

One-off events drag overall 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)

Q1FY22 Results: Muted revenue growth is attributable to higher base of Q1 and shutdown of Russian units

- Consolidated revenue grew ~8% YoY to ₹ 799 crore led by Amesa regions (up ~29% YoY). However, revenue decline of ~10% YoY in Europe regions restricted overall topline growth
- Gross margins were flat YoY (up ~100 bps QoQ). EBITDA margin declined ~164 bps YoY due to higher other expenses (higher freight costs)
- PAT grew ~32% YoY to ₹ 60 crore due to a favourable base

What should investors do? EPL's share price has grown by ~2.3x over the past five years (from ~₹ 106 in July 2016 to ~₹ 245 level in July 2021).

- We maintain our HOLD rating on the stock

Target Price & valuation: We value EPL at ₹ 275 i.e. 11x EV/EBITDA on FY23E EBITDA

Key triggers for future price performance:

- Performance of Amesa regions has been 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 America 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
- Focus on maintaining a quality balance sheet, going forward

Alternate Stock Idea: We like MoldTek Packaging in the packaging space.

- Strong volume growth of ~20% in FY21-23E led by capacity expansion and client additions in the high margin product categories
- BUY with a target price of ₹ 675

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 Year CAGR (21-23E)
Net Sales	2706.9	2761.5	3091.6	7%	3407.8	3791.0	10.7
EBITDA	499.1	557.6	611.1	9%	671.6	797.5	14.2
EBITDA Margin (%)	18.4	20.2	19.8		19.7	21.0	
Net Profit	195.4	211.6	244.3	7%	297.1	364.2	22.1
EPS (₹)	6.2	6.7	7.7		9.4	11.6	
P/E (x)	39.5	36.5	31.6		26.0	21.2	
Price/Book (x)	5.8	5.1	4.6		4.5	4.2	
EV/EBITDA (x)	16.9	14.7	13.5		12.2	10.2	
RoE (%)	13.9	14.0	14.8		16.3	18.7	
RoCE (%)	16.8	15.3	16.2		17.6	20.6	

Source: Company, ICICI Direct Research



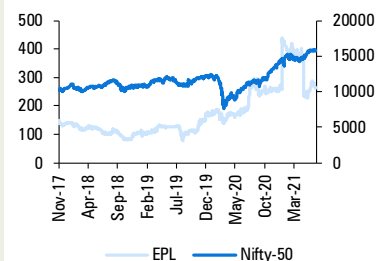
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	7,724.9
Total Debt (FY21) (₹ Crore)	496.2
Cash and Inv (FY21) (₹ Crore)	270.2
EV (₹ Crore)	8,234.6
52 week H/L	319/ 200
Equity capital (₹ Crore)	63.1
Face value (₹)	2.0

Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	75.0	52.0	52.0	52.0	52.0
FII	4.9	14.3	13.8	14.9	14.6
DII	2.4	15.3	15.5	13.5	14.8
Others	17.7	18.4	18.7	19.6	18.6

Price Chart



Recent event & key risks

- **Key Risk:** (i) Region specific issues hurt topline growth (ii) Delay in passing on high input prices

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Key takeaways of recent quarter & conference call highlights

Q1FY22 Results:

- Revenue grew ~8% YoY to ₹ 799 crore, led by a strong recovery in the Amesa region
- EBITDA margins shrunk 164 bps YoY due to higher other expenses (led by freight costs)
- PAT grew ~32% YoY on a low base (due to a one-time exceptional loss of ₹ 16 crore)

Q1FY22 Earnings Conference Call highlights

- **Demand Outlook:**
 - The management is positive on demand, going forward, and maintains its stance of achieving double digit topline growth in this fiscal
 - Order pipeline for oral care and personal care segments is strong
 - The management has indicated volume growth in FY22 would be better than what the company has achieved in the past
- **Margins:**
 - EBITDA margins declined ~164 bps YoY due to a steep increase in input costs and increase in freights cost
 - Going forward, the management expects EBITDA margin to go up due to price hikes that the company has undertaken and a suitable product mix
 - Currently, price hikes have been taken in ~90% of total portfolio
- EPL has guided for maintaining the quality of balance sheet by keeping D/E lower
- Two major global clients have been added in the Europe region. Contributions from them will start to be realised from Q2FY22
- The company expects capex to be on a need basis
- Personal care contribution was at ~46% for Q1FY22. The management believes the contribution will increase, going forward

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	Mcap (₹ cr)	Sales growth (%)			EBITDA mar (%)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
EPL Ltd (ESSPRO)	245	275	Hold	7,725	12.0	10.2	11.2	19.8	19.7	21.0	13.0	11.8	9.7	16.2	17.7	20.8	14.8	16.6	18.9
Mold Tek Pack (MOLPAC)	519	675	Buy	1,439	9.0	30.0	15.0	19.7	19.1	21.0	16.1	12.6	9.7	21.0	25.0	29.0	21.0	22.0	24.0

Source: Company, ICICI Direct Research

We build in PAT CAGR of 22% in FY21-23E supported by improved margins and lower interest outgo. On the topline front, while Amesa region has posted an improved performance (supported by consolidation of Creative Stylo and a favourable base) revenue growth in the EAP and Europe regions was impacted due to base effect and closure of plants. While management guidance suggests strong business recovery, going forward, we believe EPL's re-rating will be possible with secular growth across regions. We maintain our HOLD rating on the stock with a target price of ₹ 275/share.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY21	YoY(%)	Q4FY21	QoQ (%)	Comments
Revenue	799.1	741.5	7.8	810.2	-1.4	Strong performance in the EAP and Europe regions drove consolidated sales
Other Income	5.3	5.2	2.9	3.0	76.7	
Raw Material Exp	337.1	313.9	7.4	349.6	-3.6	EPL managed to pass on raw material inflation to its clients, aiding gross margins on a YoY basis
Employee Exp	155.7	148.6	4.8	157.6	-1.2	
Manf & Other exp	161.4	132.4	21.9	163.2	-1.1	Higher freight costs led to rise in other expenditure
EBITDA	144.9	146.6	-1.2	139.8	3.6	
EBITDA Margin (%)	18.1	19.8	-164 bps	17.3	88 bps	Higher other expenditure dragged overall EBITDA margin
Depreciation	61.9	57.9	6.9	60.1	3.0	
Interest	8.9	16.3	-45.3	8.6	3.5	Continuous focus on debt reduction programme resulting in lower interest outgo
PBT bef excp items	79.4	77.6	2.3	74.1	7.2	
Exceptional items	0.0	16.1	NM	0.0	NM	
PBT	79.4	61.5	29.0	74.1	7.2	
Total Tax	18.9	15.9	19.1	15.5	21.9	
PAT	60.2	45.6	31.9	58.4	3.1	On a like-to-like basis, bottomline growth remained flat YoY

Key Metrics

AMESA	281.9	219.0	28.7	276.6	1.9	Consolidation of Creative Stylo and a favourable base helped drive revenue of the segment
EAP	206.0	202.1	2.0	184.9	11.4	Decline in demand for sanitiser tubes led to lower sales growth in Q1
Americas	163.9	151.0	8.6	174.9	-6.3	Personal care category impacted by month long strike in its Colombia plant
Europe	178.4	197.7	(9.8)	200.2	(10.9)	Closure of plants in Russia and decline in demand for sanitiser tubes led to a decline in sale in Europe

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	3,410.7	3407.8	(0.1)	3,740.7	3791.0	1.3	We slightly tweak our revenue estimate upward considering performance in the current quarter
EBITDA	668.6	671.6	0.4	786.9	797.5	1.3	
EBITDA Margin %	19.6	19.7	11bps	21.0	21.0	4bps	Better product mix and improved operating leverage will help keep margins at elevated level
PAT	290.9	297.1	2.1	359.2	364.2	1.4	
EPS (₹)	9.2	9.4	2.1	11.4	11.6	1.4	

Source: ICICI Direct Research

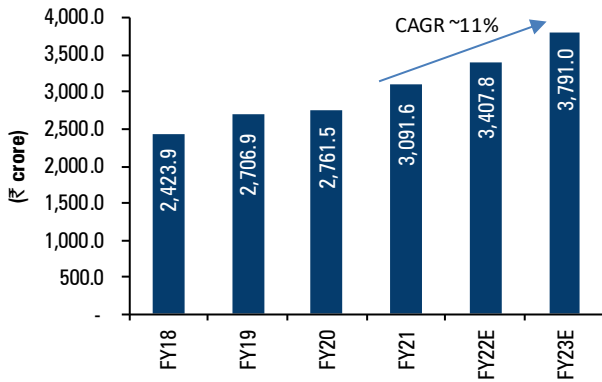
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
AMESA Growth (%)	-2.4	6.2	19.6	13.7	8.6	9.6	We revise our revenue estimate upward supported by a favourable base, consolidation of Creative Stylo Packs
EAP Growth (%)	-6.6	25.6	9.4	11.5	13.5	11.5	Business pipeline in beauty & cosmetics and pharma categories to help drive segment revenue, going forward
Americas Growth (%)	5.1	5.4	7.1	8.1	8.1	8.1	Addition of new customers and wallet share gain from existing customers to help drive segment revenue
Europe Growth (%)	15.7	13.5	1.5	9.1	10.2	9.1	Normal business activities post ease in lockdown restrictions to help in recovery in the European business

Source: ICICI Direct Research

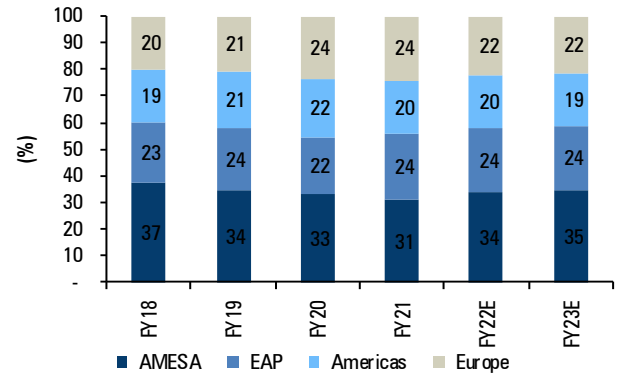
Financial story in charts

Exhibit 5: Consolidated revenue trend



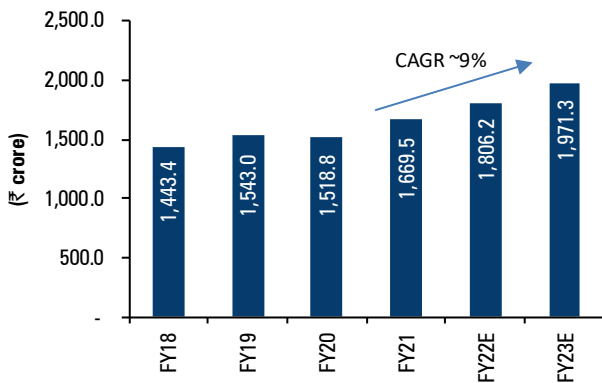
Source: Company, ICICI Direct Research

Exhibit 6: Region wise revenue contribution



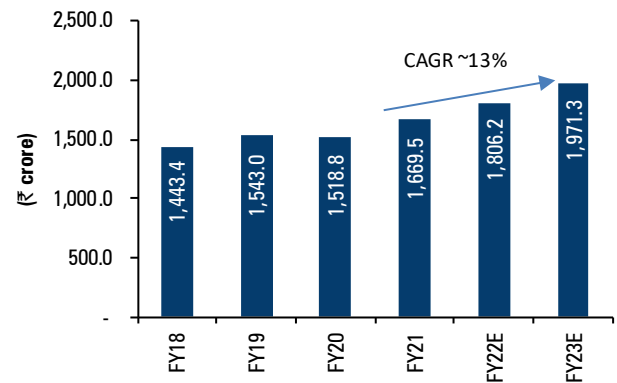
Source: Company, ICICI Direct Research

Exhibit 7: Oral care revenue trend



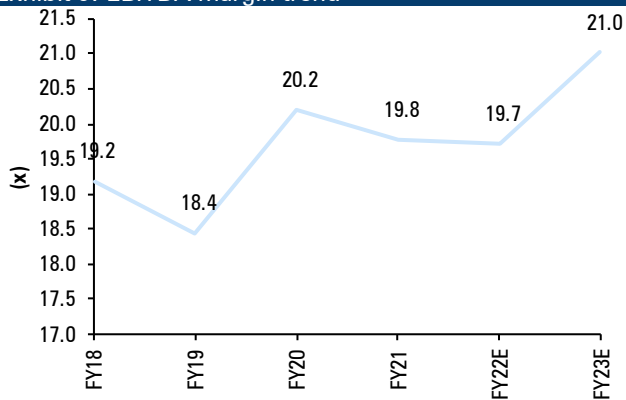
Source: Company, ICICI Direct Research

Exhibit 8: Non oral care revenue trend



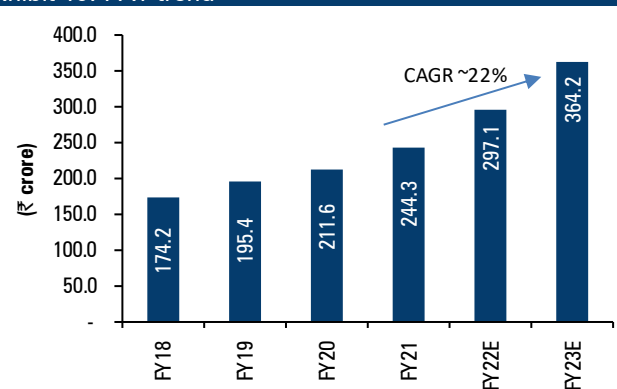
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA margin trend



Source: Company, ICICI Direct Research

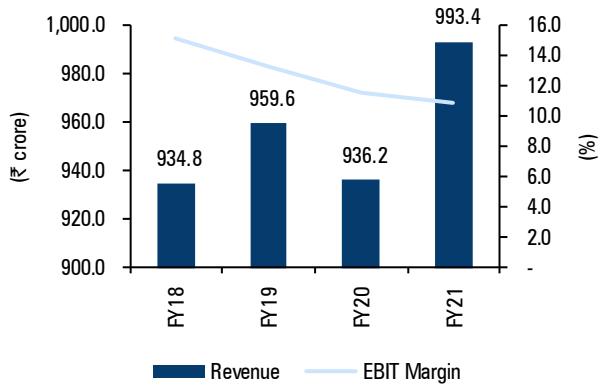
Exhibit 10: PAT trend



Source: Company, ICICI Direct Research

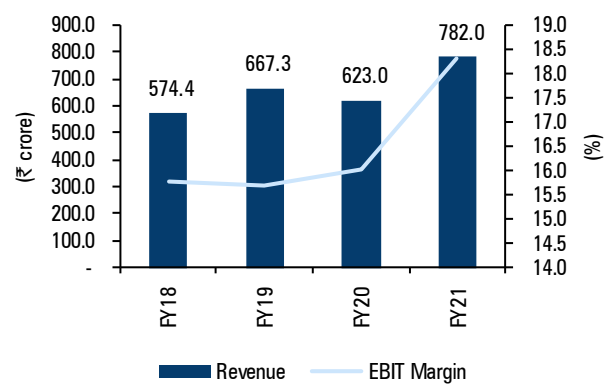
Financial story in charts

Exhibit 11: Amesa region revenue, EBIT margin trend



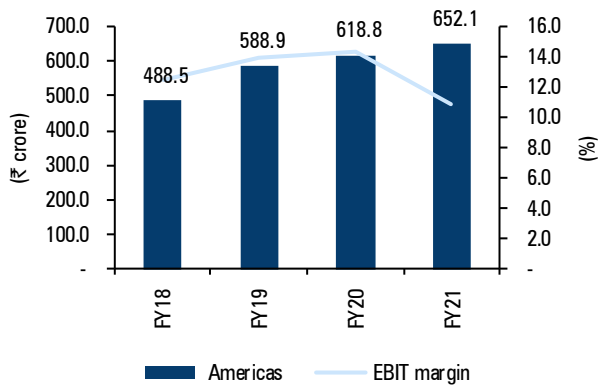
Source: Company, ICICI Direct Research

Exhibit 12: EAP region revenue & EBIT margin trend



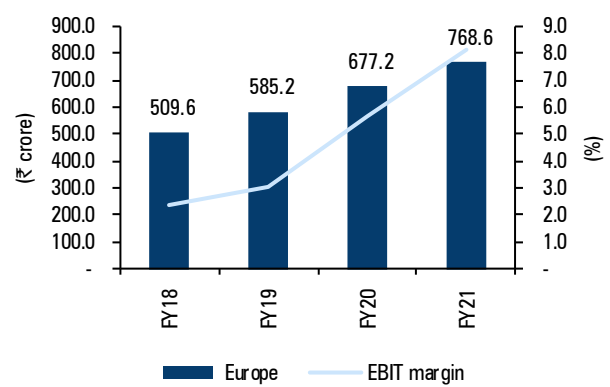
Source: Company, ICICI Direct Research

Exhibit 13: Americas revenue, EBIT margin trend



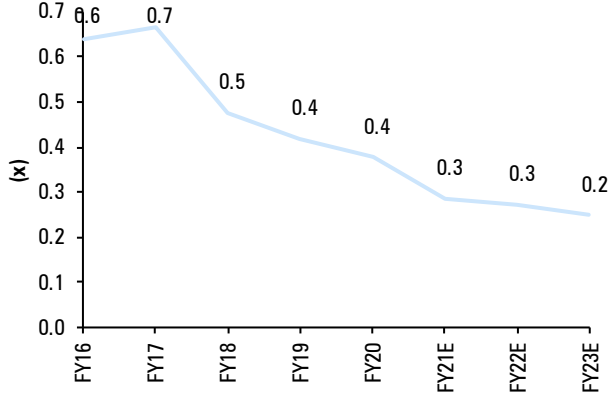
Source: Company, ICICI Direct Research

Exhibit 14: Europe revenue EBIT margin trend



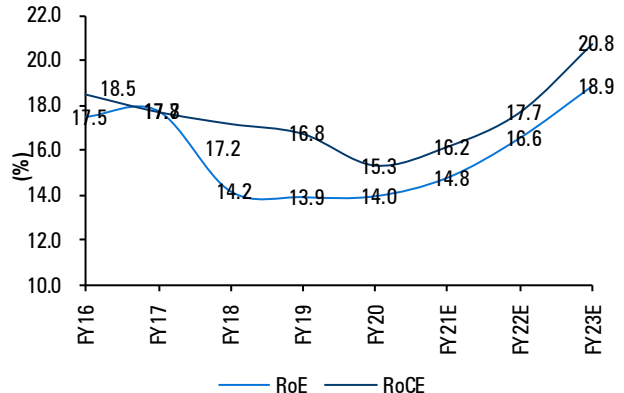
Source: Company, ICICI Direct Research

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)	FY20	FY21	FY22E	FY23E
Net Sales	2761.5	3091.6	3407.8	3791.0
Growth (%)	2.0	12.0	10.2	11.2
Expenses				
Raw Material Expenses	1158.1	1293.4	1437.9	1597.7
Employee Expenses	531.1	606.4	633.8	686.9
Manufacturing & Other Exp	514.7	580.7	664.5	708.9
Total Operating Expenditure	2203.9	2480.5	2736.2	2993.5
EBITDA	557.6	611.1	671.6	797.5
Growth (%)	11.7	9.6	9.9	18.7
Interest	55.7	42.9	34.2	33.7
Other Income	13.3	14.5	19.3	19.8
Depreciation	229.8	234.6	252.2	276.7
PBT before Exceptional Items	285.4	348.1	404.5	506.9
Less: Exceptional Items	9.4	16.1	0.0	0.0
PBT	276.0	332.0	404.5	506.9
Total Tax	63.8	86.8	106.6	141.9
Profit from Associates	-0.6	-0.9	-0.7	-0.7
PAT	211.6	244.3	297.1	364.2

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	211.6	244.3	297.1	364.2
Depreciation	229.8	234.6	252.2	276.7
CF bef working capital chag	497.1	521.8	583.5	674.7
Net Increase in Current Assets	-17.3	-130.7	-127.5	-108.3
Net Increase in Current Liabilities	133.7	12.0	116.1	83.5
Net CF from operating act	613.5	403.1	572.1	649.9
(Purchase)/Sale of Fixed Assets	-284.6	-288.0	-230.0	-230.0
Minority Interest	3.5	24.7	0.0	0.0
Others	17.2	-52.2	-20.0	-20.0
Net CF from Investing act	-264.0	-315.6	-250.0	-250.0
Equity Capital	0.0	0.0	0.0	0.0
Loan	9.9	-95.6	-5.0	-10.0
Total Outflow on account of dividend	-104.2	-129.3	-182.1	-227.6
Others	15.4	7.5	-86.0	-33.7
Net CF from Financing Act	-79.0	-217.4	-273.1	-271.4
Net Cash flow	255.0	-75.2	48.9	28.5
Cash and Cash Equ at the beg	90.4	345.4	270.2	319.2
Cash	345.4	270.2	319.2	347.7

Source: Company, ICICI Direct Research

Exhibit 19: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	63.1	63.1	63.1	63.1
Reserve and Surplus	1503.4	1668.8	1732.0	1868.6
Total Shareholders funds	1566.4	1731.8	1795.1	1931.6
Total Debt	591.8	496.2	491.2	481.2
Total Liabilities	2224.7	2418.1	2476.4	2602.9
Assets				
Total Gross Block	3881.6	4178.1	4380.7	4610.7
Less Total Accumulated Depreciation	2523.5	2758.1	3010.3	3287.0
Net Block	1358.1	1420.0	1370.4	1323.7
Total CWIP	31.1	22.6	50.0	50.0
Total Fixed Assets	1389.2	1442.6	1420.4	1373.7
Other Investments	16.0	14.9	34.9	54.9
Inventory	367.2	414.9	513.5	540.1
Debtors	490.3	589.1	606.9	675.1
Loans and Advances	17.8	15.4	17.0	18.9
Cash	345.4	270.2	319.2	347.7
Other Current Assets	107.0	93.7	103.3	114.9
Total Current Assets	1327.8	1383.3	1559.8	1696.7
Creditors	519.9	422.2	513.5	571.2
Provisions	27.8	33.6	40.9	45.5
Total Current Liabilities	615.0	627.0	743.1	826.6
Net Current Assets	712.8	756.3	816.7	870.0
Total Assets	2224.7	2418.1	2476.4	2602.9

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per Share Data				
EPS	6.7	7.7	9.4	11.6
Cash EPS	14.0	15.2	17.4	20.3
BV	49.7	54.9	56.9	61.3
DPS	3.3	4.1	5.8	7.2
Operating Ratios				
EBITDA Margin	20.2	19.8	19.7	21.0
PAT Margin	7.9	8.3	8.7	9.6
Return Ratios				
RoE	14.0	14.8	16.6	18.9
RoCE	15.3	16.2	17.7	20.8
RoIC	18.1	18.0	20.1	24.7
Valuation Ratios				
EV / EBITDA	14.2	13.0	11.8	9.7
P/E	36.5	31.6	26.0	21.2
EV / Net Sales	2.9	2.6	2.3	2.0
Market Cap / Sales	2.8	2.5	2.3	2.0
Price to Book Value	4.9	4.5	4.3	4.0
Turnover Ratios				
Asset turnover	0.7	0.7	0.8	0.8
Debtor Days	64.8	69.5	65.0	65.0
Creditor Days	68.7	49.8	55.0	55.0
Inventory Days	48.5	49.0	55.0	52.0
Solvency Ratios				
Debt / Equity	0.4	0.3	0.3	0.2
Current Ratio	1.8	2.4	2.2	2.2
Quick Ratio	1.1	1.5	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 21: ICICI Direct Consumer Discretionary universe

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,986	3,665	Buy	2,86,357	33.4	39.5	50.4	89.3	75.6	59.2	61.5	53.2	42.4	25.0	27.6	30.7	29.6	32.6	36.8
Astral Polytechnik (ASTPOL)	2,075	1,915	Hold	31,262	20.3	21.8	29.3	102.1	95.3	70.9	55.0	51.8	39.6	27.5	27.0	31.4	21.5	20.7	23.9
Amber Enterprises (AMBEN)	2,980	3,130	Buy	9,371	24.7	45.7	88.2	120.6	65.2	33.8	38.8	27.5	16.5	7.7	11.5	18.3	5.2	9.2	15.2
Bajaj Electricals (BAJELE)	1,146	1,280	Buy	13,029	16.5	23.8	35.7	64.9	45.0	30.0	40.9	29.6	20.7	15.1	20.0	26.1	10.7	16.8	20.6
Berger Paints (BERPAI)	849	835	Hold	82,455	7.4	9.3	12.3	114.6	91.6	69.1	64.7	56.2	43.5	24.9	28.3	34.6	21.3	24.3	28.4
Crompton Greaves(CROGR)	479	480	Buy	30,033	9.8	9.2	11.9	48.7	52.3	40.4	33.1	32.5	25.4	34.4	36.1	42.1	31.9	28.7	33.2
Dixon Technologies (DIXTEC)	4,235	4,635	Buy	24,796	27.3	54.8	95.8	155.3	77.3	44.2	81.5	47.2	28.6	23.5	35.8	46.4	21.7	35.0	40.8
EPL (ESSPRO)	245	275	Hold	7,730	7.7	9.4	11.6	31.6	26.0	21.2	13.0	11.8	9.7	16.2	17.7	20.8	14.8	16.6	18.9
Havells India (HAVIND)	1,189	1,345	Buy	74,182	16.7	18.8	24.3	71.4	63.4	48.9	44.9	40.9	31.8	24.9	25.6	31.1	20.1	21.3	25.7
Kansai Nerolac (KANNER)	620	655	Buy	33,413	9.9	12.1	14.4	62.9	51.1	43.1	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6
Moldtek Packaging (MOLP)	519	600	Buy	1,439	16.5	20.8	28.0	31.5	24.9	18.5	15.4	12.6	9.8	20.7	23.6	27.8	19.9	20.9	23.1
Pidilite Industries (PIDIND)	2,278	2,035	Hold	1,15,677	22.2	26.3	31.8	102.7	86.6	71.6	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2
Polycab India (POLI)	1,841	2,025	Buy	27,409	59.4	64.8	79.5	31.0	28.4	23.2	21.1	17.8	14.6	21.9	22.7	24.3	18.5	17.8	18.6
Supreme Indus (SUPIND)	2,098	2,450	Buy	26,650	77.0	64.1	75.9	27.3	32.8	27.6	20.2	23.0	18.8	33.1	25.1	25.9	30.9	23.4	23.5
Symphony (SYMLIM)	943	1,345	Hold	6,597	15.3	28.5	39.5	61.7	33.1	23.8	60.0	33.1	23.8	15.2	28.2	34.9	14.9	26.8	32.5
Time Techno (TIMTEC)	83	100	Buy	1,877	4.8	8.5	10.8	17.4	9.7	7.7	6.5	5.2	4.4	8.7	12.1	13.7	5.7	9.7	11.3
V-Guard Ind (VGUARD)	250	320	Buy	10,707	4.7	5.5	7.3	59.0	50.4	38.1	37.3	35.4	27.3	23.9	25.1	29.0	16.7	19.2	22.5
Voltas Ltd (VOLTAS)	1,040	1,150	Buy	34,396	16.0	21.2	28.9	65.0	49.2	36.0	50.8	41.8	29.8	15.0	19.5	23.0	10.6	14.4	17.1

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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