

Growth momentum continues...

EPL's Q2FY21 performance was largely led by European regions, wherein revenue increased ~11% YoY. Revenue growth in AMESA and EAP regions were also up ~7% and 9% YoY, respectively, mainly due to new product launches and client additions. However, America region revenue was down ~7% YoY mainly due to lower sales of travel tube (~25% of revenue) in the US. According to the management, this a small blip and revenue growth will get restored, supported by client additions and launches of new products in the coming quarters. Further, EPL also acquired a controlling stake in Creative Stylo Packs Ltd (CSPL), largely present in personal care categories and with a strong client base. We believe the acquisition is accretive in terms of better margin profile and strategic location advantage (in north region). Also, the acquisition at a valuation of 8x EV/EBITDA is reasonable considering CSPL's historical performance. However, we would like to see the performance of CSPL, going forward. On the margin front, saving in raw material cost and other expenditure helped move EBITDA margins up 70 bps YoY to 21.6%. Finally, PAT moved up 13%, mainly tracking better operational performance and ~38% drop in interest cost. We revise our FY21E earnings estimates up by ~15% considering a strong performance in H1FY21 and continued demand momentum in the personal care category due to launch of new products. We introduce FY23 estimates with revenue earning CAGR of 11% and 19%, respectively.

Barring America, other region's performance remain intact

On the geography front, Europe and East Asia Pacific region, revenue grew strongly by ~11%, 9% YoY, respectively, in Q2FY21 led by addition of new clients and relatively low base, respectively. America's revenue decline of 7% YoY mainly due to lower offtake in travel tube categories by one of its key clients. Africa, Middle East, South Asia (AMESA) region mainly India, Egypt, reported ~7% revenue growth led by launch of new products. We believe launch of new products along with client addition in different geographies would help drive revenue CAGR at ~11% in FY20-23E.

Saving in other expenditure drives margin up

EBITDA margin was up ~70 bps YoY at 21.6% supported by various cost optimisation measures and better gross margin. We believe the margin profile will stay elevated with improved plant utilisation in Europe and America regions.

Valuation & Outlook

We introduce FY23 estimates with revenue, earning CAGR of 12%, 19%, respectively. We roll over our valuation on FY23E and value the stock at 11x FY23 EV/EBITDA with a revised target price of ₹ 280/share. While we remain positive on the stock, we believe the major positives are priced in at the current market price. Hence, we revise our rating from BUY to **HOLD**.

Key Financial Summary

(₹ Crore)	FY19	FY20E	FY21E	FY22E	FY23E	CAGR (20-23E)
Net Sales	2706.9	2760.1	3088.0	3374.2	3766.3	10.9
EBITDA	499.1	557.4	644.6	673.7	783.4	12.0
EBITDA Margin (%)	18.4	20.2	20.9	20.0	20.8	
Net Profit	195.4	211.6	253.8	281.8	352.1	18.5
EPS (₹)	6.2	6.7	8.0	8.9	11.2	
P/E (x)	40.3	37.3	31.1	28.0	22.4	
Price/Book (x)	5.7	5.1	4.7	4.4	3.9	
Mcap/sales (x)	2.9	2.9	2.6	2.3	2.1	
RoE (%)	13.9	14.3	16.0	15.6	17.4	
RoCE (%)	16.8	15.6	18.7	18.7	21.2	

Source: Company, ICICI Direct Research



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
- America regions revenue de-growth of ~7% was mainly due to lower offtake in the traveling tube category
- Acquisition of CSPL to help EPL enhance product portfolios in the beauty and cosmetic product categories
- Cost optimisation efforts to drive EBITDA margin going forward
- Revise rating from BUY to HOLD with target price of ₹ 280/share

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Exhibit 1: Variance Analysis

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Revenue	770.3	730.5	5.4	741.5	3.9	Revenue growth largely driven by oral care segment
Other Income	3.2	1.9	73.0	5.2	-37.9	
Raw Material Exp	322.2	311.6	3.4	313.9	2.7	Better mix, benefit of benign raw material prices help drive gross margin up by 83 bps YoY
Employee Exp	147.2	135.1	8.9	148.6	-0.9	
Manufacturing & Other exp	134.7	131.3	2.6	132.4	1.8	Various cost rationalisation measures (under project Phoenix) help in saving in other expenditure
EBITDA	166.2	152.5	9.0	146.6	13.4	
EBITDA Margin (%)	21.6	20.9	70 bps	19.8	180 bps	Higher EBITDA margin largely tracking improvement in gross margin
Depreciation	57.8	57.6	0.4	57.9	-0.1	
Interest	9.7	15.6	-37.7	16.3	-40.4	Continuous focus on debt reduction programme resulting in lower interest outgo
PBT bef exceptional items	101.9	81.2	25.5	77.6	31.3	
Exceptional items	0.0	20.3	NM	16.1	NM	
PBT	101.9	60.9	67.3	61.5	65.6	
Total Tax	33.4	-0.1	NM	15.9	110.5	
PAT	68.2	60.4	12.9	45.6	49.5	Better sales growth along with improved operating profit drives bottomline

Key Metrics

AMESA	259.0	243.3	6.5	219.0	18.3	Personal care demand remains sluggish in beauty and cosmetics segments due to Covid-19 breakout. However, launch of hygiene product category helps drive demand in Amesa
EAP	190.8	174.9	9.1	202.1	-5.6	Client addition, market share gains and launch of new products drives business
Americas	152.8	164.8	-7.3	151.0	1.2	Lower offtake from key customers in travel tube segment (~25% of segment sales) resulting in drop in revenue
Europe	193.9	174.0	11.4	197.7	(1.9)	New customer addition vis-à-vis increased wallet share from existing customers help drive revenue

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E Introduced	Comments
	Old	New	% Change	Old	New	% Change		
Revenue	3,105.1	3088.0	(0.6)	3,456.8	3374.2	(2.4)	3766.3	We tweak our estimates considering current quarter performance. We introduce FY23 estimates with revenue CAGR of ~11% in FY20-23E
EBITDA	610.2	644.6	5.6	710.6	673.7	(5.2)	783.4	
EBITDA Margin %	19.7	20.9	122bps	20.6	20.0	-63bps	20.8	We believe various cost rationalisation measures coupled with increase in plant utilisation would help maintain EBITDA margin
PAT	221.4	253.8	14.6	299.0	281.8	(5.7)	352.1	
EPS (₹)	7.0	8.0	14.7	9.5	8.9	(5.7)	11.2	

Source: Company, ICICI Direct Research

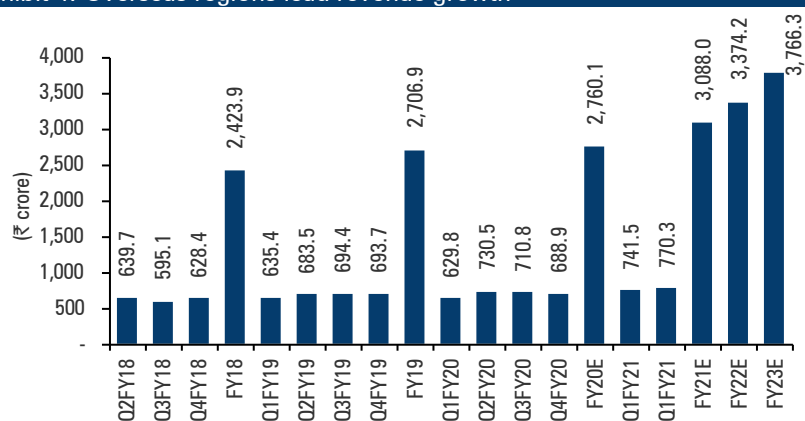
Exhibit 3: Assumptions

	Current			FY23E Introduced	Earlier		Comments
	FY20E	FY21E	FY22E		FY21E	FY22E	
AMESA Growth (%)	-2.5	5.5	8.6	13.7	4.5	9.1	We believe growth in personal care segment will help drive revenue, going forward
EAP Growth (%)	-6.6	21.2	10.4	14.6	21.2	14.6	Business in China witnesses sharp recovery post Covid-19 related lockdown. Strong order book helps drive revenue of geography
Americas Growth (%)	5.0	7.5	8.1	8.1	11.4	10.1	Revenue growth to be largely driven by addition of new customers and wallet share gain from existing customers
Europe Growth (%)	15.7	16.2	9.1	9.1	16.2	11.2	Strong order book in both oral, personal care segment would help drive revenue of region

Source: Company, ICICI Direct Research

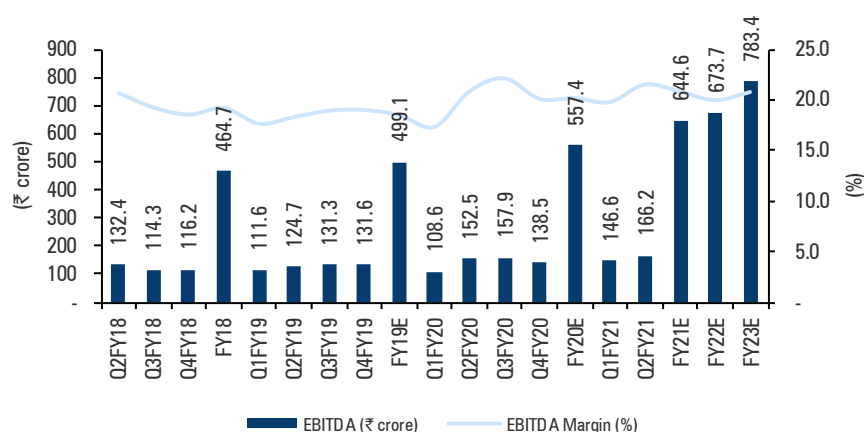
Financial story in charts

Exhibit 4: Overseas regions lead revenue growth



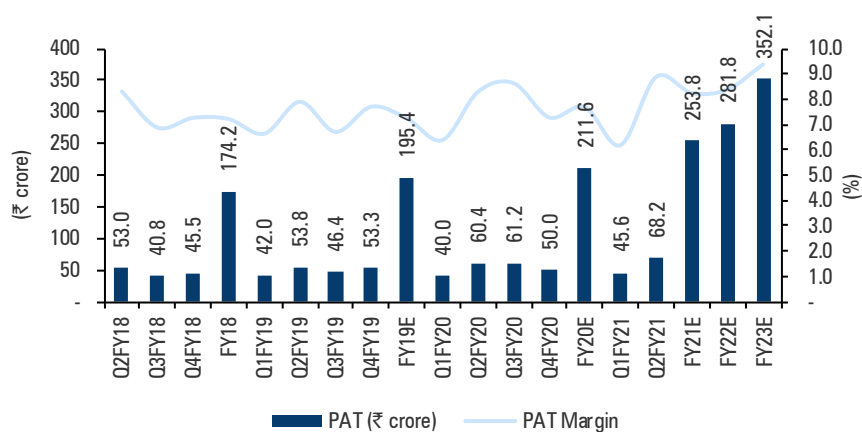
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



Source: Company, ICICI Direct Research

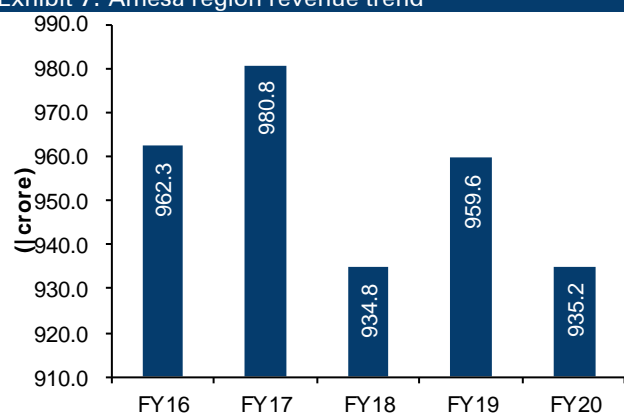
Exhibit 6: Better EBITDA margin to drive PAT



Source: Company, ICICI Direct Research

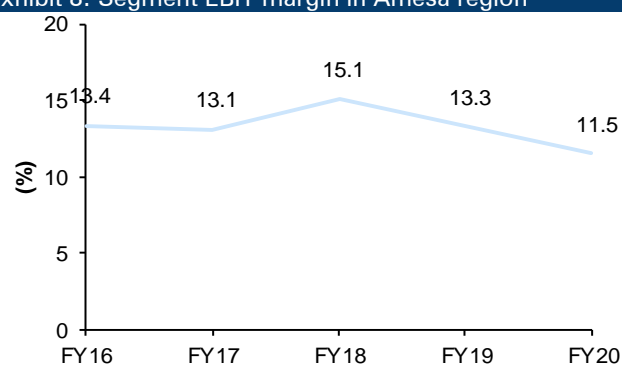
Financial story in charts

Exhibit 7: Amesa region revenue trend



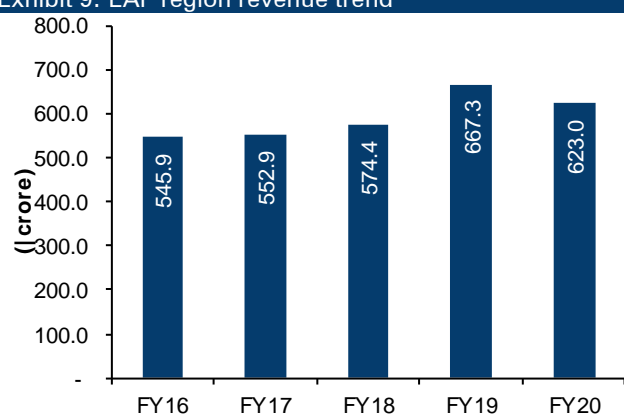
Source: Company, ICICI Direct Research

Exhibit 8: Segment EBIT margin in Amesa region



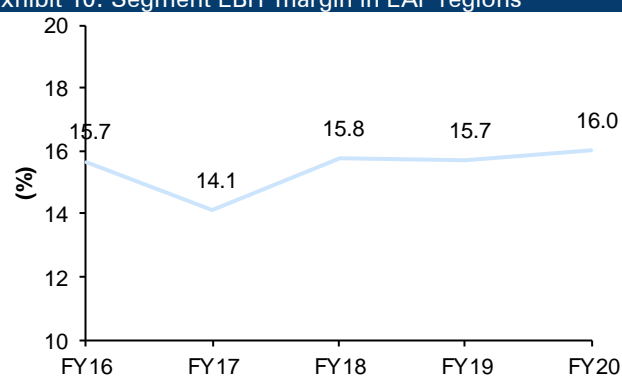
Source: Company, ICICI Direct Research

Exhibit 9: EAP region revenue trend



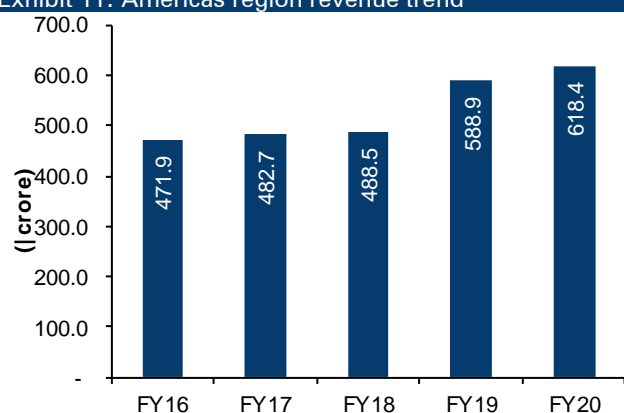
Source: Company, ICICI Direct Research

Exhibit 10: Segment EBIT margin in EAP regions



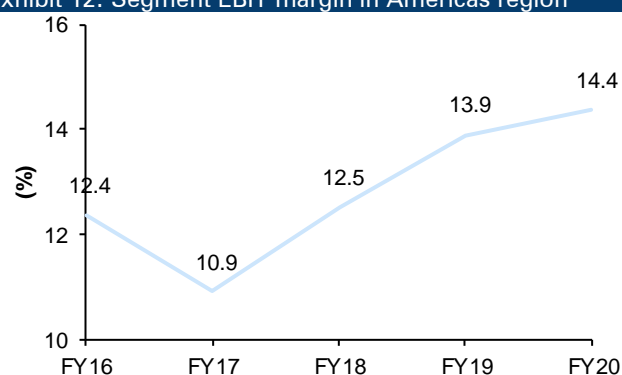
Source: Company, ICICI Direct Research

Exhibit 11: Americas region revenue trend



Source: Company, ICICI Direct Research

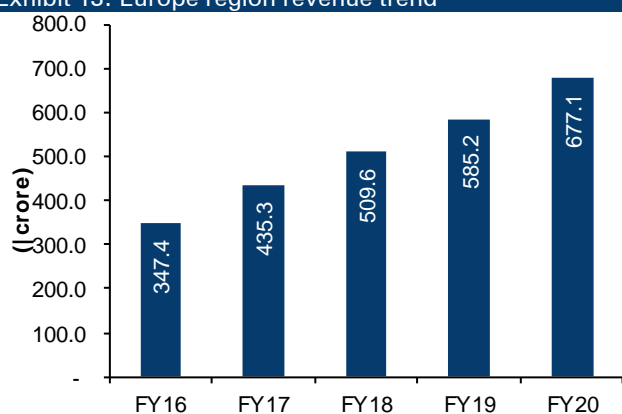
Exhibit 12: Segment EBIT margin in Americas region



Source: Company, ICICI Direct Research

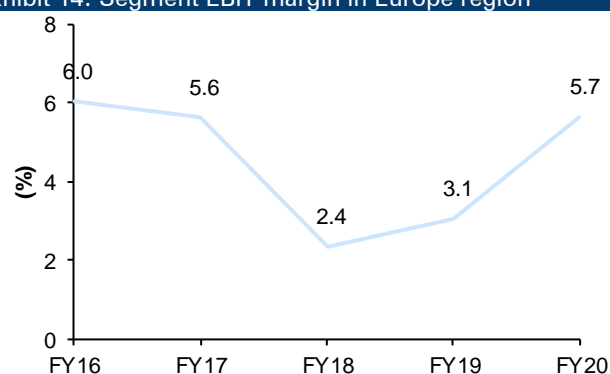
Financial story in charts

Exhibit 13: Europe region revenue trend



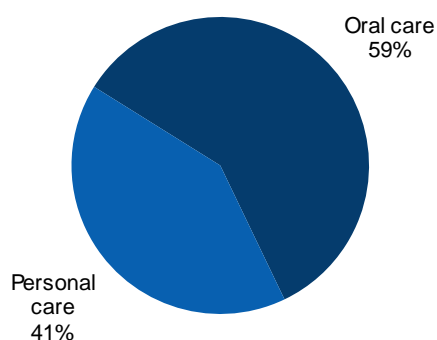
Source: Company, ICICI Direct Research

Exhibit 14: Segment EBIT margin in Europe region



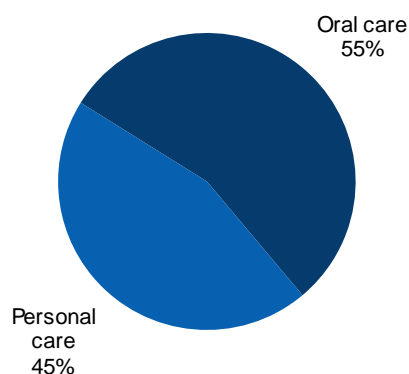
Source: Company, ICICI Direct Research

Exhibit 15: Revenue contribution (segment wise in FY18)



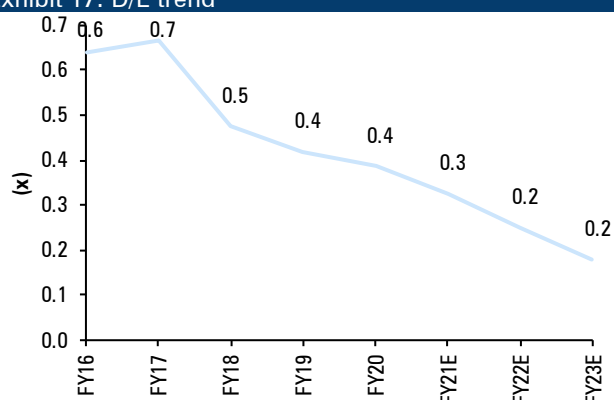
Source: Company, ICICI Direct Research

Exhibit 16: Revenue contribution (segment wise in FY20)



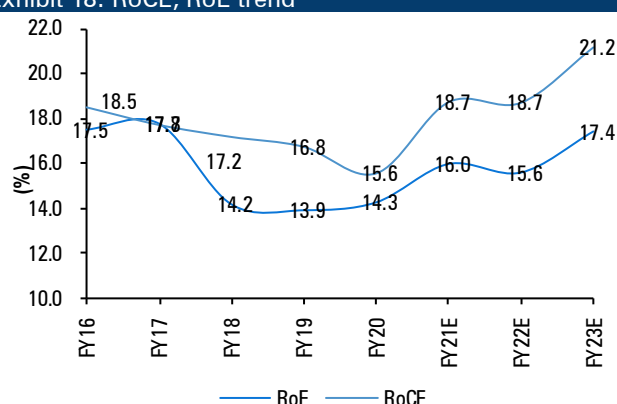
Source: Company, ICICI Direct Research

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 (Q2FY21 revenue & EBIT contribution, 33%, 35%)

- Amesa region's revenue grew 6.5% YoY in Q2FY21. The segment EBIT margin increased 423 bps YoY to 14.8% in Q2FY21
- Personal care contribution fell to 46.8% in H1FY21 (52.4% in H1FY20), due to sluggish demand in B&C due to ongoing Covid-19 outbreak. However, B&C is seen recovering in later part of Q2FY21
- Timely innovation and launch of hygiene products aided in boosting the H1FY21 performance

EAP region (Q2FY21 revenue & EBIT contribution, 24%, 36%)

- EAP region's revenue growth of ~9% YoY led by low base, client addition, launch of new products
- Personal care contribution increased to 41.1% in H1FY21 (vs. 34.1% in H2FY20). Growth is mainly driven by B&C and pharma segments
- Segment EBIT margin increased 109 bps YoY to 20.7% in Q2FY21
- 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 (Q2FY21 Revenue & EBIT contribution, 19%, 14%)

- America region revenue de-grew 7% YoY in Q2FY21 mainly due to lower demand for travel tube (25% of segment revenue) amid Covid related disruptions
- Personal care contribution increased to 27% in H1FY21 (vs. 26.3% in H1FY20)
- New customer wins across categories, bottle to tube product conversions, cross-selling personal care products to existing oral care customers would be key revenue driver, going forward
- Segment EBIT margin declined 471 bps YoY to 10.1%

Europe region (Q2FY21 revenue & EBIT contribution, 24%, 14%)

- Segment revenue growth of 11% YoY, segment EBIT margin expansion of 141 bps YoY to 8.1%
- Personal care contribution increased to 66.8% in H1FY21 (vs. 65.4% in H1FY20)
- Strong new customer wins across personal care categories; robust business development pipeline
- EPL now serves all major oral care players in the region

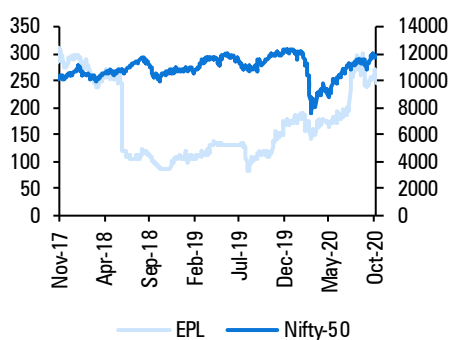
Acquisition of Creative Stylo Packs Ltd (CSPL)

- CSPL was founded in 2012 and is involved in manufacturing plastic tubes, laminated tubes and corrugated box with total production capacity at 20 crore tubes
- The manufacturing unit is located in Himachal Pradesh
- The company recorded revenue CAGR of ~8% to ₹ 103 crore in FY18-20. Adjusted EBITDA margin was at 29.6% in FY20
- The company acquired CSPL with an EV of ₹ 253 crore (implied 8xEV/EBITDA of FY20)
- Revenue contribution from plastic tubes, laminated tubes and corrugated box stood at 57%, 36% and 7%, respectively
- Total 89% of total revenue comes from beauty and cosmetics, 11% comes from the pharma segment

- According to the management, the strategic move to acquire CSPL is in line with its long term vision to increase the pie of personal care segment in the overall revenue. CSPL is margin accretive for EPL and has strategic plant location near clients

Others

- The company incurred a capex of ₹ 64 crore in H1FY21 but annual capex would in line with depreciation
- Net debt further declined to ₹ 233 crore in H1FY21 compared to ₹ 276 crore incurred during FY20
- Announced interim dividend of ₹ 2.05/share in H1FY21 vs. ₹ 3.3/share FY20
- Focus on double digit growth across geographies
- Margin improvement with change in mix, various cost optimisation measures

Exhibit 19: Historical price trend


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 20: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	83.0	83.0	75.0	75.0	52.0
FII	3.9	3.8	4.6	4.9	14.3
DII	1.0	1.3	1.2	1.1	15.2
Others	12.1	11.9	19.2	19.0	18.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 21: Profit and loss statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Net Sales	2760.1	3088.0	3374.2	3766.3
Growth (%)	2.0	11.9	9.3	11.6
Expenses				
Raw Material Expenses	1156.8	1275.4	1404.0	1542.9
Employee Expenses	531.1	593.7	618.2	690.5
Manufacturing & Other Exp	514.7	574.4	678.2	749.5
Total Operating Expenditure	2202.6	2443.4	2700.5	2982.8
EBITDA	557.4	644.6	673.7	783.4
Growth (%)	11.7	15.6	4.5	16.3
Interest	55.7	56.1	54.7	44.7
Other Income	13.4	16.0	21.6	25.2
Depreciation	229.8	235.0	260.1	289.4
PBT before Exceptional Items	285.4	369.4	380.6	474.5
Less: Exceptional Items	9.4	16.1	0.0	0.0
PBT	276.0	353.4	380.6	474.5
Total Tax	63.8	96.6	95.9	119.5
Profit from Associates	-0.6	-2.9	-2.9	-2.9
PAT	211.6	253.8	281.8	352.1

Source: Company, ICICI Direct Research

Exhibit 22: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	211.6	253.8	281.8	352.1
Depreciation	229.8	235.0	260.1	289.4
CF bef working capital chag	497.0	544.9	596.6	686.3
Net Increase in Current Assets	-17.3	-214.9	-64.7	-146.6
Net Increase in Current Liabilities	133.7	47.4	7.9	77.9
Net CF from operating act	613.5	377.4	539.8	617.5
(Purchase)/Sale of Fixed Assets	-284.6	-150.0	-230.0	-230.0
Minority Interest	3.5	0.0	0.0	0.0
Others	17.2	-20.0	-20.0	-20.0
Net CF from Investing act	-264.0	-170.0	-250.0	-250.0
Equity Capital	0.0	0.0	0.0	0.0
Loan	9.9	-50.0	-90.0	-90.0
Total Outflow on account of dividend	-138.0	-122.9	-136.6	-136.6
Others	15.4	-57.5	-54.7	-44.7
Net CF from Financing Act	-112.7	-230.4	-281.2	-271.3
Net Cash flow	221.2	-23.0	-71.5	-3.8
Cash and Cash Equ at the beg	90.4	311.6	288.6	217.1
Cash	311.6	288.6	217.1	213.3

Source: Company, ICICI Direct Research

Exhibit 23: Balance sheet ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	63.1	63.1	63.1	63.1
Reserve and Surplus	1469.5	1599.0	1744.3	1959.8
Total Shareholders funds	1532.6	1662.1	1807.3	2022.9
Total Debt	591.8	541.8	451.8	361.8
Total Liabilities	2190.9	2270.4	2325.7	2451.2
Assets				
Total Gross Block	3881.6	4012.7	4242.7	4472.7
Less Total Accumulated Depreciation	2523.5	2758.5	3018.6	3308.0
Net Block	1358.1	1254.2	1224.1	1164.7
Total CWIP	31.1	50.0	50.0	50.0
Total Fixed Assets	1389.2	1304.2	1274.1	1214.7
Other Investments	16.0	36.0	56.0	76.0
Inventory	367.2	465.3	508.4	567.5
Debtors	490.3	592.2	600.9	670.7
Loans and Advances	17.8	19.9	21.8	24.3
Cash	311.6	288.6	217.1	213.3
Other Current Assets	107.0	119.7	130.8	146.0
Total Current Assets	1293.9	1485.8	1479.1	1621.9
Creditors	519.9	507.6	508.4	567.5
Provisions	27.8	79.5	79.6	88.9
Total Current Liabilities	615.0	662.4	670.3	748.2
Net Current Assets	679.0	823.4	808.8	873.7
Total Assets	2190.9	2270.4	2325.7	2451.2

Source: Company, ICICI Direct Research

Exhibit 24: Key ratios ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per Share Data				
EPS	6.7	8.0	8.9	11.2
Cash EPS	14.0	15.5	17.2	20.3
BV	48.6	52.7	57.3	64.2
DPS	4.4	3.9	4.3	4.3
Operating Ratios				
EBITDA Margin	20.2	20.9	20.0	20.8
PAT Margin	7.9	8.6	8.4	9.3
Return Ratios				
RoE	14.3	16.0	15.6	17.4
RoCE	15.6	18.7	18.7	21.2
RoIC	18.1	21.6	21.2	24.8
Valuation Ratios				
EV / EBITDA	14.5	12.5	11.8	9.9
P/E	37.3	31.1	28.0	22.4
EV / Net Sales	2.9	2.6	2.4	2.1
Market Cap / Sales	2.9	2.6	2.3	2.1
Price to Book Value	5.1	4.7	4.4	3.9
Turnover Ratios				
Asset turnover	0.7	0.8	0.8	0.8
Debtor Days	64.8	70.0	65.0	65.0
Creditor Days	68.8	60.0	55.0	55.0
Inventory Days	48.6	55.0	55.0	55.0
Solvency Ratios				
Debt / Equity	0.4	0.3	0.2	0.2
Current Ratio	1.8	2.0	2.1	2.1
Quick Ratio	1.1	1.2	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 25: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Asian Paints (ASIPAI)	2,181	2,440	Buy	2,09,158	29.0	28.9	35.9	75.3	75.6	60.8	47.9	45.8	37.4	27.4	24.2	27.3	30.5	28.1	31.7
Astral Polytechnik (ASTPOL)	1,240	1,260	Hold	18,682	16.6	15.0	23.3	74.8	82.9	53.3	36.1	39.3	27.8	20.5	17.0	23.1	16.6	13.1	17.9
Amber Enterprises (AMBEN)	2,262	2,600	Buy	7,113	52.2	23.7	75.1	43.3	95.3	30.1	22.9	33.2	14.7	14.3	7.2	17.0	14.5	5.3	14.3
Bajaj Electricals (BAJELE)	533	585	Buy	6,060	-0.9	11.8	17.1	NM	45.0	31.2	31.4	22.1	16.9	8.0	10.8	14.7	-0.8	8.3	13.0
Berger Paints (BERPAI)	650	675	Hold	63,128	6.8	7.8	9.7	96.2	83.6	67.3	59.6	52.2	44.0	26.6	26.9	30.3	24.7	23.8	25.7
EPL (ESSPRO)	252	280	Hold	7,951	6.7	8.0	8.9	37.6	31.3	28.2	14.6	12.6	11.9	15.6	18.7	18.7	14.3	16.0	15.6
Havells India (HAVIND)	815	835	Buy	50,848	11.7	14.1	16.4	69.4	57.8	49.7	42.5	32.7	28.4	19.6	21.5	24.4	17.0	18.5	20.0
Kansai Nerolac (KANNER)	520	605	Buy	28,024	9.9	10.3	12.0	52.3	50.7	43.2	35.6	33.2	29.3	17.6	18.4	19.6	14.1	14.3	15.1
Pidilite Industries (PIDIND)	1,571	1,850	Buy	79,775	22.1	22.7	27.8	71.1	69.3	56.5	50.6	49.7	40.9	31.0	28.2	30.9	26.1	23.2	24.9
Polycab India (POLI)	928	1,040	Buy	13,816	51.4	58.4	62.9	18.0	15.9	14.8	11.4	11.2	9.5	26.5	21.4	23.2	20.0	18.2	18.0
Supreme Indus (SUPIND)	1,407	1,695	Buy	17,873	36.8	44.9	47.8	38.2	31.3	29.4	22.5	20.1	19.4	22.5	23.3	22.5	20.7	22.3	21.2
Symphony (SYMLIM)	828	960	Buy	5,792	26.0	17.3	29.1	31.8	47.8	28.4	26.6	35.4	22.7	28.8	22.2	35.7	29.0	21.1	34.3
Time Techno (TIMTEC)	39	43	Hold	882	7.5	4.0	9.1	5.2	9.8	4.3	3.1	4.3	2.8	12.5	8.0	13.2	9.3	5.0	10.7
V-Guard Ind (VGUARD)	168	210	Buy	7,195	4.3	3.7	5.3	38.9	45.4	31.7	28.2	31.0	22.9	24.8	20.1	25.2	18.6	15.1	19.4
Voltas Ltd (VOLTAS)	753	845	Hold	24,904	15.8	12.3	22.6	47.8	61.2	33.3	36.0	53.8	29.0	19.5	12.8	20.1	13.0	9.1	15.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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