

Strong performance amid challenging scenario...

Essel Propack (EPL) reported a strong performance amid a challenging scenario of pandemic related lockdowns globally. Consolidated topline grew ~18% YoY, led by strong performance in the overseas business with improved market share and addition of new clients in the China, Americas & Europe. The personal care category recorded strong growth of ~21% YoY in Q1FY21, the oral care category reported growth of ~10% YoY in Q1FY21. Contribution of personal care category in the topline increased to 49% in Q1FY21 vs. 45% in FY20. According to the management, the growth momentum is likely to continue in the overseas business (~70% of topline) supported by addition of new clients, market share gains and launch of new product categories. On the margin front, saving in other expenditure under the company's ongoing cost optimisation schemes helped move EBITDA margins up 254 bps YoY to 19.8%. Finally, PAT moved up 14%, mainly tracking sales and operating profits during the period. We revise our FY21E-22E earnings estimates by 17%, 20%, factoring in the company's strong growth outlook in Europe and China. This, along with efficient capital allocation (with rationalisation of capital expenditure) and reduction in net debt gives strong comfort on the balance sheet front.

Europe, EAP regions revenue growth drive topline

On the geography front, East Asia Pacific region (mainly China), Europe revenue grew strongly by 46%, 30% YoY, respectively, in Q1FY21 led by strong performance of new product category, addition of new clients. America's revenue grew ~11% YoY mainly due to ~31% YoY growth in personal care segment. Africa, Middle East, South Asia (AMESA) region mainly India, Egypt, reported ~3% revenue decline due sluggish demand of personal care products amid pandemic related lockdown. We model ~12% revenue CAGR in FY20-22E led by recovery in AMESA regions and strong growth in Europe and China, supported by new client additions.

Saving in other expenditure drives margin up

EBIDA margin was up ~254 bps YoY at 19.8% supported by the company's various cost optimisation measures to control other expenditure. As a result, other expenditure was down 220 bps YoY (90 bps QoQ) in Q1FY21.

Valuation & Outlook

We believe improved profitability along with balance sheet condition in the challenging scenario is encouraging. During the period, gaining market share and improving wallets share from existing clients shows the increased competitiveness of EPL. Further, the company's focus on 'capital efficient consistent earnings growth' would help improve the return ratios, going forward. We upgrade our rating from HOLD to **BUY** with a revised price target price of ₹ 270/share, valuing at 12x FY22E EV/EBITDA.



Particulars

Particular	Amount
Market Capitalization (₹Crore)	7,378.0
Total Debt (FY 20) (₹Crore)	591.8
Cash and Inv (FY 20) (₹Crore)	311.6
EV (₹Crore)	7,658.3
52 week H/L	242/ 78
Equity capital (₹Crore)	31.4
Face value (₹)	2.0

Key Highlights

- Strong performance in EAP and Europe regions drives topline during the period
- Market share gains, wallet share gains from existing clients and addition of new clients will help the company to maintain growth prospect in the coming future
- Cost optimisation efforts to drive EBITDA margin in the America and Europe, going forward
- Upgrade rating from HOLD to BUY with revised target price of ₹ 270/share

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Key Financial Summary

(₹Crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (20-22E)
Net Sales	2423.9	2706.9	2760.1	3105.1	3456.8	11.9
EBITDA	464.7	499.1	557.4	610.2	710.6	12.9
EBITDA Margin (%)	19.2	18.4	20.2	19.7	20.6	
Net Profit	174.2	195.4	211.6	221.4	299.0	18.9
EPS (₹)	5.5	6.2	6.7	7.0	9.5	
P/E (x)	42.9	38.2	35.3	33.8	25.0	
Price/Book (x)	6.0	5.4	4.9	4.5	4.1	
Mcap/sales (x)	3.1	2.8	2.7	2.4	2.2	
RoE (%)	14.2	13.9	14.3	13.9	16.3	
RoCE (%)	17.2	16.8	15.6	16.5	19.4	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

Exhibit 1: Variance Analysis						Comments
	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	
Revenue	741.5	629.8	17.7	688.9	7.6	Strong performance by overseas subsidiaries (70% of the business) drives the performance during Q1FY21
Other Income	5.2	6.6	-22.3	0.8	586.7	
Raw Material Exp	313.9	267.3	17.4	284.7	10.2	
Employee Exp	148.6	127.9	16.2	136.6	8.8	
Manufacturing & Other e:	132.4	126.0	5.0	129.0	2.6	Various cost rationalisation measures (under project Phoenix) helped saving in other expenditure
EBITDA	146.6	108.6	35.0	138.5	5.9	
EBITDA Margin (%)	19.8	17.2	254 bps	20.1	-33 bps	Saving in other expenditure and improved profitability in China and Europe drives margin
Depreciation	57.9	56.8	1.9	57.4	0.8	
Interest	16.3	13.7	18.8	13.0	24.9	
PBT	61.5	55.6	10.7	68.8	-10.6	
Total Tax	15.9	15.3	3.7	19.7	-19.5	Better sales growth along with improved operating profit drives bottomline
PAT	45.6	40.0	14.0	50.0	-8.6	
Key Metrics						
AMESA	219.0	225.1	-2.7	215.3	1.7	Lockdown impacted the personal care business which declined by 23% YoY in Q1
EAP	202.1	138.8	45.6	135.3	49.3	Client addition, market share gains and launch of new products drives the business
Americas	151.0	136.6	10.5	171.3	-11.9	Increasing wallet share from existing customers, strong growth in the personal care segment drives topline
Europe	197.7	151.7	30.3	189.7	4.2	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)	FY21E			FY22E			Comments
	Old	New	Change	Old	New	Change	
Revenue	2,921.8	3105.1	6.3	3,248.0	3456.8	6.4	We tweaked our revenue estimates factoring in strong performance in current quarter. New client addition coupled with market share gains in the key regions would help drive future performance of the company going forward
EBITDA	568.4	610.2	7.4	662.7	710.6	7.2	
EBITDA Margin %	19.5	19.7	15bps	20.4	20.6	16bps	We believe various cost rationalisation measures coupled with increase in plant utilisation would help in drive profitability
PAT	188.9	221.4	17.2	249.6	299.0	19.8	
EPS (₹)	6.0	7.0	17.0	7.9	9.5	20.0	

Source: Company, ICICI Direct Research

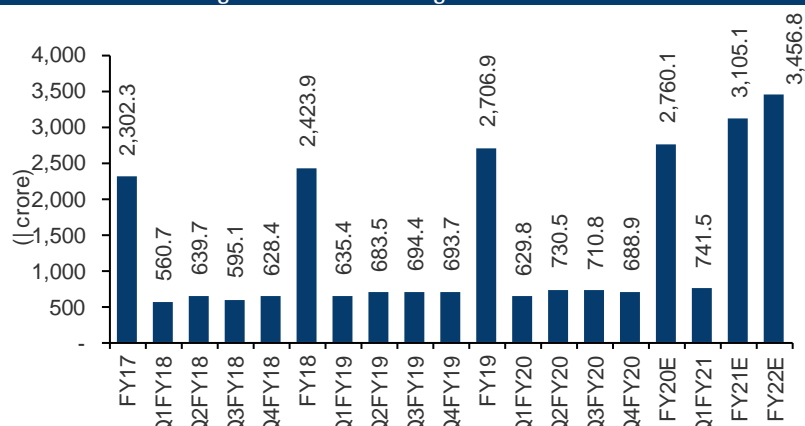
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19E	FY20E	FY21E	FY22E	FY21E	FY22E	
AMESA Growth (%)	2.7	-2.5	4.5	9.1	4.5	11.7	We believe, growth in personal care segemnt will help driving revenue from FY 22E onwards
EAP Growth (%)	16.2	-6.6	21.2	14.6	9.1	11.5	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 (%)	20.6	5.0	11.4	10.1	5.5	11.3	Revenue growth would be largely driven by addition of new customers and wallet share gain from the existing customers
Europe Growth (%)	14.8	15.7	16.2	11.2	7.4	10.3	Strong order book in both oral and persoanl care segment would help in drive revenue of the region

Source: Company, ICICI Direct Research

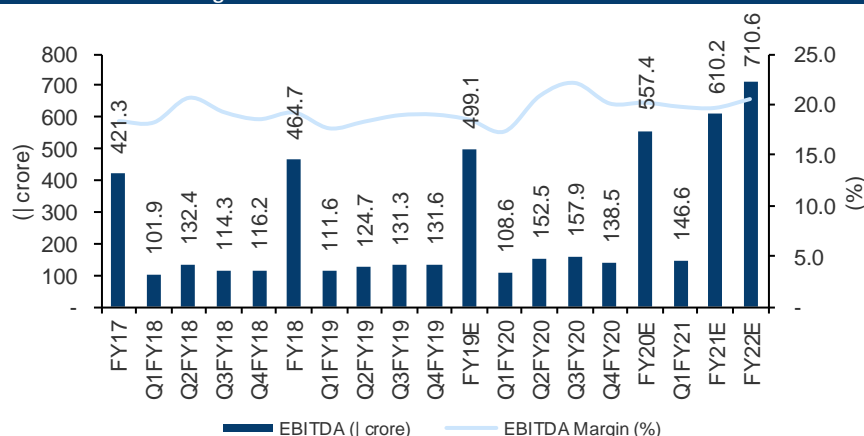
Financial story in charts

Exhibit 4: Overseas regions lead revenue growth



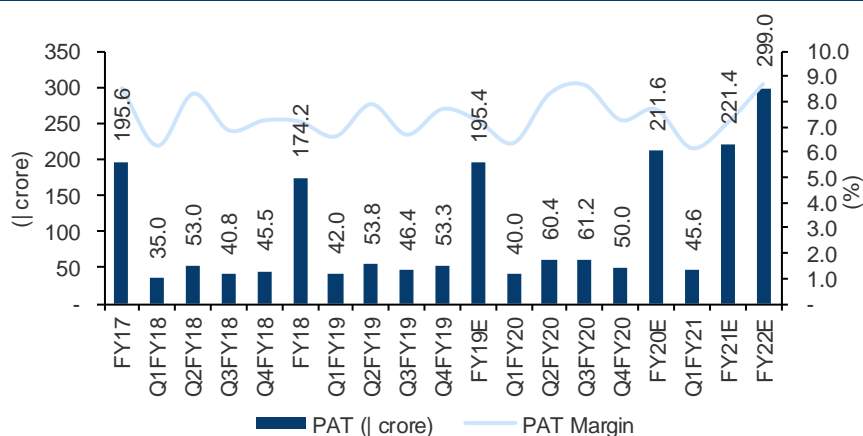
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



Source: Company, ICICI Direct Research

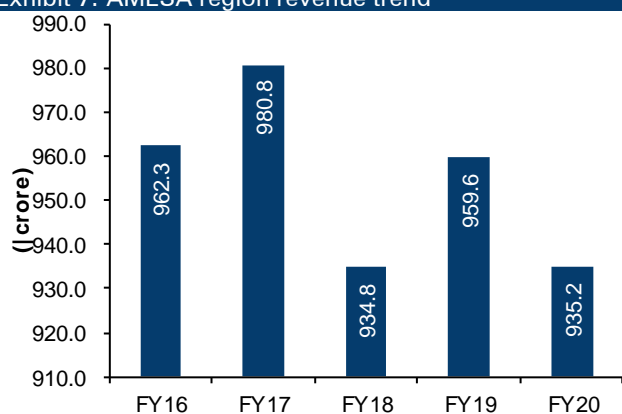
Exhibit 6: Better EBITDA margin to drive PAT



Source: Company, ICICI Direct Research

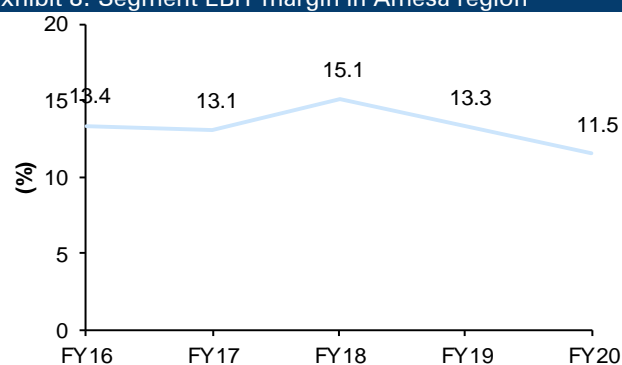
Financial story in charts

Exhibit 7: AMESA region revenue trend



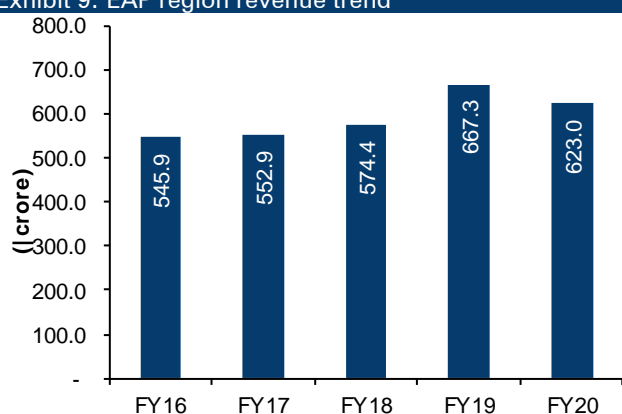
Source: Company, ICICI Direct Research

Exhibit 8: Segment EBIT margin in Amesa region



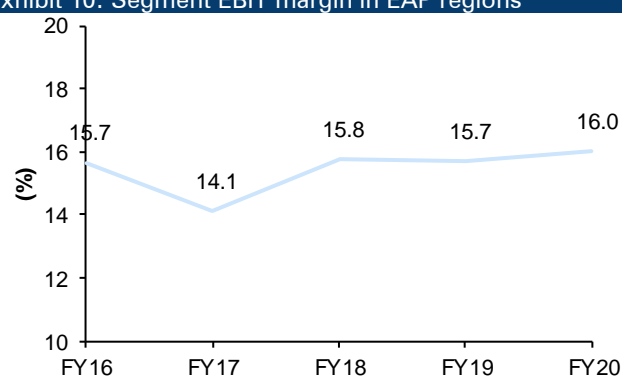
Source: Company, ICICI Direct Research

Exhibit 9: EAP region revenue trend



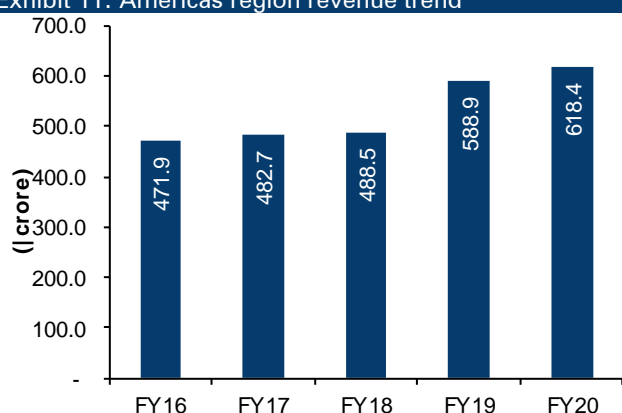
Source: Company, ICICI Direct Research

Exhibit 10: Segment EBIT margin in EAP regions



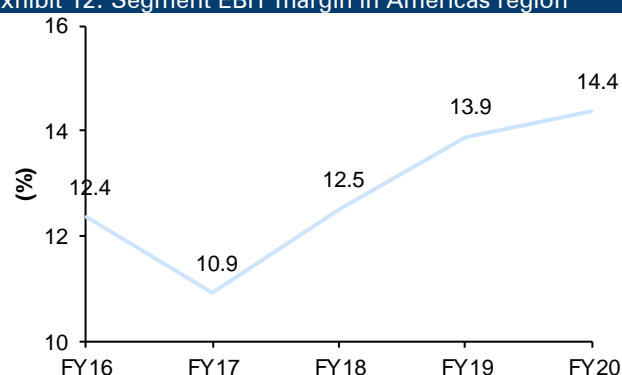
Source: Company, ICICI Direct Research

Exhibit 11: Americas region revenue trend



Source: Company, ICICI Direct Research

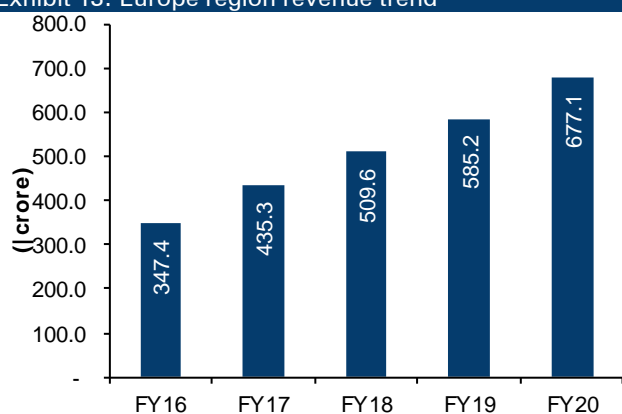
Exhibit 12: Segment EBIT margin in Americas region



Source: Company, ICICI Direct Research

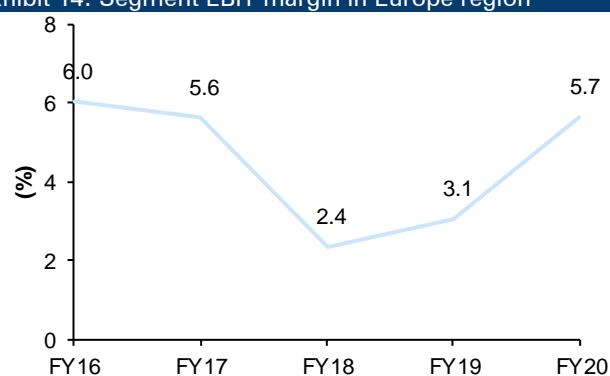
Financial story in charts

Exhibit 13: Europe region revenue trend



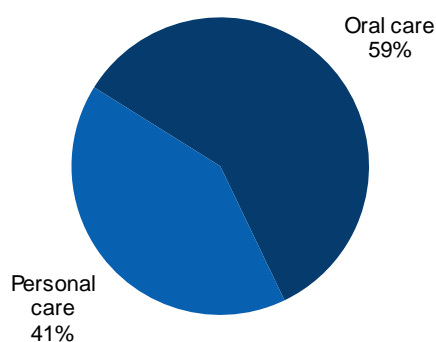
Source: Company, ICICI Direct Research

Exhibit 14: Segment EBIT margin in Europe region



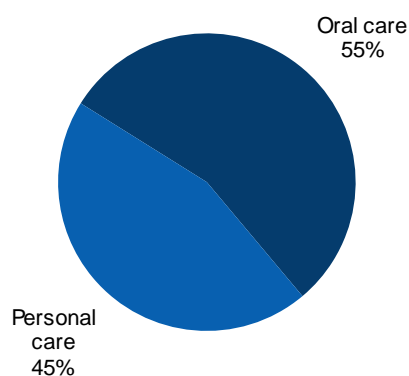
Source: Company, ICICI Direct Research

Exhibit 15: Revenue contribution (segment wise in FY18)



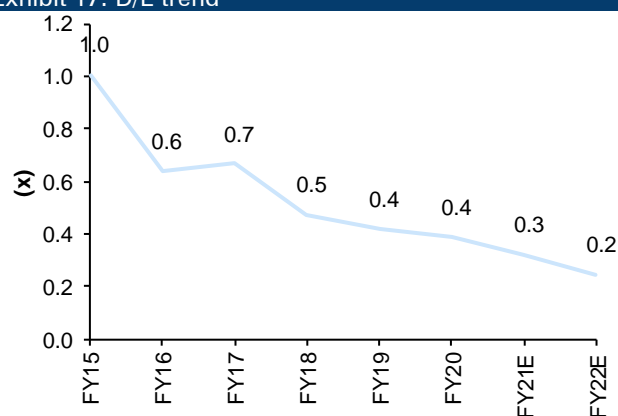
Source: Company, ICICI Direct Research

Exhibit 16: Revenue contribution (segment wise in FY20)



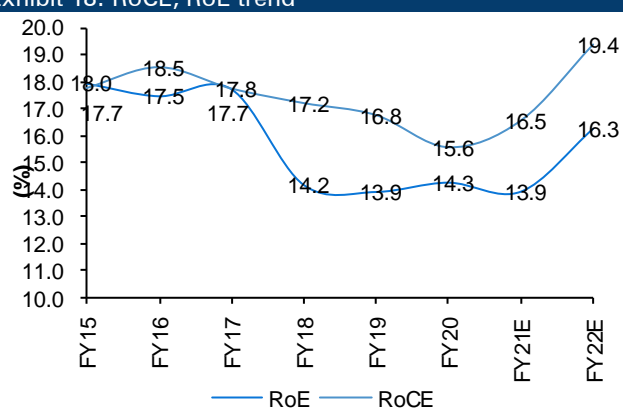
Source: Company, ICICI Direct Research

Exhibit 17: D/E trend



Source: Company, ICICI Direct Research

Exhibit 18: RoCE, RoE trend



Source: Company, ICICI Direct Research

Conference Call Highlights

AMESA region (Q1FY21 Revenue & EBIT contribution, 28%, 17%)

- AMESA region's revenue fell ~3% YoY in Q1FY21. The segment EBIT margin fell 190 bps YoY, 390 bps QoQ to 7.3% in Q1FY21
- The revenue decline was largely attributable to lower volume offtake by key customers in India due to lockdown. Personal care contribution fell to 46.0% in Q1FY21 (vs. 53.3% in Q1FY20), due to sluggish demand in beauty & cosmetics and home products categories
- Launch of hand sanitisers business in Q4FY20 and early recovery in demand for oral care restricted overall fall in AMESA regions revenue during Q1FY21

EAP region (Q1FY21 revenue & EBIT contribution, 26%, 47%)

- EAP region's revenue growth of ~46% YoY led by low base, client addition, launch of new products. Pre-stocking in anticipation of lockdowns aided volume growth in the region during Q1FY21
- Personal care contribution increased to 44.5% in Q1FY21 (vs. 33.4% in Q1FY20).
- Improved utilisation, various cost optimisation measures coupled with better product mix drives the segment EBIT margin up by 877 bps YoY, 1067 bps QoQ to 21.7% during Q1FY21
- Strong business pipeline in the regions, market share gain from regional players and increasing focus on fast growing regional players secures future growth prospect of the company

America region (Q1FY21 Revenue & EBIT contribution, 20%, 17%)

- America region revenue growth at 10.5% during Q1FY21 led by strong growth in the personal care category
- Wallet share gain in leading oral care brands in Americas. This coupled with new customer wins across categories coupled with bottle to tube conversions helped drive volume growth in regions
- Future growth would also be driven by new category 'sanitisers tubes'
- Segment EBIT margin improved 63 bps YoY to 9.6%

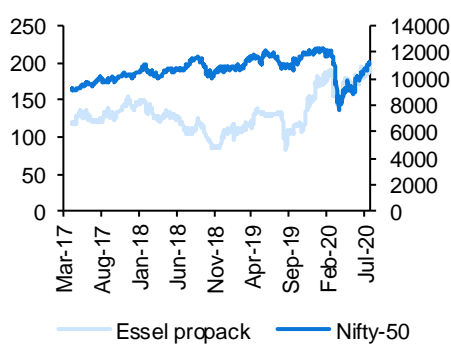
Europe region (Q1FY21 revenue & EBIT contribution, 26%, 19%)

- Segment revenue growth of 30% YoY, segment EBIT margin expansion of 689 bps YoY, 192 bps QoQ to 9%
- There was strong growth in the personal care segment by 37% YoY, while oral care category also growing smartly albeit a slow at 19% YoY in Q1FY21. Personal care contribution increased to 70% in Q1FY21 (vs. 66.9% in Q1FY20)
- Strong new customer wins across personal care categories; robust business development pipeline
- EPL now serves all major oral care players in the region

Others

- The company incurred a capex of ₹ 12.2 crore in Q1FY21 (~₹ 123 crore capex in FY20)
- Net debt further declined to ₹ 248 crore during Q1FY21 compared to ₹ 276 crore incurred during Q1FY20

Exhibit 19: Historical price chart



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 20: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	57.0	83.0	83.0	75.0	75.0
FII	17.2	3.9	3.8	4.6	4.9
DII	1.0	1.0	1.3	1.2	1.1
Others	24.8	12.1	11.9	19.2	19.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 21: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Net Sales	2706.9	2760.1	3105.1	3456.8
Growth (%)	11.7	2.0	12.5	11.3
Expenses				
Raw Material Expenses	1164.8	1156.8	1297.9	1431.8
Employee Expenses	500.6	531.1	597.7	633.4
Manufacturing & Other Ex	542.4	514.7	599.3	681.0
Total Operating Expenditur	2207.8	2202.6	2494.9	2746.1
EBITDA	499.1	557.4	610.2	710.6
Growth (%)	7.4	11.7	9.5	16.5
Interest	61.3	55.7	62.0	52.2
Other Income	28.5	13.4	16.0	21.6
Depreciation	186.1	229.8	248.4	276.5
PBT before Exceptional It	280.2	285.4	315.8	403.5
Less: Exceptional Items	-3.1	9.4	16.1	0.0
PBT	283.3	276.0	299.7	403.5
Total Tax	93.2	63.8	75.4	101.6
Profit from Associates	5.3	-0.6	-2.9	-2.9
PAT	195.4	211.6	221.4	299.0

Source: Company, ICICI Direct Research

Exhibit 22: Cash flow statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	195.4	211.6	221.4	299.0
Depreciation	186.1	229.8	248.4	276.5
CF bef working capital chag	442.8	497.0	531.8	627.7
Net Increase in Current Assets	9.1	-17.3	-221.5	-89.0
Net Increase in Current Liabilities	-88.5	133.7	51.1	20.7
Net CF from operating act	363.4	613.5	361.3	559.4
(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
Net CF from Investing act	-270.9	-264.0	-170.0	-250.0
Equity Capital	31.6	0.0	0.0	0.0
Loan	-12.3	9.9	-50.0	-90.0
Total Outflow on account of divi	-56.9	-93.3	-122.9	-136.6
Others	-94.1	-29.3	-18.7	-52.2
Net CF from Financing Act	-131.7	-112.8	-191.7	-278.8
Net Cash flow	-25.5	221.2	-0.3	30.6
Cash and Cash Equ at the beg	115.8	90.4	311.6	311.2
Cash	90.4	311.6	311.2	341.9

Source: Company, ICICI Direct Research

Exhibit 23: 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	1611.2	1773.6
Total Shareholders funds	1388.0	1532.6	1674.3	1836.7
Total Debt	581.9	591.8	541.8	451.8
Total Liabilities	2038.8	2190.9	2282.6	2355.0
Assets				
Total Gross Block	3597.5	3881.6	4012.7	4242.7
Less Total Accumulated Depreci	2293.7	2523.5	2771.9	3048.5
Net Block	1303.8	1358.1	1240.8	1194.2
Total CWIP	30.6	31.1	50.0	50.0
Total Fixed Assets	1334.4	1389.2	1290.8	1244.2
Other Investments	16.8	16.0	36.0	56.0
Inventory	323.4	367.2	467.9	520.9
Debtors	493.4	490.3	595.5	615.6
Loans and Advances	33.8	17.8	20.1	22.3
Cash	90.4	311.6	311.2	341.9
Other Current Assets	114.5	107.0	120.4	134.0
Total Current Assets	1055.5	1293.9	1515.1	1634.7
Creditors	404.3	519.9	510.4	520.9
Provisions	26.9	27.8	79.9	81.6
Total Current Liabilities	481.3	615.0	666.1	686.7
Net Current Assets	574.2	678.9	849.0	948.0
Total Assets	2038.8	2190.9	2282.6	2355.0

Source: Company, ICICI Direct Research

Exhibit 24: Key ratios ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per Share Data				
EPS	6.2	6.7	7.0	9.5
Cash EPS	12.1	14.0	14.9	18.3
BV	44.0	48.6	53.1	58.3
DPS	1.8	3.0	3.9	4.3
Operating Ratios				
EBITDA Margin	18.4	20.2	19.7	20.6
PAT Margin	7.1	7.9	7.5	8.7
Return Ratios				
RoE	13.9	14.3	13.9	16.3
RoCE	16.8	15.6	16.5	19.4
RoIC	16.9	18.1	19.1	22.4
Valuation Ratios				
EV / EBITDA	15.7	13.6	12.4	10.5
P/E	37.8	34.9	33.3	24.7
EV / Net Sales	2.9	2.8	2.4	2.1
Market Cap / Sales	2.7	2.7	2.4	2.1
Price to Book Value	5.3	4.8	4.4	4.0
Turnover Ratios				
Asset turnover	0.8	0.7	0.8	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
Solvency Ratios				
Debt / Equity	0.4	0.4	0.3	0.2
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 25: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		(₹Cr)	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E
Asian Paints (ASIPAI)	1,715	1,900	Hold	1,64,469	29.0	21.8	32.6	59.2	78.8	52.5	38.9	45.6	32.9	27.4	19.4	26.9	30.5	22.6	31.0
Astral Polytechnik (ASTP)	964	900	Hold	14,524	16.6	14.2	20.0	58.2	67.7	48.1	27.8	30.4	23.3	20.5	16.3	20.2	16.6	12.6	15.4
Amber Enterprises (AM1)	482	1,565	Hold	4,660	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
Bajaj Electricals (BAJEL)	425	495	Buy	4,832	0.0	4.1	14.8	NM	103.8	28.8	26.1	26.3	15.0	8.4	6.7	13.4	4.5	4.2	10.2
Berger Paints (BERPAI)	526	570	Hold	51,085	6.8	6.0	10.0	77.9	87.8	52.5	46.9	51.1	33.7	26.6	21.5	31.9	24.7	19.4	27.7
Essel Propack (ESSPRO)	234	270	Buy	7,379	6.7	7.0	9.5	34.9	33.3	24.7	13.6	12.4	10.5	15.6	16.5	19.4	14.3	13.9	16.3
Havells India (HAVIND)	583	630	Hold	36,373	11.7	8.0	14.4	49.6	72.7	40.5	33.9	40.7	25.5	19.6	14.3	22.6	17.0	11.4	18.3
Kansai Nerolac (KANNE)	433	415	Buy	23,335	9.9	7.8	10.4	43.6	55.4	41.6	26.6	31.2	24.1	17.6	14.5	17.9	14.1	11.1	13.7
Pidilite Industries (PIDINI)	1,357	1,485	Hold	69,571	21.9	18.3	26.2	62.0	74.0	51.8	44.7	51.5	37.0	31.0	24.4	32.6	26.1	19.8	26.6
Polycab India (POLI)	820	950	Buy	12,208	51.4	42.2	55.4	15.9	19.4	14.8	10.7	13.4	9.8	26.5	16.8	22.2	20.0	13.9	17.0
Supreme Indus (SUPIND)	1,290	1,245	Hold	16,386	36.8	28.4	41.5	31.8	41.2	28.2	18.0	20.8	15.6	22.5	17.5	22.3	20.7	15.3	20.1
Symphony (SYMLIM)	845	1,055	Buy	5,911	26.0	23.7	35.1	32.5	35.7	24.1	28.9	32.1	20.6	28.8	23.9	31.9	29.0	22.7	28.9
Time Techno (TIMTEC)	37	42	Hold	837	7.5	3.2	9.0	4.9	11.7	4.1	3.1	4.4	2.8	12.5	7.1	13.1	9.3	4.0	10.7
V-Guard Ind (VGUARD)	163	210	Buy	6,981	4.3	3.6	5.2	37.7	45.4	31.3	27.4	32.5	22.6	24.8	19.7	24.3	18.6	14.8	18.5
Voltas Ltd (VOLTAS)	598	635	Buy	19,778	15.8	9.5	21.4	38.0	63.0	27.9	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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