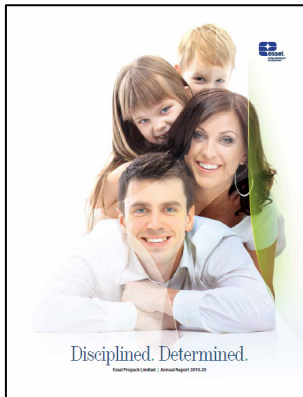


BSE SENSEX

40,686

S&P CNX

11,930

CMP: INR267
TP: INR314 (+18%)
Buy

Stock Info

Bloomberg	EPLL IN
Equity Shares (m)	316
M.Cap.(INRb)/(USDb)	84.2 / 1.2
52-Week Range (INR)	319 / 105
1, 6, 12 Rel. Per (%)	4/23/122
12M Avg Val (INR M)	143
Free float (%)	48.0

Financials Snapshot (INR b)

Y/E MARCH	FY21E	2022E	2023E
Sales	31.1	34.2	37.9
EBITDA	6.7	7.5	8.5
Adj. PAT	2.9	3.5	4.2
EBITDA Margin (%)	21.5	22.0	22.5
Cons. Adj. EPS (INR)	9.3	10.9	13.2
EPS Gr. (%)	35.3	17.9	20.9
BV/Sh. (INR)	52.8	59.1	67.6

Ratios

Net D:E	0.1	0.0	-0.1
RoE (%)	18.3	19.6	20.9
RoCE (%)	15.1	16.8	18.5
Payout (%)	49.9	41.3	36.4

Valuations

P/E (x)	28.7	24.4	20.2
EV/EBITDA (x)	12.9	11.2	9.6
Div. Yield (%)	1.3	1.4	1.5
FCF Yield (%)	3.3	4.0	5.1

En route to next growth phase

Essel Propack's (EPLL) FY20 Annual Report highlights the company's efforts across the four geographies – AMESA, the Americas, EAP and Europe. During the year, EPLL achieved record high revenue share from the Personal care segment and redefined its capital allocation policy. The company also undertook several initiatives with respect to new launches and cost rationalization measures. Key highlights below:

Higher CFO, backed by strong operating performance

- In FY20, revenue/EBITDA/adj. PAT grew 2%/12%/14% YoY to INR27.6b/INR5.5b/INR2.1b, respectively. In FY20 gross margin improved by 110bp YoY to 58.1%, which can be attributed to an increase in revenue share of the Personal care segment. Except for employee cost, all other operating expenses' line items declined (as % of sales) due to introduction of project Phoenix-I, which focuses on cost rationalization. Other expenses dropped by 140bp to 18.6%, primarily due to reduction in other manufacturing expenses. EBITDA margin expanded by 180bp to 20.2%. However, adjusting for IndAS-116 impact, margin expanded by 60bp to 19.1%.
- EPLL incurred capex of INR2.8b/INR2b/INR5.1b in FY19/FY18/FY17. However, capex in FY20 stood at INR1.3b, majorly attributable to plant and machinery expenses. Increase in gross block was mainly due to lease liability (done owing to introduction of IndAS-116) and translation adjustment.
- Net debt decreased significantly by 45% YoY to INR2.7b. This was primarily due to 2.8x YoY increase in cash to INR3.7b in FY20, which can be attributed to prudent capital allocation, lower capex spending and FCF generation. Net debt-to-equity dropped from 0.4x in FY19 to 0.2x in FY20.
- CFO increased by 37% YoY to INR4.9b in FY20 (v/s. INR3.6b in FY19), primarily due to release of working capital and higher operating profit.
- In FY20, inventory days increased by 5 days to 49 days. Further, receivables/payable days decreased/increased by 2/4 days (to 65/32 days). Overall working capital days reduced marginally from 82 to 81 days.

Europe and Americas lead the pack

- EPLL is highly focused on Europe as (a) it has higher revenue share from Personal care products, (b) Oral care is rapidly gaining traction in the continent, and (c) there exists huge growth potential from the newly launched 'hand sanitizer' tubes. Europe reported strong revenue growth of 16% YoY to INR6.8b in FY20 due to growth across both Oral and Personal care segments.
- Americas is another region, which offers huge growth potential for 'hand sanitizers' along with existing products. Revenue increased 5% YoY to INR6.1b in FY20. Growth in the region was due to (a) higher growth of the Personal care category, (b) new customer wins, and (c) cross-selling Personal care products to existing Oral care customers.

Sumant Kumar - Research Analyst (Sumant.Kumar@motilaloswal.com)

Research Analyst: Darshit Shah (Darshit.Shah@MotilalOswal.com); Yusuf Inamdar (Yusuf.Inamdar@MotilalOswal.com)

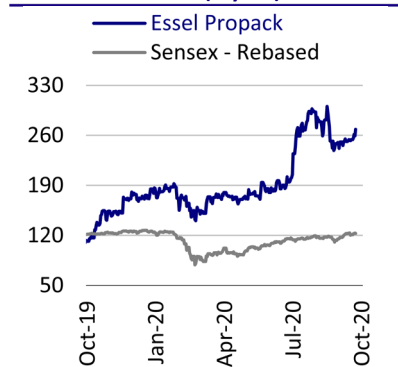
Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	52.0	75.0	83.0
DII	15.3	2.4	2.1
FII	14.3	4.9	3.9
Others	18.5	17.8	11.0

FII Includes depository receipts

Stock Performance (1-year)

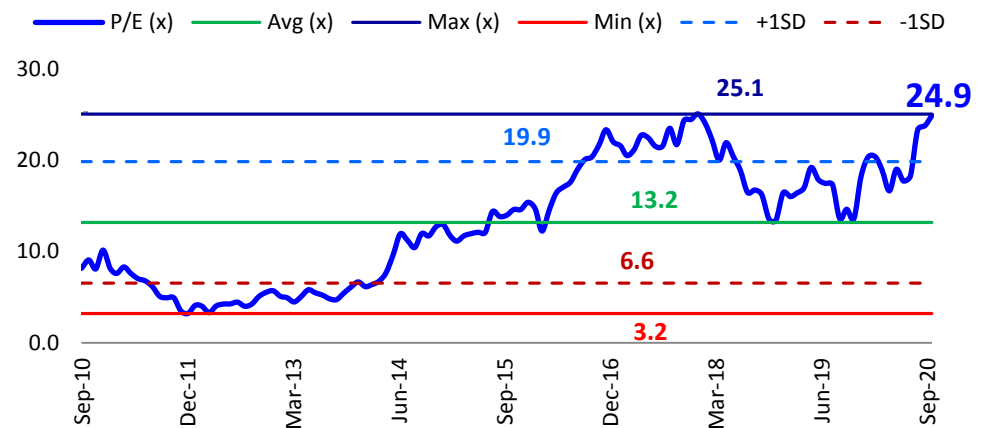
- AMESA region's revenue declined 3% YoY to INR9.3b in FY20 (v/s INR9.6b in FY19). This was on account of the tough macroeconomic conditions in India in FY20 and also the pandemic impact toward the latter part of the fiscal year.
- EAP region revenue also declined 7% YoY to INR6.2b. This was due to the pandemic impact in China and lower off-take in the Oral care category by MNC customers. Personal care revenue increased 5% YoY to INR1.7b, on the back of strong business pipeline and increased focus on fast growing regional players.

Strategic initiatives to pave way for future growth

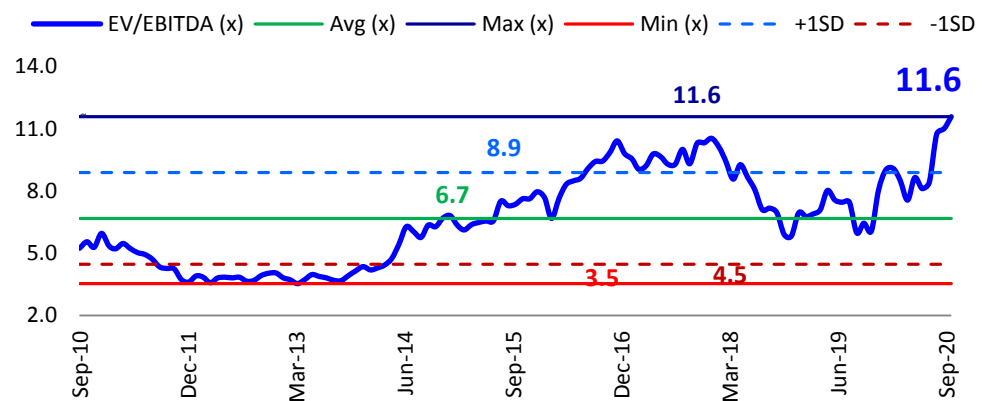
- **New launches:** As part of its long-term strategy, EPLL has launched Platina and Green Maple Leaf (both products recognized by Association of Plastic Recyclers). Management aims to leverage from the increasing transition toward recyclable laminated tubes. This initiative is expected to benefit in the medium-term as increasingly FMCG companies are shifting toward recyclable tubes as a mode of packaging.
- The newly introduced 'hand sanitizer' tubes have shown robust growth and is expected to provide sustainable revenue.
- **Phoenix 2.0:** EPLL has initiated Phase-II of project Phoenix and plans to rationalize its cost and further improve margins (under Phase-I, the company managed to improve operating margins by 180bp).
- **Personal care:** Over FY15-20, EPLL's revenue share from Personal care products has increased to 45% (from 41%). The company delivered revenue CAGR of 5% during the same period. EPLL plans to grow revenue share from Personal care products to 50% over the next 2-3 years (as these products have relatively higher margins).
- **Oral care:** EPLL dominates the Oral care tube market with gigantic global market share of ~36%. It has forged good long-term relationships with clients, which should provide sustainable revenue visibility in the long run. Majority of Oral care revenue comes from long-term contracts. Further, Europe and Americas are expected to record higher growth in the Oral care segment.

Valuation and view

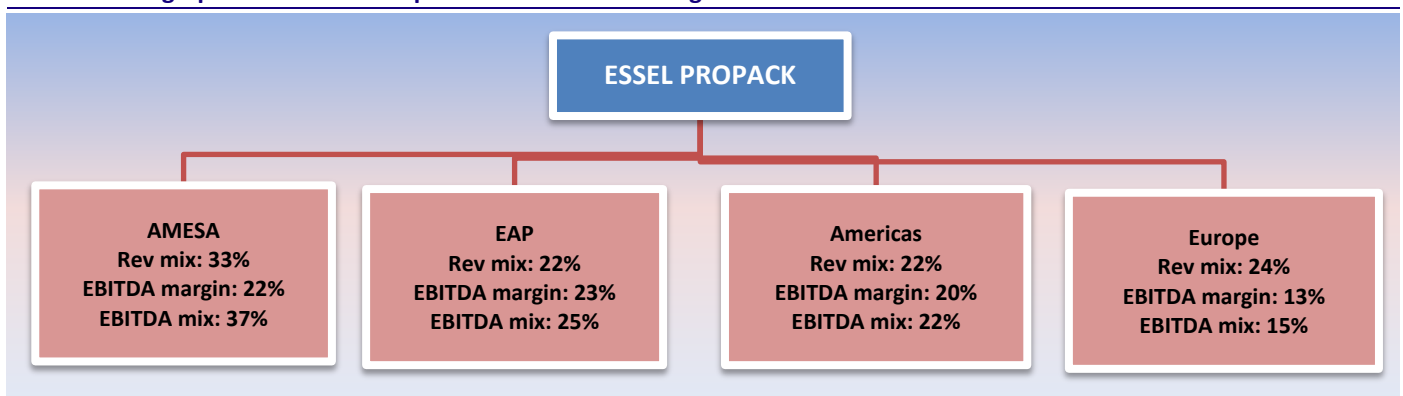
- We believe EPLL is well positioned to benefit from the increasing shift from plastic tubes to lami-tubes. Also, EPLL should continue its growth trajectory as it (a) is increasing revenue share of Personal care products, (b) has leadership position globally in the Oral care segment, (c) is initiating Phase-II of project Phoenix, (d) has new launches on the anvil, and (e) is cross-selling Personal care products to Oral care clients and vice-versa.
- The stock currently trades at 24x/20x FY22/FY23 P/E. Over the last three years, EPLL has traded at an average P/E of 19x. We expect revenue/EBITDA/PAT CAGR of 11%/15%/24% over FY20-23E and value the stock at 26x Sep'22E EPS. Our TP of INR314 implies 18% upside. Maintain Buy.

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

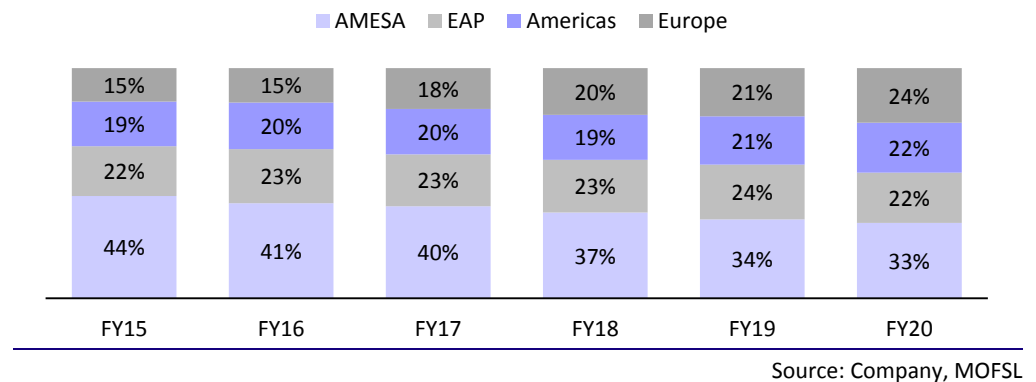
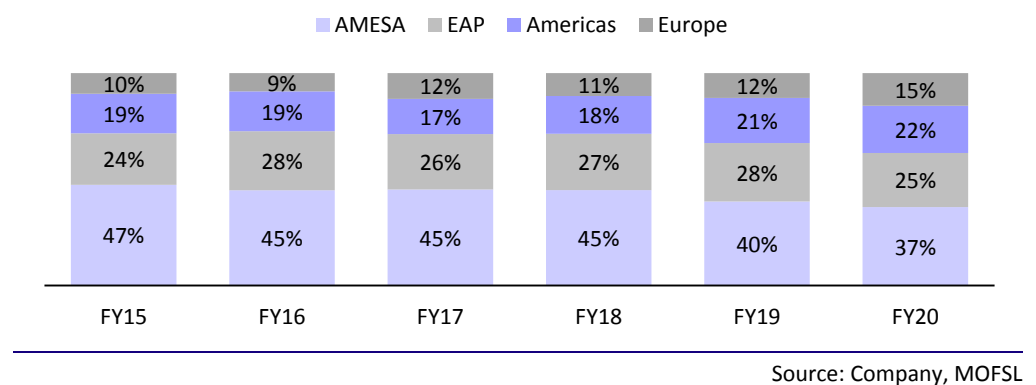
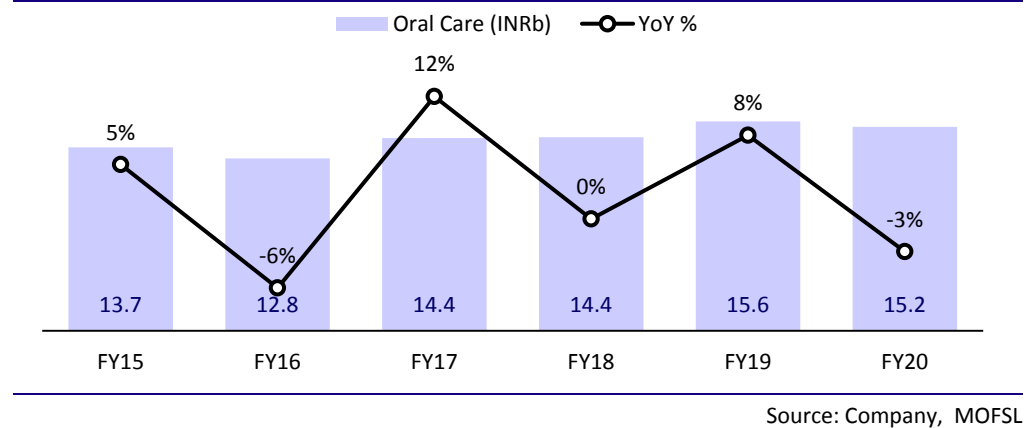
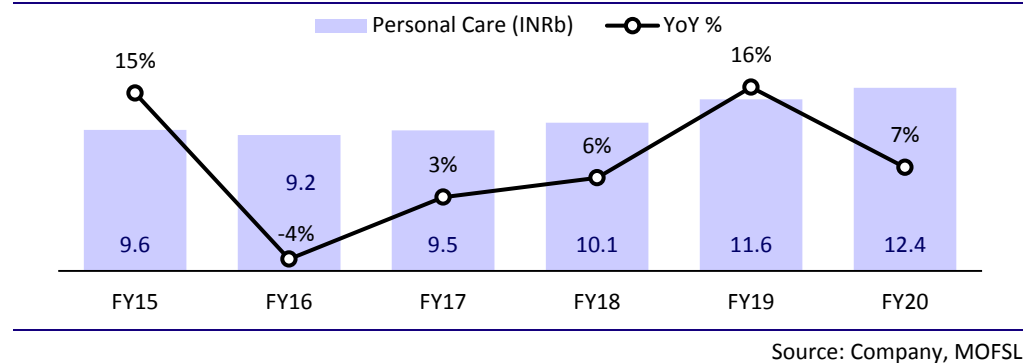
Source: Bloomberg, MOFSL

Exhibit 2: One-year forward EV/EBITDA (x)

Source: Bloomberg, MOFSL

Exhibit 3: Geographical revenue composition and EBITDA margin as at FY20

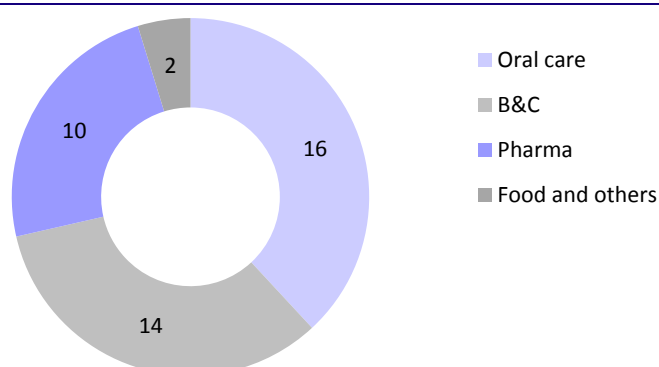
Source: Company, MOFSL

Exhibit 4: Geographical revenue composition gradually equalizing**Exhibit 5: Geographical EBITDA mix****Exhibit 6: Oral care revenue trend****Exhibit 7: Personal care revenue trend**

Higher value Personal care products to continue growing

- The global tubes market is dominated by the Personal care tube segment with an estimated volume share of 62-64% (26-28b tubes). Out of the 42b tube industry, Oral care contributes ~16b to the total volume, followed by Beauty and cosmetics at 14b, Pharmaceuticals at 10b and food and others at 2b. EPLL enjoys volume market share of 7-8% in the global Personal care segment.
- Value of the Personal care tubes market is much higher than the Oral care tubes market at 3-4x. Value of the Pharma tubes market (part of the Personal care segment) is 2-2.5x that of the Oral care tubes market.
- Revenue share from Personal care is expected to increase from the current level of ~45% on the back of strong business pipeline, new customer wins across categories and cross-selling of Personal care products to existing Oral care customers. Growing share of Personal care is also expected to support margin expansion.
- **Leadership position in the Oral care category:** EPLL is the market leader in the global Oral care laminated tubes segment with a healthy market share of ~36%. Cross-selling to existing Personal care clients coupled with new customer wins are some of its major growth drivers.

Exhibit 8: Global tube market (in b tubes)



Source: Company, MOFSL

Strategic initiatives taken by EPLL to drive next growth phase

- **Oral care:** We believe EPLL should maintain its leadership position in the Oral care segment as management believes it to be an engine of growth. Europe and Americas offer huge growth potential with the company expecting to add more customers, particularly in Europe. We believe EPLL will gain market share from its existing Personal care clients and as well as new customers, while the Oral care segment will continue to provide long-term sustainable revenue growth.
- **Personal care and Pharmaceuticals:** EPLL plans to increase revenue share of Personal care products to ~50% in the near-term. Pharmaceutical tubes (under Personal care) is another category, which is gaining traction with the ongoing shift toward laminated tubes (from plastic/aluminum tubes). We believe EPLL would gain new clients in the Pharma segment as the company is best placed to benefit from this transition.
- **Nurturing relationships:** EPLL aims to improve its customer relationships by improving customer experience and serviceability. Currently, more than 50% of overall revenue comes from long-term contracts (majorly Oral care customers

enter into long-term contracts). We expect these contracts to provide steady business and revenue visibility, and also mitigate the risk of fluctuations in raw material prices and forex rates.

New initiatives

- Under Phase-I of project Phoenix, EPLL has managed to increase EBITDA margin by 180bp YoY to 20.2% in FY20. The company has already initiated Phase-II of project Phoenix, which aims to further expand margins by virtue of cost management and rationalization. EPLL already has best-in-class margins (v/s other domestic players), which is expected to improve further.
- **Hand sanitizer:** By virtue of agility and product innovation, EPLL managed to launch a new product category – ‘Hand sanitizer’ under the Personal care segment – within just 15 days.
- According to our recent interactions with management, EPLL plans to achieve sales volume of 150m tubes in FY21, and is already close to achieving two-thirds of its annual volume target (100m ‘Hand sanitizer’ tubes) by end-2QFY21. This new product segment under Personal care is expected to provide steady volumes, as sanitizers are increasingly becoming a part of daily consumption.
- EPL has launched Platina in the Oral care segment and Green Maple Leaf in the Personal care segment, which have been recognized by the Association of Plastic Recyclers (APR) as fully recyclable laminated tubes. These new launches are expected to gain traction with FMCG players shifting toward recyclable tubes.

Other achievements

- Converted a leading Indian anti-fungal ointment brand to lami-tubes (earlier using aluminum tubes).
- Converted a leading skincare ointment for a French MNC and a leading ophthalmic solution for a domestic major to lami-tubes.
- Converted a leading American brand and French hair care brand to the tube format.
- Converted aluminum tubes to lami-tubes for mouth ulcer gels.

Exhibit 9: Continuously venturing into product segment

Sub-categories	FY11	FY15	FY20
Face care	✓	✓	✓
Hair care	✗	✗	✓
OTC medication	✗	✓	✓
Prescription medication	✗	✗	✓
Food	✗	✓	✓
Home	✗	✗	✓
Sanitizer	✗	✗	✓
Eye care	✗	✗	✓
Hand cream	✗	✗	✓

ACCELERATING CONVERSION EFFORTS

ACTIVELY PURSUING

Source: Company, MOFSL

Personal care

- Revenue contribution from Personal care products increased from 41% in FY15 to 45% in FY20; the corresponding revenue CAGR over the same period was 5%.
- Increasing revenue share from Personal care led to 340bp EBITDA margin expansion to 20.2% over FY15-20, as Personal care products are higher value products having relatively higher margins.
- During the year, EPLL managed to convert a major shampoo producer from rigid tubes to laminated tubes. Going forward, the transition from plastic tubes to lami-tubes is expected to increase share of Personal care and improve overall margins, as Beauty and cosmetics have lower minimum quantity orders (MQOs).
- We believe revenue share would be evenly distributed among Personal and Oral care over the next 2-3 years, leading to further margin expansion.

Exhibit 10: Revenue trend of Personal care

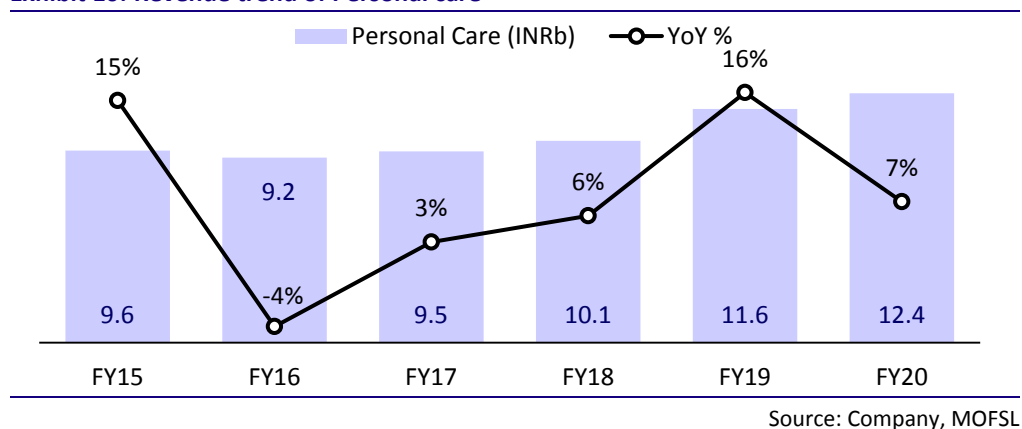
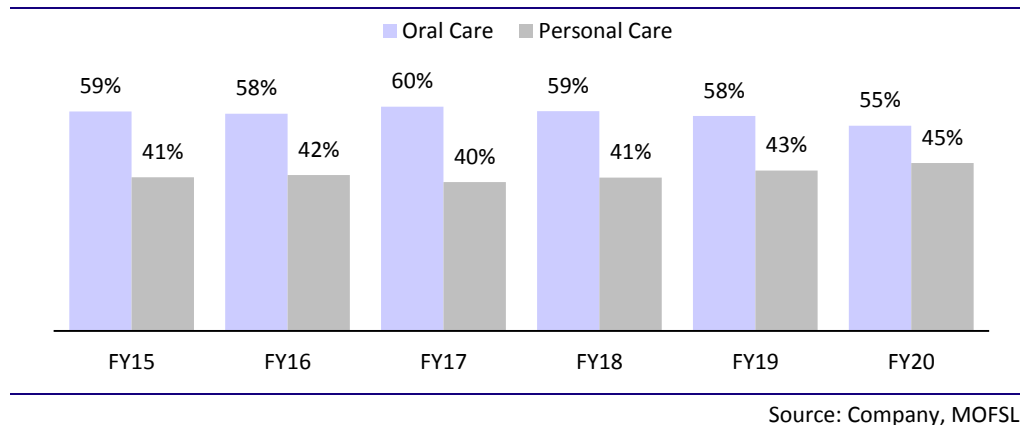


Exhibit 11: Revenue-mix of EPLL



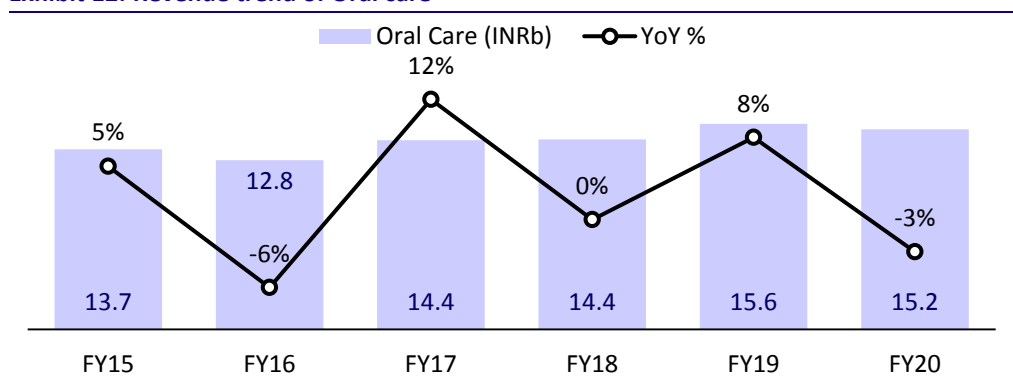
Oral care

- EPLL enjoys market leadership position in the Oral care tube segment with a gigantic market share of ~36%, which in turn, provides comfort on sustainability of growth.
- Out of the total volume of 14b Oral care tube market, EPLL supplies across four geographies, namely AMESA, the Americas, Europe and EAP. Over the last few years, revenue contribution of Oral care for EPLL has declined from 59% in FY15 to 55% in FY20. However, revenue CAGR for the segment has inched up 2% to

INR15.1b over the same period, implying an increase in revenue contribution from the Personal care segment.

- EPLL's long-term contracts with clients in Oral care provide growth visibility as well as mitigate risks. EPLL enters into long-term contracts for a period of 3-5 years with majority of its clients in the Oral care segment.
- Of its overall revenue, EPLL generates 50% sales through long-term contracts and nearly all contracts are entered into with clients in the Oral care segment.
- We believe increase in wallet share from marquee global consumer companies in Europe, market share gain from regional players in China and wallet share gain in leading Oral care brands in Americas are some of the drivers to support Oral care growth over the medium-to-long term.

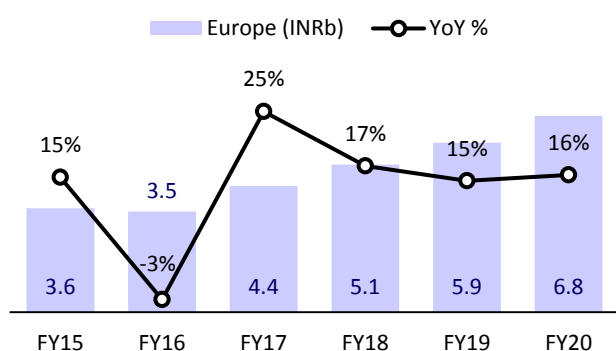
Exhibit 12: Revenue trend of Oral care



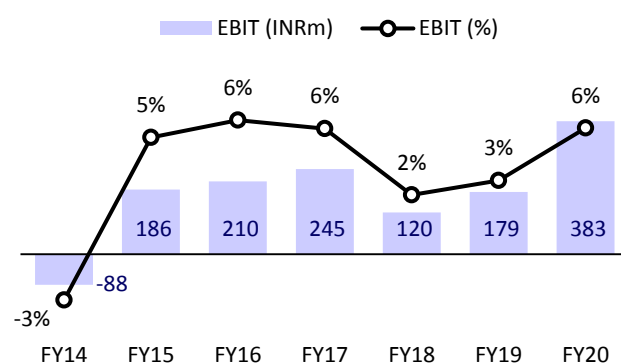
Source: Company, MOFSL

Europe – Leading the next growth phase

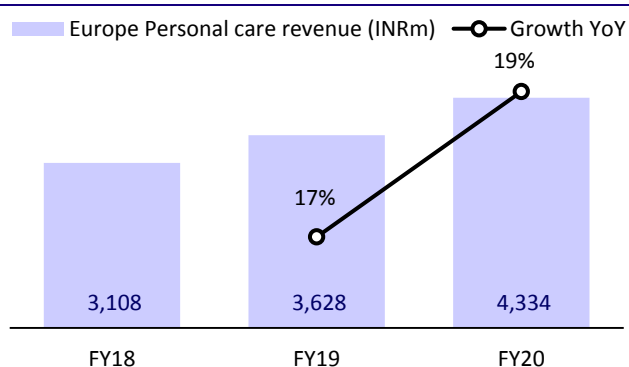
- In FY20, Europe region recorded 16% YoY revenue growth to INR6.7b (v/s INR5.8b in FY19). Revenue growth can be attributed to strong growth across both the product categories, Personal and Oral care.
- Europe region's EBIT increased by 2.1x YoY to INR383m in FY20 (v/s INR179m in FY19). EBIT margins increased by 300bp YoY to 6% in FY20, primarily due to increased revenue share of Personal care. Revenue from Personal care products is 1.5-3x times higher than Oral care products and EBIT margins are also higher, relatively.
- Personal care revenue increased by 19% YoY in FY20 (to INR4.3b) and the corresponding revenue share increased to 64% in FY20 (v/s 61% in FY18). Although revenue share of Oral care dropped by 200bp, revenue grew 10% YoY (to INR2.4b), which is due to new customer wins in the category.
- Growth across categories was driven by strong customer wins in Oral and Personal care, robust development of the business pipeline and an increase in wallet share from existing clients.
- EPLL has also gained new customers in Europe in the Oral care segment and revenue share from Oral care is expected to increase. EPLL now serves all major Oral care players in the region.

Exhibit 13: Revenue trend of Europe region

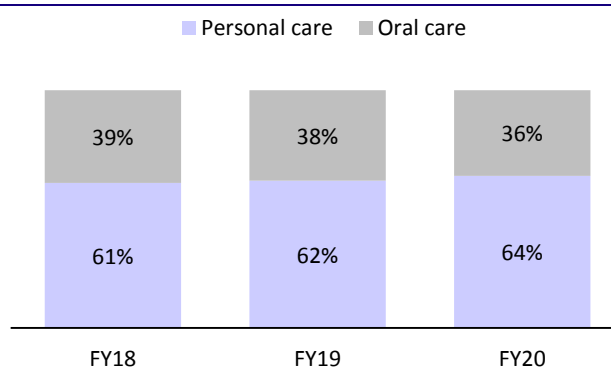
Source: Company, MOFSL

Exhibit 14: 300bp margin expansion to 6%

Source: Company, MOFSL

Exhibit 15: Strong in Europe's Personal care segment

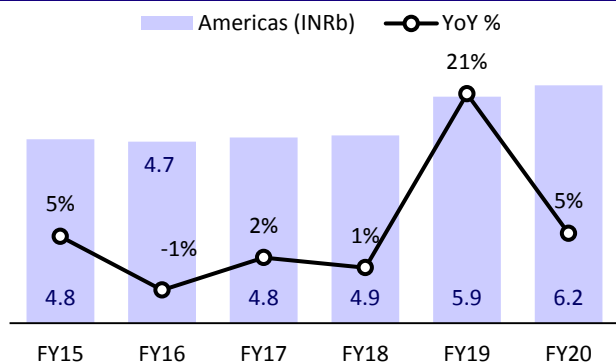
Source: Company, MOFSL

Exhibit 16: Revenue mix of Europe region

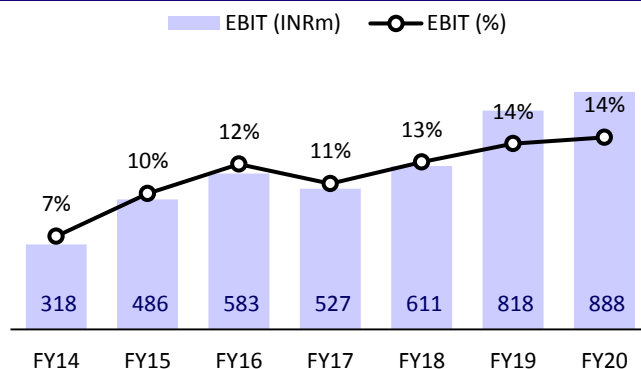
Source: Company, MOFSL

Americas – Hand-sanitizer business to support growth

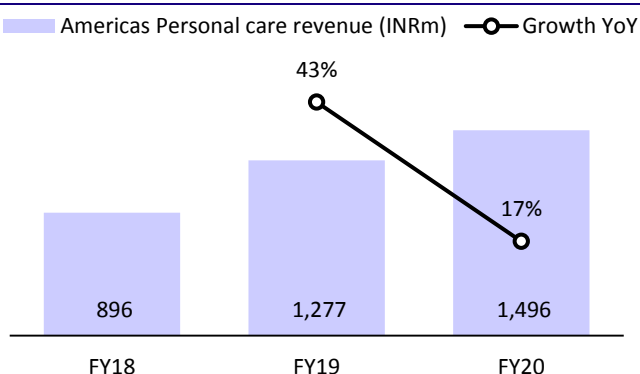
- In FY20, the Americas region recorded 5% revenue growth to INR6.1b (v/s INR5.9b in FY19). Growth in the region was due to higher growth of Personal care category, new customer wins and cross-selling of Personal care products to existing Oral care customers. With increased traction for the newly launched product category (hand sanitizer), revenue share from the Americas region is expected to increase.
- Newly launched Hand sanitizer business, which gained traction in Europe/China is expected to pick up in the Americas and should support revenue growth.
- Americas' EBIT increased 9% YoY to INR888m in FY20 (v/s INR818m in FY19). EBIT margins increased by 50bp YoY to 14.4% in FY20, which can be attributed to increased revenue share of Personal care products.
- Personal care revenue increased by 17% YoY in FY20 (to INR1.5b), whereas revenue share of Personal care category increased to 25% in FY20 (v/s 19% in FY18).
- EPLL added new customers across categories and increased cross-selling of Personal Care products to existing Oral care customers. The region also gained wallet share with a leading oral care brand.

Exhibit 17: Revenue trend of Americas region

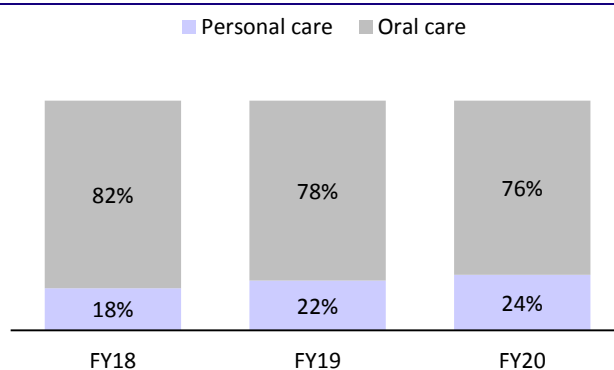
Source: Company, MOFSL

Exhibit 18: Americas' margin improved by 50bp to 14%

Source: Company, MOFSL

Exhibit 19: Decline in Personal care revenue due to tough competition

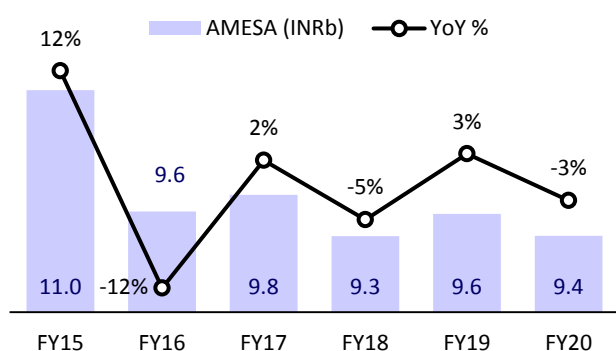
Source: Company, MOFSL

Exhibit 20: Oral care currently dominating Americas revenue

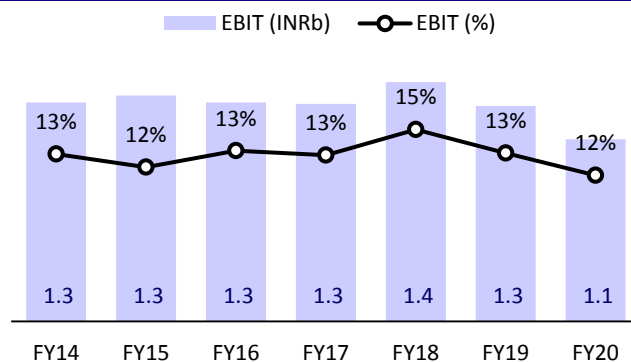
Source: Company, MOFSL

AMESA business impacted due to pandemic

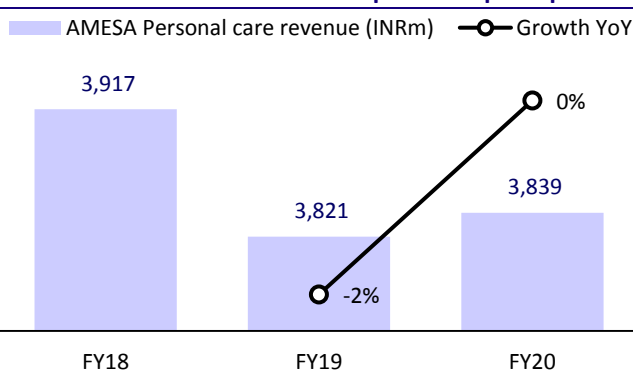
- In FY20, the AMESA region revenue declined by 3% YoY to INR9.3b (v/s 9.6b in FY19). This was due to tough macroeconomic conditions in India in FY20 and also on account of the pandemic impact toward the latter part of the year.
- AMESA region's EBIT declined 15% YoY in FY20 to INR1b (v/s INR1.3b in FY19). Corresponding EBIT margin contracted by 170bp YoY to 11.5%, as Personal care revenue growth was stagnant owing to the tough macroeconomic conditions in India.
- Personal care revenue remained stagnant at INR3.8b in FY20 (v/s 3.9b in FY19). Revenue share of Personal care segment roughly stood at 50% over FY18-20. EPLL has maintained revenue share of Personal care despite tough macroeconomic conditions in India in FY20 and the COVID-19 outbreak in 4QFY20.
- Further, EPLL has maintained its market leadership with successful entry in several new categories.

Exhibit 21: Revenue trend of AMESA region

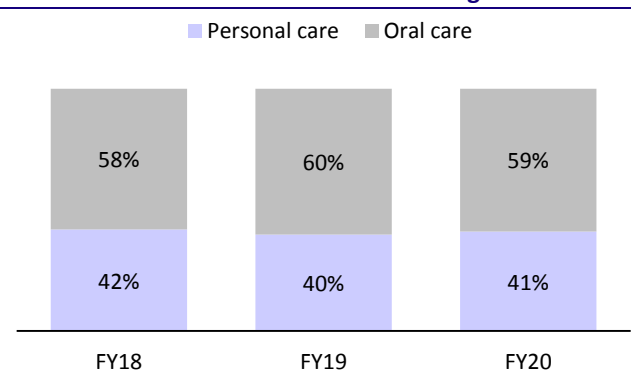
Source: Company, MOFSL

Exhibit 22: EBIT margins contracted by 170bp in FY20

Source: Company, MOFSL

Exhibit 23: AMESA Personal care expected to pick up

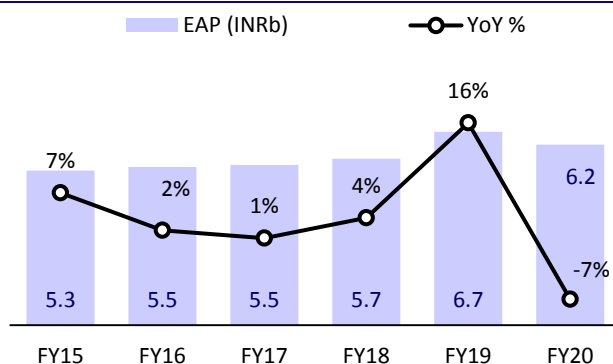
Source: Company, MOFSL

Exhibit 24: Stable revenue mix in AMESA region

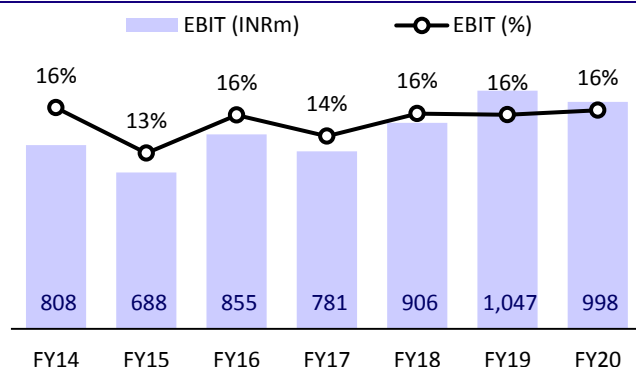
Source: Company, MOFSL

EAP affected due to lower off-take of Oral care products

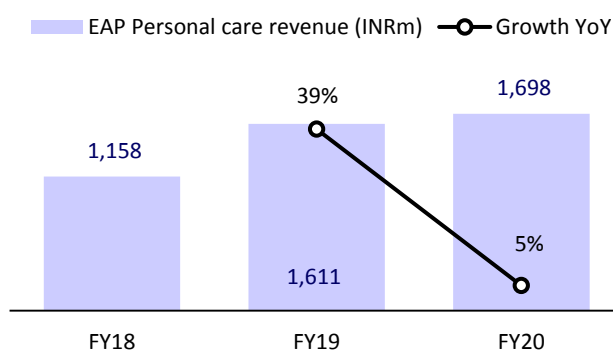
- In FY20, revenue of the EAP region declined 7% YoY to INR6.2b. This was due to the pandemic impact in China and lower off-take in the Oral care category by MNC customers.
- EAP region's EBIT dropped 5% YoY to INR998m in FY20 (v/s. INR1b in FY19). However, corresponding EBIT margin increased marginally by 30bp YoY to 16% in FY20 due to increase in share of Personal care products.
- Personal care revenue increased 5% YoY to INR1.7b, on the back of strong business pipeline and increased focus on fast growing regional players.
- Revenue share of Personal care increased by 800bp to 34.5% over FY18-20 due to increased focus on the category in China.
- EAP faced plant shutdown for a very brief period of time and currently all plants in China are operational as EPLL's products are classified under essential items. In Mar'20, EPLL saw significant improvement in operations/revenue compared to Feb'20 (the month when the pandemic peaked in China).
- The Philippines continued to grow consistently with a large part of its revenue arising from the Personal care category.

Exhibit 25: Revenue trend of EAP region

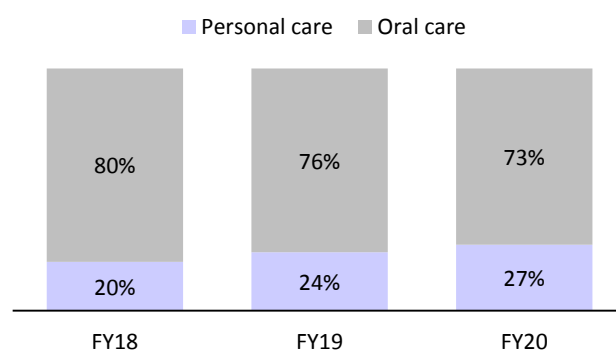
Source: Company, MOFSL

Exhibit 26: 30bp increase in EBIT margin in FY20

Source: Company, MOFSL

Exhibit 27: Personal care gaining traction in EAP region

Source: Company, MOFSL

Exhibit 28: Revenue share of Personal care expected to increase

Source: Company, MOFSL

Financial highlights

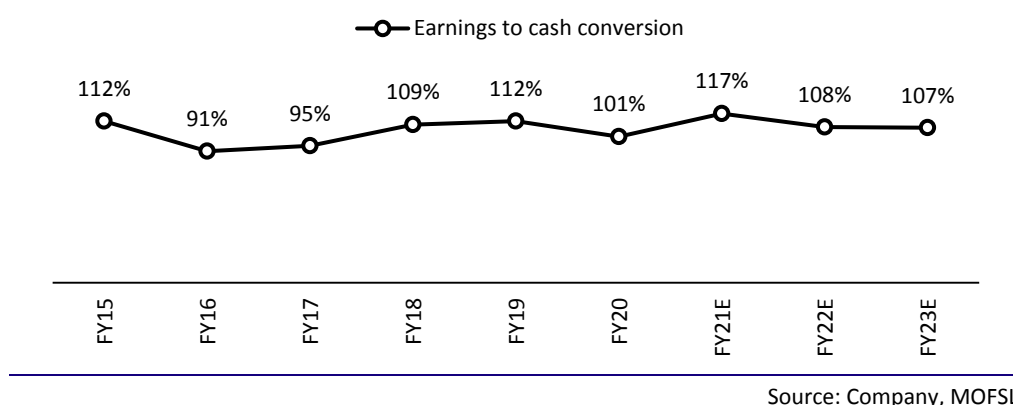
Strong cash conversion (101% in FY20)

- Though the total borrowings increased marginally by 2% YoY in FY20 to INR6.4b (v/s INR6.3b in FY19), net debt for the year decreased significantly by 45% YoY to INR2.7b. This was primarily due to 2.8x YoY increase in cash to INR3.7b in FY20, which can be attributed to prudent allocation of capital, lower capex spending and FCF inflows. Net debt-to-equity dropped to 0.2x in FY20 (v/s 0.4x in FY19).
- CFO increased by 37% YoY to INR4.9b in FY20 (v/s INR3.5b in FY19). CFO increased due to higher working capital inflow/operating profit.
- Consolidated earnings to cash conversion slightly reduced to 101% in FY20 (v/s 112% in FY19). EPLL has maintained an average cash conversion rate of 103% over the last five years and is expected to continue the trajectory.

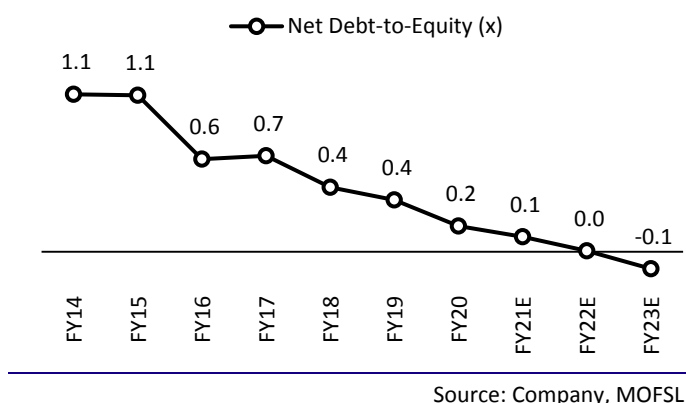
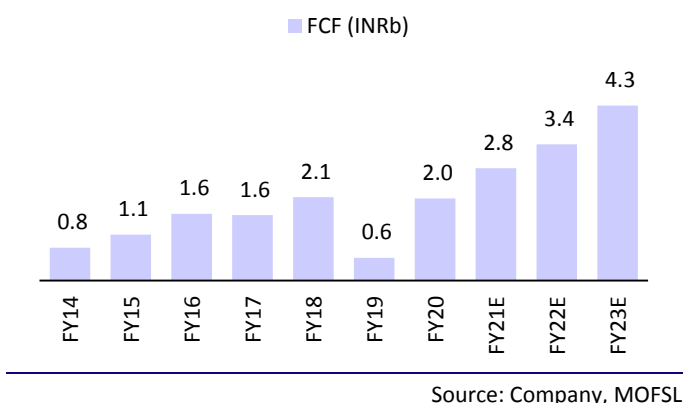
Exhibit 29: Cash conversion cycle

	FY15	FY16	FY17	FY18	FY19	FY20
Inventory (Days)	35	34	39	43	44	49
Debtor (Days)	58	57	60	69	67	65
Creditor (Days)	25	22	23	28	28	32
Cash conversion cycle (Days)	69	69	75	84	82	81

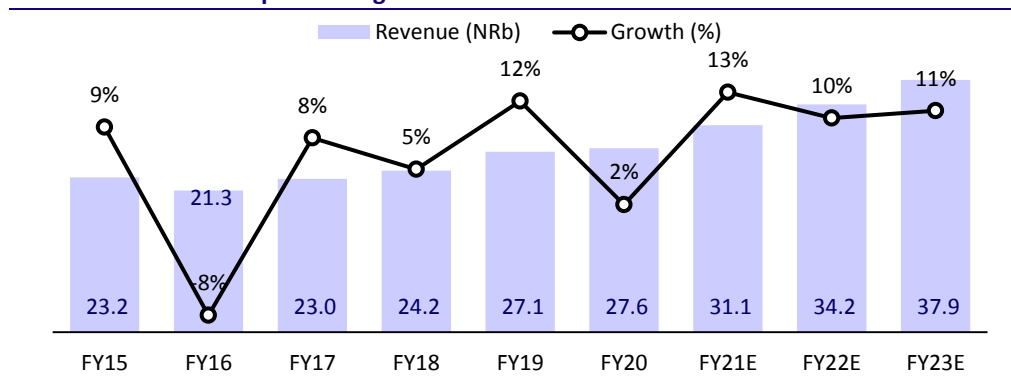
Source: Company, MOFSL

Exhibit 30: Earnings-to-cash conversion at 103% over five years**Gradual reduction in borrowings – from INR9.3b to INR6.4b over FY15-20**

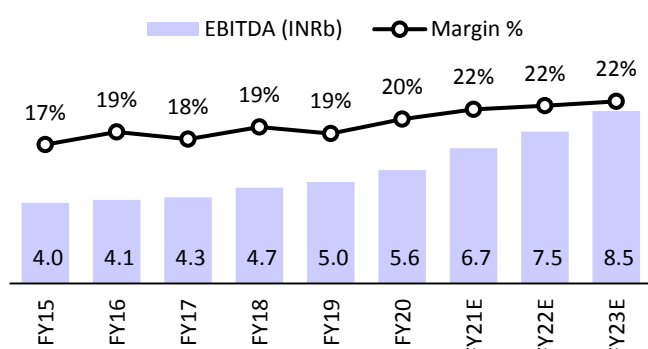
- Borrowings increased 2% to INR6.4b in FY20 (v/s INR6.3b in FY19). EPLL has reported positive FCF for the last 11 years at an average annual run-rate of INR1.2b.
- With steady cash inflow, overall debt is further expected to reduce.

Exhibit 31: Net debt to equity**Exhibit 32: FCF gradually improving****Steady margins to continue**

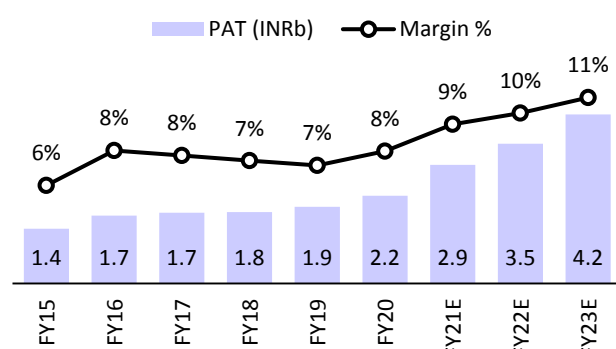
- EPLL's operating profit increased 12% YoY to INR5.6b in FY20 (v/s INR4.9b in FY19). EBITDA margin increased by 180bp to 20.2% in FY20 (18.4% in FY19). However, adjusting for Ind-AS impact, margin expanded by 60bp to 19.1%.
- Increase in margins can be attributed to increase in revenue share from the Personal care category to 45% in FY20 (v/s 43% in FY19).
- Operating margins are expected to improve with increasing share of Personal care products and kicking-in of operating leverage across geographies.
- We believe earnings momentum would continue on the back of (a) increasing revenue share from Personal care, (b) new launches (hand sanitizers) and recyclable tubes (Green Maple Leaf and Platina), (c) kicking-in of operating leverage (namely, Europe region), (d) increasing shift from plastic to laminated tubes, and (e) market leadership position in the Oral care segment.

Exhibit 33: Revenue expected to grow at CAGR of 11% over FY20-23E

Source: Company, MOFSL

Exhibit 34: EBITDA margin expanded by 300bp over FY15-20

Source: Company, MOFSL

Exhibit 35: PAT posted CAGR of 10% over FY15-20

Source: Company, MOFSL

Gross block grew INR2.8b, on account of translation adjustment

- The company incurred capex of INR2.8b/INR2b/INR5.1b in FY19/FY18/FY17. However, capex in FY20 stood at INR1.3b, majorly attributable to plant and machinery expenses. Increase in gross block was mainly due to lease liability (done due to introduction of IndAS 116) and translation adjustment.
- EPLL plans to reduce its capex intensity as current capacity is capable of meeting 2x of demand. Minor expenditures will be on upgradation of machines.

Exhibit 36: No major changes in gross block excluding IndAS 116 adjustment (all figs in INRm)

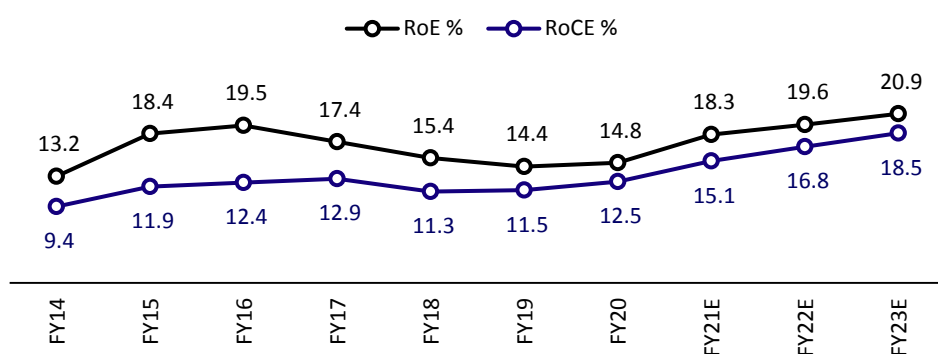
Gross block	FY19	Additions	Disposals	Translation adjustments	FY20
Plant and Machinery	16,093	1,218	89	364	17,585
Buildings	2,119	37	-	91	2,248
Equipment	763	49	11	8	808
Software	318	42	1	9	367
Patents and commercial rights	420	51	2	33	502
Other assets	782	77	11	9	857
Right of use of assets	-	1,169	-	0.60	1,170
	20,495	2,643	115	514	23,537

Source: Company, MOFSL

Increased profitability expected to drive improvement in return ratios

- EPLL reported strong RoCE of 20%/19% for EAP/the Americas in FY20 (v/s 17%/19% in FY15). We expect EPLL to maintain RoCE of 22%+ in the EAP region over the next two years on back of increased wallet share of Personal Care in China.
- We further expect EPLL's RoCE in Europe to record the highest improvement among return ratios, 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 the new management, should fuel overall growth momentum, and consequently, improve return ratios.

Exhibit 37: Strong return ratio profile



Source: Company, MOFSL

Cost structure

- RM cost reduced by 110bp to 41.9% (as % of sales), which led to improvement in gross margin by 110bp to 58.1% in FY20.
- Except for employee cost, all other operating expenses' line items reported a decline (as % of sales) and can be attributed to project Phoenix, which focuses on rationalizing costs.
- Employee cost increased by 80bp to 19.2% (as % of sales).
- EBITDA adjusted for Ind-AS 116 impact (INR307m) grew 6% YoY in FY20 and corresponding margins improved by 60bp YoY to 19.1%.
- Improvement in margins can be attributed to kicking-in of operating leverage across multiple locations, improvement in operational efficiency, increase in share of Personal care revenue and introduction of new products (e.g. hand sanitizer).
- Other income reduced by 53% YoY to INR134m, which was mainly due to significant drop in current loans and advance from INR23.8m in FY19 to INR5.6m in FY20.

Exhibit 38: Cost structure

P&L line items (as % of sales)	FY19	FY20	% change (in bp)
RM cost	43%	42%	-112
Cost of material	43%	43%	-42
Change in inventory	0%	-1%	-70
Employee cost	2%	2%	-25
Other expenses	19%	20%	64

Source: Company, MOFSL

Employee cost and salaries

- Employee cost as percentage of sales increased marginally by 80bp to 19.2% (v/s 18.5% in FY19).
- The percentage increase in median remuneration was 17.7% for FY20 (v/s 10.6% in FY19).
- Number of employees on rolls stood at 1,168 for FY20 (v/s 1,237 in FY19).

Exhibit 39: Salaries of KMPs (INR m)

	Designation	FY19	FY20	Growth YoY
Suresh Savaliya	Head - Legal & CS	5.6	6.6	17%
A V Ganapathy*	CFO	14.3	-	NA
Nikhil Dujari**	Interim CFO	0.8	-	NA
Vinay Mokashi***	WTD/Interim CFO	7.2	7.8	8%
Parag Shah****	CFO	-	6.8	NA
Total		27.9	21.2	-24%

Source: Company, MOFSL

Note: * retired on 13th July'18/ ** Interim CFO from 1-31st Aug'18, resigned due to family reasons

*** Resigned as interim CFO on 24th Nov'19 / ****Appointed as CFO w.e.f. 25th Nov'19

Financials and valuations

Consolidated - Income Statement							(INR Million)		
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Income from Operations	23,230	21,275	23,023	24,239	27,069	27,601	31,053	34,185	37,867
Change (%)	9.2	-8.4	8.2	5.3	11.7	2.0	12.5	10.1	10.8
Raw material cost	11,362	9,235	10,079	10,366	11,648	11,568	13,139	14,474	15,942
Employees Cost	3,628	3,744	4,052	4,338	5,006	5,311	5,867	6,382	6,854
Other Expenses	4,331	4,258	4,673	4,886	5,424	5,147	5,367	5,820	6,551
Total Expenditure	19,322	17,237	18,804	19,590	22,078	22,026	24,373	26,676	29,347
% of Sales	83.2	81.0	81.7	80.8	81.6	79.8	78.5	78.0	77.5
EBITDA	3,908	4,038	4,219	4,649	4,991	5,574	6,680	7,509	8,520
Margin (%)	16.8	19.0	18.3	19.2	18.4	20.2	21.5	22.0	22.5
Depreciation	1,318	1,232	1,415	1,671	1,861	2,298	2,328	2,455	2,648
EBIT	2,590	2,806	2,804	2,978	3,130	3,277	4,352	5,054	5,872
Int. and Finance Charges	794	609	581	550	613	557	604	561	453
Other Income	210	238	353	264	285	134	207	256	341
PBT bef. EO Exp.	2,006	2,435	2,576	2,691	2,802	2,854	3,955	4,749	5,760
EO Items	55	23	157	-50	31	-94	-261	-50	0
PBT after EO Exp.	2,061	2,459	2,732	2,642	2,833	2,760	3,694	4,699	5,760
Total Tax	611	776	787	889	932	638	1,001	1,269	1,555
Tax Rate (%)	29.6	31.6	28.8	33.7	32.9	23.1	27.1	27.0	27.0
Profit/loss from associates	3.2	48.4	10.5	-10.4	53.2	-6.3	20	22	24
Minority Interest	47	30	53	26	29	43	44	48	53
Reported PAT	1,406	1,701	1,903	1,716	1,925	2,073	2,670	3,404	4,176
Adjusted PAT	1,351	1,678	1,747	1,766	1,895	2,166	2,930	3,454	4,176
Change (%)	24.4	24.2	4.1	1.1	7.3	14.3	35.3	17.9	20.9
Margin (%)	5.8	7.9	7.6	7.3	7.0	7.8	9.4	10.1	11.0

Consolidated - Balance Sheet							(INR Million)		
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	314	314	314	315	631	631	631	631	631
Total Reserves	7,289	9,334	10,076	12,191	13,249	14,695	16,033	18,030	20,684
Net Worth	7,603	9,648	10,390	12,506	13,880	15,326	16,664	18,661	21,315
Minority Interest	81	81	57	43	52	86	86	86	86
Total Loans	9,371	7,014	7,924	7,299	6,313	6,432	5,732	5,032	4,032
Deferred Tax Liabilities	225	305	317	357	510	475	475	475	475
Capital Employed	17,280	17,048	18,688	20,204	20,754	22,320	22,958	24,254	25,908
Gross Block	25,527	10,470	15,637	17,691	20,495	23,359	24,859	26,859	28,859
Less: Accum. Deprn.	16,655	1,229	3,984	5,992	7,564	9,862	12,189	14,644	17,292
Net Fixed Assets	8,872	9,242	11,652	11,699	12,931	13,497	12,669	12,214	11,566
Goodwill on Consolidation	0	0	142	142	142	142	142	142	142
Capital WIP	843	571	193	417	413	395	829	1,166	1,233
Total Investments	261	304	153	131	168	160	160	160	160
Current Investments	0	0	0	0	0	0	0	0	0
Curr. Assets, Loans&Adv.	10,619	10,073	10,254	12,032	11,547	13,865	15,313	17,331	20,271
Inventory	2,251	1,987	2,460	2,864	3,234	3,672	4,007	4,385	4,824
Account Receivables	3,712	3,312	3,766	4,590	4,934	4,903	5,516	6,072	6,727
Cash and Bank Balance	1,150	844	1,028	1,735	1,344	3,712	4,015	4,920	6,556
Loans and Advances	3,506	3,930	3,000	2,843	2,035	1,578	1,775	1,954	2,165
Curr. Liability & Prov.	3,315	3,141	3,707	4,217	4,447	5,740	6,156	6,759	7,464
Account Payables	1,575	1,282	1,473	1,884	2,065	2,446	2,738	2,996	3,297
Other Current Liabilities	1,546	1,603	1,834	2,037	2,113	3,016	3,105	3,418	3,787
Provisions	194	257	400	295	269	278	313	344	381
Net Current Assets	7,303	6,932	6,547	7,815	7,100	8,125	9,157	10,572	12,807
Misc Expenditure	0	0	0	0	0	0	0	0	0
Appl. of Funds	17,280	17,048	18,688	20,204	20,754	22,320	22,958	24,254	25,908

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)									
EPS	4.3	5.3	5.5	5.6	6.0	6.9	9.3	10.9	13.2
Cash EPS	8.5	9.2	10.0	10.9	11.9	14.1	16.7	18.7	21.6
BV/Share	24.1	30.6	32.9	39.6	44.0	48.6	52.8	59.1	67.6
DPS	0.8	0.8	1.1	1.2	1.2	2.0	3.5	3.7	4.0
Payout (%)	26.3	17.8	21.8	26.4	23.6	37.6	49.9	41.3	36.4
Valuation (x)									
P/E	62.3	50.2	48.2	47.7	44.5	38.9	28.7	24.4	20.2
Cash P/E	31.6	29.0	26.6	24.5	22.4	18.9	16.0	14.3	12.3
P/BV	11.1	8.7	8.1	6.7	6.1	5.5	5.1	4.5	4.0
EV/Sales	4.0	4.3	4.0	3.7	3.3	3.2	2.8	2.5	2.2
EV/EBITDA	23.7	22.4	21.6	19.3	17.9	15.6	12.9	11.2	9.6
Dividend Yield (%)	0.3	0.3	0.4	0.4	0.4	0.8	1.3	1.4	1.5
FCF per share	3.6	5.2	5.1	6.5	1.8	6.4	8.8	10.7	13.7
Return Ratios (%)									
RoE	18.4	19.5	17.4	15.4	14.4	14.8	18.3	19.6	20.9
RoCE	11.9	12.4	12.9	11.3	11.5	12.5	15.1	16.8	18.5
RoIC	12.4	12.7	12.2	11.2	11.4	13.7	17.6	20.5	23.8
Working Capital Ratios									
Fixed Asset Turnover (x)	0.9	2.0	1.5	1.4	1.3	1.2	1.2	1.3	1.3
Asset Turnover (x)	1.3	1.2	1.2	1.2	1.3	1.2	1.4	1.4	1.5
Inventory (Days)	35	34	39	43	44	49	47	47	47
Debtor (Days)	58	57	60	69	67	65	65	65	65
Creditor (Days)	25	22	23	28	28	32	32	32	32
Leverage Ratio (x)									
Current Ratio	3.2	3.2	2.8	2.9	2.6	2.4	2.5	2.6	2.7
Interest Cover Ratio	3.3	4.6	4.8	5.4	5.1	5.9	7.2	9.0	13.0
Net Debt/Equity	1.1	0.6	0.7	0.4	0.4	0.2	0.1	0.0	-0.1

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
OP/(Loss) before Tax	2,061	2,507	2,743	2,631	2,886	2,854	3,955	4,749	5,760
Depreciation	1,318	1,232	1,415	1,671	1,861	2,298	2,328	2,455	2,648
Interest & Finance Charges	494	320	284	277	380	423	397	305	112
Direct Taxes Paid	-365	-833	-764	-816	-901	-638	-1,001	-1,269	-1,555
(Inc)/Dec in WC	-334	475	494	-488	-404	40	-729	-511	-598
CF from Operations	3,174	3,701	4,172	3,276	3,821	4,976	4,950	5,730	6,366
Others	-45	-93	-485	159	-257	-100	-241	-28	24
CF from Operating incl EO	3,130	3,608	3,687	3,435	3,564	4,876	4,709	5,701	6,390
(Inc)/Dec in FA	-1,993	-1,959	-2,069	-1,375	-3,003	-2,846	-1,934	-2,337	-2,067
Free Cash Flow	1,136	1,650	1,618	2,060	561	2,030	2,775	3,365	4,323
(Pur)/Sale of Investments	0	0	98	1	2	8	0	0	0
Others	290	1,230	-769	184	1,122	1,603	207	256	341
CF from Investments	-1,703	-729	-2,740	-1,189	-1,879	-1,236	-1,727	-2,080	-1,727
Issue of Shares	901	0	7	510	53	0	0	0	0
Inc/(Dec) in Debt	-810	-1,760	546	-1,199	-1,028	119	-700	-700	-1,000
Interest Paid	-653	-498	-392	-372	-485	-557	-604	-561	-453
Dividend Paid	-333	-341	-414	-478	-478	-780	-1,331	-1,408	-1,522
Others	-798	-600	-508	-1	-138	-55	-44	-48	-53
CF from Fin. Activity	-1,693	-3,200	-762	-1,539	-2,076	-1,272	-2,679	-2,717	-3,028
Inc/Dec of Cash	-267	-320	184	706	-391	2,368	303	904	1,636
Opening Balance	1,416	1,164	844	1,028	1,735	1,344	3,712	4,015	4,920
Closing Balance	1,150	844	1,028	1,735	1,344	3,712	4,015	4,920	6,556

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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