

Essel Propack

Refer to important disclosures at the end of this report

Benefitting from the pandemic

CMP: Rs 205
as of (July 30, 2020)

TP: Rs 230 (▲)
12 months

Rating: BUY (■)

Upside: 12.0 %



We appreciate your support in the [Asiamoney Brokers Poll 2020](#)

- ESEL beat our street high revenue/EBITDA/adj. PAT estimates by 13%/12%/40% on the back of 21.2% growth in Personal Care. Personal care growth was boosted by a surge in demand for hand sanitizers, which ESEL capitalized by signing up with 50 brands globally. Constant currency growth stood at 13.6%, reflecting a 4% gain on forex.
- EBITDA margins improved 253bps yoy to 19.8%, aided by cost efficiencies and operating leverage. ESEL has already achieved 176bps margin improvement in Phase-I of its cost-saving initiative Project Phoenix and has already launched Phase-II in Q1FY21. Hence, we expect the margin improvement to sustain and see upside risks to our FY21 EBITDA margin estimate of 21.6%. Management indicated that they have passed on the benefit of low raw material prices to customers.
- We expect ESEL's accelerated growth in Personal Care to continue amid high demand for sanitizers, forex tailwind, and recovery in the beauty and cosmetics segment. We increase our FY21 revenue/EBITDA estimates by 3% but leave our FY22/23 estimates unchanged. Our annual FY21E EPS estimates remain unchanged due to Rs161m impairment provided on assets in Russia as ESEL realigned its manufacturing to increase efficiencies.
- We increase our target multiple to 10x EV/EBITDA (vs. 9x earlier), considering a high FCF yield of 8.2%/6.3%/6.7% for FY21E/22E/23E. We maintain strong Buy and increase our TP to Rs230 as we roll forward to Sep-22E EV/EBITDA.

Sharp recovery in EAP revenue surprises us: ESEL's EAP revenues increased 45.6% yoy on the back of 90.8% growth in the Personal Care segment and double-digit growth in the Oral care segment. Management mentioned that there was some spillover from Q4FY20 to Q1FY21. However, like-to-like growth was robust at over 70% in Personal Care after considering the effect of the spillover. Europe revenue increased 30.3% yoy mainly on the back of new order wins and ramp-up of volumes in existing orders. Revenue from Americas increased by 10.5% yoy, while AMESA revenues decreased 2.7% yoy due to weak sales in India in April. Management guided that India business has returned to growth from June onward. EBITDA margins improved for all geographies except AMESA – EAP (+660bps yoy), Americas (+90bps yoy), Europe (+510bps yoy) and AMESA (-20bps yoy).

De-leveraging continues: ESEL net debt declined 48% yoy/10% qoq, aided by robust operating cash flow generation. With major capex behind, we expect ESEL to return excess cash to shareholders or pursue inorganic growth opportunities. ESEL trades at an attractive FCF yield of 8.2%/6.3%/6.7% for FY21E/22E/23E.

Outlook: We increase our target multiple to 10x EV/EBITDA (vs. 9x earlier) considering high FCF yield of 8.2%/6.3%/6.7% for FY21E/22E/23E. We maintain strong Buy and increase our TP to Rs230 as we roll forward to Sep-22E EV/EBITDA.

Key risk are: 1) slowdown in demand for its products, and 2) the inability to pass on the increase in raw material prices.

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	27,069	27,601	29,864	31,197	32,946
EBITDA	4,991	5,574	6,446	6,921	7,309
EBITDA Margin (%)	18.4	20.2	21.6	22.2	22.2
APAT	1,923	2,166	2,707	2,954	3,120
EPS (Rs)	6.1	6.9	8.6	9.4	9.9
EPS (% chg)	7.0	12.6	24.9	9.1	5.6
ROE (%)	14.6	14.8	17.1	17.4	17.2
P/E (x)	33.7	29.9	23.9	21.9	20.8
EV/EBITDA (x)	13.9	12.1	9.9	9.0	8.2
P/BV (x)	4.7	4.2	4.0	3.7	3.5

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	(1)/-
Target Price change (%)	15.0
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	8.6	9.4
Consensus	7.3	9.4
Mean Consensus TP (12M)	Rs 202	

Stock Details

Bloomberg Code	ESEL IN
Face Value (Rs)	2
Shares outstanding (mn)	316
52 Week H/L	226 / 79
M Cap (Rs bn/USD bn)	65 / 0.87
Daily Avg Volume (nos.)	147,501
Daily Avg Turnover (US\$ mn)	0.4

Shareholding Pattern Jun '20

Promoters	75.0%
FIIs	4.9%
DIIIs	2.4%
Public and Others	17.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	14	14	10	54
Rel. to Nifty	6	1	20	54

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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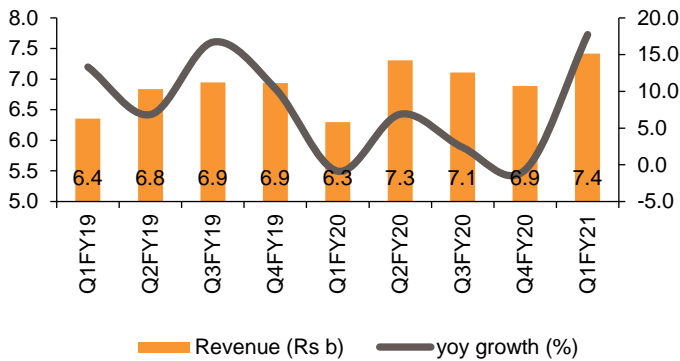
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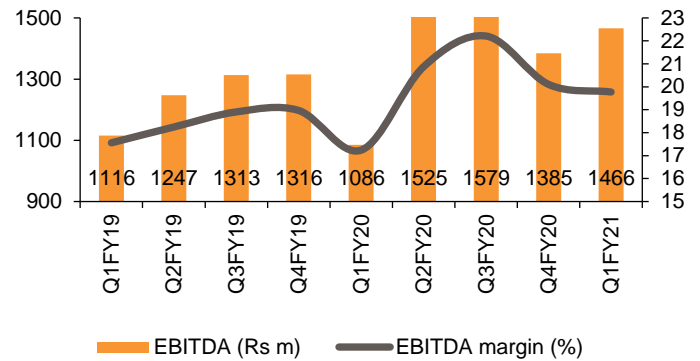
Story in Charts

Exhibit 1: Revenue increased 17.7% yoy to Rs 7.4m



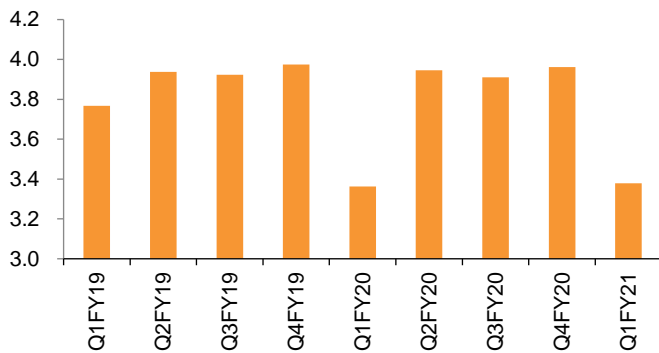
Source: Company, Emkay Research

Exhibit 2: EBITDA margin expanded 253bps yoy to 19.8%



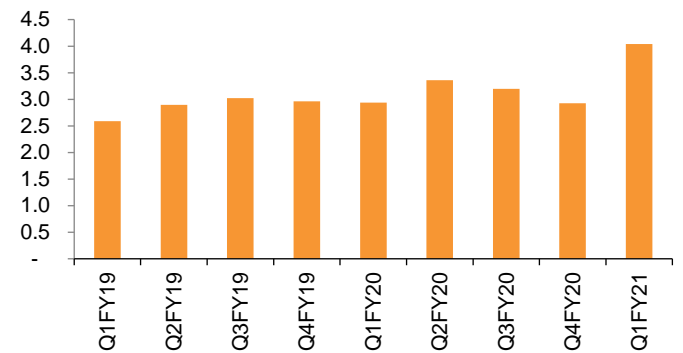
Source: Company, Emkay Research

Exhibit 3: 10.4% yoy revenue growth in oral care segment



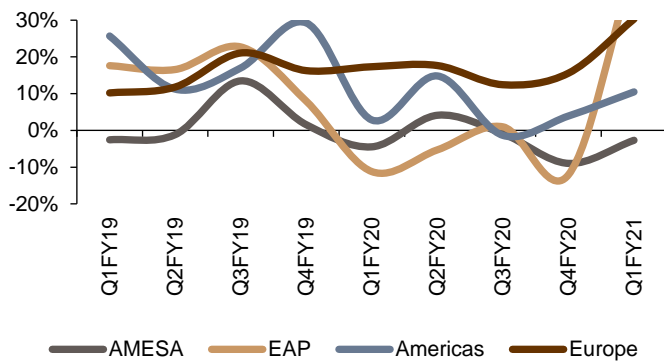
Source: Company, Emkay Research

Exhibit 4: Non-Oral care segment reported 21.2% yoy growth



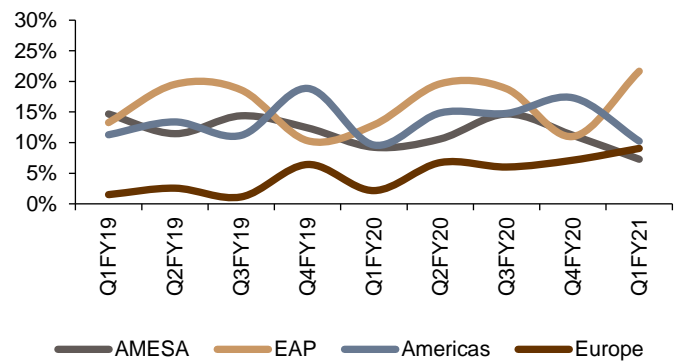
Source: Company, Emkay Research

Exhibit 5: Strong revenue growth in EAP and Europe



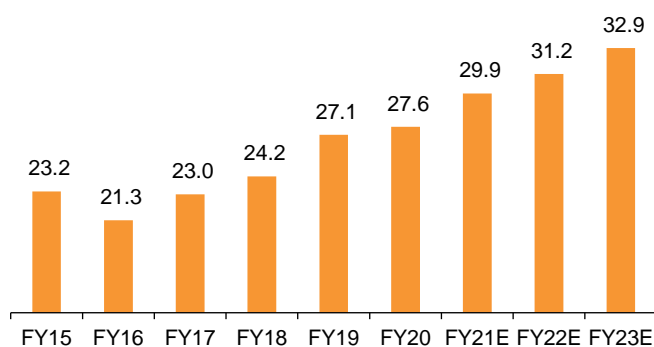
Source: Company, Emkay Research

Exhibit 6: Margin expansion across EAP, Europe & Americas



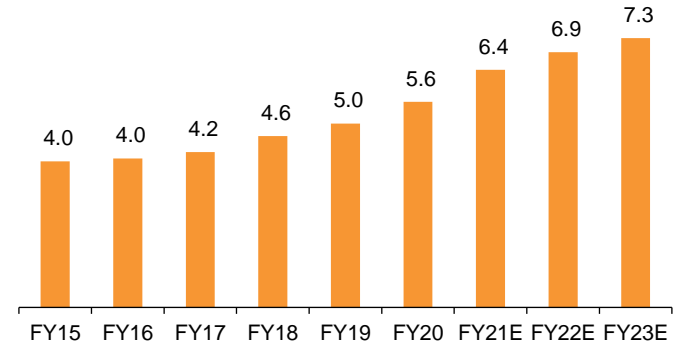
Source: Company, Emkay Research

Exhibit 7: 6% revenue CAGR over FY20-23E



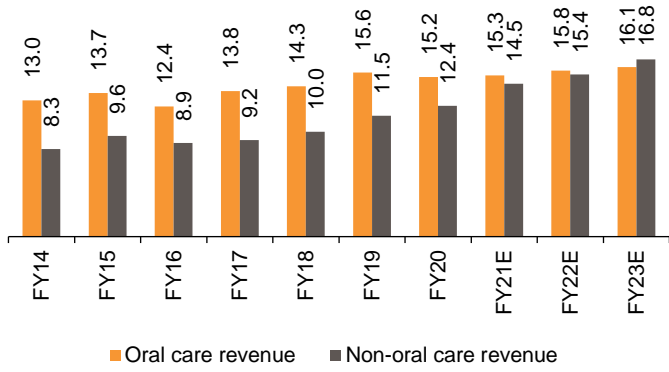
Source: Company, Emkay Research

Exhibit 8: EBITDA CAGR of 9% over FY20-23E



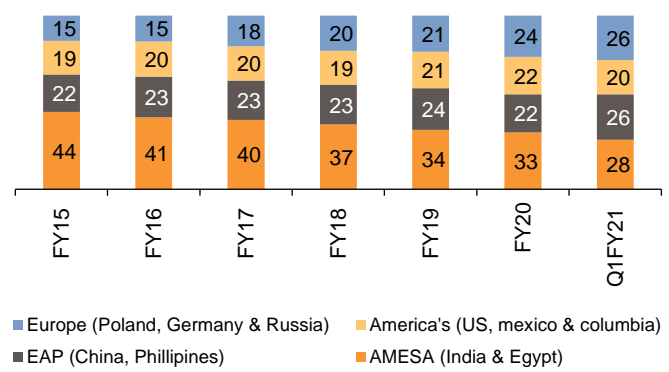
Source: Company, Emkay Research

Exhibit 9: Segment-wise revenue (Rs bn)



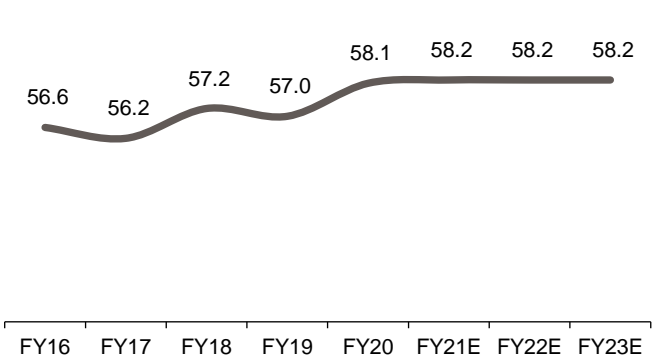
Source: Company, Emkay Research

Exhibit 10: Geography-wise revenue mix (%)



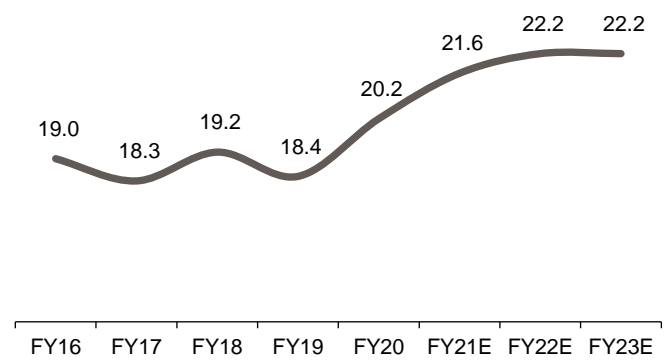
Source: Company, Emkay Research

Exhibit 11: Gross margin (%)



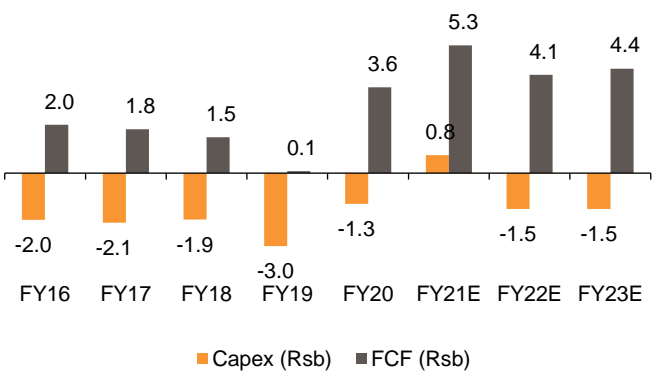
Source: Company, Emkay Research

Exhibit 12: EBITDA margin (%)



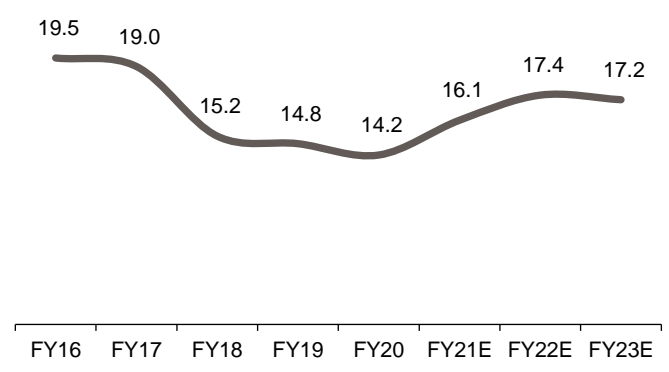
Source: Company, Emkay Research

Exhibit 13: FCF



Source: Company, Emkay Research

Exhibit 14: ROE (%)



Source: Company, Emkay Research

Exhibit 15: Actual vs Estimates (Q1FY21)

(Rs mn)	Actual	Emkay Estimate	Consensus Estimate	% variation Emkay	% variation Consensus	Comment
Sales	7,415	6,550	6,255	13%	19%	Above estimates due to strong growth in EAP
EBITDA	1,466	1,303	1,134	12%	29%	Above estimates due to revenue beat
EBITDA Margin	19.8%	19.9%	18.1%	-13 bps	165 bps	In-line with our estimates
Adj. PAT	605	432	348	40%	74%	Above estimates due to EBITDA beat and lower tax rate

Source: Company, Bloomberg, Emkay Research

Exhibit 16: Quarterly result snapshot

Y/E, Mar (Rs. mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	QoQ%	YoY%
Revenue	6,298	7,305	7,108	6,889	7,415	7.6	17.7
Cost of revenue	2,673	3,116	2,931	2,847	3,139	10.2	17.4
as % of sales	42.4	42.7	41.2	41.3	42.3		
Employee Cost	1,279	1,351	1,315	1,366	1,486	8.8	16.2
as % of sales	20.3	18.5	18.5	19.8	20.0		
Other expenses	1,260	1,313	1,284	1,290	1,324	2.6	5.0
as % of sales	20.0	18.0	18.1	18.7	17.9		
Total Expenditure	5,213	5,780	5,530	5,504	5,949	8.1	14.1
EBITDA	1,086	1,525	1,579	1,385	1,466	5.9	35.0
Depreciation	568	576	580	574	579	0.8	1.9
EBIT	518	949	999	811	887	9.4	71.4
Other Income	66	19	42	8	52	586.7	-22.3
Interest cost	137	156	134	130	163	24.9	18.8
PBT	447	812	907	688	776	12.8	73.6
Total Tax	153	(1)	289	197	159	-19.5	3.7
Adjusted PAT	294	813	618	491	617	25.7	110.0
(Profit)/loss from JV's/Ass/MI	11	17	17	5	12	146.9	14.2
APAT after MI	283	796	601	486	605	24.5	113.6
Extra ordinary items	(109)	203	-	-	161		
Reported PAT	392	593	601	486	444	-8.6	13.3

Margins (%)						bps	bps
EBIDTA	17.2	20.9	22.2	20.1	19.8	(33)	253
EBIT	8.2	13.0	14.1	11.8	12.0	19	375
PBT	7.1	11.1	12.8	10.0	10.5	48	337
PAT	4.7	11.1	8.7	7.1	8.3	120	366
Effective Tax rate	34.2	-0.1	31.8	28.6	20.5	(819)	(1,378)

Source: Company, Emkay Research

Exhibit 17: Quarterly segmental summary

Y/E, Mar (Rs. mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY%	QoQ%
Segment Revenues							
AMESA	2,251	2,433	2,516	2,153	2,190	-2.7	1.7
EAP	1,388	1,749	1,740	1,353	2,021	45.6	49.3
AMERICAS	1,366	1,648	1,457	1,713	1,510	10.5	-11.9
EUROPE	1,517	1,740	1,618	1,897	1,977	30.3	4.2
Less: Intersegment Revenues	226	266	224	229	285	25.8	24.4
Total	6,296	7,303	7,106	6,886	7,412	17.7	7.6
Segment Results							
AMESA	208	258	369	241	160	-23.2	-33.8
EAP	179	343	327	149	438	144.7	194.2
AMERICAS	131	245	215	297	155	17.7	-47.9
EUROPE	33	117	97	135	179	445.4	32.3
Total	551	963	1,009	822	931	68.9	13.3
Add- Unall Income / (Exp)	139	-204	26	5	-153	-209.8	-3100.0
Less- Interest Exp	137	156	134	130	163	18.8	24.9
PBT	553	603	901	697	615	11.1	-11.7
Segment Capital Employed							
AMESA	7,355	6,569	6,529	7,464	6,839	-7.0	-8.4
EAP	4,824	4,599	4,677	4,897	5,392	11.8	10.1
AMERICAS	4,106	4,234	4,228	4,656	4,434	8.0	-4.8
EUROPE	4,941	4,438	4,749	6,227	5,036	1.9	-19.1
Unallocated	-7,448	-5,618	-5,370	-6,472	-5,526	-25.8	-14.6
Total	13,778	14,220	14,813	16,772	16,175	17.4	-3.6
Segment Margins (%)							
						(bps)	(bps)
AMESA	9.2	10.6	14.7	11.2	7.3	-190	-390
EAP	12.9	19.6	18.8	11.0	21.7	880	1070
AMERICAS	9.6	14.9	14.8	17.3	10.2	60	-710
EUROPE	2.2	6.7	6.0	7.1	9.0	690	190

Source: Company, Emkay Research

Conference call highlights

Personal care

- Share of personal care products in overall revenue mix has increased to 49% in Q1FY21 (vs. 45% in FY20 and 43% in FY19).
- The increase in share has largely been due to the addition of the new segment of hand sanitizer coupled with increase in wallet share across key customers.
- Personal care segment revenue increased 21.2% yoy.
- Management remains committed to increasing the share of personal care in the overall basket for FY21 (above 45%).

Oral care

- ESEL witnessed 10.4% yoy growth and managed to maintain its leadership position in the segment.
- Increase in wallet share across regions (especially in AMESA)
- Reduction in use of travel tubes and such products impacted the growth marginally due to travel restrictions.

Regions

- Margin improvement has been across regions.
- Europe: Europe reported 30% yoy growth in revenue, driven by 37% yoy growth in personal care and 19% yoy in the oral care segment. Revenue was driven by an increase in the wallet share, entry into new category and customer wins in Europe.
- EAP: ESEL witnessed a V-shape recovery in China, with personal care growing at 90.8% yoy and strong 46% yoy overall revenue growth in the region. Growth was aided by the entry into new category of hand sanitizer, increase in wallet share across customers and strong growth from health and hygiene related products. Management highlighted that there would be some spillover of previous quarter. Excluding that, growth would still have been 70%+ in personal care from the region.
- AMESA: Overall growth remained muted. However, the company witnessed double-digit growth in June'20.

Other highlights

- Platina tube: The tube is now certified as per APR, Recyclclass and BIS guidelines and it would remain an on-going process.
- Raw material price fluctuation is a pass-through but with a lag.
- Gross cash position as on Jun'20 is Rs3.1bn and Net debt stood at Rs2.4bn.

Exhibit 18: Changes in estimates

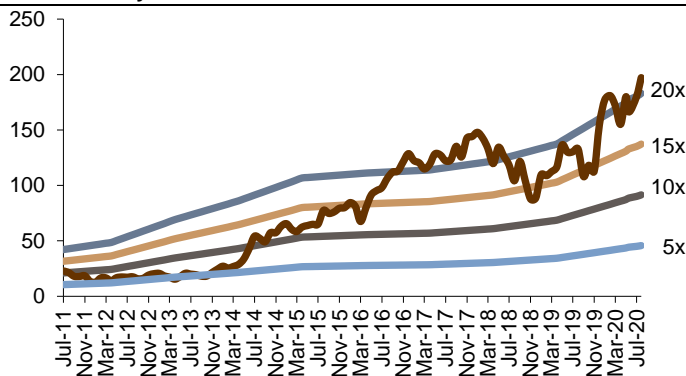
All fig in Rs mn (except % and EPS)	FY21E			FY22E			FY23E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenues	28,926	29,864	3%	31,122	31,197	0%	32,946	32,946	0%
EBITDA	6,244	6,446	3%	6,904	6,921	0%	7,309	7,309	0%
EBITDA margins, %	21.6%	21.6%	0 bps	22.2%	22.2%	0 bps	22.2%	22.2%	-0 bps
Net profits	2,562	2,546	-1%	2,942	2,954	0%	3,121	3,120	0%
EPS	8.1	8.1	-1%	9.3	9.4	0%	9.9	9.9	0%

Source: Company, Emkay Research

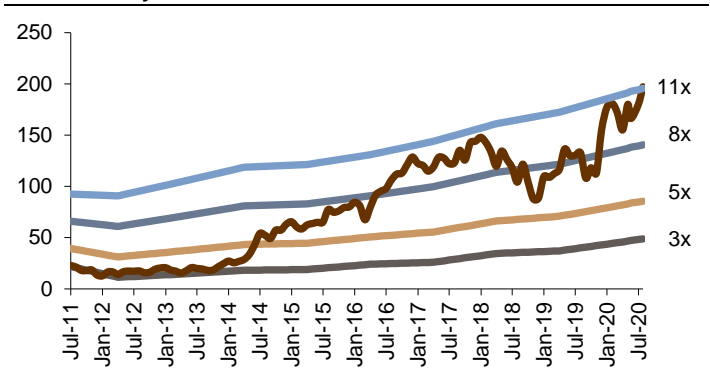
Exhibit 19: Key assumptions

Key Assumptions	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Oral care revenue (Rs bn)	13.8	14.3	15.6	15.2	15.3	15.8	16.1
Non-oral care revenue (Rs bn)	9.2	10.0	11.5	12.4	14.5	15.4	16.8

Source: Company, Emkay Research

Exhibit 20: 1-yr fwd PE chart

Source: Company, Bloomberg, Emkay Research

Exhibit 21: 1-yr fwd EV/EBITDA chart

Source: Company, Bloomberg, Emkay Research

Exhibit 22: Peer valuation

Companies	Mcap (USD mn)	Reco	TP	PE (x)			EV/EBITDA (x)			ROE (%)		
				FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Mold - Tek Packaging*	85	NA	NA	17.5	27.4	17.0	-	12.6	9.3	18.4	11.1	16.3
Essel Propack	865	BUY	230	29.9	23.9	21.9	12.1	9.9	9.0	14.8	17.1	17.4
Average				23.7	25.7	19.5	12.1	11.3	9.2	16.6	14.1	16.9

Source: Company, *Bloomberg, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	27,069	27,601	29,864	31,197	32,946
Expenditure	22,078	22,026	23,418	24,276	25,637
EBITDA	4,991	5,574	6,446	6,921	7,309
Depreciation	1,861	2,298	2,306	2,435	2,591
EBIT	3,130	3,277	4,140	4,486	4,718
Other Income	285	134	160	160	160
Interest expenses	613	557	547	547	547
PBT	2,802	2,854	3,753	4,098	4,331
Tax	932	638	1,013	1,107	1,169
Extraordinary Items	31	(94)	(161)	0	0
Minority Int./Income from Assoc.	53	(50)	(33)	(38)	(41)
Reported Net Income	1,954	2,073	2,546	2,954	3,120
Adjusted PAT	1,923	2,166	2,707	2,954	3,120

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	631	631	631	631	631
Reserves & surplus	13,249	14,695	15,714	16,895	18,143
Net worth	13,880	15,326	16,345	17,526	18,774
Minority Interest	52	86	140	198	260
Loan Funds	6,314	6,432	5,250	5,250	5,250
Net deferred tax liability	436	375	375	375	375
Total Liabilities	20,681	22,219	22,109	23,350	24,659
Net block	13,074	13,639	10,578	9,642	8,551
Investment	168	160	160	160	160
Current Assets	11,473	13,764	16,829	19,266	22,009
Cash & bank balance	1,344	3,712	5,953	7,904	10,011
Other Current Assets	1,626	1,324	1,433	1,497	1,581
Current liabilities & Provision	4,447	5,740	5,852	6,114	6,456
Net current assets	7,027	8,025	10,977	13,152	15,553
Misc. exp	0	0	0	0	0
Total Assets	20,681	22,219	22,109	23,350	24,659

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	2,517	2,720	3,593	3,938	4,171
Other Non-Cash items	84	974	(140)	21	21
Chg in working cap	(878)	1,309	(712)	(224)	(294)
Operating Cashflow	3,130	4,876	4,581	5,611	5,866
Capital expenditure	(3,089)	(2,846)	756	(1,500)	(1,500)
Free Cash Flow	41	2,030	5,337	4,111	4,366
Investments	(38)	8	0	0	0
Other Investing Cash Flow	44	1,469	0	0	0
Investing Cashflow	(2,798)	(1,236)	916	(1,340)	(1,340)
Equity Capital Raised	73	17	0	0	0
Loans Taken / (Repaid)	371	118	(1,182)	0	0
Dividend paid (incl tax)	(394)	(888)	(1,528)	(1,772)	(1,872)
Other Financing Cash Flow	(159)	38	0	0	0
Financing Cashflow	(723)	(1,272)	(3,257)	(2,320)	(2,420)
Net chg in cash	(391)	2,368	2,241	1,951	2,107
Opening cash position	1,735	1,344	3,712	5,953	7,904
Closing cash position	1,344	3,712	5,953	7,904	10,011

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	18.4	20.2	21.6	22.2	22.2
EBIT Margin	11.6	11.9	13.9	14.4	14.3
Effective Tax Rate	33.3	22.4	27.0	27.0	27.0
Net Margin	6.9	8.0	9.2	9.6	9.6
ROCE	17.3	15.9	19.4	20.4	20.3
ROE	14.6	14.8	17.1	17.4	17.2
RoIC	17.7	17.9	24.7	29.4	32.6

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	6.1	6.9	8.6	9.4	9.9
CEPS	12.0	14.1	15.9	17.1	18.1
BVPS	44.0	48.6	51.8	55.6	59.5
DPS	1.3	3.3	4.8	5.6	0.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	33.7	29.9	23.9	21.9	20.8
P/CEPS	17.1	14.5	12.9	12.0	11.3
P/BV	4.7	4.2	4.0	3.7	3.5
EV / Sales	2.6	2.4	2.1	2.0	1.8
EV / EBITDA	13.9	12.1	9.9	9.0	8.2
Dividend Yield (%)	0.6	1.6	2.4	2.7	0.0

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.3	0.2	(0.1)	(0.2)	(0.3)
Net Debt/EBIDTA	1.0	0.5	(0.1)	(0.4)	(0.7)
Working Cap Cycle (days)	76.6	57.0	61.4	61.4	61.4

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	11.7	2.0	8.2	4.5	5.6
EBITDA	7.4	11.7	15.6	7.4	5.6
EBIT	5.1	4.7	26.4	8.3	5.2
PAT	12.1	6.1	22.9	16.0	5.6

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue	6,298	7,305	7,108	6,889	7,415
EBITDA	1,086	1,525	1,579	1,385	1,466
EBITDA Margin (%)	17.2	20.9	22.2	20.1	19.8
PAT	392	593	601	486	444
EPS (Rs)	1.2	1.9	1.9	1.5	1.4

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	57.0	83.0	83.0	75.0	75.0
FIs	17.2	3.9	3.8	4.6	4.9
DIs	2.7	2.1	2.4	2.3	2.4
Public and Others	23.1	11.0	10.8	18.1	17.8

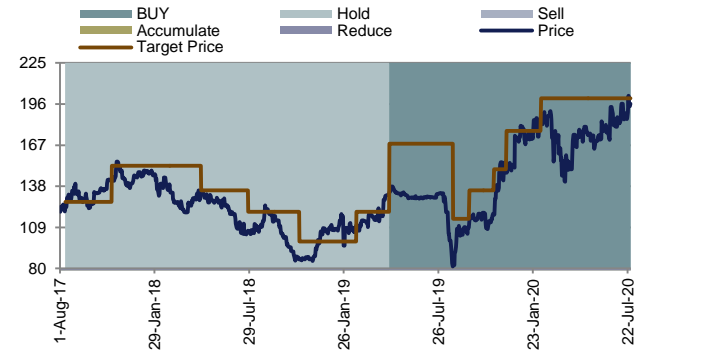
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
26-May-20	173	200	12m	Buy	Varshit Shah
4-Mar-20	173	200	12m	Buy	Varshit Shah
7-Feb-20	182	200	12m	Buy	Varshit Shah
3-Dec-19	148	177	12m	Buy	Varshit Shah
9-Nov-19	118	150	12m	Buy	Varshit Shah
23-Sep-19	114	135	12m	Buy	Varshit Shah
23-Aug-19	82	115	12m	Buy	Varshit Shah
7-May-19	134	168	12m	Buy	Varshit Shah
23-Apr-19	134	168	12m	Buy	Varshit Shah
19-Feb-19	110	120	12m	Hold	Varshit Shah
2-Nov-18	86	99	12m	Hold	Varshit Shah
27-Jul-18	107	120	12m	Hold	Ashit Desai
28-Apr-18	135	135	12m	Hold	Ashit Desai
8-Nov-17	144	153	12m	Hold	Amit Purohit
11-Aug-17	123	127	12m	Hold	Dhaval Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 31 Jul 2020 02:02:35 (SGT)

Dissemination Date: 31 Jul 2020 02:03:35 (SGT)

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