

## High input cost inflation weighs on margins...

**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)

**Q3FY22 Results:** High raw material cost inflation kept profitability under check.

- Consolidated revenue growth of ~15% YoY to ₹ 883 crore led by Amesa & EAP segment growth of 36% & 20% YoY, respectively
- Higher raw material costs dragged EBITDA margin down by 492 bps YoY at 15.7%
- PAT fell 19% YoY to ~₹ 59 crore due to lower EBITDA margins

**What should investors do?** EPL's share price has grown at a CAGR of 12% over the past five years (from ~₹ 117 in February 2017 to ~₹ 182 level in February 2022).

- We maintain our HOLD rating on the stock

**Target Price and valuation:** We value EPL at ₹ 205 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 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
- Expansion into Brazil will help drive future revenue growth

**Alternate Stock Idea:** We like Mold-Tek Packaging in the packaging space.

- Strong volume growth of ~18% in FY21-24E led by capacity expansion and client additions in the high margin product categories
- BUY with a target price of ₹ 850



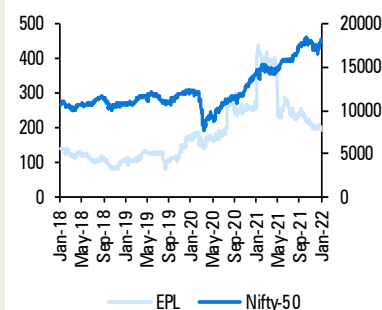
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	5,738.5
Total Debt (FY21) (₹ Crore)	496.2
Cash and Inv (FY21) (₹ Crore)	270.2
EV (₹ Crore)	5,964.4
52 week H/L	294/ 180
Equity capital (₹ Crore)	63.1
Face value (₹)	2.0

### Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	52.0	52.0	52.0	51.9	51.9
FII	13.8	14.9	14.6	14.7	15.0
DII	15.5	13.5	14.8	14.8	14.1
Others	18.7	19.6	18.6	18.6	19.1

### 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	5 Year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 Year CAGR (21-24E)
Net Sales	2706.9	2761.5	3091.6	7%	3441.1	3771.1	4102.2	9.9
EBITDA	499.1	557.6	611.1	9%	596.9	730.4	804.3	9.6
EBITDA Margin (%)	18.4	20.2	19.8		17.3	19.4	19.6	
Net Profit	195.4	211.6	244.3	7%	231.6	315.8	359.9	13.8
EPS (₹)	6.2	6.7	7.7		7.3	10.0	11.4	
P/E (x)	29.4	27.1	23.5		24.8	18.2	15.9	
Price/Book (x)	4.1	3.7	3.3		3.3	3.2	2.9	
EV/EBITDA (x)	12.4	10.6	9.8		10.0	8.1	7.2	
RoE (%)	13.9	14.0	14.8		13.4	17.4	18.5	
RoCE (%)	16.8	15.3	16.2		14.6	19.1	20.6	

## Key takeaways of recent quarter & conference call highlights

### Q3FY22 Results:

- Revenue increased 15% YoY to ₹ 883 crore led by ~36% and 20% YoY growth in the Amesa and EAP regions, respectively
- The EBITDA margin declined 492 bps YoY to 15.7% due to a delay in passing on of higher raw material costs
- PAT declined 19% YoY mainly due to lower EBITDA margin
- Amesa regions (36% of revenues) revenue growth of 36%YoY to ₹ 322.5 crore was on a favourable base and consolidation of Creative Stylo (Acquired in February 2021). Ex Creative, Stylo growth was at ~27% YoY. The segment EBITDA margin came in at 21.2% (down 480 bps YoY)
- EAP region (28% of revenues) increased 20% YoY supported by business revival in the China post easing of lockdown restrictions. The EBITDA margin declined 270 bps YoY to ~22% tracking a delay in passing of higher raw material costs
- America region (21% of revenues) witnessed revenue growth of 9% YoY to ~₹ 190 crore, largely on a higher base and easing of travel related restrictions (which helped drive travel tube demand). EBITDA margin declined 850 bps YoY to 9.2%, mainly due to higher raw material costs and a sharp increase in employee costs
- Europe region (15% of revenues) witnessed revenue de-growth of ~2% YoY to ₹ 173 crore, mainly due to low demand of personal care products. The EBITDA margin declined 620 bps YoY to ~7% due to higher raw material prices and labour charges

### Q3FY22 Earnings Conference Call highlights

- Demand Outlook:**
  - The management maintained double digit revenue growth guidance, going forward, supported by business revival in the Europe and Americas. This, coupled with expansion in new geography (Brazil), will aid in revenue growth, going forward
  - EPL has signed a long term contract with leading MNC in Brazil
  - The company has added Vicco Laboratories as a new client
- Margins:**
  - The management expects EBITDA margins to go up due to price hikes that the company has undertaken and a suitable product mix
- The company expects capex to be in the range of ₹ 240 -250 crore

### 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	1,702	361	557	659	731	17	16	17	18	22	39	62	77	12	12	17	19	12	11	15	15	70	43	28	22
Mold Tek	2,368	479	636	727	876	20	20	21	22	48	71	86	118	20	27	29	32	19	24	24	25	43	31	27	20
Time Technopl	1,787	3005	3647	4099	4308	13	14	14	14	108	188	242	260	9	12	14	14	6	10	11	11	17	9	7	7
EPL	5,738	3092	3441	3771	4102	20	17	19	20	244	232	316	360	16	15	19	21	15	13	17	18	23	25	18	16

Source: Company, ICICI Direct Research

EPL reported a strong revenue growth in Q3FY22 supported by a revival in business in Amesa and EAP regions. However, Europe region has been hit by lower volume offtake in the personal care product segment and higher fixed costs during 9MFY22. While 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 9.5%, 1.7%, 3.8% for FY22E, FY23E and FY24E, respectively. We model revenue, PAT CAGR of ~10% and 14%, respectively. We value EPL at ₹ 205 i.e. 8x EV/EBITDA on FY24E EBITDA. We maintain our HOLD rating on the stock.

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY21	YoY(%)	Q2FY22	QoQ (%)	Comments
Revenue	883.4	768.6	14.9	870.1	1.5	Strong growth in the Amesa and EAP regions helped drive revenue growth in Q3FY22. The personal care category revenue increased strongly by ~20% YoY
Other Income	3.1	3.2	-3.1	1.4	121.4	
Raw Material Exp	397.1	306.7	29.5	378.3	5.0	Delay in passing on price hikes resulted in 505 bps drop in gross margin YoY
Employee Exp	169.6	155.0	9.4	162.9	4.1	
Manf & Other exp	178.0	148.4	19.9	169.5	5.0	
EBITDA	138.7	158.5	-12.5	159.4	-13.0	
EBITDA Margin (%)	15.7	20.6	-492 bps	18.3	-262 bps	EBITDA margin decline mainly due to a sharp increase in raw material costs
Depreciation	64.2	58.8	9.2	62.2	3.2	
Interest	10.3	8.4	22.6	9.7	6.2	
PBT bef excp items	67.3	94.5	-28.8	88.9	-24.3	
Profit from associ	-0.6	-0.4	50.0	-6.7	-91.0	
PBT	67.3	94.5	-28.8	88.9	-24.3	
Total Tax	8.2	22.0	-62.7	29.7	-72.4	
PAT	58.5	72.1	-18.9	52.5	11.4	On a like to like basis, bottomline growth remained flat YoY

Key Metrics

AMESA	322.5	237.6	35.7	307.5	4.9	Favourable base, consolidation of 'Creative Stylo' (acquired in February 2021) helped drive strong revenue growth in the Amesa region. Excluding Creative Stylo, the revenue increased 26.5% YoY
EAP	245.9	204.3	20.4	213.6	15.1	Demand pick-up and execution of new orders drive segment revenue
Americas	189.9	173.6	9.4	186.0	2.1	Demand pick-up post easing of travel restrictions helped drive segment revenues
Europe	173.2	176.8	(2.0)	188.2	(8.0)	Low demand for personal care products (travel related products) drags down revenue growth in region

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	
Revenue	3,444.0	3441.1	(0.1)	3,830.2	3771.1	(1.5)	4253.9	4102.2	(3.6)	We slightly tweak our revenue estimates downward considering slow offtake in the European and America regions. We build in revenue CAGR of FY22E-24E. We build in revenue CAGR of 10% in FY21-24E
EBITDA	648.1	596.9	(7.9)	741.9	730.4	(1.5)	834.0	804.3	(3.6)	
EBITDA Margin %	18.8	17.3	145bps	19.4	19.4	-3bps	19.6	19.6	1bps	We revise our margin estimates downward for FY22E-23E considering low margins from Europe
PAT	255.9	231.6	(9.5)	321.2	315.8	(1.7)	374.1	359.9	(3.8)	
EPS (₹)	8.1	7.3	(9.5)	10.2	10.0	(1.7)	11.9	11.4	(3.8)	

Source: ICICI Direct Research

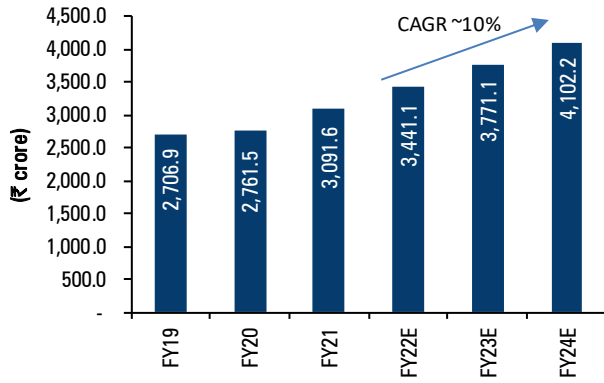
Exhibit 4: Assumptions

	Current			Earlier					Comments
	FY20	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
AMESA Growth (%)	-2.4	6.1	23.0	10.6	10.6	19.7	13.7	13.7	Favourable base, consolidation of Creative Stylo Packs to help drive revenue CAGR at 15% in FY21-24E
EAP Growth (%)	-6.6	25.5	12.5	10.5	10.5	9.5	11.5	11.5	Business pipeline in beauty & cosmetics and pharma categories to help drive segment revenue CAGR at 11%
Americas Growth (%)	5.1	5.4	12.1	5.0	5.0	12.1	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	(3.5)	7.1	7.1	1.5	9.1	9.1	Normal business activities and increased demand for personal products to help drive recovery in European business

Source: ICICI Direct Research

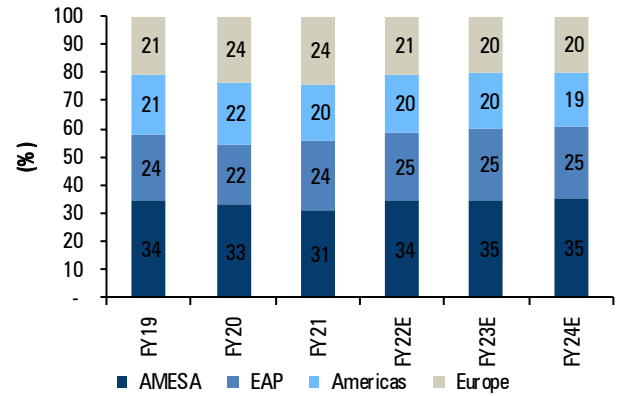
## Financial story in charts

Exhibit 5: Consolidated revenue trend



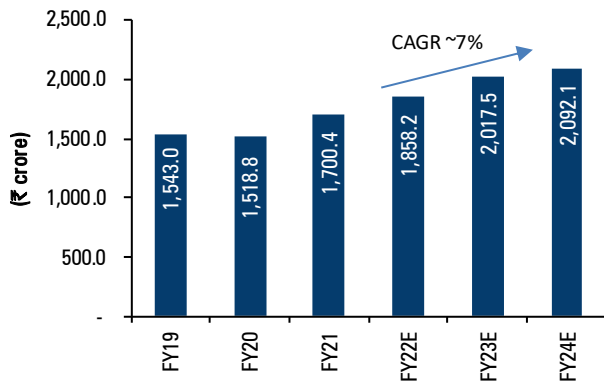
Source: Company, ICICI Direct Research

Exhibit 6: Region wise revenue contribution



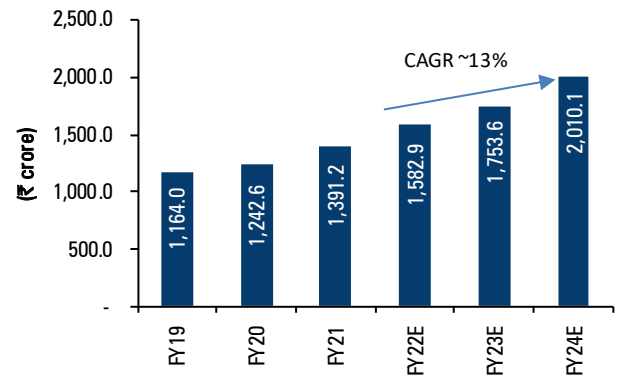
Source: Company, ICICI Direct Research

Exhibit 7: Oral care revenue trend



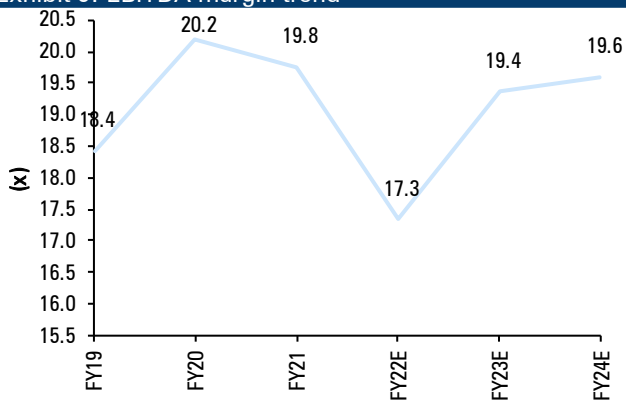
Source: Company, ICICI Direct Research

Exhibit 8: Non oral care revenue trend



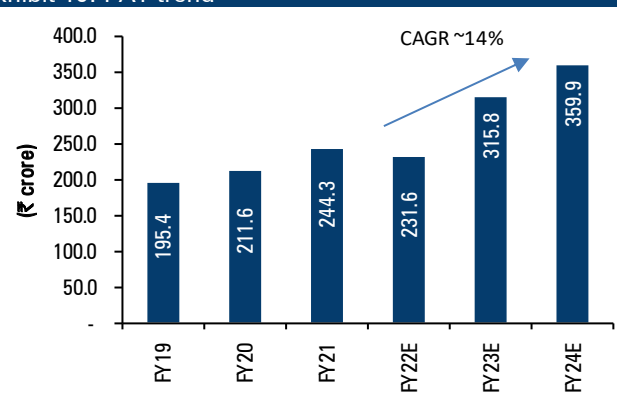
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA margin trend



Source: Company, ICICI Direct Research

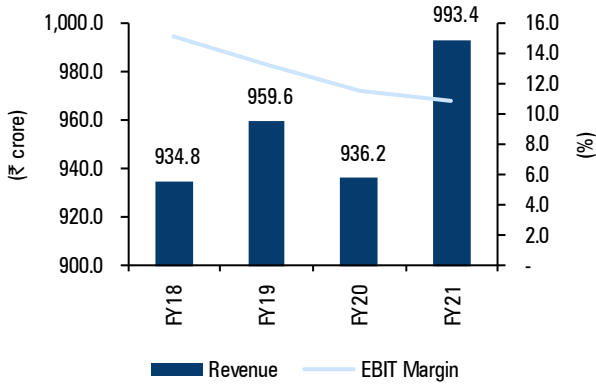
Exhibit 10: PAT trend



Source: Company, ICICI Direct Research

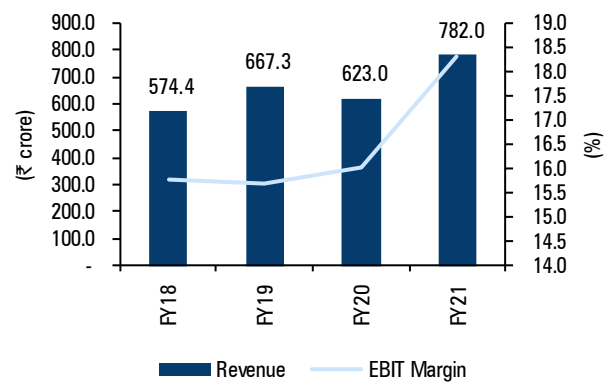
Financial story in charts

Exhibit 11: Amesa region revenue, EBIT margin trend



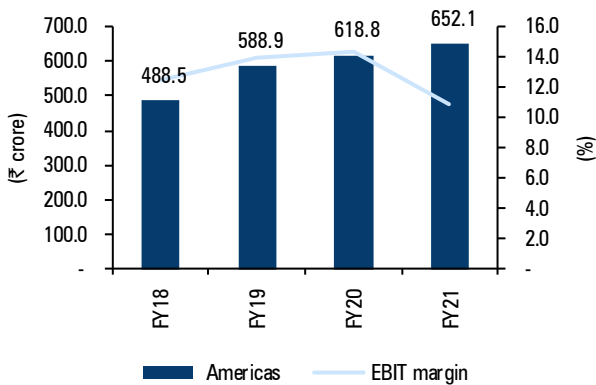
Source: Company, ICICI Direct Research

Exhibit 12: EAP region revenue & EBIT margin trend



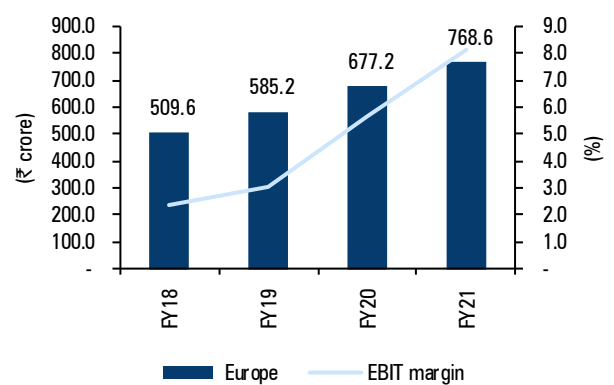
Source: Company, ICICI Direct Research

Exhibit 13: Americas revenue, EBIT margin trend



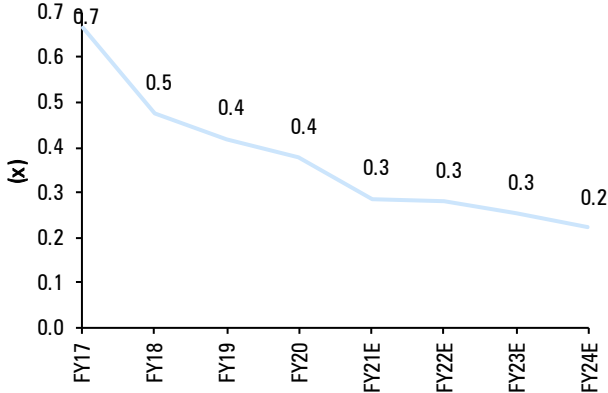
Source: Company, ICICI Direct Research

Exhibit 14: Europe revenue EBIT margin trend



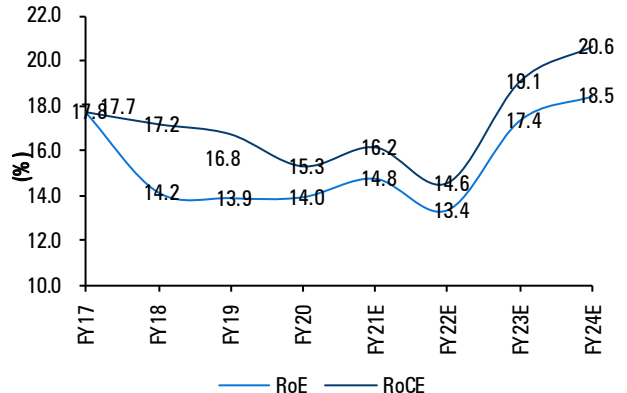
Source: Company, ICICI Direct Research

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	FY22E	FY23E	FY24E
<b>Net Sales</b>	<b>3091.6</b>	<b>3441.1</b>	<b>3771.1</b>	<b>4102.2</b>
Growth (%)	12.0	11.3	9.6	8.8
<b>Expenses</b>				
Raw Material Expenses	1293.4	1499.0	1595.2	1732.0
Employee Expenses	606.4	657.0	706.4	753.7
Manufacturing & Other Exp	580.7	688.2	739.1	812.2
Total Operating Expenditure	2480.5	2844.3	3040.7	3297.9
<b>EBITDA</b>	<b>611.1</b>	<b>596.9</b>	<b>730.4</b>	<b>804.3</b>
Growth (%)	9.6	-2.3	22.4	10.1
Interest	42.9	39.2	33.4	31.6
Other Income	14.5	9.6	10.4	11.3
Depreciation	234.6	254.6	267.7	283.1
PBT before Exceptional Items	348.1	312.6	439.7	500.9
Less: Exceptional Items	16.1	0.0	0.0	0.0
PBT	332.0	312.6	439.7	500.9
Total Tax	86.8	73.3	123.1	140.2
Profit from Associates	-0.9	-7.6	-0.7	-0.7
<b>PAT</b>	<b>244.3</b>	<b>231.6</b>	<b>315.8</b>	<b>359.9</b>

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	244.3	231.6	315.8	359.9
Depreciation	234.6	254.6	267.7	283.1
CF bef working capital chag	521.8	525.5	616.9	674.6
Net Increase in Current Assets	-130.7	-139.7	-89.1	-129.1
Net Increase in Current Liabilities	12.0	123.3	72.0	72.2
<b>Net CF from operating act</b>	<b>403.1</b>	<b>509.2</b>	<b>599.8</b>	<b>617.7</b>
(Purchase)/Sale of Fixed Assets	-288.0	-230.0	-230.0	-230.0
Minority Interest	24.7	0.0	0.0	0.0
Others	-52.2	-20.0	-20.0	-20.0
<b>Net CF from Investing act</b>	<b>-315.6</b>	<b>-250.0</b>	<b>-250.0</b>	<b>-250.0</b>
Equity Capital	0.0	0.0	0.0	0.0
Loan	-95.6	-5.0	-20.0	-30.0
Total Outflow on account of dividend	-129.3	-182.1	-227.6	-227.6
Others	7.5	-91.0	-33.4	-31.6
<b>Net CF from Financing Act</b>	<b>-217.4</b>	<b>-278.1</b>	<b>-281.0</b>	<b>-289.3</b>
Net Cash flow	-75.2	-18.9	-31.2	-21.6
Cash and Cash Equ at the beg	345.4	270.2	251.3	220.0
<b>Cash</b>	<b>270.2</b>	<b>251.3</b>	<b>220.0</b>	<b>198.5</b>

Source: Company, ICICI Direct Research

Exhibit 19: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Equity Capital	63.1	63.1	63.1	63.1
Reserve and Surplus	1668.8	1666.5	1754.7	1886.9
Total Shareholders funds	1731.8	1729.6	1817.8	1950.0
Total Debt	496.2	491.2	471.2	441.2
<b>Total Liabilities</b>	<b>2418.1</b>	<b>2410.9</b>	<b>2479.1</b>	<b>2581.3</b>
<b>Assets</b>				
Total Gross Block	4178.1	4380.7	4610.7	4840.7
Less Total Accumulated Depreciation	2758.1	3012.8	3280.5	3563.6
Net Block	1420.0	1368.0	1330.2	1277.2
Total CWIP	22.6	50.0	50.0	50.0
Total Fixed Assets	1442.6	1418.0	1380.2	1327.2
Other Investments	14.9	34.9	54.9	74.9
Inventory	414.9	518.5	537.3	595.7
Debtors	589.1	612.8	671.6	730.5
Loans and Advances	15.4	17.1	18.8	20.4
Cash	270.2	251.3	220.0	198.5
Other Current Assets	93.7	104.3	114.3	124.3
Total Current Assets	1383.3	1504.1	1561.9	1669.4
Creditors	422.2	518.5	568.2	618.1
Provisions	33.6	41.3	45.2	49.2
Total Current Liabilities	627.0	750.3	822.3	894.5
Net Current Assets	756.3	753.7	739.6	774.9
<b>Total Assets</b>	<b>2418.1</b>	<b>2410.9</b>	<b>2479.1</b>	<b>2581.3</b>

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Per Share Data</b>				
EPS	7.7	7.3	10.0	11.4
Cash EPS	15.2	15.4	18.5	20.4
BV	54.9	54.9	57.7	61.8
DPS	4.1	5.8	7.2	7.2
<b>Operating Ratios</b>				
EBITDA Margin	19.8	17.3	19.4	19.6
PAT Margin	8.3	6.7	8.4	8.8
<b>Return Ratios</b>				
RoE	14.8	13.4	17.4	18.5
RoCE	16.2	14.6	19.1	20.6
RoIC	18.0	16.3	21.9	24.2
<b>Valuation Ratios</b>				
EV / EBITDA	9.8	10.0	8.1	7.2
P/E	23.5	24.8	18.2	15.9
EV / Net Sales	1.9	1.7	1.6	1.4
Market Cap / Sales	1.9	1.7	1.5	1.4
Price to Book Value	3.3	3.3	3.2	2.9
<b>Turnover Ratios</b>				
Asset turnover	0.7	0.8	0.8	0.8
Debtor Days	69.5	65.0	65.0	65.0
Creditor Days	49.8	55.0	55.0	55.0
Inventory Days	49.0	55.0	52.0	53.0
<b>Solvency Ratios</b>				
Debt / Equity	0.3	0.3	0.3	0.2
Current Ratio	2.4	2.2	2.2	2.2
Quick Ratio	1.5	1.3	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 21: ICICI Direct Consumer Discretionary universe

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints (ASIPAI)	3,226	3,870	Buy	3,09,373	33.4	32.4	46.5	58.2	96.5	99.7	69.4	55.4	62.8	64.7	46.6	37.3	29.6	28.0	35.6	39.4	25.0	23.4	29.9	32.6
Berger Paints (BERPAI)	721	845	Hold	70,024	7.4	7.7	10.1	12.9	97.3	94.0	71.5	55.8	58.7	57.6	45.6	36.2	24.9	25.2	30.9	34.9	21.3	21.0	25.6	28.6
Kansai Nerolac (KANNER)	511	610	Hold	27,539	10.8	9.0	12.6	15.1	47.2	56.9	40.5	33.8	31.0	35.6	26.1	22.0	18.2	15.5	19.8	21.7	14.3	12.0	15.2	16.5
Pidilite Industries (PIDIND)	2,444	2,640	Hold	1,24,106	22.2	23.9	29.8	35.3	110.2	102.2	81.9	69.3	73.6	66.4	55.3	47.2	23.8	22.1	26.3	30.1	20.2	18.6	22.3	25.3
Bajaj Electricals (BAJELE)	1,210	1,280	Hold	13,861	16.5	13.3	28.8	36.8	73.4	91.3	42.0	32.9	46.5	47.4	28.5	23.3	15.1	15.5	23.4	24.6	10.7	10.6	18.5	19.6
Crompton Greaves(CROGR)	406	525	Buy	25,448	9.8	9.0	11.3	13.2	41.3	45.3	35.9	30.7	33.8	32.7	27.2	23.2	34.4	35.9	41.0	42.1	31.9	28.2	32.3	32.8
Havells India (HAVIND)	1,222	1,515	Buy	76,241	16.7	18.5	22.3	28.6	73.3	65.9	54.8	42.8	47.9	44.5	37.2	29.4	24.9	25.5	29.2	35.7	20.1	21.1	24.2	29.4
Polycab India (POLI)	2,494	3,000	Buy	37,190	59.4	55.0	69.2	84.9	42.0	45.3	36.1	29.4	32.6	32.5	24.1	19.8	20.8	18.3	22.2	23.3	17.9	14.5	17.0	18.0
Symphony (SYMLIM)	993	975	Hold	6,947	15.3	18.4	29.0	39.1	64.9	54.1	34.3	25.4	48.7	39.4	25.7	18.8	15.2	20.2	28.5	33.3	14.9	18.0	25.6	29.1
V-Guard Ind (VGUARD)	223	255	Buy	9,551	4.7	4.6	6.5	7.2	47.3	48.1	34.3	30.8	29.7	29.1	22.5	20.0	23.9	23.1	27.7	27.5	16.7	16.6	21.2	21.1
Voltas Ltd (VOLTAS)	1,223	1,375	Hold	40,449	16.0	19.8	25.2	33.3	76.5	61.7	48.5	36.8	62.4	54.1	43.0	35.0	15.0	18.5	20.8	21.8	10.6	13.6	15.4	17.5
Amber Enterprises (AMBER)	3,482	4,330	Buy	11,732	24.7	45.7	76.4	104.5	140.9	76.2	45.6	33.3	53.0	37.9	25.7	20.0	7.7	11.1	15.2	18.0	5.2	9.2	13.4	15.6
Dixon Technologies (DIXTE)	4,411	5,700	Buy	26,179	27.3	35.9	78.5	110.9	161.7	122.8	56.2	39.8	91.3	63.6	35.0	25.8	23.5	27.4	39.9	39.7	21.7	26.4	39.9	38.3
Supreme Indus (SUPIND)	2,040	2,625	Buy	25,914	77.0	72.3	82.3	93.4	26.5	28.2	24.8	21.8	19.6	20.7	17.9	15.6	33.1	26.9	27.0	27.5	30.9	25.6	25.1	25.0
Astral Ltd (ASTPOL)	2,127	2,310	Hold	42,728	20.3	24.7	31.4	38.2	104.7	86.3	67.8	55.6	65.6	55.7	45.0	37.4	27.5	29.4	31.9	32.4	21.5	22.8	24.7	24.9

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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