

Delay in price hikes hit EBITDA margin...

About the stock: EPL is the world's largest manufacturer of laminated plastic tubes (~8 billion tubes annually) catering to the FMCG and pharma space.

- Oral care segment contributes ~54% of total topline while the rest comes from the personal care category
- Focus on debt reduction, improving RoE, RoCE (~15%, 16%, respectively)

Q4FY22 Results: Price hike delay takes toll on EBITDA margin.

- EPL reported ~287 bps YoY (107 bps QoQ) fall in gross margin mainly due to higher raw material cost and delay in passing on the same. As a result, the EBITDA margin declined 213 bps YoY (60 bps QoQ) to 15.1%
- Consolidated revenue growth of ~9% YoY to ₹ 880 crore led by Amesa & Americas segment growth of ~14% & 12% YoY, respectively
- PAT fell 14% YoY to ~₹ 50 crore tracking lower EBITDA margins

What should investors do? EPL's share price has given a negative return of ~38% over the past five years (from ~₹ 259 in May 2017 to ~₹ 159 level in May 2022).

- We maintain our **HOLD** rating on the stock

Target Price and valuation: We value EPL at ₹ 175 i.e. 8x EV/EBITDA on FY24E EBITDA

Key triggers for future price performance:

- Performance of Amesa region has been a laggard (FY18-21), mainly due to lower volume offtakes. However, consolidation of Creative Stylo and improved product mix would help drive revenues of the region
- Performance of EAP and European regions has remained volatile amid pandemic led challenges. This, coupled with improved revenue contribution from personal care segment, would help drive future margins
- Expansion into Brazil will help drive future revenue growth

Alternate Stock Idea: We like Shaily Engineering under our coverage.

- We build-in strong revenue CAGR of 31% in FY21-24E led by capacity expansion and client addition
- BUY with target price of ₹ 2165



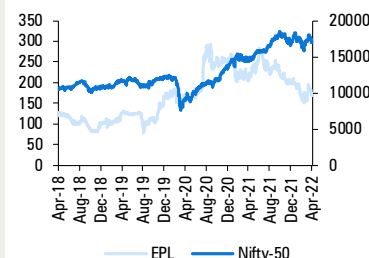
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	5,024.4
Total Debt (FY22) (₹ Crore)	657.2
Cash and Inv (FY22) (₹ Crore)	192.7
EV (₹ Crore)	5,488.9
52 week H/L	294/148
Equity capital (₹ Crore)	63.2
Face value (₹)	2.0

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	52.0	52.0	51.9	51.9	51.9
FII	14.9	14.6	14.7	15.0	14.6
DII	13.5	14.8	14.8	14.1	13.9
Others	19.6	18.6	18.6	19.1	19.6

Price Chart



Recent event & key risks

- **Key Risk:** (i) Region specific issues hurt topline growth (ii) Revival in EBITDA margin

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	2706.9	2761.5	3091.6	3432.8	8%	3737.9	4077.3	9.0
EBITDA	499.1	557.6	611.1	576.0	6%	679.8	777.7	16.2
EBITDA Margin (%)	18.4	20.2	19.8	16.8		18.2	19.1	
Net Profit	195.4	211.6	244.3	221.2	2%	272.0	334.3	22.9
EPS (₹)	6.2	6.7	7.7	7.0		8.6	10.6	
P/E (x)	25.7	23.7	20.5	22.7		18.5	15.0	
Price/Book (x)	3.6	3.2	2.9	2.8		2.7	2.6	
EV/EBITDA (x)	10.9	9.3	8.6	9.5		7.9	6.7	
RoE (%)	13.9	14.0	14.8	12.1		14.7	17.1	
RoCE (%)	16.8	15.3	16.2	12.6		15.9	18.5	

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results:

- Consolidated revenue increased ~9% YoY to ₹ 880 crore led by ~14% and ~12% YoY growth in the Amesa and Americas regions, respectively. EAP and Europe regions revenues grew albeit a slow pace of ~7% and 4% YoY to ₹ 197 crore and ₹ 209 crore, respectively
- Sharp increase in raw material prices (up in the range of 16-56% YoY in Q4FY22) and delay in passing on of the same (pass through with a quarter lag) dragged gross margin down ~287 bps YoY. The EBITDA margin declined ~213 bps YoY (58 bps QoQ) to 15% led by lower gross margins
- PAT declined 14% YoY tracking lower EBITDA margin and higher interest outgo (up 32% YoY) during Q4FY22
- Amesa regions (36% of revenues) revenue increased 14%YoY to ₹ 314 crore led by customer addition. The reported EBIT margin declined 70 bps YoY to 8.8% owing to higher raw material prices
- EAP region (25% of revenues) revenue growth at ~7% YoY to ₹ 197 crore was hit by lower volume offtake in China due to pandemic led lockdowns. The segment EBIT margin declined ~360 bps YoY to 8.1% due to higher raw material prices and low operating leverage
- America region (21% of revenues) witnessed revenue growth of ~12% YoY to ₹ 196 crore, supported by easing of travel related restrictions (which helped drive travel tube demand). Reported EBIT margin declined 190 bps YoY to 9.6% tracking higher RM costs and employee costs
- Europe region (22% of revenues) witnessed slower revenue growth of ~4% YoY to ₹ 209 crore, mainly due to low demand of personal care products. The EBIT margin declined 450 bps YoY to ~5% due to higher raw material prices and labour charges

Q4FY22 Earnings Conference Call highlights

- **Demand Outlook:**
 - The management maintained its guidance for double-digit revenue growth supported by revival of business in Amesa, EAP and Americas
 - The company expects revenue growth in coming years from business in Brazil on account of commitment received from a global customer but the meaningful impact on revenue from Brazil operations is expected to start from FY24E
 - Business in Europe was affected by Covid led disruptions. However, with easing restrictions and lower Covid Cases, revival of business is expected in this region from Q1FY23E
 - Lockdowns in China have impacted the company's operations in EAP region adversely. However, with the opening up of economy, the company expects higher volume offtake from EAP region
- **Margins:**
 - Higher raw material costs in a volatile environment along with inflationary pressure impacted margins negatively
 - The management expects EBITDA margin to go up supported by taking price hikes to recover raw material costs along with an improved product mix

Exhibit 1: Peer Comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Shaily Eng	1,652	361	581	725	813	17	15	17	18	22	39	67	79	12	11	17	17	12	11	16	16	68	43	25	21
Mold Tek	2,325	479	631	716	867	20	19	19	20	48	64	77	98	20	19	25	26	19	14	22	22	41	34	30	24
Time Technoplast	2,081	3005	3657	4051	4612	13	14	14	15	108	199	228	302	9	13	13	15	6	10	11	13	19	10	9	7
EPL	5,024	3092	3433	3738	4077	20	17	18	19	244	221	272	334	16	13	16	18	15	12	15	17	21	23	18	15

Source: Company, ICICI Direct Research

EPL has reported a muted bottomline CAGR of 2% in the last five years dragged by EBITDA margin contraction (from 18.3% in FY17 to 16.8% FY22). Delay in price hike, adverse product mix and low operating leverage dragged the overall EBITDA margin. On the topline front, the company reported muted revenue CAGR of 5% in the Amesa regions (largest topline contributor), which restricted its consolidated revenue CAGR at 8% over FY17-22E. While the management guidance suggests strong business recovery, going forward, we believe EPL’s re-rating will be possible with secular growth across regions. We cut our PAT estimates by 4.2% and 1.8% for FY23E and FY24E, respectively. We model revenue, PAT CAGR of ~9% and 23%, respectively building-in EBITDA margin recovery to ~19%. We value EPL at ₹ 175 i.e. 8x EV/EBITDA on FY24E EBITDA. We maintain our HOLD rating on the stock.

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY21	YoY(%)	Q3FY22	QoQ (%)	Comments
Revenue	880.2	810.2	8.6	883.4	-0.4	Revenue growth was largely driven by Amesa and Americas regions. The oral care category revenue increased 8% YoY
Other Income	2.2	3.0	-26.7	3.1	-29.0	
Raw Material Exp	405.1	349.6	15.9	397.1	2.0	Delay in passing on price hikes results in 287 bps drop in gross margin YoY
Employee Exp	161.8	157.6	2.7	169.6	-4.6	
Manf & Other exp	180.2	163.2	10.4	178.0	1.2	
EBITDA	133.1	139.8	-4.8	138.7	-4.0	
EBITDA Margin (%)	15.1	17.3	-213 bps	15.7	-58 bps	Savings in employee costs restricted overall fall in EBITDA margin at 213 bps YoY (58 bps QoQ)
Depreciation	63.1	60.1	5.0	64.2	-1.7	
Interest	11.4	8.6	32.6	10.3	10.7	
PBT bef expc items	60.8	74.1	-17.9	67.3	-9.7	
Profit from associ	0.0	-0.2	-100.0	-0.6	-100.0	
PBT	60.8	74.1	-17.9	67.3	-9.7	
Total Tax	10.7	15.5	-31.0	8.2	30.5	
PAT	50.1	58.4	-14.2	58.5	-14.4	PAT decline is attributable to higher interest costs and lower EBITDA margin

Key Metrics						
AMESA	314.0	276.6	13.5	322.5	-2.6	Favourable base and new customer addition helped drive segment revenue
EAP	197.1	184.9	6.6	245.9	-19.8	Pandemic led lockdown hit volume offtake in China
Americas	196.4	174.9	12.3	189.9	3.4	Demand recovery in personal care products helped drive overall segment revenue growth in Q4
Europe	208.6	200.2	4.2	173.2	20.4	Low demand for personal care products drags overall revenue growth in region

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	3,724.0	3737.9	0.4	4102.2	4077.3	(0.6)	We slightly tweak our revenue estimates for FY23E-24E considering FY22E performance. We build in revenue CAGR of
EBITDA	686.8	679.8	(1.0)	804.3	777.7	(3.3)	
EBITDA Margin %	18.4	18.2	-21bps	19.6	19.1	-53bps	Factoring in FY22E performance, we slightly tweak our margin estimates downward for FY23E-24E
PAT	286.7	272.0	(5.1)	341.8	334.3	(2.2)	
EPS (₹)	9.1	8.6	(5.1)	10.8	10.6	(2.0)	

Source: ICICI Direct Research

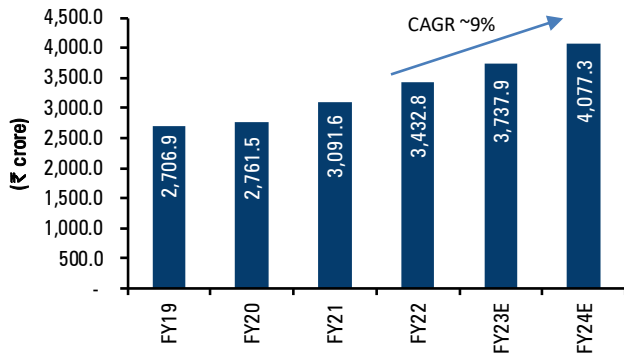
Exhibit 4: Assumptions

	Current				Earlier			Comments
	FY20	FY21	FY22	FY23 E	FY24E	FY23E	FY24E	
AMESA Growth (%)	-2.4	6.1	23.4	8.6	9.6	10.6	10.6	New customer addition to help drive Amesa segment revenue at CAGR of 9% in FY22-24E
EAP Growth (%)	-6.6	25.5	10.3	9.5	10.5	10.5	10.5	Favourable base, easing of lockdown restrictions in China to drive future demand of beauty & cosmetics and pharma categories will help drive segment revenue CAGR at 10%
Americas Growth (%)	5.1	5.4	12.9	7.1	6.1	5.0	5.0	Addition of new customers and wallet share gain from the existing customers to help drive segment revenue
Europe Growth (%)	15.7	13.5	(2.6)	6.4	9.5	7.1	7.1	Normal business activities and increased demand of personal products would help drive recovery in European business

Source: ICICI Direct Research

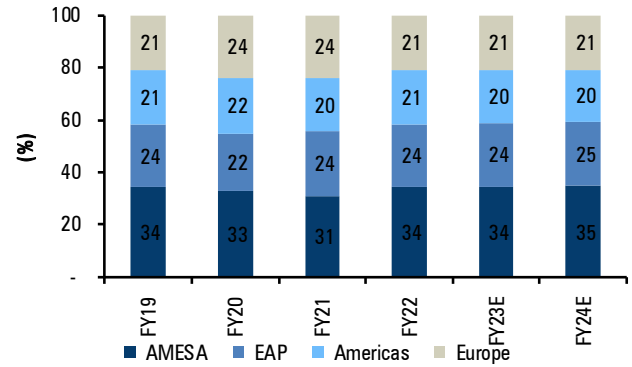
Financial story in charts

Exhibit 5: Consolidated revenue trend



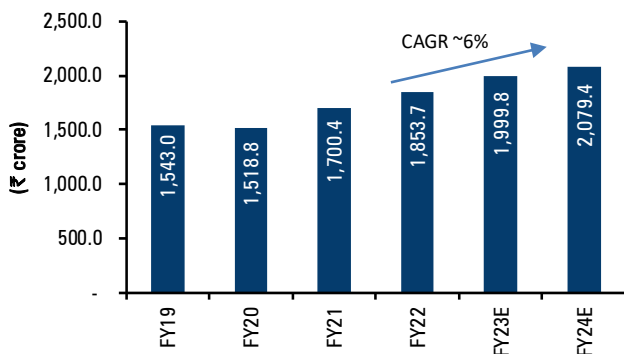
Source: Company, ICICI Direct Research

Exhibit 6: Region wise revenue contribution



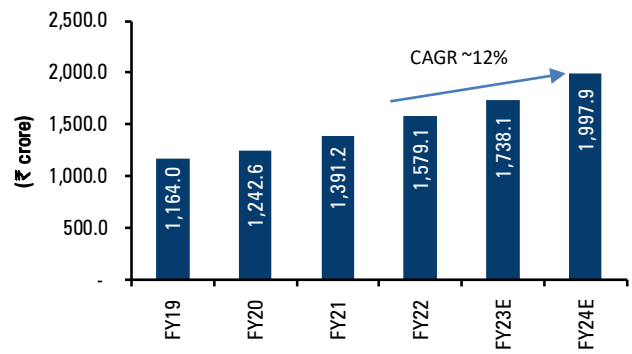
Source: Company, ICICI Direct Research

Exhibit 7: Oral care revenue trend



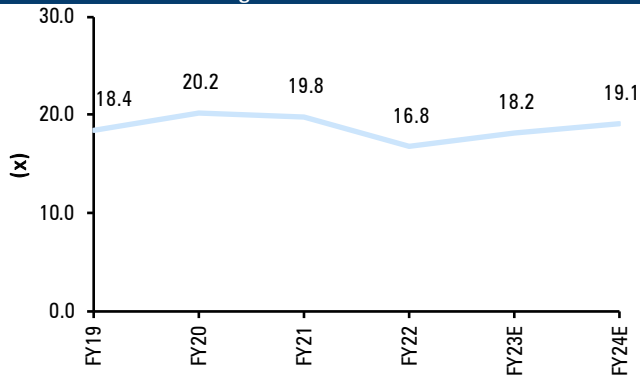
Source: Company, ICICI Direct Research

Exhibit 8: Non oral care revenue trend



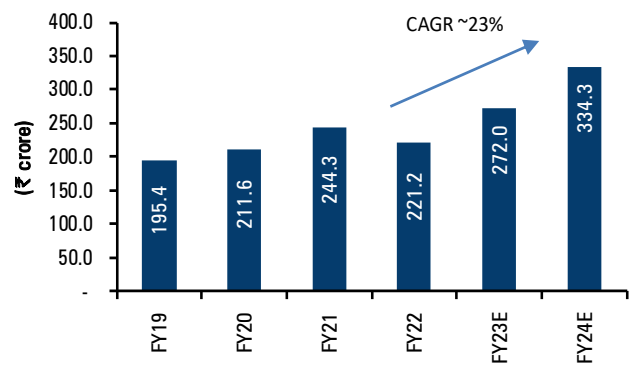
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA margin trend



Source: Company, ICICI Direct Research

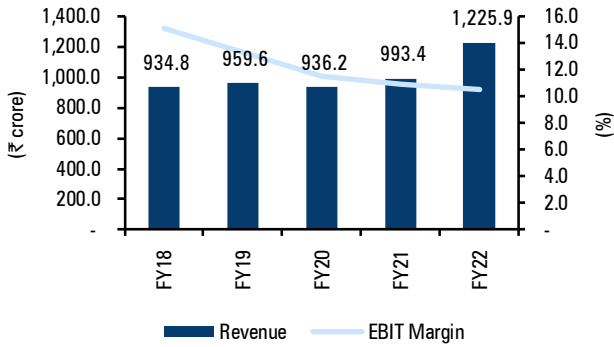
Exhibit 10: PAT trend



Source: Company, ICICI Direct Research

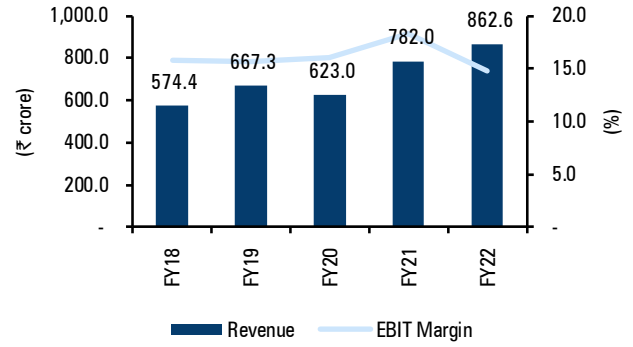
Financial story in charts

Exhibit 11: Amesa region revenue, EBIT margin trend



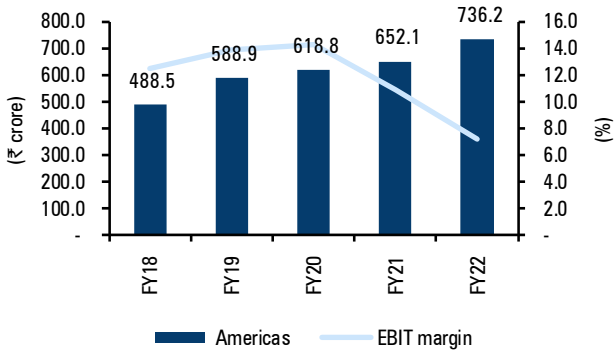
Source: Company, ICICI Direct Research

Exhibit 12: EAP region revenue & EBIT margin trend



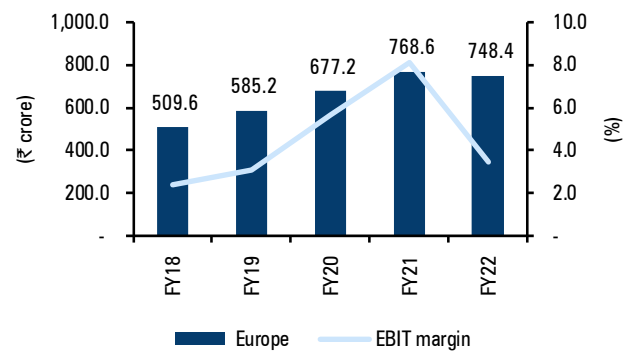
Source: Company, ICICI Direct Research

Exhibit 13: Americas revenue, EBIT margin trend



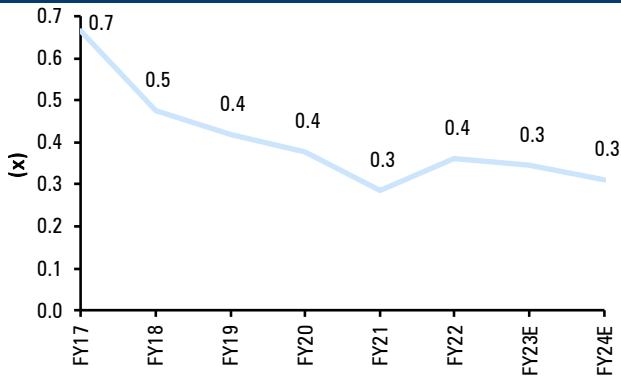
Source: Company, ICICI Direct Research

Exhibit 14: Europe revenue EBIT margin trend



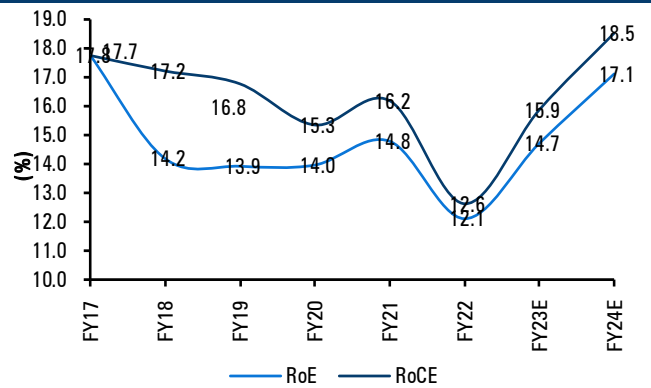
Source: Company, ICICI Direct Research

Exhibit 15: D/E trend



Source: Company, ICICI Direct Research

Exhibit 16: RoCE, RoE trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 17: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Net Sales	3091.6	3432.8	3737.9	4077.3
Growth (%)	12.0	11.0	8.9	9.1
Expenses				
Raw Material Expenses	1293.4	1517.7	1625.2	1743.1
Employee Expenses	606.4	650.0	700.2	749.1
Manufacturing & Other Exp	580.7	689.1	732.6	807.3
Total Operating Expenditure	2480.5	2856.8	3058.1	3299.6
EBITDA	611.1	576.0	679.8	777.7
Growth (%)	9.6	-5.7	18.0	14.4
Interest	42.9	40.3	44.9	43.1
Other Income	14.5	12.0	13.0	14.1
Depreciation	234.6	251.4	269.1	283.4
PBT before Exceptional Items	348.1	296.3	378.8	465.4
Less: Exceptional Items	16.1	0.0	0.0	0.0
PBT	332.0	296.3	378.8	465.4
Total Tax	86.8	67.5	106.1	130.3
Profit from Associates	-0.9	-7.6	-0.7	-0.7
PAT	244.3	221.2	272.0	334.3

Source: Company, ICICI Direct Research

Exhibit 19: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	63.1	63.2	63.2	63.2
Reserve and Surplus	1668.8	1761.3	1784.6	1890.8
Total Shareholders funds	1731.8	1824.5	1847.8	1954.0
Total Debt	496.2	657.2	637.2	607.2
Total Liabilities	2418.1	2669.3	2672.6	2748.8
Assets				
Total Gross Block	4178.1	4369.0	4693.6	4923.6
Less Total Accumulated Depreciation	2758.1	3009.5	3278.6	3562.0
Net Block	1420.0	1359.5	1415.0	1361.6
Total CWIP	22.6	144.6	50.0	50.0
Total Fixed Assets	1442.6	1504.1	1465.0	1411.6
Other Investments	14.9	7.2	27.2	47.2
Inventory	414.9	594.1	614.4	614.4
Debtors	589.1	636.7	665.6	726.1
Loans and Advances	15.4	0.6	18.6	20.3
Cash	270.2	192.7	166.5	171.1
Other Current Assets	93.7	112.6	122.6	133.7
Total Current Assets	1383.3	1536.7	1587.8	1665.6
Creditors	422.2	454.7	563.2	614.4
Provisions	33.6	33.9	42.0	45.8
Total Current Liabilities	627.0	623.3	751.9	820.2
Net Current Assets	756.3	913.4	835.9	845.4
Total Assets	2418.1	2669.3	2672.6	2748.8

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	244.3	221.2	272.0	334.3
Depreciation	234.6	251.4	269.1	283.4
CF bef working capital chag	521.8	512.9	586.0	660.8
Net Increase in Current Assets	-130.7	-230.9	-77.3	-73.2
Net Increase in Current Liabilities	12.0	-3.7	128.6	68.3
Net CF from operating act	403.1	278.3	637.3	655.9
(Purchase)/Sale of Fixed Assets	-288.0	-312.9	-230.0	-230.0
Minority Interest	24.7	0.3	0.0	0.0
Others	-52.2	-40.3	-20.0	-20.0
Net CF from Investing act	-315.6	-352.9	-250.0	-250.0
Equity Capital	0.0	0.1	0.0	0.0
Loan	-95.6	161.0	-20.0	-30.0
Total Outflow on account of dividend	-129.3	-97.9	-227.6	-228.2
Others	7.5	-71.1	-65.9	-43.1
Net CF from Financing Act	-217.4	-7.9	-313.5	-301.3
Net Cash flow	-75.2	-77.5	-26.2	4.6
Cash and Cash Equ at the beg	345.4	270.2	192.7	166.5
Cash	270.2	192.7	166.5	171.1

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per Share Data				
EPS	7.7	7.0	8.6	10.6
Cash EPS	15.2	15.0	17.1	19.5
BV	54.9	57.7	58.5	61.8
DPS	4.1	3.1	7.2	7.2
Operating Ratios				
EBITDA Margin	19.8	16.8	18.2	19.1
PAT Margin	8.3	6.4	7.3	8.2
Return Ratios				
RoE	14.8	12.1	14.7	17.1
RoCE	16.2	12.6	15.9	18.5
RoIC	18.0	14.6	18.2	22.0
Valuation Ratios				
EV / EBITDA	8.6	9.5	7.9	6.7
P/E	20.5	22.7	18.5	15.0
EV / Net Sales	1.7	1.6	1.4	1.3
Market Cap / Sales	1.6	1.5	1.3	1.2
Price to Book Value	2.9	2.8	2.7	2.6
Turnover Ratios				
Asset turnover	0.7	0.8	0.8	0.8
Debtor Days	69.5	67.7	65.0	65.0
Creditor Days	49.8	48.3	55.0	55.0
Inventory Days	49.0	63.2	60.0	55.0
Solvency Ratios				
Debt / Equity	0.3	0.4	0.3	0.3
Current Ratio	2.4	2.8	2.3	2.3
Quick Ratio	1.5	1.5	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 21: ICICI Direct Consumer Discretionary universe

Sector / Company	M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
	(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints (ASIPAI)	2,83,193	33.4	32.2	43.1	52.3	88.3	91.8	68.6	56.5	57.4	58.4	45.8	38.1	29.6	27.1	33.3	36.8	25.0	23.0	28.4	30.9
Berger Paints (BERPAI)	56,621	7.4	8.7	9.6	12.5	78.7	67.1	60.8	46.5	47.4	42.1	38.4	30.0	24.9	27.7	29.1	33.9	21.3	23.1	24.0	27.7
Kansai Nerolac (KANNER)	22,150	9.8	6.9	9.7	12.1	41.7	59.2	42.2	34.0	26.3	34.1	26.3	21.7	17.2	12.1	16.8	19.5	13.2	9.2	12.7	14.6
Pidilite Industries (PIDIND)	1,08,669	22.2	23.8	26.0	32.2	96.5	90.1	82.4	66.5	64.4	58.7	54.8	44.5	23.8	22.2	22.6	25.6	20.2	18.8	19.1	21.4
Bajaj Electricals (BAJELE)	11,405	16.5	10.8	22.0	29.5	60.2	91.7	45.1	33.7	38.4	45.2	33.8	25.6	15.1	13.5	19.1	22.1	10.7	7.8	14.9	17.2
Crompton Greaves(CROGR)	20,998	9.8	8.7	8.6	10.6	34.1	38.4	38.7	31.5	27.7	27.3	26.0	21.6	34.4	35.2	25.2	29.3	31.9	27.7	23.3	24.9
Havells India (HAVIND)	75,929	16.7	17.8	19.3	26.7	73.0	68.5	63.2	45.6	47.7	45.3	42.2	31.1	24.9	24.2	25.9	34.7	20.1	20.4	21.8	29.2
Polycab India (POLI)	37,406	59.3	61.4	62.9	80.8	42.2	40.8	39.8	31.0	32.8	28.7	25.6	20.0	20.6	20.2	20.7	23.0	17.9	15.6	15.7	17.5
Symphony (SYMLIM)	7,178	15.3	17.3	26.1	34.8	67.1	59.3	39.3	29.5	50.3	43.5	30.3	22.8	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	9,408	4.7	5.3	5.4	6.6	46.2	40.9	40.1	32.9	29.3	27.7	26.0	21.1	23.9	21.2	23.7	26.2	16.7	16.2	18.0	20.0
Voltas Ltd (VOLTAS)	32,941	16.0	15.3	21.0	28.9	62.3	65.1	47.5	34.4	50.6	47.4	39.3	28.0	15.0	14.0	18.0	21.0	10.6	9.2	13.8	16.6
Amber Enterprises (AMBEN)	8,501	24.7	33.0	60.4	86.2	102.1	76.4	41.8	29.3	38.4	32.1	23.2	17.3	7.7	6.8	10.5	13.4	5.2	6.4	11.2	13.8
Dixon Technologies (DIXTEC)	20,025	27.3	35.9	78.5	110.9	123.7	93.9	43.0	30.4	69.9	48.7	26.8	19.8	23.5	27.4	39.9	39.7	21.7	26.4	39.9	38.3
Supreme Indus (SUPIND)	21,976	77.0	76.2	78.8	92.7	22.5	22.7	22.0	18.7	16.5	17.3	16.6	13.6	33.1	25.9	25.2	26.7	30.9	25.2	24.3	25.1
Astral Ltd (ASTPOL)	33,427	20.3	24.9	27.5	33.9	81.9	66.9	60.4	49.0	51.2	43.1	39.8	32.9	27.5	29.6	28.8	30.3	21.5	23.0	22.3	23.3
EPL (ESSPRO)	5,024	7.7	7.0	8.6	10.6	20.5	22.7	18.5	15.0	8.6	9.5	7.9	6.8	16.2	12.6	15.9	18.5	14.8	12.1	14.7	17.1

Source: Bloomberg, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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