3 March 2020

Initiating Coverage | Sector: Plastic Products

Essel Propack

Embarking on the next growth trajectory

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Essel Propack

BSE Sensex	S&P CNX
39,746	11,633

CMP: INR161 **TP: INR210(+30%)** **Buy**

Essel Propack Ltd. (EPL) is primarily engaged in the manufacture of multi-layer collapsible laminated and plastic tubes, which are used for packaging of consumer products in the oral care, beauty & cosmetics, health & pharmaceuticals, food, and home care industries. EPL operates in four regions: Africa, Middle East and South Asia (AMESA), East Asia Pacific (EAP), Europe and the Americas. The company commands a gigantic global market share of ~36% in oral care tubes and 7-8% market share in personal care tubes. It operates through 20 units spread across 10 countries.

Stock Info

Bloomberg	ESEL IN
Equity Shares (m)	315
M.Cap.(INRb)/(USDb)	50.6 / 0.7
52-Week Range (INR)	204 / 79
1, 6, 12 Rel. Per (%)	8/68/61
12M Avg Val (INR M)	49
Free float (%)	17.0

Financials & Valuations (INR b)

Y/E Mar	2020E	2021E	2022E
Sales	28.2	31.2	34.4
EBITDA	5.8	6.5	7.3
PAT	2.3	2.8	3.3
EBITDA (%)	20.5	20.8	21.1
EPS (INR)	7.3	9.0	10.5
EPS Gr. (%)	22.0	22.1	17.1
BV/Sh. (INR)	49.2	56.0	63.9
Ratios			
Net D/E	0.2	0.1	-0.0
RoE (%)	15.7	17.0	17.5
RoCE (%)	13.3	14.7	15.6
Payout (%)	25.7	24.2	25.3
Valuations			
P/E (x)	22.0	18.0	15.4
EV/EBITDA (x)	9.4	8.1	7.0
Div Yield (%)	0.9	1.1	1.4
FCF Yield (%)	5.1	4.8	5.4

Embarking on the next growth trajectory

Ramp-up of operations and improvement in product mix to drive growth

- **EPL is set to benefit from various expansion measures and efforts to improve its product mix across geographies over the last two years. Operating leverage benefits are likely to kick in with ramp-up of operations, particularly in the Americas and Europe.**
- **In our view, the company's dominant position in global oral care tubes (~36% share) provides comfort on sustainability of growth. Moreover, its increasing share of higher-value personal care tubes will help improve margins. Diversified presence across the globe reduces its concentration risk.**
- **Under the leadership of Blackstone (which boasts of a global network of experts and relationships with FMCG/pharma players), EPL's global market share is expected to improve from the current level of ~36% in oral care tubes and 7-8% in personal care tubes. Furthermore, a renewed growth strategy and prudent allocation of capital will benefit the company in the long run.**
- **EPL is also well positioned to benefit from the increasing use of laminated tubes over aluminum. Also, new product launches such as Platina and Green Maple Leaf are expected to contribute to its growth.**
- **We estimate a CAGR of 8% in revenue and 20% in PAT over FY19-22, driven by 11% revenue CAGR in the Americas, 5% in EAP, 3% in AMESA and 15% in Europe. We value the stock at 20x FY22E EPS of INR10.5, arriving at a target price of INR210. We initiate coverage with a Buy rating.**

Well-diversified presence across geographies; focus on ramp-up of operations…

EPL operates across AMESA (34% of revenue), EAP (24%), Europe (21%) and the Americas (21%). Notably, all these geographies hold significant potential, and from the perspective, EPL has been strategic in its growth plans to circumvent revenue concentration risk (no region contributes more than 34% of revenue). Operations in the Americas have remained steady and the focus now is on adding new customers and capacity addition. Recently, EPL's US unit commissioned its second high-speed tubing line –Shot Line – which is capable of producing 500 tubes per minute. In Europe, capex is largely behind and increasing utilization levels will moderate the impact of fixed cost overheads, fortifying margins. Furthermore, EPL has set up of a greenfield unit in Assam, India (annual capacity of ~220m tubes) and is focused on building a strong business development pipeline in China.

Essel Propack

Embarking on the next growth trajectory

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Please click here for Video Link

Shareholding pattern (%)

As On	Dec-19	Sep-19	Dec-18
Promoter	83.0	83.0	57.0
DII	2.4	2.1	3.5
FII	3.8	3.9	16.3
Others	10.8	11.0	23.2

…and getting the 'mix' right

EPL manufactures ~7-8b tubes annually. It enjoys a gigantic global market share of ~36% in oral care tubes and 7-8% share in personal care tubes. EPL remains focused on both these segments as (a) long-term contracts with its oral care clients provide strong medium- to- long-term growth visibility and (b) improving share of personal care category is expected to drive overall margins as market value of personal care is 3-4x that of oral care. From that perspective, EPL aims to balance the product mix of oral/personal care from 58%/42% now to 50%/50% in the next two years.

Blackstone's network and revamped management to change EPL's dynamics

Blackstone brings to the table its global network of expert advisors and long-term relationships/tie-ups with some of the major global players in the FMCG sector. This will help EPL to grab a higher wallet share from its clients and optimize its costs. Blackstone has completely revamped EPL's board with fit-for-purpose professionals and brought in industry veterans for providing strategic guidance and growth initiatives. EPL has also restated its growth strategy under the tutelage of Blackstone and shifted its area of focus on accelerating growth in Personal Care, maintaining leadership position in Oral Care and prudent allocation of capital across its regions of operations. EPL could also leverage upon Blackstone's strong capital base for organic and inorganic expansion.

New launches to fuel growth momentum

There has been a major shift toward the use of laminated tubes in the pharma sector. Recently, one of EPL's pharma clients shifted to packaging of an anti-fungal cream in laminated tubes from aluminum tubes. The increasing use of laminated tubes over aluminum and plastic tube provides significant growth opportunities for EPL. Further, the use of aluminum foil in multi-layer tubes is expected to be restricted globally by 2025 and in India by 2022, which will further boost EPL's sales. The majority of EPL's facilities are capable of manufacturing plastic barrier laminates (PBL), and thus, no additional investment is required to make its facilities compliant with the new regulations. Further, new product launches such as Platina, Green Maple Leaf, etc., are expected to contribute further to EPL's growth.

Initiate coverage with Buy rating

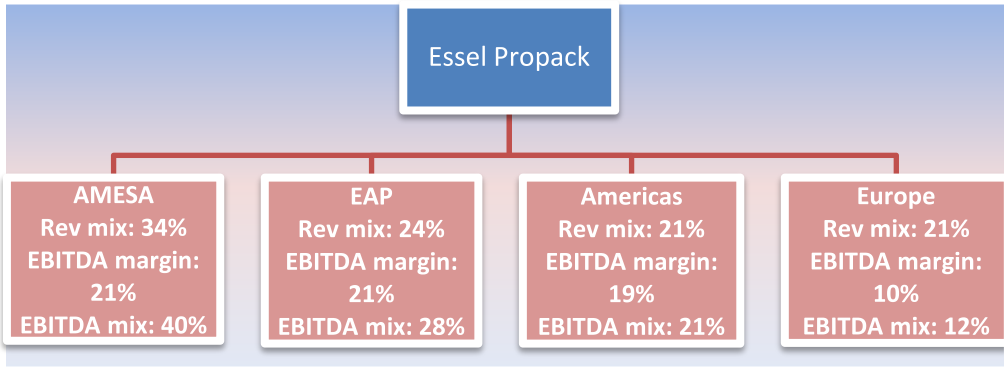
We believe that EPL is well positioned to benefit from healthy FMCG sales and the increasing usage of laminated tubes in the packaging industry. EPL is a dominant player as it (a) is a global market leader in the Oral Care tubes segment, (b) has a diversified geographical presence, (c) has a diversified product portfolio, (d) is improving its product mix, (e) has a new management and re-defined growth strategy, and (f) benefits from innovation and scale of operations. We expect consol. revenue/EBITDA/PAT CAGR of 8%/13%/20% to INR34b/INR7.3b/INR3.3b over FY19-22. The company is expected to generate strong CFO/FCF of INR13b/INR7.7b over FY20-22, turning into a net cash position of INR45m (currently net debt at INR3.3b). Its RoCE is expected to increase to 15.6% by FY22 from 11.5% in FY19. EPL's global peers trade at an average P/E of 15x CY20E. In the last three years, the stock has traded at an average one-year forward P/E of 19x and EV/EBITDA of 8.3x. We value EPL at 20x (5% premium to its three-year average P/E) FY22E EPS of INR10.5, arriving at a target price of INR210. We initiate coverage on EPL with a Buy rating.

Company overview

About Essel Propack Limited

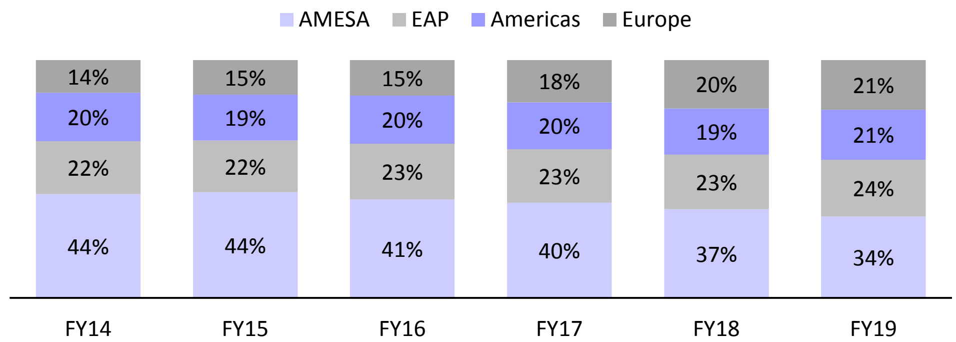
- Essel Propack (EPL) is a leading global manufacturer of laminated plastic tubes and laminates. Its products are extensively used in the packaging of products across categories, such as Oral Care, Beauty & Cosmetics, Pharma & Health, Food, Home Care, etc.
- It operates in four regions, namely AMESA (Africa, Middle East and South Asia), EAP (East Asia Pacific), the Americas and Europe. Currently, EPL has 20+ factories spread across 10 countries and manufactures ~8b tubes annually. EPL is a global leader in the Oral Care segment with a market share of 36% and has a market share of 7-8% in the Personal Care segment. As on FY19, 58% of its total revenue was contributed by Oral Care and the balance 42% by Personal Care.

Exhibit 1: Geographical revenue composition & EBITDA margin



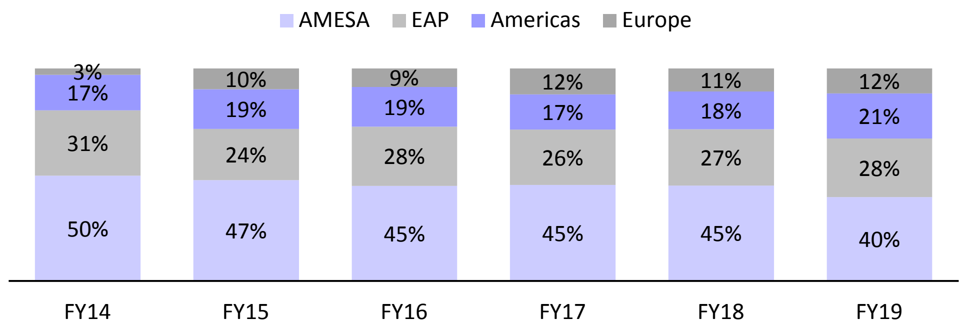
Note: Figures as on FY19, Source: Company, MOFSL

Exhibit 2: Geographical revenue composition gradually equalizing



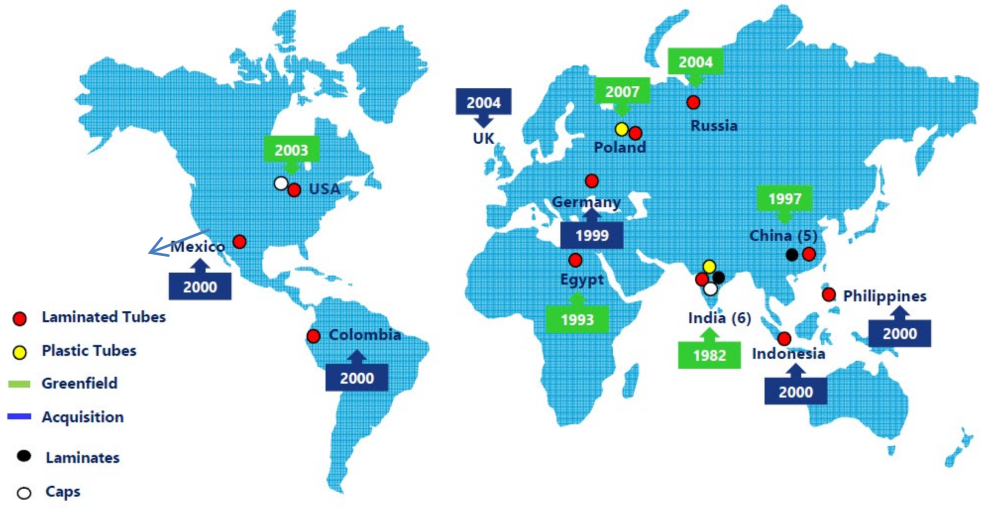
Source: Company, MOFSL

Exhibit 3: Geographical EBITDA mix



Source: Company, MOFSL

Exhibit 4: Global presence through 10 countries and 20 units



Source: Company, MOFSL

Global footprint

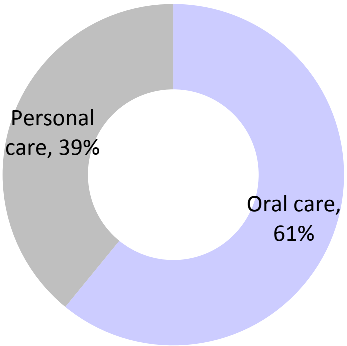
EPL sells over ~8b tubes annually to over 1,400+ clients across the world from its 20 global facilities spread across four geographies namely, AMESA, EAP, Europe and the Americas. EPL operates through three direct and 15 step-down foreign subsidiaries and one associate across these regions. Its major customers include Dabur, Patanjali (Oral Care); Godrej, Emami, Vicco, Marico (Skin Care), Sun Pharma, Dr. Reddy's and Piramal (Pharmaceuticals), Lakme, Colorbar, Oriflame, Avon, L'Oreal, Tom's, Tesco, etc. (Beauty and Cosmetics).

EPL's diversified presence provides it with a significant opportunity for strategizing according to the region. More than half of the countries served by EPL are emerging economies and highly populated. India's revenue contribution to the company's total revenue declined to 31% in FY19, as compared to 37% in FY17.

Exhibit 5: Product portfolio

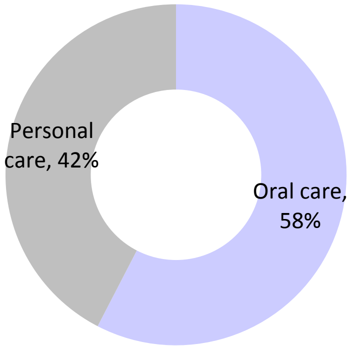
Source: Company, MOFSL

Exhibit 6: Product mix, as on FY14



Source: Company, MOFSL

Exhibit 7: Product mix, as on FY19



Source: Company, MOFSL

Global presence generating growth opportunities

Firing on all cylinders

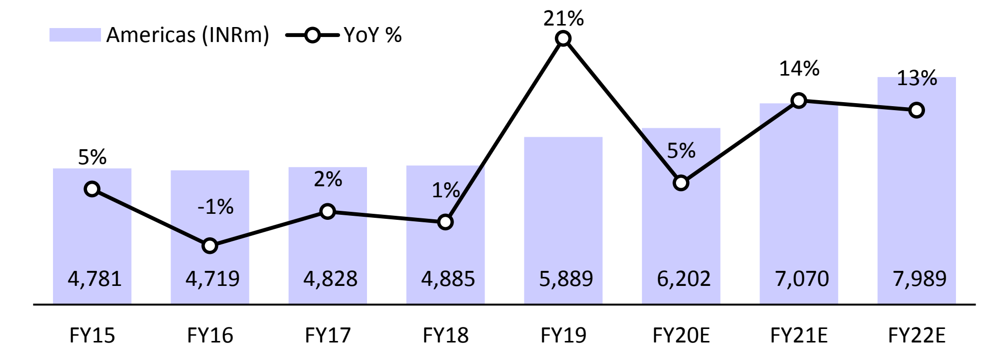
- **Ramp-up of operations in the Americas expected to drive regional volumes**
- **European margins expected to improve on back of increasing volumes and improvement in product mix**
- **All set to step back on growth trajectory in EAP through market share gains in Oral Care**
- **New unit in Assam, growing population and rising disposable income to fuel growth in AMESA**

EPL operates in four regions, namely AMESA, EAP, Europe and the Americas, which contribute 34%, 24%, 21% and 21%, respectively to the company's overall revenue. Out of the 10 countries in which the company operates, more than half of the units are located in the developing countries, thereby providing huge potential for growth.

Americas – stabilization and ramping up of operations to boost sales

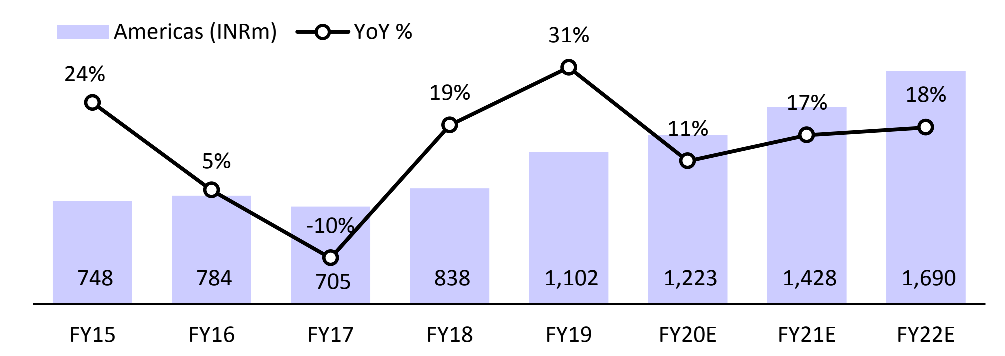
EPL operates in the Americas through its wholly-owned subsidiaries and has a manufacturing presence in the US, Mexico and Colombia. Its revenue/EBITDA from the Americas has grown at a CAGR of 5%/13% over FY14-19. The revenue/EBITDA contribution from the Americas stood at 21%/21% in FY19, with EPL recording a healthy EBITDA margin of 19% for FY19 in the region. The contribution of the Americas to its total revenue has remained more or less constant at ~20% over the last five years.

Exhibit 8: Americas' sales growth for FY15-22E



Source: Company, MOFSL

Exhibit 9: Americas' EBITDA growth for FY15-22E



Source: Company, MOFSL

Stable operations in Americas to improve margins

Commencement of 'Second Shot Line' to attract customers

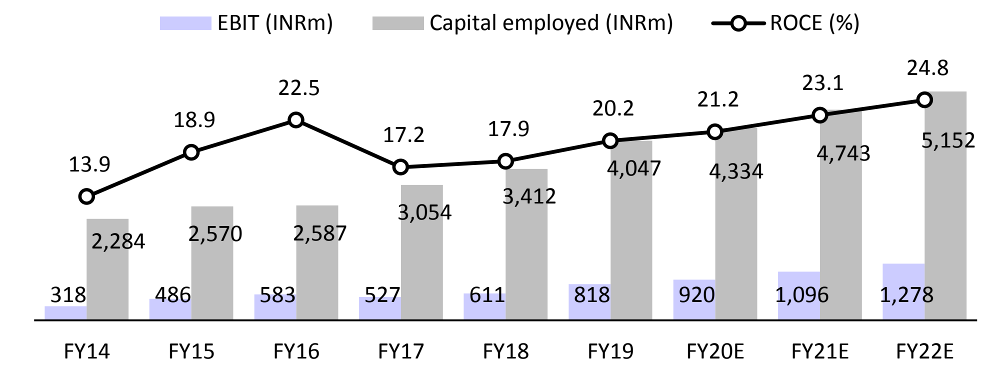
In FY17, EPL closed down its extruded plastic tube operations in the US and shifted its focus on marketing of laminated tubes in order to improve the sales of its Personal Care products. As a result, it has grown in both the Oral as well as Personal Care categories. The company has added more customers and categories within the same client base. Also, in FY19, the company's US unit commissioned its second very high speed tubing line, code named 'Shot Line', which is capable of producing 500 tubes per minute. With the ramp-up of the 'Shot Line', EPL's US sales are expected to pick up further.

In FY19, on the back of stabilization of its operations in the Americas, Americas' margins expanded by 400 percentage points to 19% (v/s. 15% in FY17). Going forward, with the increase in utilization, the share of Personal Care to EPL's total revenue in the US region is expected to increase from the current level of ~15% (as on FY19).

New capacity addition to meet demand

In FY19, increased demand in Mexico, especially in the Personal Care segment, made EPL shift its capacity from the US to Mexico as its Mexican facility was running at full capacity. The company has won new contracts in Mexico which are expected to ramp up soon. In FY19, Mexico's revenue share grew to 40%, as compared to 29% in FY17, on the back of a strong growth in the share of Personal Care.

Exhibit 10: Americas' RoCE to improve over FY19-FY22E



Source: Company, MOFSL

Growth trajectory in Americas to continue

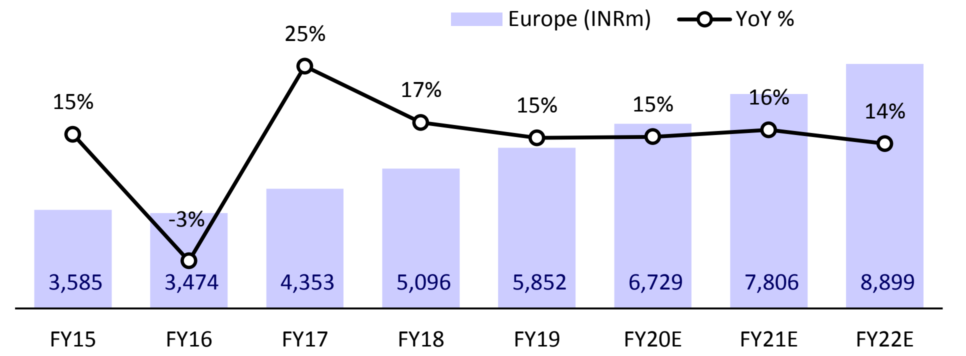
Going forward, we expect EPL's growth trajectory in the Americas to continue on the back of its steady operations across the region, higher customer additions and increase in the contribution of Personal Care. EPL's revenue/EBITDA from the Americas is expected to increase at a CAGR of 11%/15% over FY19-22E, and the company is likely to maintain healthy margins of 19-21%. Its RoCE in the Americas improved from ~14% in FY14 to 20% in FY19. We expect the company's growth trajectory to continue on the back of margin expansion and improved product mix. The revenue contribution from the Americas is expected to increase to 23% by FY22E from 21% in FY19.

Improving operating leverage to drive growth in Europe

EPL has a manufacturing presence in Poland, Russian and Germany. In FY17, EPL fully acquired its German subsidiary and signed a 10-year contract with its key customer. However, the company's sales in Europe have failed to grow along expected lines due to lower-than-forecasted offtake by customers.

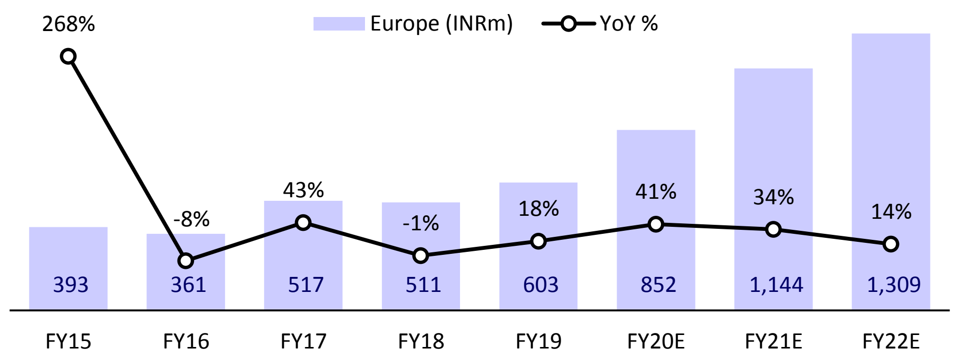
EPL's European operations are mainly dominated by the Personal Care segment and the company is also witnessing a strong volume growth in the Oral Care segment in the region. As a result, the share of Personal Care in its European revenue has declined from 80% to 60% in FY19. EPL's margins in Europe are currently lower than its margins in other regions mainly due to higher fixed cost and lower sales in the region. Going forward, with the increase in its utilization levels in Europe, the benefits of operating leverage are expected to kick in and improve EPL's overall margins in the region.

Exhibit 11: Europe's sales growth over FY15-22E



Source: Company, MOFSL

Exhibit 12: Europe's EBITDA growth over FY15-22E

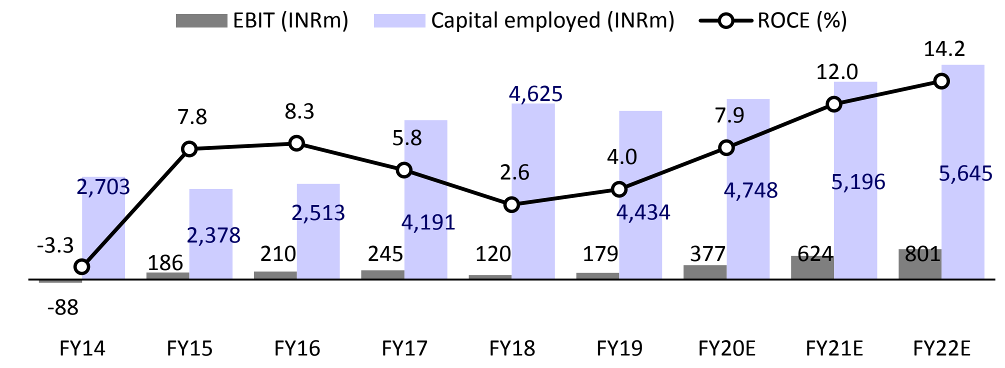


Source: Company, MOFSL

Higher sweating of assets and growing sales to improve margins in Europe

EPL's revenue/EBITDA in Europe recorded the highest CAGR of 13%/41% over FY14-19. Europe's revenue contribution has increased from 14% in FY14 to 21% in FY19 and is expected to reach 25% by FY22E. Its EBITDA margin in the region is expected to improve sharply from 10% in FY19 to 15% in FY22E, on the back of higher sweating of assets leading to improved operational efficiency and the increasing contribution of Oral Care. EPL's EBIT in Europe has increased from a loss of INR88m in FY14 to INR179m in FY19 and is expected to increase further to INR801m by FY22E. Similarly, its RoCE in the region is expected to increase to 14% in FY22E vs. 4% in FY19.

Exhibit 13: Europe to record highest RoCE expansion



Source: Company, MOFSL

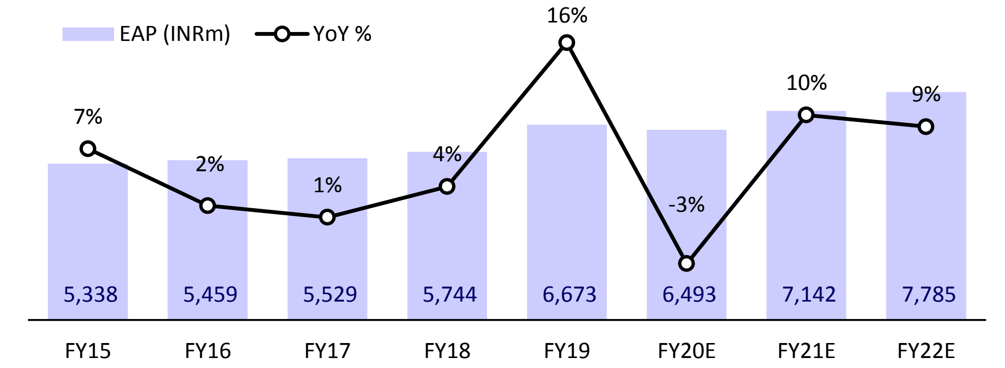
EAP – China gaining market in personal care and ecommerce

In the East Asia Pacific (EAP) region, EPL manufactures through its subsidiaries in China and the Philippines. EPL recorded a revenue/EBITDA CAGR of 6%/5% over FY14-19 in EAP which is the company's second-largest revenue contributor and contributes 24% to its total revenue.

In FY17, the contribution of the Personal Care segment to EPL's revenue in EAP stood at ~27% which improved significantly by FY19 (~35%, as on 2QFY20), on the back of increased wallet share in Personal Care. In China, EPL recorded growth in Personal Care but witnessed a decline in Oral Care, as some of its customers have lost market share, which the company has tried to compensate for by trying to rope in other Oral Care brands.

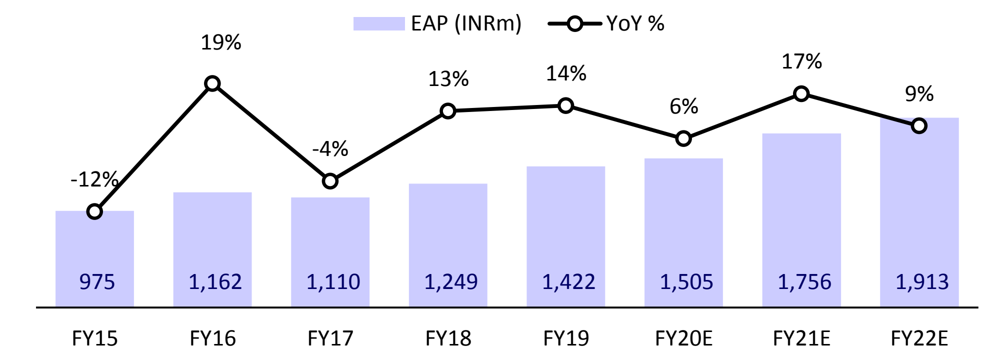
Going forward, EPL aims to focus on fast-growing regional Oral Care and Personal Care customers. Further, the management has highlighted that structurally, the business development pipeline in China is very strong and the company expects to maintain market share of its existing customers. Also, EPL was successful in gaining traction and acquiring a small share of the e-commerce business. The Philippines unit continues to contribute to the EPL's business in the EPA with the majority of its profit coming from the Personal Care segment.

Exhibit 14: EAP's sales growth over FY15-22E



Source: Company, MOFSL

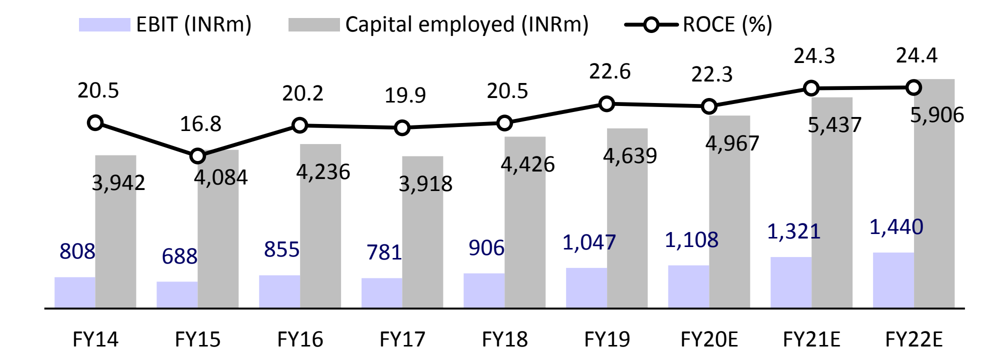
Exhibit 15: EAP's EBITDA growth over FY15-22E



Source: Company, MOFSL

In the EAP region, EPL has recorded the highest and a steady RoCE in the last five years as compared to all the other regions. Its RoCE in EAP improved from 20.5% in FY14 to 22.6% in FY19. We expect its RoCE in the EAP region to remain stable at 22-24% by FY22E.

Exhibit 16: EAP's margins to improve gradually over FY19-22E



Source: Company, MOFSL

AMESA – Recently commercialized plant to drive growth

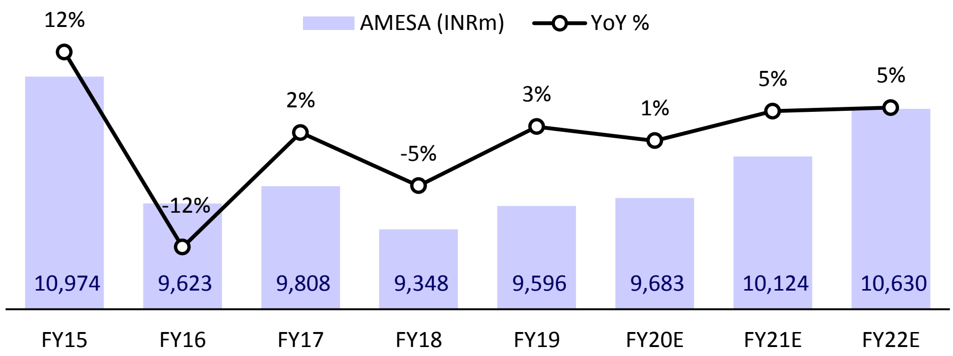
More than one-third of EPL's revenue is contributed by the AMESA region. EPL's revenue/EBITDA mix in the AMESA region decreased from 44%/50% in FY14 to 34%/40% in FY19, thus reducing its revenue concentration from one single region. EPL's AMESA revenue has remained stagnant in the last five years, whereas its EBITDA has grown at a CAGR of ~3% over FY14-19.

In FY17, EPL closed down three plants in the western India region and started a state-of-the-art manufacturing factory at Dhanoli, Vapi. In FY18, the company also commissioned in-house manufacturing of caps and closure at its Dhanoli (Vapi) site in a move to reduce material costs and increase response time to customer demand. Further, in FY19, EPL's sales growth in India was impacted by lower offtake by its key clients and pharma customers due to changes in regulations for the pharma category requiring prominent display of generic name vis-à-vis brand name. In FY19, EPL set up a new custom-built facility in Guwahati, Assam and commissioned a new laminator in December 2018, thus doubling its capacity of laminates. The new unit is capable of manufacturing 220m tubes annually; EPL plans to achieve an average run rate of 190m tubes from FY20 onwards for the next few years.

AMESA – Changing trend favoring EPL

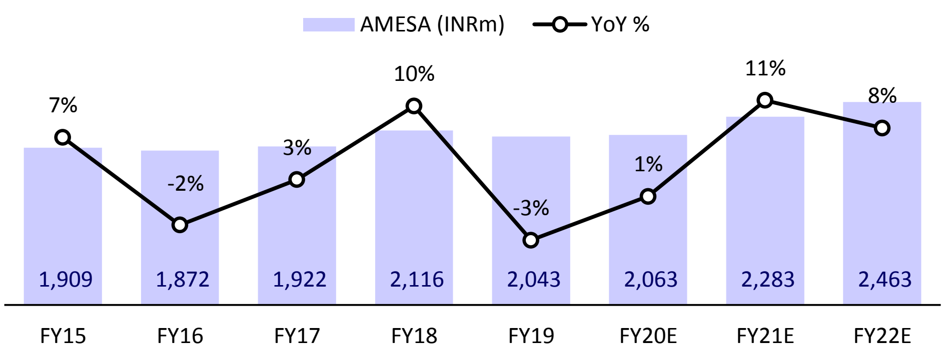
In FY19-20, EPL's loss in pharma volumes was compensated by increased volumes in the Beauty and Cosmetics segment (B&C). A new trend, i.e. the shift from aluminum tubes to laminated tubes, is visible in the pharma sector. Moreover, one of EPL's pharma customers has shifted to packaging of anti-fungal cream in laminated tubes from the previous aluminum tubes. This is expected to exert pressure on some other pharma brands to shift to laminated tubes. Further, the impact of GST implementation which had adversely affected the Indian tubes market has already begun waning. India currently accounts for 31% of EPL's total sales, which is expected to improve further with the scaling up of its new facility in Assam and improved demand in the pharma sector. The company's unit in Egypt is actively working to develop more customers. EPL has witnessed a good growth in the Personal Care segment in the AMESA region.

Exhibit 17: AMESA's sales growth over FY15-22E



Source: Company, MOFSL

Exhibit 18: AMESA's EBITDA growth over FY15-22E

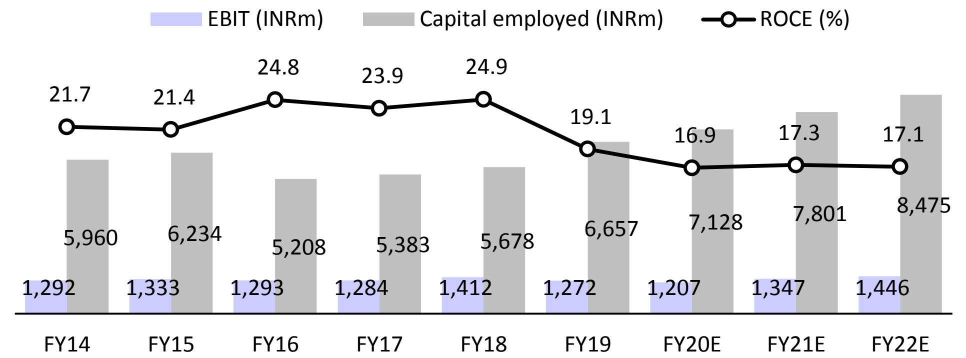


Source: Company, MOFSL

Going forward, we expect the AMESA region to remain EPL's highest revenue contributor for the next few years. The region has significant potential for growth mainly due to its growing population and increased disposable income. Further, EPL exports to markets in South Asia, the Middle East and Africa in order to improve its presence. We expect the company's revenue/EBITDA in AMESA to grow at a CAGR of 3%/6% over FY19-22E.

EPL's EBIT in the AMESA region increased from INR1.3b in FY14 to INR1.4b in FY18. It recorded a slight de-growth in FY19, as regional sales were affected by a subdued performance by the pharma sector. We expect EPL's RoCE in AMESA to remain sub-due for the next two years until pharma sales begin gaining traction and come in at 17% in FY22E.

Exhibit 19: Subdued pharma performance to contract RoCE in AMESA



Source: Company, MOFSL

Personal care – the next growth story

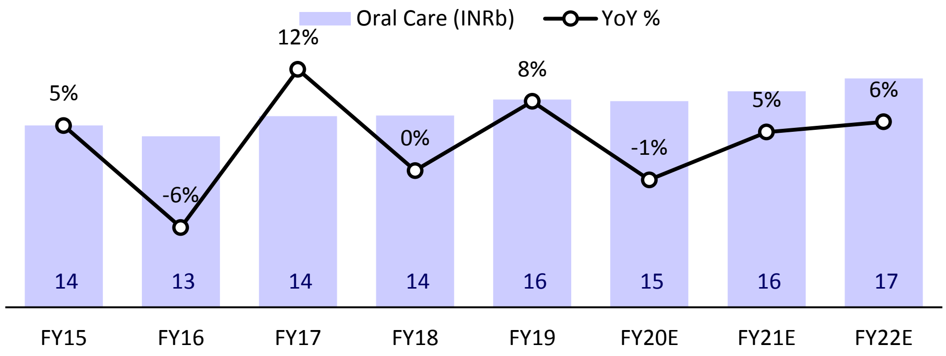
Product mix improving with shift towards higher value products

- **The Oral Care segment provides sustainable growth over a period. Long-term contracts in the Oral Care segment, improving wallet share of FMCG clients, etc. will aid business growth.**
- **EPL is focusing on increasing the share of Personal Care products to improve its operating profit. We expect its product mix to equalize in the next two-three years.**
- **EPL's global presence helps mitigate revenue concentration risk.**

Oral Care continues to dominate EPL's revenue

EPL is the leader in the global Oral Care laminated tubes segment with a healthy market share of ~36%. Out of the total volume of 14b tubes in the Oral Care tubes market, EPL supplies across four geographies, namely AMESA, the Americas, Europe and EAP. In the last few years, the revenue contribution of Oral Care has fallen from 61% in FY14 to 58% in FY19, while Oral Care revenue has grown at a CAGR of 4% to INR15.6b over the same period, implying an increase in the revenue contribution of the Personal Care segment.

Exhibit 20: Oral Care records CAGR of 4% over FY14-19



Source: Company, MOFSL

In the last two-three years, EPL's Oral Care sales were impacted by GST implementation, a 2-3% drop in its wallet share of some key FMCG players, slow ramp-up of few facilities and a decline in pharma volumes due to new government regulations, etc. However, going forward, EPL aims to improve its Oral Care sales by improving the wallet share of its marquee clients in Europe & leading oral brands in the Americas. It is also focusing on grabbing market share from the regional players in China. EPL's long-term relationship with its key customers has made the company a preferred supplier for several global players. Colgate, HUL, L'Oreal, Avon, etc., among many others, are some of EPL's marquee customers. Also, as a part of its strategy, EPL is focusing on gaining incremental market share from clients other than its top five major customers.

Long-term contracts with clients in Oral Care provide growth visibility and mitigate risks

EPL enters into long-term contracts for a period of three-five years with the majority of its clients in the Oral Care segment. The company passes on any fluctuations in raw material prices, power cost and foreign exchange to its long-term contract clients. Out of its overall revenue, EPL generates 50% of its sales through long-term contracts and nearly all the contracts are entered with clients in the Oral Care segment. In FY19, ~58% of the company's revenue was generated by the Oral Care segment, while ~86% of revenue from the Oral Care segment was through long-term contracts. These contracts provide steady business and growth visibility, and also mitigate the risk of fluctuations in raw material prices and forex rates.

Exhibit 21: EPL's domestic and international marquee clients

Source: Company, MOFSL

Personal Care to soon come on par with Oral Care

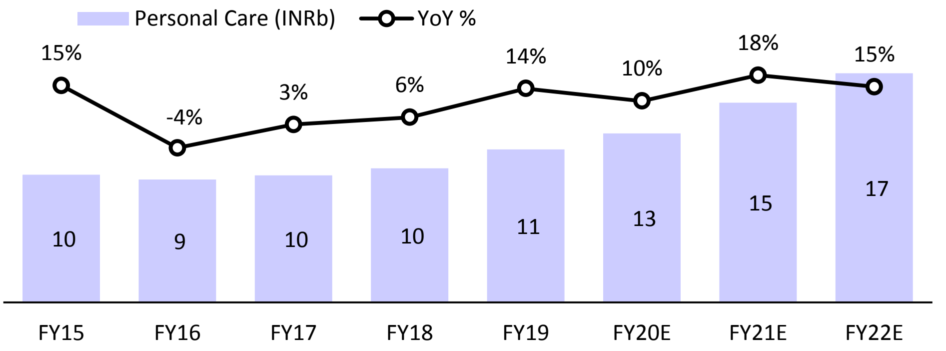
The global tubes market is dominated by the Personal Care segment with an estimated share of ~64% and a volume of 20-22b tubes, out of which ~12b tubes are contributed by Beauty & Cosmetics and the remaining ~10b tubes by Pharmaceuticals and other products. EPL enjoys a market share of 7-8% in the global Personal Care segment.

In Beauty and Cosmetics, packaging finds applications predominantly in extruded plastic tubes, while in Pharma, it finds applications in aluminum tubes. A shift towards laminated tubes is being witnessed in both the segments, i.e. Beauty & Cosmetics and Pharma. EPL was quick to realize the opportunity in these segments and has been increasing its share of Personal Care in its overall tube volumes. The share of Personal Care in the company's total revenue has increased from 39% in FY14 to 42% in FY19. Going forward, EPL aims to further increase the share of Personal Care in its total revenue to 50% by end of FY22E.

Some of EPL's recent initiatives to increase share of Personal Care are:

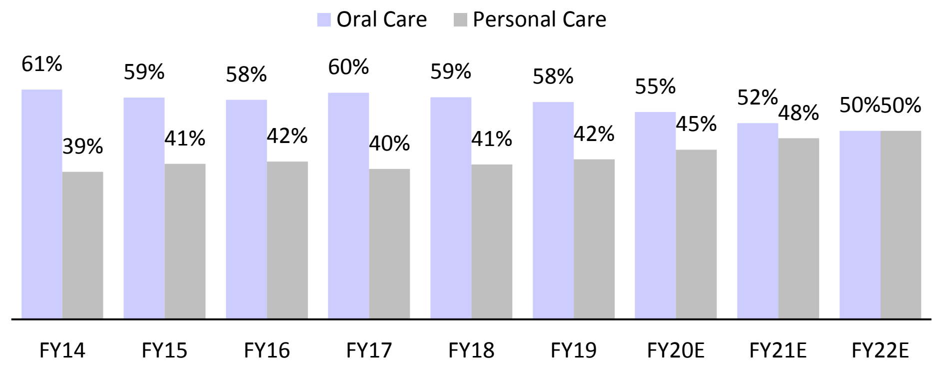
- AMESA: Successfully converted leading Indian anti-fungal ointment brand to laminated tubes (earlier used aluminum tubes)
- EAP: Strong business pipeline and increased focus on fast-growing regional players
- Americas: New customer wins and cross-selling of Personal Care products to existing Oral Care customers
- Europe: Started Hair Care business with a marquee global OEM

Exhibit 22: Personal Care records CAGR of 7% over FY14-19



Source: Company, MOFSL

Exhibit 23: Changing value-mix – another growth driver



Source: Company, MOFSL

In FY19, EPL's volumes in the AMESA region were impacted by changing regulations in the Pharma sector. Also, some of its key FMCG customers lost their wallet share to low-cost producers. However, this was offset by the commencement of operations of its Assam factory in July 2018, which reduced the impact of demand shortfall. Further, EPL is pursuing bigger growth opportunities in Personal Care by leveraging customer insight, polymer & decoration technology, its global presence and state-of-the-art equipment capability to offer superior packaging solutions.

Changing regulations to favor EPL

Various global environmental bodies plan to impose regulations governing recycling processes involving intermediate steps. Hence, only those tubes which do not require an intermediate process while recycling will be used for packaging. Globally, by 2025 and in India by 2022, all packaging material will have to be recyclable (manufactured from one family of polymer). Also, tubes with aluminum layers are expected to be banned, as their recycling process involves an intermediate process for removing the aluminum foil.

Exhibit 24: Multi-layer tube with aluminum foil

Key:

Blue:	Polyethylene
Green:	Polyethylene copolymer
Light Grey:	Aluminium foil

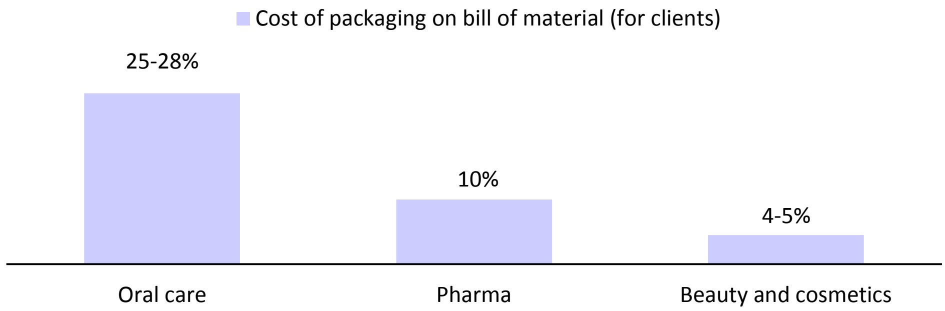
Source: Industry data, MOFSL

Currently, roughly all of EPL's capacity is capable of manufacturing Plastic Barrier Laminates (PBL) and can be made 100% compliant at a small investment. As per EPL's estimates, post the implementation of these regulations, an estimated 3-4b tubes capacity is expected to go off the market, thus providing a huge growth opportunity for the company.

Personal Care clients have lower sensitivity to packaging cost than Oral Care clients

The cost of packaging, as a percentage of overall raw material cost, varies significantly for Personal Care, Oral Care and Pharma products. For Oral Care clients, the cost of packaging (on the bill of material) is 25-28%, while for Pharma clients it is ~10% and for Personal Care clients it is barely 4-5%. Price sensitivity is higher for Oral Care clients as their cost of production is higher as compared to Personal Care clients. On the other hand, Personal Care clients are less sensitive to changes in the cost of packaging as their cost of packaging is very low.

Exhibit 25: Lower sensitivity in Personal Care due to low cost of packaging on bill of material



Source: Industry data, MOFSL

Increasing Personal Care volumes to improve absolute margins

The Personal Care tubes market has a much higher value of 3-4x than the Oral Care tubes market, whereas the value of the Pharma tubes market (part of the Personal Care segment) is 2-2.5x that of the Oral Care tubes market. The Oral Care tubes market with an annual volume of ~5b tubes contributes to ~58% of EPL's total revenue, while the contribution of the Personal Care tubes market to the company's total revenue is ~42%, whereas its corresponding volume contribution is even lower than 25%, thus indicating the high value nature of the Personal Care business. Going forward, with its increasing share of Personal Care, we expect EPL's operating profit to increase and improve its profitability.

EPL to perform well under Blackstone’s tutelage

New growth strategy expected to drive turnaround

- **Under its new management, EPL has redefined its goals and adopted a new growth strategy.**
- **EPL is set to hugely benefit from a private equity player like Blackstone with its global network and expertise.**

In April 2019, the Blackstone Group acquired EPL and signed a definitive agreement for purchasing a majority stake of 51% in the company from the Ashok Goel Trust. Consequently, Blackstone acquired a ~49% share of the promoter group at a target price of ~INR134 per share. Further, as per the ‘Take Over Code’ in India, an additional 26% of the company’s shares was acquired through a mandatory open offer at an open offer price of ~INR139 per share. Post the acquisition, Blackstone’s stake stands at ~75% of the total equity at an acquisition cost of ~INR32b, while Ashok Goel’s stake has been reduced to 6%. The other potential bidders included Albea and Indorama.

Blackstone’s strategy ahead

Post the acquisition of EPL, Blackstone has directed the company’s focus on efficient and prudent utilization of capital and achieving consistent long-term sustainable earnings growth. Management aims to achieve these goals by taking the following four steps:

- Accelerating growth in Personal Care
- Maintaining leadership in Oral Care
- Adopting innovation and sustainability solutions
- Ensuring prudent capital allocation across regions

Growth in Personal Care segment

In line with EPL’s earlier growth strategy, the new management aims to increase the share of Personal Care tubes in the company’s overall sales. In addition to increasing its geographic penetration across regions where EPL has been successful in increasing the share of Personal Care tubes, the company also aims to increase its product offerings across sub-categories in the Personal Care segment. EPL was earlier present only in the Face Care segment, although by FY15, the company had expanded its presence to three sub-categories (Face Care, OTC Medication and Food). By the end of FY19, EPL had a presence across all sub-categories in the Personal Care tubes segment and continues to penetrate into new categories in the Personal Care segment, such as Heena.

Exhibit 26: Increase in presence across different sub-categories in Personal Care segment

Sub-categories	FY11	FY15	FY19
Face Care	✓	✓	✓
Hair Care	✗	✗	✓
OTC medication	✗	✓	✓
Prescription medication	✗	✗	✓
Food	✗	✓	✓
Home	✗	✗	✓

Source: Company, MOFSL

Maintaining leadership position in Oral Care tubes segment

Currently, EPL is a global leader in the Oral Care tubes segment where it holds a 36% market share, with the majority of its volumes driven by the toothpaste tubes segment. Going forward, Blackstone aims to maintain EPL's leadership position in the Oral Care tubes segment. Also, EPL aims to increase its wallet share of marquee global consumers in Europe and the Americas and gain market share in China. In addition to its market leadership position, EPL also enjoys long-term relationships with its key customers.

Exhibit 27: EPL's key marquee clients in Oral Care tubes segment

Source: Company, MOFSL

Prudent allocation of capital across regions

EPL had completed several greenfield and brownfield expansions (such as its units in Assam, Vapi, Russia, Mexico, Colombia, etc.) prior to its acquisition, although going forward, Blackstone aims to prudently allocate capital across all geographies and focus on higher sweating of assets.

EPL acquisition marks another feather in Blackstone's cap

Since its entry in India in 2005, Blackstone has invested ~USD15b in the country, out of which USD11b has been invested in the last five years. This indicates Blackstone's interest in the Indian market with high growth potential, as it has made India its largest market in Asia.

In 2017, Blackstone acquired China-based cosmetics packaging firm ShyaHsin Packaging (China) Co. Ltd. for about USD800-900m. This was in line with Blackstone's belief that the packaging market was undergoing a structural shift towards flexible packaging and within it, towards laminated tubes. Management believes that EPL is well-positioned to benefit from the shift in the Personal Care segment (Beauty & Cosmetics and Pharmaceuticals) as the company already leads in the Oral Care segment.

Exhibit 28: Blackstone's India investments

Company name	Deal size (USD m)	Exit (USD m)
Mphasis*	1,030	Invested
TaskUs	520	Invested
Aadhar	1,375	Invested
Essel Propack	700	Invested
Intelenet	400	1,000

**In March 2018, Blackstone sold 8% in the open market at an average price of INR926 per share.*

Source: Industry data, MOFSL

New management to lead EPL's next growth phase

Blackstone has completely revamped EPL's Board of Directors (BoD). The company's new BoD now includes industry veterans and professionals to ensure best-in-class governance. Also, Blackstone has roped in industry experts, such as Harish Manwani, ex-President and COO of Unilever Group, and Dhaval Buch, ex-Chief Procurement Officer of Unilever Group, as part of its global expert network to actively engage and drive growth and operational improvements.

Exhibit 29: Change in leadership

New Board of Directors	Designation	
Davinder Singh Brar, Board Chairman	Independent Director	❖ Ex-CEO, Ranbaxy Limited ❖ Chairman at Mphasis ❖ Director at Wockhardt and Maruti Suzuki
Uwe Roehrhoff, Chairman, Nomination and Remuneration Committee	Independent Director	❖ Ex-CEO at Gerresheimer ❖ Ex-CEO at Perrigo ❖ Director at Ensinger GmbH
Sharmila Karve, Chairman, Audit Committee	Independent Director	❖ Ex-Head - Audit, PwC India ❖ Ex-Head - Risk & Quality, ❖ Ex-Global Diversity Leader Chartered Accountant
Amit Dixit, Senior Managing Director and India Head of Private Equity, Blackstone	Shareholder representative	❖ Director at Mphasis, Jagran, TaskUs, IBS Software and formerly SH Kelkar, Intelenet, Trans Maldivian Airways and Emcure Pharmaceuticals
Alex Yang Senior Managing Director, Blackstone	Shareholder representative	❖ Director at ShyaHsin Packaging, a leading Chinese cosmetics packaging company Former Director at HCP Packaging
Amit Jain Managing Director, Blackstone	Shareholder representative	❖ Managing Director, Blackstone Director at Aakash Education, Sona BLW, Comstar Automotive, FINO ❖ Payments Bank

Source: Company, MOFSL

New product launches – the key to growth

Product launches and innovations promise long-term growth

- **Newly launched products such as – Platina and Green Maple Leaf – gaining traction**
- **Fully integrated manufacturing processes help maintain product quality, reduce outsourcing cost, lower customer lead time and improve operating efficiency**

Innovation - new product launches

Currently, EPL has filed as many as 154 patent applications in different geographies across the world and has been granted 56 patents. Some of the company's recent launches include Platina, Egnite, Green Maple Leaf, Clarion, Etain, Prizm, etc. Platina – Oral Care – and Green Maple Leaf – Personal Care – are fully recyclable laminate tubes that maintain product freshness.

In Aluminum Barrier Laminate, EPL has initiated a process across all geographies, wherein the process and the technology facilitates electrostatic separation of polymer and metal, enabling them to go to their respective recycling processes without any degradation.

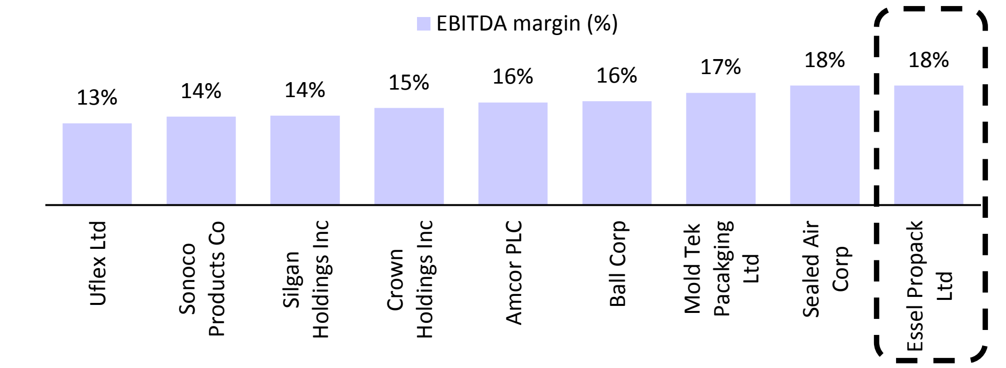
Exhibit 30: EPL's product launches in last one-two years

Source: Company, MOFSL

Backward integration – providing end-to-end services

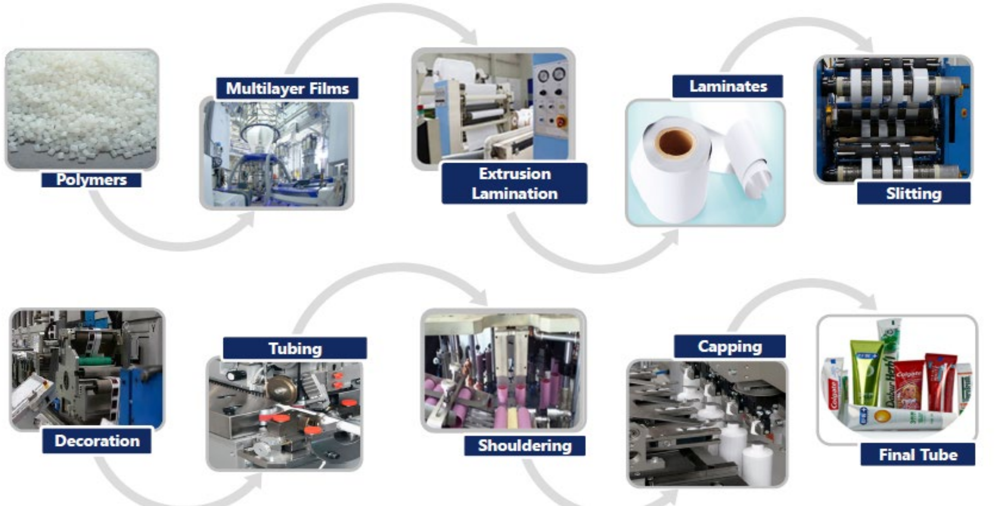
EPL demonstrates high operational efficiency, with the company earning the highest operating profit margin among its global and domestic competitors. The company performs various operations, right from blown film process to the final finished product, all under one roof. This reduces lead time, lowers price, and provides product stability.

Exhibit 31: Best operating margins in comparison to domestic and global peers



Source: Industry, MOFSL

Exhibit 32: Fully-integrated manufacturing process of laminated tubes

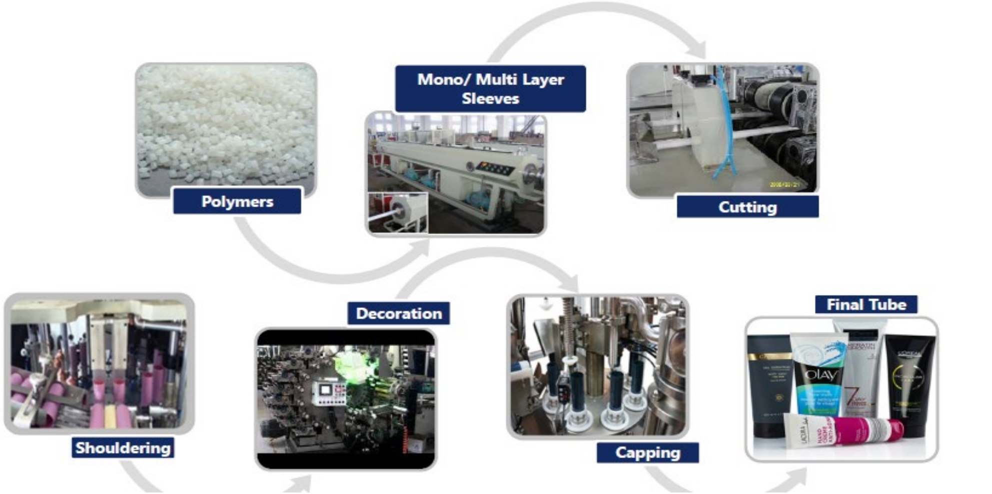


Source: Company, MOFSL

EPL purchases customized granules from Exxon Mobil, Basel, Dow Oil, etc. which are then processed into laminate structures. EPL processes the laminate structures only in India and China, since both the countries are transport-friendly and have low labor costs, unlike its competitors who outsource laminate structures. These structures are then transported to the company's various units cross the globe.

EPL's in-house laminate production unit reduces customer lead time. Further, EPL's injection-molded closures offer a variety of options, including fez, stand-up, flip-top and customer-colored caps. Its backward integration reduces dependency on intermediate suppliers.

Exhibit 33: Fully-integrated manufacturing process of plastic tubes



Source: Company, MOFSL

Higher sweating of assets to improve profitability

Currently, EPL has a cumulative capacity utilization of ~60-65%. The company recently expanded some of its facilities in India, Russia, the US, Europe, etc. With the ramping-up of operations at its various facilities, the company's overall utilization rate is expected to increase. Going forward, EPL will focus on prudent allocation of capital and higher sweating of assets in order to improve its profitability.

SWOT analysis

Profit CAGR of 20% expected over FY19-22

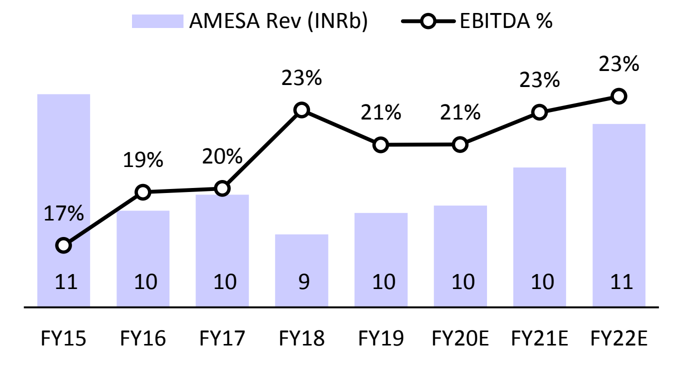
Europe to lead the pack

Revenue CAGR of 8% expected over FY19-22

EPL's revenue has grown at a CAGR of ~5% over FY14-19, on the back of its improved geographical mix, which has reduced its revenue concentration from a single region. Going forward, we expect the company's revenue to grow at a CAGR of 8% over FY19-22E and its geographical mix to improve further with the revenue contribution from any single region not exceeding more than 30%. Europe's revenue contribution is expected to increase from 21% in FY19 to 25% in FY22E, on the back of an improved product mix and higher sweating of assets in the region.

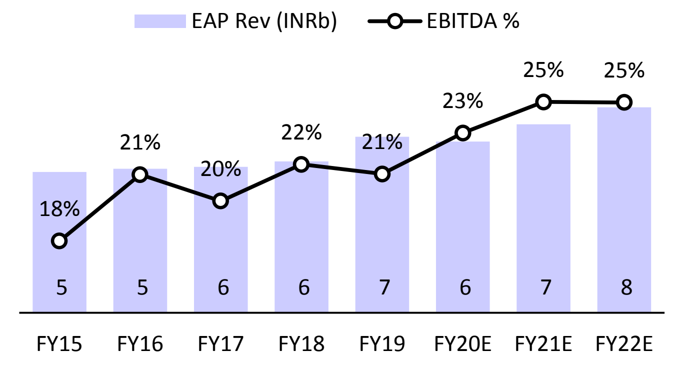
The Oral Care/Personal Care segment grew at a CAGR of 4%/7% over FY14-19. Oral Care is expected to grow at a CAGR of 3%, while Personal Care is expected to grow at a higher CAGR of 14% over FY19-22E, mainly due increased focus on the Personal Care segment and higher sales of Beauty & Cosmetic products across all geographies. Over the next three years, EPL plans to increase the revenue-mix of Oral Care/Personal Care from the current level of 58%/42% to 50%/50%, respectively.

Exhibit 34: AMESA to post 3% CAGR over FY19-22E



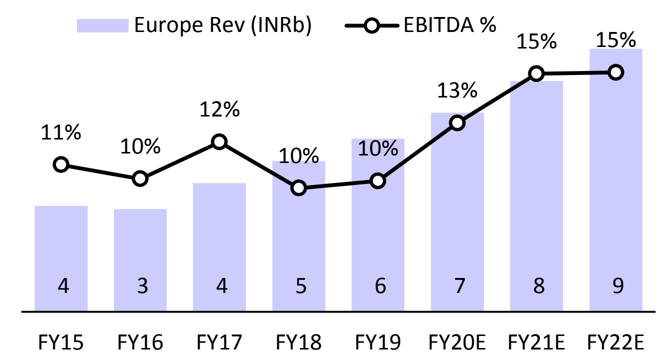
Source: Company, MOFSL

Exhibit 35: EAP to post 5% CAGR over FY19-22E



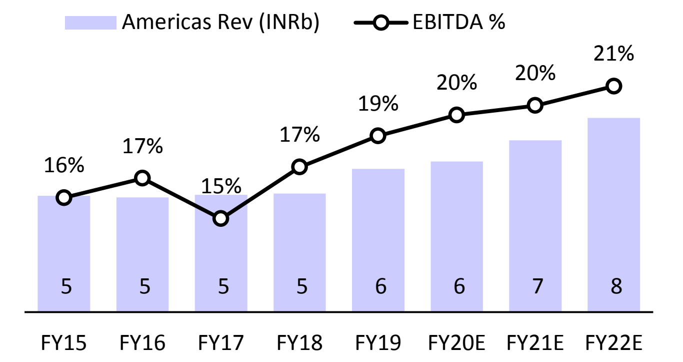
Source: Company, MOFSL

Exhibit 36: Europe to post 15% CAGR over FY19-22E



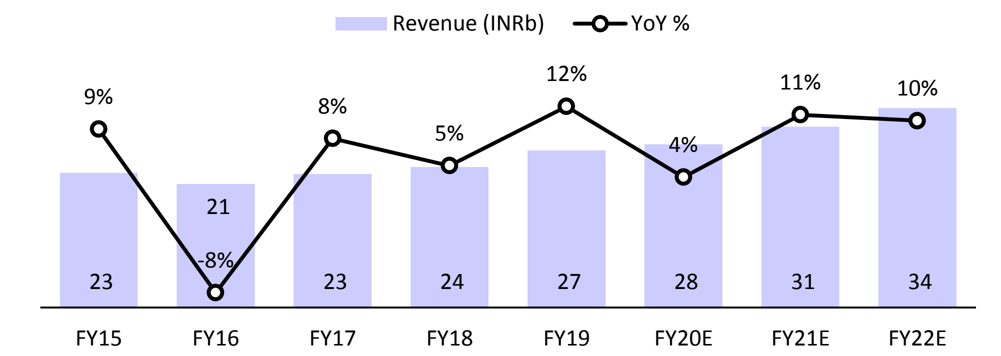
Source: Company, MOFSL

Exhibit 37: Americas to post 11% CAGR over FY19-22E



Source: Company, MOFSL

Exhibit 38: Revenue expected to grow at CAGR of 8% over FY19-22E



Source: Company, MOFSL

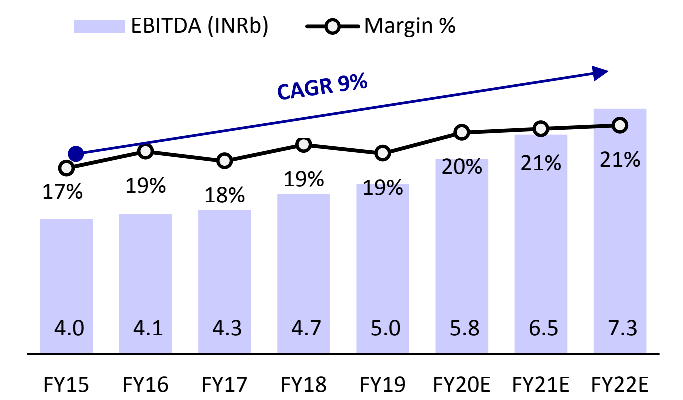
Margins to remain stable as product mix improves

Currently, EPL enjoys a healthy EBITDA margin of ~19-20% in the Americas, EAP and AMESA regions, although its margin in Europe is the lowest at 10%. EPL's overall EBITDA grew at a CAGR of 7% over FY14-19, while its margin improved by ~180bps to 18.4%. Going forward, we expect the company's overall EBITDA to grow at a CAGR of 13% over FY19-22E. We expect EPL's margins to improve by ~270bps to 21.1% by FY22E, on the back of its improved product mix, higher sweating of assets and margin improvement in Europe.

PAT expected to grow at 20% CAGR over FY19-22E

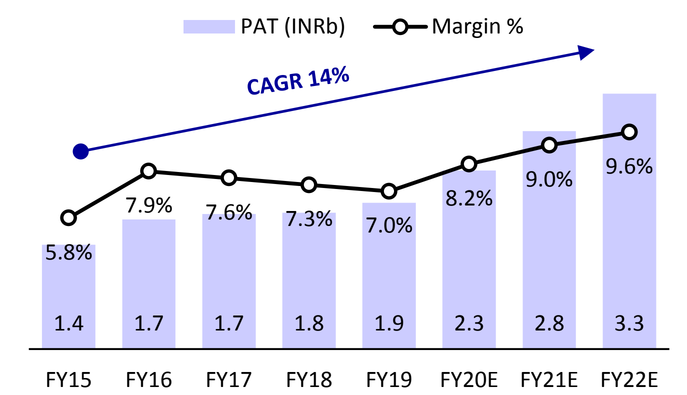
Over the last five years, EPL's PAT grew at CAGR of 12% from INR1b in FY14 to INR1.9b in FY19. Going forward, we expect EPL's PAT to grow at a higher pace on the back of higher sales growth, improvement in product mix across geographies and improvement in its manufacturing operations across regions. We expect the company's PAT to grow at a CAGR of 20% over FY19-22E to INR3.3b.

Exhibit 39: EBITDA margin to expand by 270bps over FY19-22E



Source: Company, MOFSL

Exhibit 40: PAT to post 20% CAGR over FY19-22E

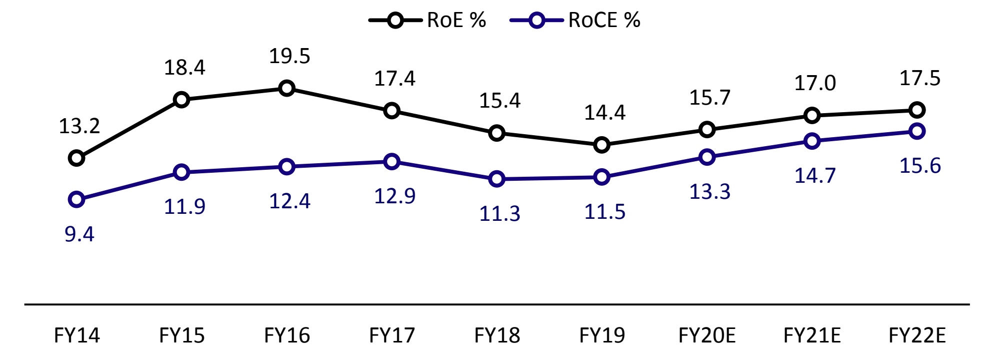


Source: Company, MOFSL

Increased profitability expected to drive improvement in return ratios

EPL reported a strong RoCE of 23% and 20% in the EAP and Americas in FY19, as compared to 17% and 19%, respectively in FY15. We expect EPL to maintain a RoCE of 22-24% in the EAP region for the next two years, on the back of the increased wallet share of Personal Care in China. We further expect EPL's RoCE in Europe to record the highest improvement from 4% in FY19 to 14% in FY22E, driven by higher sweating of assets of its recently relocated capacity in Russia and other regions. The company's concentrated efforts across geographies led by its new management are likely to fuel its overall growth momentum and consequently, improve its return ratios.

Exhibit 41: Return ratios to improve going forward



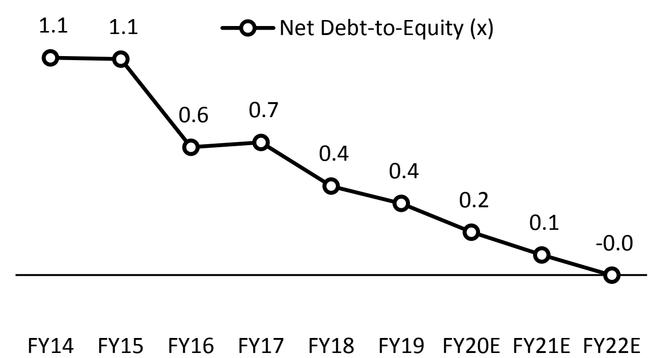
Source: Company, MOFSL

Higher cash generation to help reduce debt

EPL has maintained a positive free cash flow (FCF) for the last decade. The company has maintained an average annual FCF run-rate of INR1.1b/INR1.4b over the last 10/5 years. The company's FCF increased from INR812m in FY14 to INR2.06b in FY18, but reduced to INR561m in FY19 due to its huge capex spending across geographies. We expect EPL to generate FCF of ~INR7.7b over the next three years, marking an average annual run rate of INR2.6b, on the back of improved profitability and prudent allocation of capital.

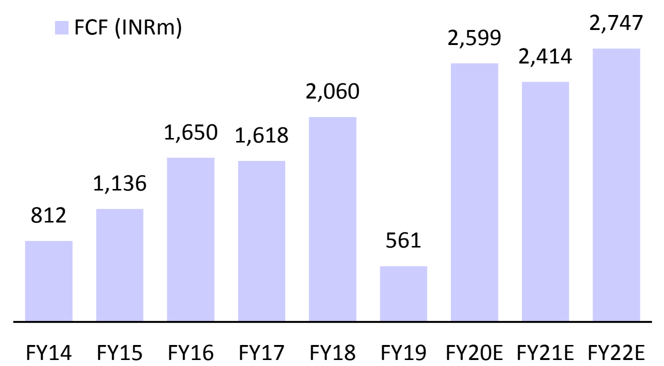
EPL's improved cash generation is expected to reduce its debt burden from INR4.9b in FY19 to net cash of INR45m in FY22E.

Exhibit 42: Net debt-to-equity to fall further



Source: Company, MOFSL

Exhibit 43: Increase FCF to reduce leverage



Source: Company, MOFSL

Valuation and view

Initiating with Buy rating

- **A pick-up in volumes in the Americas and Europe, and ramp-up of operations across geographies to improve EPL's overall volumes**
- **EPL's global leadership position in the Oral Care tubes segment to provide sustainable business growth.**
- **Increasing share of Personal Care across all regions to improve overall margins and reduce dependency on any single product**
- **Under its new leadership, EPL's profitability to increase on the back of Blackstone's global expert network, relationship with global FMCG companies, and prudent allocation of capital across regions**
- **We estimate 8% revenue CAGR and 20% PAT CAGR over FY19-22E. We value the stock on a price-to-earnings basis, assigning 20x FY22E EPS. Initiate Buy with a TP of INR210.**

Global leader

EPL's gigantic market share of 36% in the global Oral Care tubes segment ensures sustainable growth in the medium to long-term. The Personal Care tubes segment, where EPL currently has a market share of 7-8%, is expected to improve due to the launch of new products, shift towards laminated tubes and increased focus on the segment.

Blackstone at the helm

Under Blackstone's tutelage, EPL is expected to increase its profitability, on the back of prudent allocation of capital and a renewed growth plan. EPL's global network of experts and revamped management is expected to drive its overall growth. The strong backing from Blackstone's deep pockets will help EPL with its organic and inorganic expansion.

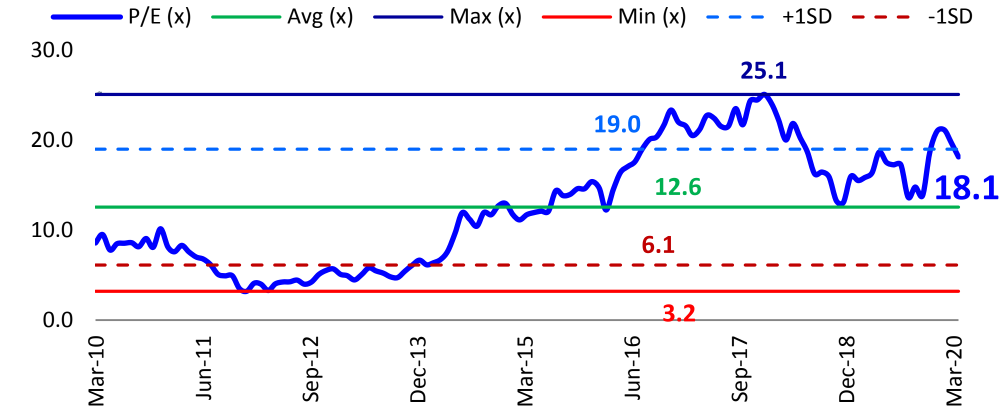
Strong cash flow generation

EPL generated an FCF of INR7b over FY15-19. We expect the company to generate a FCF of ~INR7.8b over FY20-22E, on the back of increased profitability and prudent allocation of capital. Its cash is expected to increase from INR1.3b in FY19 to INR4b in FY22E and correspondingly, its net debt is expected to decline from INR4.9b in FY19 to net cash of INR45m in FY22E.

Value EPL on price-to-earnings of 20x on FY22E EPS

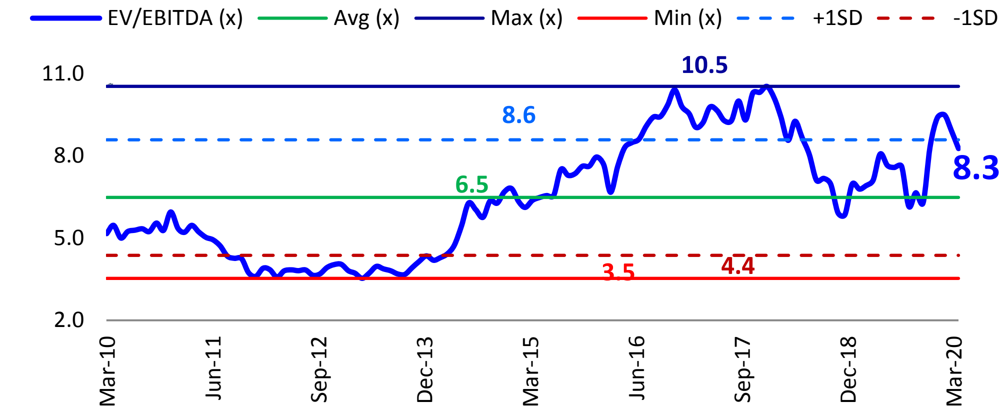
We estimate EPL to record 8% sales CAGR and 20% PAT CAGR over FY19-22E, with its EBITDA margin likely to expand by 270bps to 21.1%. EPL's global peers trade in the range of 8-15x EV/EBITDA and 11-26x CY20E EPS, whereas its domestic peers trade in the range of 3-8x EV/EBITDA and 4-14x FY21E EPS. Over the last three years, the stock has traded at an average one-year forward P/E of 19x and 8.3x EV/EBITDA. We believe that EPL deserves to trade at higher multiples than its peers due to its better global presence, strong management and leadership position in the Oral Care segment. We value EPL at 20x (5% premium to three-year average P/E) FY22E EPS of INR10.5, arriving at a TP of INR210. However, we believe that there is further room for multiples expansion due to a) synergy benefits from Blackstone's global network, ii) prudent allocation of capital and, c) improving product mix. We initiate coverage with a **Buy** rating.

Exhibit 44: EPL 1-year forward P/E (x)



Source: Bloomberg, MOFSL

Exhibit 45: EPL 1-year forward EV/EBITDA (x)



Source: Bloomberg, MOFSL

Exhibit 46: EPL's comparison with peers

		EV/EBITDA (x)		PE (x)		RoE (%)		Revenue CAGR	EBITDA CAGR	PAT CAGR
Company name	**M Cap (USDm)**	**CY19E**	**CY20E**	**CY19E**	**CY20E**	**CY19E**	**CY20E**	**% CY18-20E**	**% CY18-20E**	**% CY18-20E**
Sealed Air Corp	4,863	9	8	11	11	-53	-206	2%	8%	8%
Sonoco Products Co	5,083	9	8	14	14	19	19	1%	4%	4%
Ball Corp	24,488	16	15	30	26	24	33	2%	4%	11%
Crown Holdings Inc	10,074	11	10	15	13	55	36	3%	2%	4%
Silgan Holdings Inc	3,363	9	8	14	13	22	23	1%	4%	6%
Amcor PLC	15,704	15	11	16	16	34	18	17%	14%	17%
Average		**11**	**10**	**17**	**15**			**4%**	**6%**	**8%**
								Revenue CAGR	**EBITDA CAGR**	**PAT CAGR**
	M Cap (USDm)	**FY20E**	**FY21E**	**FY20E**	**FY21E**	**FY20E**	**FY21E**	**% FY19-21E**	**% FY19-21E**	**% FY19-21E**
Uflex Ltd	207	3	3	4	4	8	8	8%	10%	11%
Mold-Tek Packaging	91	9	8	17	14	19	20	13%	17%	24%
Average		**6**	**5**	**11**	**9**	**13**	**14**	**11%**	**13%**	**18%**
Essel Propack	**691**	**9**	**8**	**23**	**18**	**15**	**17**	**7%**	**13%**	**19%**

Source: Industry data, MOSL

Bulls and Bears

Bull case

- ☑ For the AMESA region, we have factored in higher sales/EBIT CAGR of 6%/12% over FY19-22 v/s a base-case assumption of 3%/4%. We have assumed higher pharma sales on the back of the shift toward laminated tubes from aluminum tubes, which will help improve its overall mix in the region.
- ☑ For the EAP region, we have factored in higher sales/EBIT CAGR of 7%/17% over FY19-22 v/s base-case assumption of 5%/11%. We expect higher volumes in both Oral Care and Personal Care segments in China (major contributor to the region). Also, its e-commerce business is expected to gradually gain traction.
- ☑ For the Americas, we have factored in higher sales/EBIT CAGR of 13%/23% over FY19-22 v/s base-case assumption of 11%/16% on the back of ramp-up of operations and an improving mix.
- ☑ For the Europe region, we factor in higher sales/EBIT CAGR of 17%/80% over FY19-22 v/s base-case assumption of 15%/65%. We have factored in higher sales in Oral Care segment. Further, the benefits of operating leverage are expected to kick in and improve its overall margins.
- ☑ We value EPL at 22x FY22E EPS of INR13, arriving at a TP of INR286.

Bear case

- ☑ For the AMESA region, we have factored in lower sales/EBIT CAGR of 1%/-3% over FY19-22 v/s base-case assumption of 3%/4%; we expect revenue from the region to remain stagnant. Also, the subdued pharma performance and the lower-than-expected transition from aluminum tubes to laminated tubes will impact EPL's product mix.
- ☑ For the EAP region, we have factored in lower sales/EBIT CAGR of 3%/5% over FY19-22 v/s base-case assumption of 5%/11%. We assume lower offtake in both the segments (Oral Care and Personal Care).
- ☑ For the Americas region, we have factored in lower sales/EBIT CAGR of 9%/9% over FY19-22 v/s base-case assumption of 11%/16%. We have factored in lower growth in Personal Care segment due to higher competitive intensity in the region. We have also assumed a longer time for stabilization of EPL's operations in Mexico.
- ☑ For the Europe region, we have factored in lower sales/EBIT CAGR of 13%/49% over FY19-22 v/s base-case assumption of 15%/65%. We have factored in lower growth in Oral Care segment. We have also assumed the margins in the region to remain tepid due to the adverse impact of higher fixed overheads.
- ☑ We value EPL at 18x FY22E EPS of INR8.2, arriving at a TP of INR148.

Exhibit 47: Scenario analysis – Bull and Bear case

	Bear		Base		Bull	
	FY21	FY22	FY21	FY22	FY21	FY22
Revenue (INR m)	**30,139**	**32,330**	**31,202**	**34,363**	**32,281**	**36,538**
Growth YoY (%)	8	7	11	10	14	13
EBITDA (INR m)	**5,722**	**6,305**	**6,490**	**7,256**	**7,301**	**8,312**
EBITDA margin (%)	**19**	**20**	**21**	**21**	**23**	**23**
Adj. PAT (INR m)	**2,254**	**2,596**	**2,822**	**3,305**	**3,423**	**4,092**
Growth YoY (%)	4	15	22	17	40	20
Multiple (x)		18		20		22
TP (INR)		148		210		286

Source: Company, MOFSL

Key risks

Sharp increase in raw material prices could impact margins

EPL's key raw material, polymer, is a derivative of crude oil. The company's profitability could be impacted by fluctuations in crude oil prices. However, EPL incorporates a pass through clause in its contracts for changes in raw material prices that enables the company to revise its product prices at a pre-decided period to adjust for any changes in raw material prices.

Client concentration – top 10 clients contribute the majority of revenue

The majority of EPL's Oral Care volume is dominated by the Toothpaste segment, with Colgate being its major client. Also, EPL's top 10 clients are the majority contributor to its revenue, thereby increasing its overall client concentration.

Higher dependency on Oral Care tubes segment

Currently, EPL's revenue is dominated by the Oral Care tubes segment (entirely dominated by Toothpaste). EPL aims to increase the share of Personal Care, going forward. The slow growth in the Personal Care tubes segment in the regions where it operates, or in the laminated tubes segment, poses a challenge for EPL and could impact the company's margins.

Stiff competition from domestic and international players

EPL operates in four regions and 10 countries with increasing penetration in each of these geographies posing huge challenges and risks for the company. For instance, the packaging industry in the US and Europe is quite developed, thus making it difficult to acquire new clients.

Growing counterfeiting to impact packaging business

An estimated 3% of global trade comprises counterfeited products worth ~USD512b. However, counterfeiting of EPL's products is quite difficult due to its product complexity.

Operations in multiple countries heighten risk of currency fluctuations

Out of EPL's total revenue, ~69% is contributed by foreign countries. Currency fluctuations, political turmoil, regional competition, etc. are some of the factors affecting EPL's operations in the respective countries.

Management overview

Mr. Davinder Singh Brar, Chairman

Mr. Davinder Singh Brar currently holds Board positions in several Indian and international companies, such as Maruti Suzuki India Limited, Wockhardt Limited and Mountain Trail Foods (India) Pvt. Ltd. He is currently a promoter of GVK Biosciences Private Limited and Excelra Knowledge Solutions Pvt. Ltd. Mr. Brar previously held the position of Chief Executive Officer & Managing Director at Ranbaxy Laboratories Ltd. He has received his undergraduate degree from Thapar University and an MBA from Faculty of Management Studies.

Mr. Uwe Ferdinand Röhrhoff, Chairman, Nomination and Remuneration Committee

Mr. Uwe Ferdinand Röhrhoff is a German businessperson who has been the head of 13 different companies. He has served as the CEO of Gerresheimer and Perrigo, and currently serves as the Director at Ensinger GmbH.

Ms. Sharmila Karve, Chairman, Audit Committee

Ms. Sharmila Karve has more than 27 years of experience in the field of Accounting. She has held various positions in PwC India, including Head – Audit, Head – Risk & Quality and Global diversity leader. Ms. Karve is a Chartered Accountant.

Mr. Amit Dixit, Director

Mr. Amit Dixit is on the board of Mphasis Ltd. and 10 other companies. Mr. Dixit was previously Principal at Warburg Pincus LLC. He has received his graduate degree from Stanford University, an undergraduate degree from the Indian Institute of Technology, Bombay and an MBA from Harvard Business School.

Mr. Parag Shah, CFO

Mr. Parag Shah has more than 27 years of diverse experience in the manufacturing environment across the FMCG, medical device and pharmaceutical sectors. Prior to joining Essel Propack, Mr. Shah worked as Group CFO at ACG Group, Finance Director at Medtronic India, as the CFO at Nike India and in different capacities at HUL. His experience covers treasury, taxation, accounting, internal audit and finance. He is a qualified chartered accountant from the Institute of Chartered Accountants of India (ICAI).

Mr. Murugappan R. Ramasamy, COO

Presently, Mr. Murugappan R. Ramasamy is the Chief Operating Officer of Essel Propack Ltd. He has received his undergraduate degree and MBA from Lansbridge University.

Financials and valuations

Consolidated - Income Statement (INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Total Income from Operations	**23,230**	**21,275**	**23,023**	**24,239**	**27,069**	**28,166**	**31,202**	**34,363**
Change (%)	9.2	-8.4	8.2	5.3	11.7	4.1	10.8	10.1
Raw material cost	11,362	9,235	10,079	10,366	11,648	11,926	13,198	14,467
Employees Cost	3,628	3,744	4,052	4,338	5,006	5,249	5,710	6,220
Other Expenses	4,331	4,258	4,673	4,886	5,424	5,227	5,804	6,420
Total Expenditure	**19,322**	**17,237**	**18,804**	**19,590**	**22,078**	**22,402**	**24,712**	**27,107**
% of Sales	83.2	81.0	81.7	80.8	81.6	79.5	79.2	78.9
EBITDA	**3,908**	**4,038**	**4,219**	**4,649**	**4,991**	**5,764**	**6,490**	**7,256**
Margin (%)	16.8	19.0	18.3	19.2	18.4	20.5	20.8	21.1
Depreciation	1,318	1,232	1,415	1,671	1,861	2,304	2,450	2,644
EBIT	**2,590**	**2,806**	**2,804**	**2,978**	**3,130**	**3,460**	**4,040**	**4,612**
Int. and Finance Charges	794	609	581	550	613	561	451	388
Other Income	210	238	353	264	285	221	312	344
PBT bef. EO Exp.	**2,006**	**2,435**	**2,576**	**2,691**	**2,802**	**3,120**	**3,901**	**4,567**
EO Items	55	23	157	-50	31	-94	0	0
PBT after EO Exp.	**2,061**	**2,459**	**2,732**	**2,642**	**2,833**	**3,026**	**3,901**	**4,567**
Total Tax	611	776	787	889	932	786	1,053	1,233
Tax Rate (%)	29.6	31.6	28.8	33.7	32.9	26.0	27.0	27.0
Profit/loss from associates	3.2	48.4	10.5	-10.4	53.2	18	19	20
Minority Interest	47	30	53	26	29	40	44	48
Reported PAT	**1,406**	**1,701**	**1,903**	**1,716**	**1,925**	**2,218**	**2,822**	**3,305**
Adjusted PAT	**1,351**	**1,678**	**1,747**	**1,766**	**1,895**	**2,312**	**2,822**	**3,305**
Change (%)	24.4	24.2	4.1	1.1	7.3	22.0	22.1	17.1
Margin (%)	5.8	7.9	7.6	7.3	7.0	8.2	9.0	9.6

Consolidated - Balance Sheet (INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Equity Share Capital	314	314	314	315	631	631	631	631
Total Reserves	7,289	9,334	10,076	12,191	13,249	14,897	17,035	19,504
Net Worth	**7,603**	**9,648**	**10,390**	**12,506**	**13,880**	**15,528**	**17,666**	**20,135**
Minority Interest	81	81	57	43	52	52	52	52
Total Loans	9,371	7,014	7,924	7,299	6,313	5,363	4,663	3,963
Deferred Tax Liabilities	225	305	317	357	510	510	510	510
Capital Employed	**17,280**	**17,048**	**18,688**	**20,204**	**20,754**	**21,452**	**22,890**	**24,659**
Gross Block	25,527	10,470	15,637	17,691	20,495	21,525	23,151	25,076
Less: Accum. Deprn.	16,655	1,229	3,984	5,992	7,564	9,868	12,317	14,961
Net Fixed Assets	**8,872**	**9,242**	**11,652**	**11,699**	**12,931**	**11,657**	**10,834**	**10,115**
Goodwill on Consolidation	0	0	142	142	142	142	142	142
Capital WIP	843	571	193	417	413	783	1,157	1,231
Total Investments	**261**	**304**	**153**	**131**	**168**	**168**	**168**	**168**
Current Investments	0	0	0	0	0	0	0	0
Curr. Assets, Loans&Adv.	**10,619**	**10,073**	**10,254**	**12,032**	**11,547**	**13,276**	**15,318**	**18,200**
Inventory	2,251	1,987	2,460	2,864	3,234	3,282	3,620	4,010
Account Receivables	3,712	3,312	3,766	4,590	4,934	5,134	5,687	6,402
Cash and Bank Balance	1,150	844	1,028	1,735	1,344	2,043	2,890	4,008
Loans and Advances	3,506	3,930	3,000	2,843	2,035	2,817	3,120	3,780
Curr. Liability & Prov.	**3,315**	**3,141**	**3,707**	**4,217**	**4,447**	**4,574**	**4,728**	**5,198**
Account Payables	1,575	1,282	1,473	1,884	2,065	2,095	2,234	2,451
Other Current Liabilities	1,546	1,603	1,834	2,037	2,113	2,199	2,184	2,405
Provisions	194	257	400	295	269	280	310	341
Net Current Assets	**7,303**	**6,932**	**6,547**	**7,815**	**7,100**	**8,702**	**10,589**	**13,002**
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	**17,280**	**17,048**	**18,688**	**20,204**	**20,754**	**21,452**	**22,890**	**24,659**

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Basic (INR)								
EPS	**4.3**	**5.3**	**5.5**	**5.6**	**6.0**	**7.3**	**9.0**	**10.5**
Cash EPS	8.5	9.2	10.0	10.9	11.9	14.6	16.7	18.9
BV/Share	24.1	30.6	33.0	39.7	44.0	49.2	56.0	63.9
DPS	0.8	0.8	1.1	1.2	1.2	1.5	1.8	2.2
Payout (%)	26.3	17.8	21.8	26.4	23.6	25.7	24.2	25.3
Valuation (x)								
P/E	37.6	30.3	29.1	28.7	26.8	22.0	18.0	15.4
Cash P/E	19.0	17.4	16.1	14.8	13.5	11.0	9.6	8.5
P/BV	6.7	5.3	4.9	4.1	3.7	3.3	2.9	2.5
EV/Sales	2.5	2.7	2.5	2.3	2.1	1.9	1.7	1.5
EV/EBITDA	15.1	14.1	13.7	12.1	11.2	9.4	8.1	7.0
Dividend Yield (%)	0.5	0.5	0.7	0.7	0.7	0.9	1.1	1.4
FCF per share	3.6	5.2	5.1	6.5	1.8	8.2	7.7	8.7
Return Ratios (%)								
RoE	18.4	19.5	17.4	15.4	14.4	15.7	17.0	17.5
RoCE	11.9	12.4	12.9	11.3	11.5	13.3	14.7	15.6
RoIC	12.4	12.7	12.2	11.2	11.4	13.7	15.9	17.8
Working Capital Ratios								
Fixed Asset Turnover (x)	0.9	2.0	1.5	1.4	1.3	1.3	1.3	1.4
Asset Turnover (x)	1.3	1.2	1.2	1.2	1.3	1.3	1.4	1.4
Inventory (Days)	35	34	39	43	44	43	42	43
Debtor (Days)	58	57	60	69	67	67	67	68
Creditor (Days)	25	22	23	28	28	27	26	26
Leverage Ratio (x)								
Current Ratio	3.2	3.2	2.8	2.9	2.6	2.9	3.2	3.5
Interest Cover Ratio	3.3	4.6	4.8	5.4	5.1	6.2	9.0	11.9
Net Debt/Equity	1.1	0.6	0.7	0.4	0.4	0.2	0.1	0.0

Consolidated - Cash Flow Statement **(INR Million)**

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
OP/(Loss) before Tax	2,061	2,507	2,743	2,631	2,886	3,120	3,901	4,567
Depreciation	1,318	1,232	1,415	1,671	1,861	2,304	2,450	2,644
Interest & Finance Charges	494	320	284	277	380	340	139	45
Direct Taxes Paid	-365	-833	-764	-816	-901	-786	-1,053	-1,233
(Inc)/Dec in WC	-334	475	494	-488	-404	-902	-1,041	-1,295
CF from Operations	**3,174**	**3,701**	**4,172**	**3,276**	**3,821**	**4,075**	**4,395**	**4,728**
Others	-45	-93	-485	159	-257	-76	19	20
CF from Operating incl EO	**3,130**	**3,608**	**3,687**	**3,435**	**3,564**	**3,999**	**4,414**	**4,747**
(Inc)/Dec in FA	-1,993	-1,959	-2,069	-1,375	-3,003	-1,400	-2,000	-2,000
Free Cash Flow	**1,136**	**1,650**	**1,618**	**2,060**	**561**	**2,599**	**2,414**	**2,747**
(Pur)/Sale of Investments	0	0	98	1	2	0	0	0
Others	290	1,230	-769	184	985	221	312	344
CF from Investments	**-1,703**	**-729**	**-2,740**	**-1,189**	**-2,015**	**-1,179**	**-1,688**	**-1,656**
Issue of Shares	901	0	7	510	53	0	0	0
Inc/(Dec) in Debt	-810	-1,760	546	-1,199	-1,028	-950	-700	-700
Interest Paid	-653	-498	-392	-372	-485	-561	-451	-388
Dividend Paid	-333	-341	-414	-478	-478	-570	-684	-836
Others	-798	-600	-508	-1	-2	-40	-44	-48
CF from Fin. Activity	**-1,693**	**-3,200**	**-762**	**-1,539**	**-1,939**	**-2,121**	**-1,879**	**-1,973**
Inc/Dec of Cash	**-267**	**-320**	**184**	**706**	**-391**	**699**	**847**	**1,118**
Opening Balance	1,416	1,164	844	1,028	1,735	1,344	2,043	2,890
Closing Balance	**1,150**	**844**	**1,028**	**1,735**	**1,344**	**2,043**	**2,890**	**4,008**

NOTES

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