

## Focus on profitability in challenging scenario...

Essel Propack (EPL) reported a flattish topline YoY led by Covid-19 related shutdown in Amesa and EAP regions (both regions contribute ~50% to revenue) while revenue from Americas, Europe increased ~4%, 16%, respectively, in Q4FY20. During the pandemic, EPL managed to classify itself under essential service provider category, (helped it to run operation across geographies with applicable government restrictions) thereby limiting the impact on topline. Further, recovery in profitability in EAP, Americas, Europe helped drive consolidated margin up 114 bps YoY in Q4FY20. We upgrade our rating from REDUCE to **HOLD** considering gradual recovery in Amesa regions, improving profitability in overseas business and strengthening balance sheet condition (D/E 0.4x, free cashflow of ₹ 333 crore).

## Amesa, EAP regions revenue growth marred by lockdown

While America & Europe (together contribute ~50% to topline) regions reported revenue growth of 4% & 16% YoY in Q4FY20 (~5%, ~16%, respectively, in FY20), lower volume offtake in the Amesa and EAP regions hurt overall topline growth. Strong revenue growth in Americas and Europe was due to lower base, new customer. Adjusted with Covid-19 impact, topline in Q4FY20 would have up 7% YoY. Further, revenue growth in Americas, Europe is likely to remain intact owing to new client addition and increase in wallet share from existing clients in the personal care segment. The performance in Amesa and EAP regions may recover fast with increasing plant utilisation (month on month) post relaxation of lockdown.

## Rise in contribution of personal care drives profitability

The EBITDA margin for Q4FY20 and FY20 increased 110 bps and 180 bps YoY to 20.1% and 20.2%, respectively, owing to rising contribution of high margin personal care business (from 43% in FY19 to 45% in FY20). This, along with various cost rationalisation measurements helped reduce other cost by ~130 bps YoY in Q4FY20. The management has guided that while EPL's focus to drive revenue growth by focusing on personal care category (beauty & cosmetics and pharma laminated tubes command higher margin than oral care products), the cost rationalisation steps by the company would continue to drive EBITDA margin, going forward.

## Valuation & Outlook

We believe improved profitability along with balance sheet condition in the challenging scenario is encouraging. Further, the company's focus on 'capital efficient consistent earnings growth' would help improve the return ratios, going forward. We upgrade our rating from REDUCE to **HOLD** with a revised price target of ₹ 190/share, valuing at 9x FY22E EV/EBITDA.



### Particulars

Particular	Amount
Market Capitalization (₹Crore)	5,517.8
Total Debt (FY 20) (₹Crore)	591.8
Cash and Inv (FY 20) (₹Crore)	311.6
EV (₹Crore)	5,798.0
52 week H/L	201/ 78
Equity capital (₹Crore)	31.4
Face value (₹)	2.0

### Key Highlights

- Performance of Amesa, EAP regions (contribute ~50% to topline) stayed under pressure due to Covid-19 related lockdown
- Better performance in Americas, Europe region supported by low base and addition of new clients
- Model revenue, earning CAGR of 8.5%, ~9%, respectively, in FY19-21E supported by recovery in Amesa, EAP business
- Upgrade rating from REDUCE to HOLD with revised target price of ₹ 190/share

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### Key Financial Summary

(₹Crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (19-22E)
Net Sales	2423.9	2706.9	2760.1	2921.8	3248.0	8.5
EBITDA	464.7	499.1	557.4	568.4	662.7	9.0
EBITDA Margin (%)	19.2	18.4	20.2	19.5	20.4	
Net Profit	174.2	195.4	211.6	188.9	249.6	8.6
EPS (₹)	5.5	6.2	6.7	6.0	7.9	
P/E (x)	31.7	28.2	26.1	29.2	22.1	
Price/Book (x)	4.4	4.0	3.6	3.4	3.1	
Mcap/sales (x)	2.3	2.0	2.0	1.9	1.7	
RoE (%)	14.2	13.9	14.3	11.5	14.2	
RoCE (%)	17.2	16.8	15.6	13.9	15.9	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q4FY20	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	688.9	676.2	693.7	-0.7	710.8	-3.1	Muted topline growth due to lockdown in the AMESA and EAP regions
Other Income	0.8	3.6	9.3	-91.9	4.2	-82.0	
Raw Material Exp	284.7	284.0	297.0	-4.1	293.1	-2.8	
Employee Exp	136.6	125.1	126.5	8.0	131.5	3.9	
Manufacturing & Other e:	129.0	133.5	138.6	-6.9	128.4	0.5	Various cost rationalisation measures (under project Phoenix) helped saving in other expenditure
EBITDA	138.5	133.6	131.6	5.3	157.9	-12.3	
EBITDA Margin (%)	20.1	19.8	19.0	114 bps	22.2	-211 bps	Saving in other expenditure and improved profitability in Europe drives margin
Depreciation	57.4	58.4	49.6	15.7	58.0	-1.0	
Interest	13.0	13.3	15.6	-16.6	13.4	-2.4	Some long term debt re-payment resulted in saving in interest cost
PBT	68.8	65.5	78.6	-12.5	90.7	-24.1	
Total Tax	19.7	18.0	25.3	-22.0	28.9	-31.8	
PAT	50.0	47.5	53.3	-6.2	61.2	-18.4	Muted topline growth and sharp decline in other income drags PAT growth
<b>Key Metrics</b>							
AMESA	215.3	234.9	236.5	-9.0	251.6	-14.4	Covid-19 related lockdown from March'20 impacted the revenue
EAP	135.3	159.5	153.9	-12.1	174.0	-22.2	EAP revenue marred by covid-19 related shut down in China
Americas	171.3	153.4	164.9	3.9	145.7	17.6	Increasing wallet share from existing customers helped driving growth
Europe	189.7	145.4	164.1	15.6	161.8	17.3	New customer addition vis a vis increased wallet share from existing customers helped in driving revenue

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹Crore)	FY20E			FY21E		FY22E		Comments
	Est.	Actual	Change	Old	New Change	Introduced		
Revenue	2,970.6	2760.1	(7.1)	3,304.0	2921.8	(11.6)	3248.0	We tweaked our revenue estimate for FY 21 considering the impact of lockdown and simultaneously interdocted FY 22E estimates with revenue growth of ~11% YoY
EBITDA	537.6	557.4	3.7	608.1	568.4	(6.5)	662.7	
EBITDA Margin %	18.1	20.2	210bps	18.4	19.5	105bps	20.4	We believe various cost rationalisation measures coupled with increase in plant utilisation would help in drive profitability
PAT	225.1	211.6	(6.0)	252.2	188.9	(25.1)	249.6	
EPS (₹)	7.1	6.7	(5.5)	8.0	6.0	(25.1)	7.9	

Source: Company, ICICI Direct Research

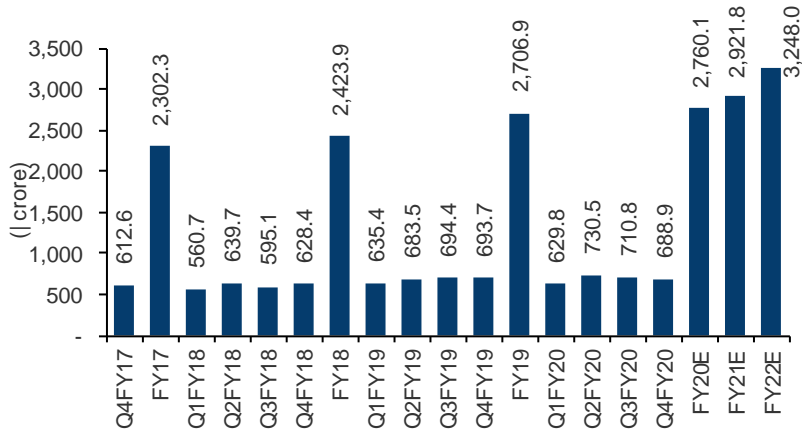
**Exhibit 3: Assumptions**

	Current				FY22E		Earlier		Comments
	FY18	FY19E	FY20E	FY21E	introduced	FY20E	FY21E		
AMESA Growth (%)	-4.7	2.7	-2.5	4.5	11.7	9.6	11.7	We believe, growth in personal care segemnt will help driving revenue from FY 22E onwards	
EAP Growth (%)	3.9	16.2	-6.6	9.1	11.5	11.5	14.6	Business in China has witnessed a sharp recovery post covid-19 related lockdown, strong order book help in drive revenue of the geography	
Americas Growth (%)	1.2	20.6	5.0	5.5	11.3	13.4	12.4	Revenue growth would be largely driven by addition of new customers and wallet share gain from the existing customers	
Europe Growth (%)	17.1	14.8	15.7	7.4	10.3	10.3	11.3	Strong order book in both oral and persoanl care segment would help in drive revenue of the region	

Source: Company, ICICI Direct Research

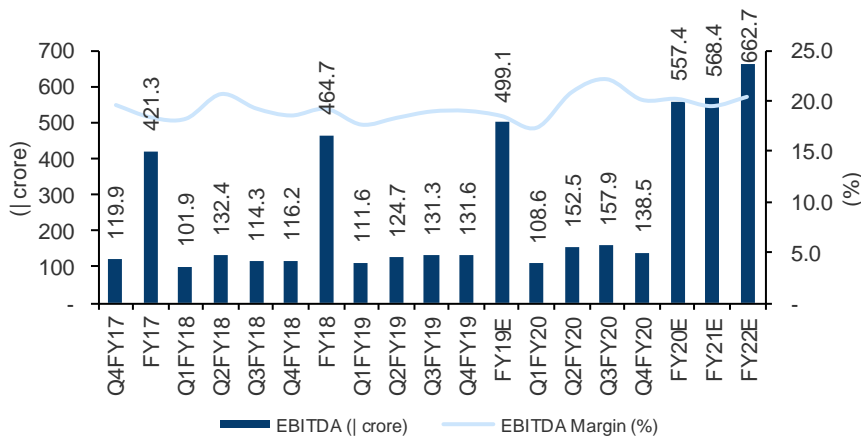
## Financial story in charts

Exhibit 4: Overseas regions lead revenue growth



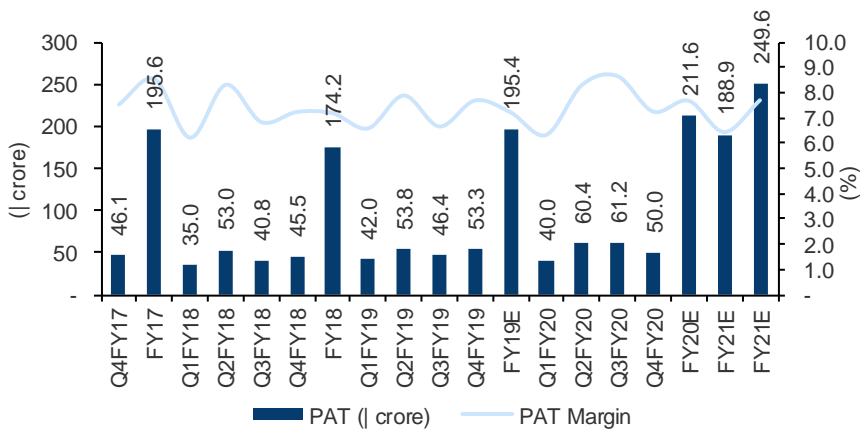
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



Source: Company, ICICI Direct Research

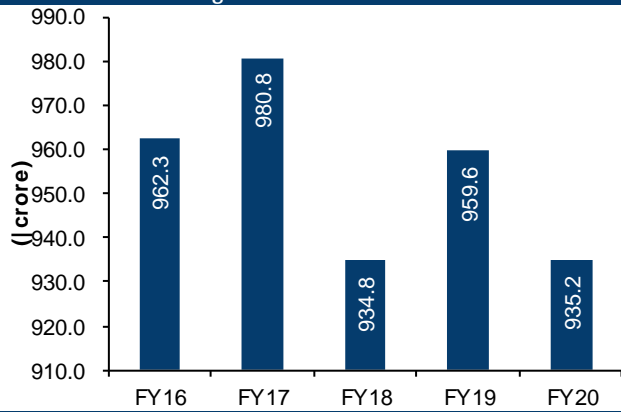
Exhibit 6: Better EBITDA margin to drive PAT



Source: Company, ICICI Direct Research

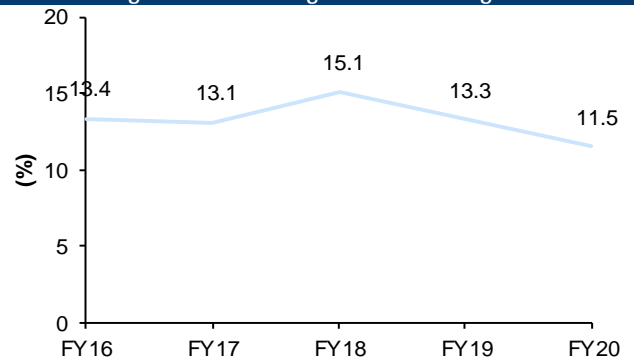
Financial story in charts

Exhibit 7: Amesa region revenue trend



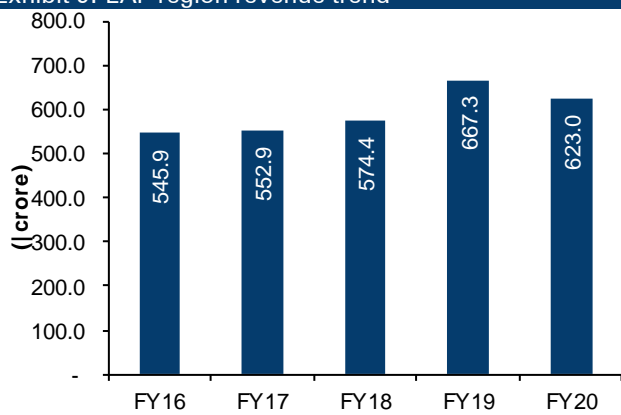
Source: Company, ICICI Direct Research

Exhibit 8: Segment EBIT margin in Amesa region



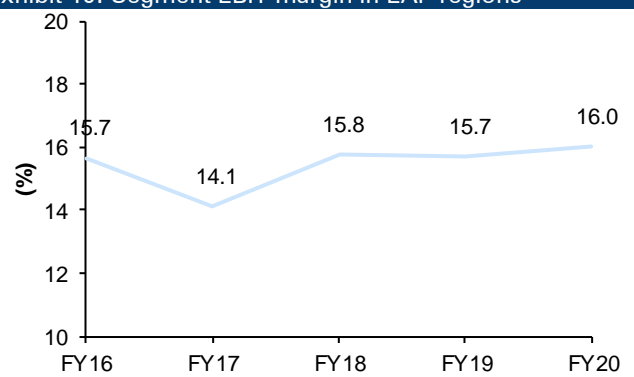
Source: Company, ICICI Direct Research

Exhibit 9: EAP region revenue trend



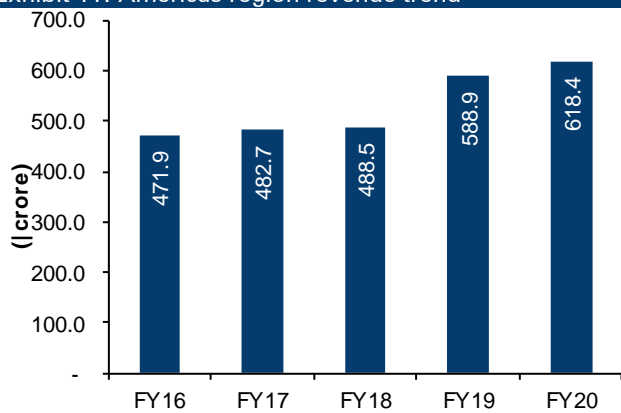
Source: Company, ICICI Direct Research

Exhibit 10: Segment EBIT margin in EAP regions



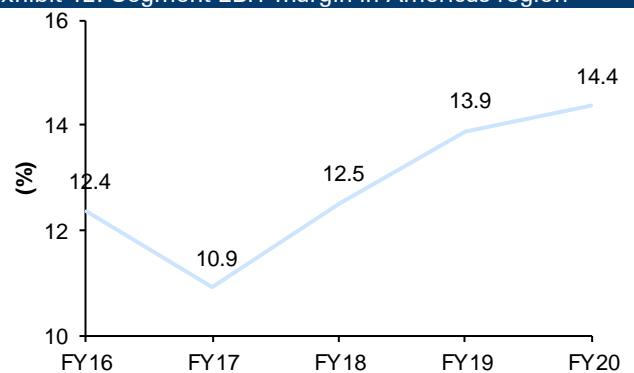
Source: Company, ICICI Direct Research

Exhibit 11: Americas region revenue trend



Source: Company, ICICI Direct Research

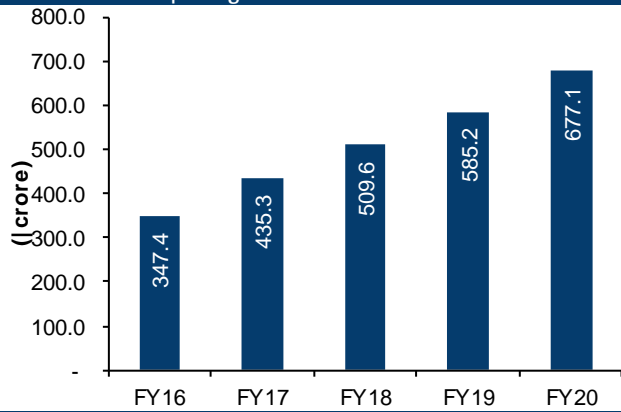
Exhibit 12: Segment EBIT margin in Americas region



Source: Company, ICICI Direct Research

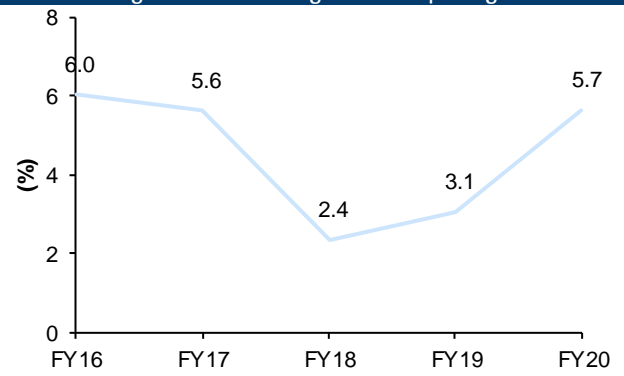
Financial story in charts

Exhibit 13: Europe region revenue trend



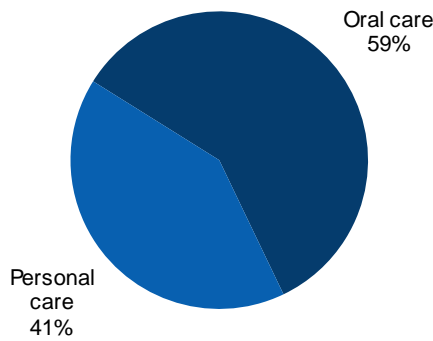
Source: Company, ICICI Direct Research

Exhibit 14: Segment EBIT margin in Europe region



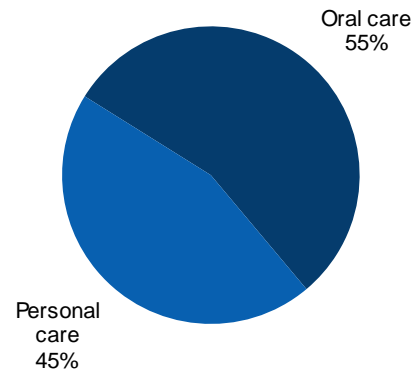
Source: Company, ICICI Direct Research

Exhibit 15: Revenue contribution (segment wise in FY18)



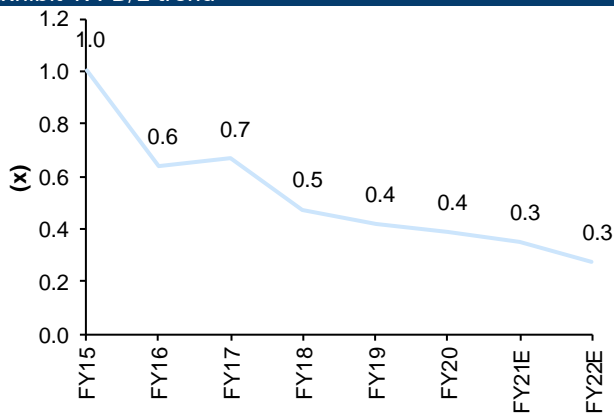
Source: Company, ICICI Direct Research

Exhibit 16: Revenue contribution (segment wise in FY20)



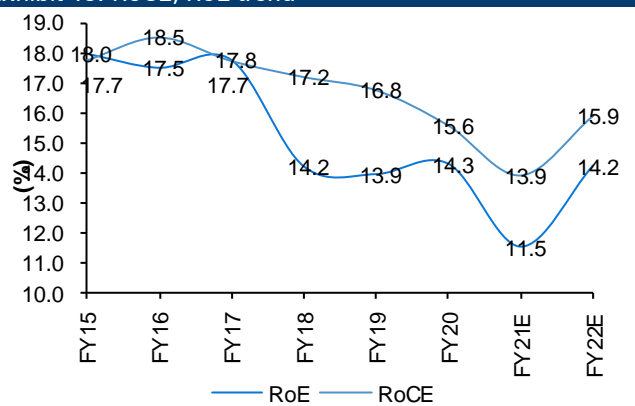
Source: Company, ICICI Direct Research

Exhibit 17: D/E trend



Source: Company, ICICI Direct Research

Exhibit 18: RoCE, RoE trend



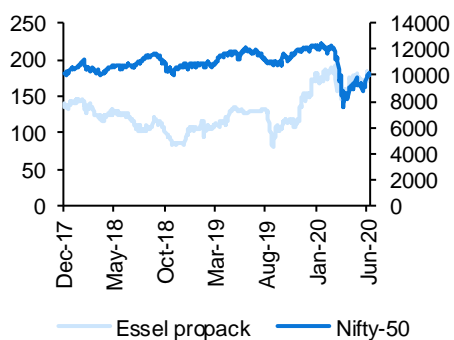
Source: Company, ICICI Direct Research

## Conference Call Highlights

- This quarter marks the third quarter since Blackstone became the new controlling shareholder of the company
- Sudhanshu Vats joined as the company's CEO and MD in April 2020. Mr Vats was the CEO of Viacom18 for eight years, where he helped scale up the company's revenue by 4x during his tenure
- Working on delivery of capital-efficient consistent earnings growth
- Focus on accelerated growth in personal care, continued leadership in oral care, innovation and sustainability solutions and prudent capital allocation across regions
- EPL is an industry leader in converting laminated tubes to newer subcategories, like shampoos, hair conditioners. Also, the company continues to expand into newer market categories such as eye care and hand care
- The company launched new Platina laminate, which is 100% recyclable and has been certified as recyclable in code 2 stream by the Association of Plastic Recyclers, US. It has seen strong traction with customers globally. One of the largest global oral players recently launched its first recyclable tube in partnership with EPL. It also managed to launch new category hand sanitisers in tube - within 15 days during Q4
- The company managed to classify itself as essential service category. This help EPL to run operations at its 20 plants across the globe with various government approvals
- Plants in Americas and Europe operating at 95% of normal level. In India, it is improving
- Proforma revenue, EBITDA growth would have been 7%, ~22% YoY, respectively, while EPS growth would have been 57.4% YoY in Q4FY20
- Revenue growth in FY20 on a proforma level could have been ~4% YoY. Adjusted EBITDA would have grown by ~11% to ₹ 556 crore, and adjusted EPS would have grown by 22.3% to ₹ 7.1
- Project Phoenix-I helped in 176 bps YoY improvement in EBITDA margin in FY20
- The company has focused on increasing cash position and strengthening the balance sheet during FY20. EPL also reduced debt with efficient use of capex (rationalised from ₹ 304 crore in FY19 to ₹ 129 crore in FY20). The future capex would be in line with depreciation charges. This helped maintain return ratios for the company in the challenging scenario
- EPL became a leading hand sanitiser tube supplier with a reasonably robust order pipeline (about 150 million tubes annualized) across the globe. Working with large multinational big brands, many of them across the globe to increase wallet share
- Covid-19 hit the China and India business more due to complete lockdown situation. However, lockdown in Americas and Europe was not that severe
- Personal care has been a major growth driver for the company over the last eight years, which has been growing at a CAGR of 16% and now contributes 45% of the revenue compared to 41% about three years back
- Personal care grew 9.1% YoY in FY20. This, despite the impact of Covid-19 and the weak demand environment in India
- Personal care segment grew 17%YoY in Americas, 5.4% YoY in EAP and 17% YoY in Europe

- Recently, the company won a large contract from an oral customer in Europe. With this, EPL now serves all major oral care customers in the region
- The management expect a good recovery in China and India post Covid-19 pandemic. It also expects to grow better than historical growth of 3-4% with support of entrance into new category and increase in wallet share from existing clients
- Scope of further improvement in profitability of overseas business, which will drive consolidated EBITDA margin, going forward. Phoenix 2 is focused on streamlining process and cost saving
- Benefit of lower crude oil prices would be partially passed on to clients. The benefit of lower crude prices will reflect with some lag to its derivatives
- The company has a net debt of about ₹ 220 crore by the end of FY20 against ₹ 448 crore in FY19
- The board approved a final dividend per share of ₹ 2.05. With the interim dividend, which had already been approved of ₹ 1.25, EPL has now declared a full dividend for FY20 at ₹ 3.30 per share

**Exhibit 1: Historical price chart**



Source: Bloomberg, Company, ICICI Direct Research

**Exhibit 2: Shareholding Pattern**

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	57.0	57.0	83.0	83.0	75.0
FII	17.8	17.2	3.9	3.8	4.6
DII	1.0	1.0	1.0	1.3	1.2
Others	24.2	24.8	12.1	11.9	19.2

Source: Company, ICICI Direct Research



## Financial summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Net Sales</b>	<b>2706.9</b>	<b>2760.1</b>	<b>2921.8</b>	<b>3248.0</b>
Growth (%)	11.7	2.0	5.9	11.2
<b>Expenses</b>				
Raw Material Expenses	1164.8	1156.8	1215.9	1344.9
Employee Expenses	500.6	531.1	564.8	603.8
Manufacturing & Other Ex	542.4	514.7	572.7	636.6
Total Operating Expenditur	2207.8	2202.6	2353.4	2585.3
<b>EBITDA</b>	<b>499.1</b>	<b>557.4</b>	<b>568.4</b>	<b>662.7</b>
Growth (%)	7.4	11.7	2.0	16.6
Interest	61.3	55.7	61.2	29.4
Other Income	28.5	13.4	14.4	21.6
Depreciation	186.1	229.8	265.9	318.3
PBT before Exceptional lte	280.2	285.4	255.7	336.6
Less: Exceptional Items	-3.1	9.4	0.0	0.0
PBT	283.3	276.0	255.7	336.6
Total Tax	93.2	63.8	63.9	84.2
Profit from Associates	5.3	-0.6	-2.9	-2.9
<b>PAT</b>	<b>195.4</b>	<b>211.6</b>	<b>188.9</b>	<b>249.6</b>

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	195.4	211.6	188.9	249.6
Depreciation	186.1	229.8	265.9	318.3
CF bef working capital chag	442.8	497.0	516.0	597.3
Net Increase in Current Assets	9.1	-17.3	-150.4	-82.0
Net Increase in Current Liabilities	-88.5	133.7	11.7	18.5
<b>Net CF from operating act</b>	<b>363.4</b>	<b>613.5</b>	<b>377.3</b>	<b>533.8</b>
(Purchase)/Sale of Fixed Asset	-308.9	-284.6	-150.0	-230.0
Minority Interest	0.9	3.5	0.0	0.0
Others	37.2	17.2	-20.0	-20.0
<b>Net CF from Investing act</b>	<b>-270.9</b>	<b>-264.0</b>	<b>-170.0</b>	<b>-250.0</b>
Equity Capital	31.6	0.0	0.0	0.0
Loan	-12.3	9.9	-20.0	-90.0
Total Outflow on account of divi	-56.9	-93.3	-122.9	-136.6
Others	-94.1	-29.3	-18.0	-29.4
<b>Net CF from Financing Act</b>	<b>-131.7</b>	<b>-112.8</b>	<b>-160.9</b>	<b>-256.0</b>
Net Cash flow	-25.5	221.2	46.4	27.8
Cash and Cash Equ at the beg	115.8	90.4	311.6	358.0
<b>Cash</b>	<b>90.4</b>	<b>311.6</b>	<b>358.0</b>	<b>385.8</b>

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Equity Capital	63.1	63.1	63.1	63.1
Reserve and Surplus	1324.9	1469.5	1578.7	1691.7
Total Shareholders funds	1388.0	1532.6	1641.8	1754.8
Total Debt	581.9	591.8	571.8	481.8
<b>Total Liabilities</b>	<b>2038.8</b>	<b>2190.9</b>	<b>2280.1</b>	<b>2303.1</b>
<b>Assets</b>				
Total Gross Block	3597.5	3881.6	4012.7	4242.7
Less Total Accumulated Depreci	2293.7	2523.5	2789.4	3107.7
Net Block	1303.8	1358.1	1223.3	1135.0
Total CWIP	30.6	31.1	50.0	50.0
Total Fixed Assets	1334.4	1389.2	1273.3	1185.0
Other Investments	16.8	16.0	36.0	56.0
Inventory	323.4	367.2	440.3	489.4
Debtors	493.4	490.3	560.3	578.4
Loans and Advances	33.8	17.8	18.9	21.0
Cash	90.4	311.6	358.0	385.8
Other Current Assets	114.5	107.0	113.3	126.0
Total Current Assets	1055.5	1293.9	1490.7	1600.6
Creditors	404.3	519.9	480.3	489.4
Provisions	26.9	27.8	75.2	76.7
Total Current Liabilities	481.3	615.0	626.7	645.2
Net Current Assets	574.2	678.9	864.0	955.3
<b>Total Assets</b>	<b>2038.8</b>	<b>2190.9</b>	<b>2280.1</b>	<b>2303.1</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Per Share Data</b>				
EPS	6.2	6.7	6.0	7.9
Cash EPS	12.1	14.0	14.4	18.0
BV	44.0	48.6	52.1	55.7
DPS	1.8	3.0	3.9	4.3
<b>Operating Ratios</b>				
EBITDA Margin	18.4	20.2	19.5	20.4
PAT Margin	7.1	7.9	6.5	7.7
<b>Return Ratios</b>				
RoE	13.9	14.3	11.5	14.2
RoCE	16.8	15.6	13.9	15.9
RoIC	16.9	18.1	16.5	18.7
<b>Valuation Ratios</b>				
EV / EBITDA	12.0	10.3	10.0	8.4
P/E	28.2	26.1	29.2	22.1
EV / Net Sales	2.2	2.1	1.9	1.7
Market Cap / Sales	2.0	2.0	1.9	1.7
Price to Book Value	4.0	3.6	3.4	3.1
<b>Turnover Ratios</b>				
Asset turnover	0.8	0.7	0.7	0.8
Debtor Days	66.5	64.8	70.0	65.0
Creditor Days	54.5	68.8	60.0	55.0
Inventory Days	43.6	48.6	55.0	55.0
<b>Solvency Ratios</b>				
Debt / Equity	0.4	0.4	0.3	0.3
Current Ratio	2.2	1.8	2.0	2.1
Quick Ratio	1.5	1.1	1.2	1.3

Source: Company, ICICI Direct Research

Exhibit 7: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Asian Paints (ASIPAI)	1,637	1,900	Buy	1,56,988	29.9	32.5	38.6	54.7	50.4	42.4	36.3	33.1	27.9	30.7	31.5	33.5	26.6	26.3	27.8
Astral Polytechnik (ASTP)	874	900	Hold	13,168	16.6	14.2	20.0	52.8	61.3	43.7	27.8	30.4	23.3	20.5	16.3	20.2	16.6	12.6	15.4
Amber Enterprises (AM1)	371	1,565	Hold	4,311	52.2	15.1	54.9	28.4	98.1	27.0	15.7	22.2	12.3	14.3	7.3	15.7	14.5	4.4	13.7
Essel Propack (ESSPRO)	175	190	Hold	5,518	6.7	6.0	7.9	26.1	29.2	22.2	10.3	10.0	8.4	15.6	13.9	15.9	14.3	11.5	14.2
Havells India (HAVIND)	552	575	Buy	34,439	11.7	7.8	13.2	47.0	70.5	41.8	29.0	36.8	23.3	19.6	14.0	21.2	17.0	11.2	17.1
Kansai Nerolac (KANNE)	384	415	Buy	20,695	9.9	7.8	10.4	38.7	49.2	36.9	26.6	31.2	24.1	17.6	14.5	17.9	14.1	11.1	13.7
Pidilite Industries (PIDINI)	1,430	1,485	Buy	73,313	25.0	26.7	31.3	57.2	53.6	45.7	37.9	35.8	30.5	32.7	30.6	30.9	26.6	24.5	24.6
Polycab India (POLI)	745	855	Buy	11,091	51.4	36.2	53.2	14.5	20.6	14.0	9.6	12.4	9.1	26.5	16.9	20.3	20.0	12.3	15.6
Supreme Indus (SUPIND)	1,076	1,040	Hold	13,668	38.5	36.8	27.6	39.7	29.2	39.0	15.1	18.3	13.9	22.5	15.7	21.1	20.7	15.0	19.5
Symphony (SYMLIM)	889	1,055	Buy	6,219	26.0	23.7	35.1	34.2	37.5	25.3	28.9	32.1	20.6	28.8	23.9	31.9	29.0	22.7	28.9
V-Guard Ind (VGUARD)	176	210	Buy	7,492	4.4	3.5	5.1	40.5	49.8	34.6	29.6	35.6	24.8	24.8	19.1	23.9	18.6	14.5	18.2
Voltas Ltd (VOLTAS)	554	635	Buy	18,323	15.8	9.5	21.4	35.2	58.3	25.9	25.1	46.0	20.3	19.5	11.2	20.1	13.0	7.2	14.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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