTA margins of EAP improved by 1.7% to 23%, reflecting the revenue mix, cost optimization and productivity improvement implemented across the plants.

Philippines continued to grow consistently with a large part of its revenue arising from personal care category and further the share of personal care category improved by 12.2%.

CONSOLIDATED FINANCIAL PERFORMANCE OVERVIEW

(₹ in lakhs)

Particulars	FY ended 31 March 2020	FY ended 31 March 2019	Increase/ (Decrease)
Net Sales/Income from operations	2,76,007	2,70,693	+2.0%
Profit from Operations before Other Income, Interest and Exceptional items	33,018	31,535	+4.7%
Finance Cost	5,565	6,131	-9.2%
Profit before tax and exceptional item	28,476	28,553	-0.3%
Net Profit for the year to equity holders	20,725	19,253	+7.6%
Net Profit for the year to equity holders (excl. Exceptional Item)	21,664	18,948	+14.3%

Sales growth at 2% was mainly due to tough macroeconomic conditions during the year and also Covid-19 pandemic impact during last quarter of the year in India & China. Finance cost was lower by 9.2% due to prudent capex spend coupled with lower cost of borrowing negotiated. Profit before tax and exceptional items declined marginally by 0.3% on account of one-time insurance claim income in the share of associate company in the previous year. The net profit attributable to the equity holders excluding exceptional items for the year grew by 14.3%.

CREATIVITY AND INNOVATION (C&I)

The Research and Development (R&D) function (a.k.a. Creativity and Innovation within the Company) as always, has been one of the key drivers of your Company's growth as a leading global player. Your Company's C&I Team has successfully amalgamated its deep knowledge of the polymer science, conversion process and engineering to focus on developing sustainable tubes. Sustainability is a key trend driving / enabling our industry growth. As a responsible company, your company has always strived hard towards delivering solutions for better sustainability.

Continuing our lineage your company has made a major breakthrough innovation in recyclable barrier tubes. This innovation is recognized by Association of Plastic Recyclers (APR), USA and is a major step forward in delivering on Company's Essel's sustainability commitments. Cross sections of the latest innovated products of your Company are presented in the Features section of the Annual Report. The R&D facility of your Company has been recognized and certified by the Department of Scientific & Industrial Research, Government of India.

Your Company continues to protect the enormous intellectual property which the C&I function is creating. In this regard, your Company has filed till date as many as 154 patent applications in the different geographies in respect of the various inventions by its R&D and has already been granted 59 patents.

Your Company's research and development efforts continue to win accolades in several forums and among customers across the globe. Your C&I team will continually partner with customers and other stake holders in rolling out new products globally. The structured C&I development process ensures a healthy innovation pipeline and will continue contributing to the sales and profitability of your Company.

TECHNOLOGY

In the journey of developing sustainable tube packaging solutions, your company is focusing on incremental improvements each year. Increasing the Sustainability Aspect Ratio is one of the important part which has been

achieved recently. Your company is focusing on scaling up this solution in near future.

Your company is moving towards lean manufacturing, online shop floors enabling framework of disciplined quality control that is easily demonstrable to customers and creates a platform for process improvements. This is an extension of vision set forth by your company for delivering defect free tubes to customers. Increasing raw material yield by identifying reasons for waste, ensuring end-to-end traceability and increasing performance of machines, while providing on demand data for quick turnaround time.

Developing and adding SMART (better connected, more efficient, more flexible, and safer) and high speed technological innovations in tube producing assets are key areas of focus.

Customer Delight with Printing @ EPL:

Digital transformation & High end decoration...

While the 4 types of **digital transformation** in an organization relates to business process, business model, business domain, and cultural/organizational transformation, we at EPL have embraced it in all parts of our business including Printing technology.

For many years, your company has been in the forefront and a trendsetter in each of its process and technological advancement. 3 decades ago printing on laminates was mastered on letterpress technology which is still our backbone. With changing market dynamics and need, new opportunities in Beauty & Cosmetics, Food & OTC Pharma started to take shape. It was a natural move to offer customer high quality, high decoration tubes printed on high end combination technology and making it available in all our regions. We also ensured ease of operation of the front line operators with best in class investments in automation. Over the last few years, our customer needs have changed as they offered the market a range/ variety of products on the shelf addressing the breadth and the length of the consumer needs. For us, it resulted in more variations of the same product (more SKU's) and shorter run length (reduced MOQ). This generally creates bottleneck in the print shop floor.

Your company has quickly adapted to Digital PRINT technology which helped in delivering smaller quantities quickly. This also debottlenecked the conventional printing at our major locations across the globe. Today, we offer high end decoration and smaller quantity apart from continuing to service the large volume/ demands in the oral care market segment. With our decoration/ printing offering across the regions, we have built both capability and capacity to serve any customer requirement, which has further improved our customer engagement and speed to market.

Zero defect ...

Your company is working in past few years to develop various technologies to ensure customers receive defect free supplies from Essel

- 1) Pre-press Area: Your company established in 2019-20 seamless for artwork collaboration – on-line. Essel's Artwork Collaboration Tool (e-ACT) was implemented in all 4 regions (India, America, China and Europe). This was the first step to ensure a Zero Defect workflow.

With increased SKU/Artwork and frequent changeovers in the shop floor, it was EPL's commitment to ensure no mistakes/defects due to human error reaches customer's hand. Hence a well thought of / unique ZERO DEFECT workflow was finalized and investments were made both OFFLINE and ONLINE on the printing machines.

- 2) After successful proto type developments, major print lines are installed with zero defect inspection systems, which will tag faulty print impressions to make ejections easier in next process steps. Meanwhile process improvements team across globe is working to reduce such defects in the process.
- 3) Similar prototyping of auto inspection and ejection systems combined with process improvements to reduce defects are being implemented globally.

- 4) This entire program will be completed in six major tubing locations by FY 21 and rest of the locations by FY22.

We have already seen the benefits of Zero Defect workflow with decreased internal and external rejections and we have gained the trust of each and every customer by delivering ERROR FREE Packaging solutions from EPL

FINANCE

Prudent capital allocation and capex spends with productivity improvements, led to a healthy cash flows. Average rate of interest declined by 38 bps due to appropriate mix of various forms of debt, market conditions and better negotiations. Prudent exchange risk management has helped contain exchange loss in the consolidated financial statement at ₹ 253 lakhs. The consolidated net debt as at end of FY20 was ₹ 27416 lakhs, which is lower by ₹ 22394 lakhs compared to previous year end, representing a healthy debt (equity ratio of 0.42 and a DSCR of 4.55). Company continues to enjoy CARE AA rating for its NCDs and various long term bank facilities, and CARE A1+ rating for its short term bank facilities. The consolidated ROE and ROCE is at 14.8% and 17.8% respectively as compared to 14.4% and 17.0% in March 2019.

HUMAN CAPITAL

This year your company has focused on **Leadership and Talent Pipeline Development**. Each regional Talent Council nominated prospective 'High Potential' employees. Out of those eligible 22% were offered an opportunity to undergo an external talent assessment by leading global consultancy organisation and Career Plans have been charted for selected Talent.

One of the parameters to assess the success of our talent development process is to monitor the number of managerial vacancies filled internally. We are pleased to inform you that during the FY 2019-20, *51% of vacancies were filled internally.*

Your company focused on employee communication as part of **Employee Engagement** to keep employees abreast of developments in the company, including change of ownership. Efforts were made to address any possible employee concerns. For this, we leveraged *town hall meetings* in each plant, quarterly *global town hall meetings*, our *in-house e-magazine*, *wE-sPeak* and plant-level '*Focus Group Discussions*'. Our internal *social media platform* (namely JAM) was also used.

We reviewed and modified our existing policies, practices and made necessary improvements in our IT systems in order to fulfil the provisions of the **Personal Data Protection Regulation Bill (PDPB)** in India which was presented in the Parliament in December 2019. Using this opportunity, we enhanced our data protection process standards and systems in such a way that it complies with the data security acts that apply in all the countries where EP operates or has subsidiaries.

Employee Health is even more of a priority after COVID-19 became a global pandemic. Your management constituted a *Global Crisis Management Committee* of executives to oversee the work of the regional/unit committees in safeguarding employee health and business operations. The Regional and Unit Leadership teams, assisted by local HR, are ensuring stringent safety measures are followed, in accordance with local laws and statutes, whilst ensuring business continuity. Colleagues in EP China did an excellent job of maintaining safety of employees in China and resuming business operations in an optimal manner. The health situation in each of the countries that we operate in is being closely monitored and appropriate measures are being taken.

The Human Capital function continues to be focused on improving employee productivity, reducing employee cost and building necessary skillsets whilst building employee motivation through varied employee engagement initiatives.

INFORMATION TECHNOLOGY (IT)

You may be aware that last year your company has defined an IT Vision and Mission statement that crystalizes how IT will better enable business

success by collaborating with each function in the organisation. Just to reiterate, IT Vision and Mission statements have been articulated as below:

IT Vision:

- Deliver sustainable innovative technology solutions enabling our business to:
- Simplify, automate and digitize processes; thereby
- Reduce turnaround time to meet customers' demands; and
- Make our organisation future ready

IT Mission: 'SPRINT' -- Simplify, Predictive, Robust, Innovate, Nimble & Transform

- Simplify processes by Value stream mapping across all business functions to enhance efficacy and sustain our competitive edge
- Predictive approach via Data Mining techniques and driving Artificial Intelligence (AI) based decision making processes
- Robust, reliable and secure technology systems and infrastructure for seamless access to information.
- Innovate & implement solutions that empowers and engages end users in productive manner.
- Nimble & responsive service oriented architecture to deliver agile and cost efficient solutions.
- Transform into knowledge based organisation via continual learning, IT skill upgrade and create knowledge-sharing platform.

Your company strongly believes in the power of IT and it continues to invest in new technologies and thrives on processes automation which enables us to move on Digital Transformation and Business Intelligence journey. Our previous investments in Digitization's & Automation of processes has paid off and enabled our employees to work from home and carry out key business processes in a secured manner during this difficult period of national lockdown due to Covid-19 pandemic.

Your company has taken major step towards Industry 4.0 by initiating automation project ePAD viz. 'Essel Process Automation and Digitization' to completely digitize its shop floor manufacturing processes at one of its major manufacturing location at Baddi. Once tested and proven, solution would be rolled out in all other units. Your company under took major initiative to consolidate and standardize various master codes in the system which will yield in better management of materials.

While undertaking IT implementation we take reasonable care about IT security as part of "must do" activity. Your company already has taken initiative to be compliant in accordance with Indian Personal Data Protection Bill. Your company continues to invest in state of art Disaster Recovery systems, redundant networking system and processes which ensures business continuity in case of any unforeseen events. A Steering Committee comprising of the Corporate Leadership Team supervises the IT initiatives and IT effectiveness through regular monthly reviews.

INTERNAL CONTROL SYSTEMS AND ITS ADEQUACY

Your Company has firmly in place robust internal control systems and a structured internal audit process – both for financial controls and systems and processes to ensure not only the accuracy and reliability of the accounting process, but also to safeguard the assets of your Company.

Your Company follows a system of monthly business reviews, separately for each of the regions as a key operational control.

Your Company has in place a capital expenditure control system for authorizing investments on new assets and projects. Accountability is established for meeting timelines and achieving deliverables promised with the investment. This process is overseen by the Investment Committee of the Corporate Leadership team.

Your Company deploys IT supported work flows in different areas as a way to standardize our processes globally as well as to ensure control and safety of our data. Your Company also uses I.T extensively for customized Business information as a tool to facilitate analysis and taking corrective action.

Internal audits of systems and processes are conducted every year in all our units across the globe. The Audit Committee, the Statutory Auditors and the top management are apprised of the internal audit findings; updates of action taken on the internal audit observations are also given to the Audit Committee every quarter.

The Audit Committee of the Board, consisting of non- executive Independent Directors, reviews the quarterly, half yearly and the annual financial statements of your Company. A detailed note on the functioning of the Audit Committee and of the other Committees of the Board forms part of the section on Corporate Governance in the Annual Report.

During the year, your Company carried out a detailed review of Internal Financial Controls in the India units. The findings were satisfactory.

You Company proactively updates Policy guidelines and SOPs in keeping with the constantly evolving needs of Business and Compliances.

RISK MANAGEMENT

The Board of Directors and the Audit Committee of the Board review the business risks to which your Company is exposed and the various mitigation measures. The senior management team led by CEO and Managing Director is responsible to manage risks pro-actively, developing and implementing appropriate mitigation measures.

Key risks to which your Company is exposed include:

- Escalation in raw material prices and impact for long term contracts**
 - Your Company has incorporated raw material cost escalation pass through clauses in its long term customer contracts which enable the product prices to be revised periodically to reflect any variation in material costs.
 - Where possible, your Company continues to identify and establish alternate supply sources and/ or alternative materials in order to effectively manage the material costs as well as supply continuity.
- Single Product dependency**
 - Being an essential consumer product and an item of daily use, tooth paste as a category has major share in your Company's product range albeit to a much lesser extent than before. However, it also tends to have a stable demand during adverse economic environment. Your Company's engagement with all major brands in this category further fortifies its position.
 - Your Company now has ~45% of its revenue coming from cosmetics, food and pharma categories which is making for a diversified portfolio in terms of customers and application categories.
 - Tube as a packaging format is being increasingly preferred for products in paste/ gel/ cream and even viscous liquid form for reasons of ease of dispensing, convenience, resource reduction, capability for branding and decoration. Here too, Laminated Tubes are being increasingly sought after by FMCG brands compared to plastic and aluminum tubes.
 - Scale, technology, integrated manufacturing process, innovation capability, operational efficiencies are other factors which further strengthen your Company's competitiveness in the tubes space, as well its ability to work as global partner for large multi-national customers including local brands in each geography.

c) Attracting and retaining talent

As with any other business, high demand for talent globally impacts employee turnover. Your Company addresses this to the best possible extent by being an empowering organization with professional management culture and maintaining a lean structure. Contemporary HR practices such as career planning, competitive remuneration, performance management system, performance linked pay, stock options, skills and competency training are now well established across the Company and its subsidiaries. Top talent is given the opportunity to move across functions and geographies. Employee engagement survey is carried out annually and the findings are used to further improve employee satisfaction.

d) Currency volatility

The global nature of operations exposes the Company to multiple currencies; fluctuations in exchange rates could affect your Company's performance. Appropriate pass through clauses have been built into long term customer contracts in order to offset the impact on material cost due to exchange rate fluctuations. Prices get reviewed and revised in the event of significant currency movements. Your Company also has the policy of systematically hedging its trade and capital exposures using forward contracts. Wherever possible transactional currencies are aligned to the reporting currency in order to obviate exchange fluctuation impact.

e) Economic downturn

This could impact your Company's markets, suppliers, customers and finances leading to business slow down, disruptions etc.

- Your Company's products are linked to daily necessities of the consumers and their demand generally is not much impacted by the downturn.
- Your Company pro-actively monitors the emerging trends in consumption and offers relevant solutions to its customers so as to stay ahead of the curve.
- Your Company also is focused on containing costs and improving efficiencies as a means to stay competitive.
- Proactive supplier and customer engagement is another way your Company seeks to minimize risk to business continuity.

f) Competition

This could put pressure on volume growth and pricing. Your Company focuses on superior quality, shorter lead time and high service level as means to keep the customer satisfaction high. It also invests in technology driven innovation, Sustainability driven products/ process to sustain its competitive edge. Besides, its ability to support the customer across the globe and focus on efficiency

and value management help to sustain its position as a world-class provider of packaging solution.

g) Wage increases in the developing markets

This could impact costs and margins. Your Company is pro-actively using automation and asset productivity improvement as a means to contain the headcount and manage employee costs.

OUTLOOK

Your company has embarked on a journey to achieve its mission for Capital efficient, consistent earnings growth.

From a leadership point of view, the Board has been revamped with fit-for-purpose professionals, management strengthened and leveraging its global advisory network is underway. Focus on strengthening the front end organization and engaging our customers through best-in-class products and services will be a continuing goal. With our winning laminate format and strong R&D foundation, which drives innovative and sustainable solutions for our customers, coupled with a global scale of operations, we remain confident of our growth.

SIGNIFICANT CHANGE OF KEY FINANCIAL RATIOS:

There is no significant change in key financial ratios as compared to the ratios of previous financial year

CHANGE IN RETURN ON NET WORTH

The return on Net worth for the financial year 2019-20 has gone up marginally by about 0.4% to 14.8% as compared to preceding financial year return of 14.4% on account of higher profitability during the year.

MEDIUM AND LONG TERM STRATEGY

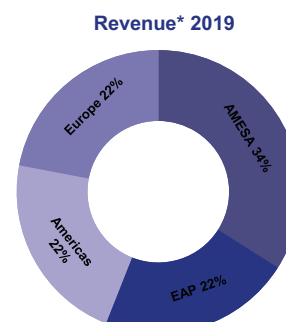
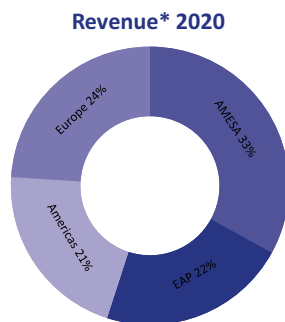
Growing the top line with superior margins and delivering capital efficient consistent earnings growth is the objective.

The strategy to achieve this is focus on executing on the following levers:

- Accelerated Personal care growth
- Continued Oral care leadership
- Innovation & sustainability that provides superior products & solutions
- Prudent capital allocation across regions

CAUTIONARY STATEMENT

Statements in this Annual report, particularly those which relate to management discussion and analysis, describing your Company's objectives, projections, estimates and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations. Actual results may materially differ from those expressed or implied.



*Net of GST recovered.