

Operationally weak quarter, outlook remains strong...

EPL's Q3FY21 performance was largely impacted by lower volume offtake in the Amesa and Europe regions. Revenues at Amesa regions (mainly India) fell ~6% YoY mainly due to lower volume offtake in the beauty & cosmetics and travel packs. European regions sales were impacted by a second wave of Covid-19 in most operating regions, resulting in lower-than-expected sales growth at 9% YoY during the period. However, sales growth in the EAP (mainly China) and Americas regions was strong at 17% and 19%, respectively, on a lower base, client addition and change in product mix. As a result, consolidated sales growth was at ~8% YoY in Q3FY21. According to the management, revenue growth in the Amesa and European regions will get restored, going forward, with consolidation of new businesses and client additions in coming quarters. On the margin front, EBITDA margin declined ~150 bps YoY 20.7% on account of employee costs and other expenses. The higher fixed costs were associated with Covid-19 related safety measures in Americas and higher Esop costs. The management has reiterated a capital efficient growth model, going forward, with lower debt/equity and focus on improvement in EBITDA margin, going forward.

9MFY21 performance remains satisfactory

For 9MFY21, topline, PAT increased ~10%, ~14% YoY to ₹ 2279 core, ~₹ 187 crore, respectively. This was largely supported by addition of new clients & products and lower interest outgo (down 19% YoY). On the geography front, East Asia Pacific (EAP) and Europe region, revenue grew 23%, 17% YoY, respectively, on a low base and addition of new clients. Africa, Middle East, South Asia (AmeSa) revenue was marginally down 1% YoY mainly due to change in product mix and lower volume offtake in personal care products. America's revenue increased 7% YoY supported by conversion from bottle to tube and increased wallet share from existing customers.

Focus on double digit topline growth, margin expansion

The management has reiterated that acquisition of Creative Stylo would aid in improving topline and margin profile, going forward. Creative Stylo EBITDA margin is ~30% compared to ~20% of EPL's margin. This, along with continuous focus on customer additions through new product launches in other geographies would help drive overall topline of EPL, going forward.

Valuation & Outlook

We model revenue, PAT CAGR of 11%, 17%, respectively, in FY20-23E supported by lower interest outgo. We believe further improvement in margin along with recovery in AMESA region would be key variable to watch, going forward. We reiterate **HOLD** rating on the stock with revised target price of ₹ 250 (earlier ₹ 280), valuing at 11xEV/EBITDA FY23E EBITDA.

Key Financial Summary

(₹ Crore)	FY19	FY20E	FY21E	FY22E	FY23E	CAGR (20-23E)
Net Sales	2706.9	2760.1	3057.7	3365.7	3745.8	10.7
EBITDA	499.1	557.4	630.4	672.1	771.7	11.5
EBITDA Margin (%)	18.4	20.2	20.6	20.0	20.6	
Net Profit	195.4	211.6	247.0	281.0	340.1	17.1
EPS (₹)	6.2	6.7	7.8	8.9	10.8	
P/E (x)	36.5	33.7	28.8	25.4	21.0	
Price/Book (x)	5.1	4.6	4.3	4.0	3.6	
Mcap/sales (x)	2.6	2.6	2.3	2.1	1.9	
RoE (%)	13.9	14.3	15.6	15.6	17.0	
RoCE (%)	16.8	15.6	18.3	19.0	21.3	

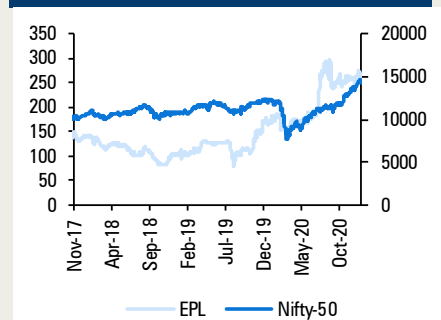
Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	7,125.8
Total Debt (FY20) (₹ Crore)	591.8
Cash and Inv (FY20) (₹ Crore)	311.6
EV (₹ Crore)	7,406.0
52 week H/L	319/ 129
Equity capital (₹ Crore)	31.4
Face value (₹)	2.0

Price chart



Key risk to our call

- Delay in passing on higher input price may restrict EBITDA margin expansion
- Better than expected growth in topline (our estimate: ~11% topline growth) led by strong recovery in Amesa regions post acquisition of Creative Stylo

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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY20	YoY(%)	Q2FY21	QoQ (%)	Comments
Revenue	767.1	710.8	7.9	770.3	-0.4	Revenue growth largely driven by oral care segment
Other Income	3.2	4.2	-23.1	3.2	0.0	
Raw Material Exp	305.2	293.1	4.1	322.2	-5.3	Better mix and benefit of benign raw material prices help drive gross margin up by 83 bps YoY
Employee Exp	155.0	131.5	17.9	147.2	5.3	
Manufacturing & Other exp	148.4	128.4	15.6	134.7	10.2	Various cost rationalisation measures (under project Phoenix) helped in saving in other expenditure
EBITDA	158.5	157.9	0.4	166.2	-4.6	
EBITDA Margin (%)	20.7	22.2	-155 bps	21.6	-91 bps	Higher EBITDA margin is largely tracking improvement in gross margin
Depreciation	58.8	58.0	1.4	57.8	1.7	
Interest	8.4	13.4	-37.1	9.7	-13.4	Continuous focus on debt reduction programme resulting in lower interest outgo
PBT bef exceptional items	94.5	90.7	4.2	101.9	-7.3	
Exceptional items	0.0	0.0	NM	0.0	NM	
PBT	94.5	90.7	4.2	101.9	-7.3	
Total Tax	22.0	28.9	-23.8	33.4	-34.1	
PAT	72.1	61.2	17.8	68.2	5.7	Better sales growth along with improved operating profit drive bottomline

Key Metrics

AMESA	236.2	251.6	-6.1	259.0	-8.8	Personal care demand remained sluggish in beauty & cosmetics and travel pack segments due to Covid-19 breakout
EAP	204.3	174.0	17.4	190.8	7.1	Low base, client addition, market share gains drives business
Americas	173.5	145.7	19.1	152.8	13.5	Lower base and demand recovery post ease in travelling restrictions help drive performance
Europe	176.8	161.8	9.3	193.9	(8.8)	Client addition helps drive revenue on YoY basis but lockdown due to second wave of pandemic restricted growth rate

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY21E			FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	
Revenue	3,088.0	3057.7	(1.0)	3,374.2	3365.7	(0.3)	3,766.3	3745.8	(0.5)	We tweak our estimates downward considering current quarter performance
EBITDA	644.6	630.4	(2.2)	673.7	672.1	(0.2)	783.4	771.7	(1.5)	
EBITDA Margin %	20.9	20.6	-28bps	20.0	20.0	-3bps	20.8	20.6	20bps	We believe various cost rationalisation measures coupled with increase in plant utilisation would help maintain EBITDA margin
PAT	253.8	247.0	(2.7)	281.8	281.0	(0.3)	352.1	340.1	(3.4)	
EPS (₹)	8.0	7.8	(2.7)	8.9	8.9	(0.3)	11.2	10.8	(3.4)	

Source: Company, ICICI Direct Research

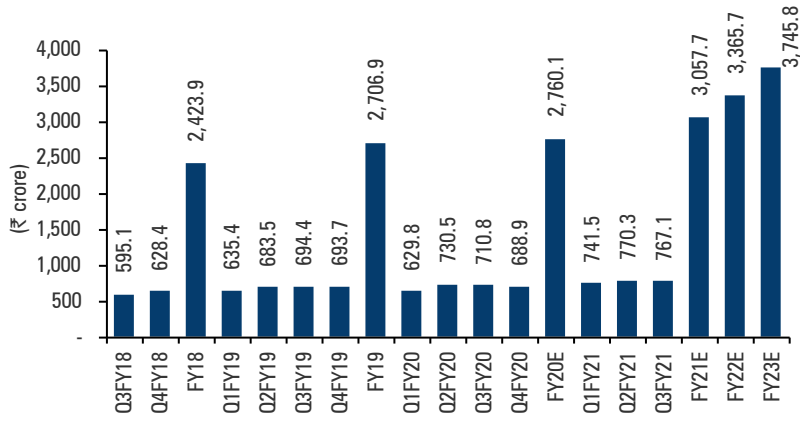
Exhibit 3: Assumptions

	Current			Earlier			Comments
	FY20E	FY21E	FY22E	FY23E	FY22E	FY23E	
AMESA Growth (%)	-2.5	1.5	9.6	12.7	8.6	13.7	We believe acquisition of Creative Stylo Packs would help in recovery in demand for personal care products segment in Amesa region
EAP Growth (%)	-6.6	21.2	11.5	14.6	10.4	14.6	Market share gains and client addition would help drive revenue growth
Americas Growth (%)	5.0	8.5	8.1	8.1	8.1	8.1	Addition of new customers and wallet share gain from the existing customers would help drive segment revenue
Europe Growth (%)	15.7	16.2	10.2	9.1	9.1	9.1	Normal business activities post ease in lockdown restrictions would help in recovery in European business

Source: Company, ICICI Direct Research

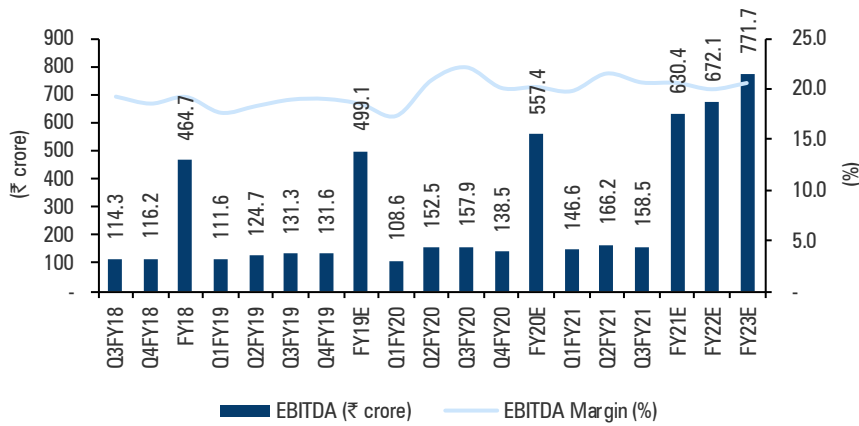
Financial story in charts

Exhibit 4: Overseas regions lead revenue growth



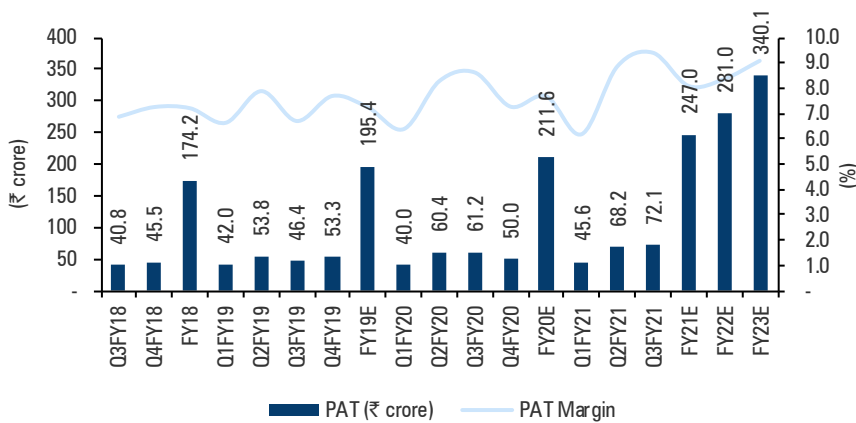
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



Source: Company, ICICI Direct Research

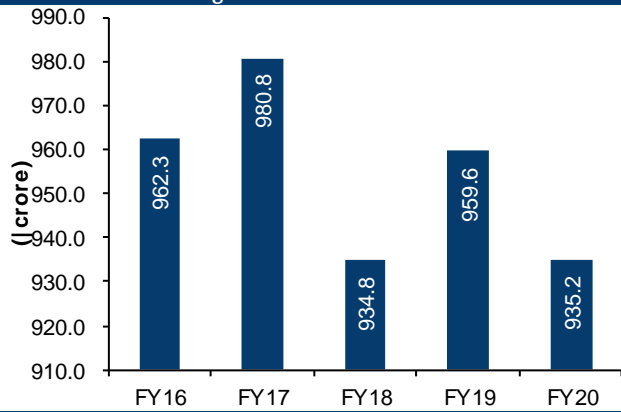
Exhibit 6: Better EBITDA margin to drive PAT



Source: Company, ICICI Direct Research

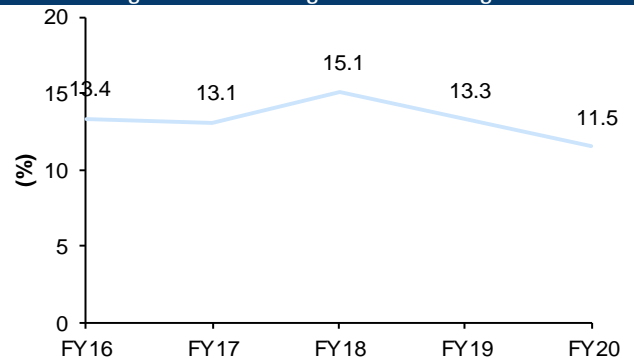
Financial story in charts

Exhibit 7: Amesa region revenue trend



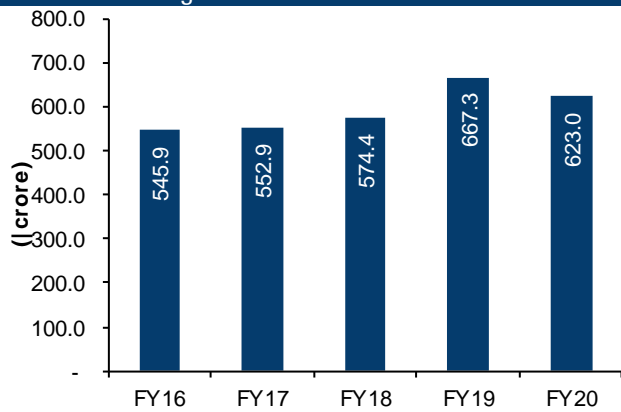
Source: Company, ICICI Direct Research

Exhibit 8: Segment EBIT margin in Amesa region



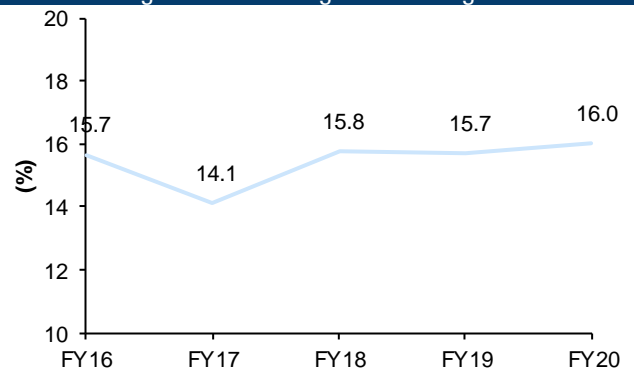
Source: Company, ICICI Direct Research

Exhibit 9: EAP region revenue trend



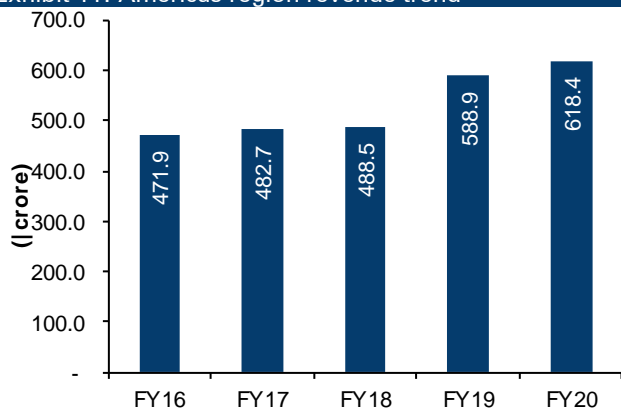
Source: Company, ICICI Direct Research

Exhibit 10: Segment EBIT margin in EAP regions



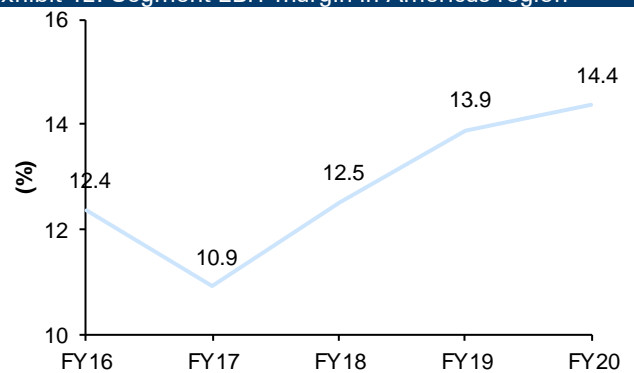
Source: Company, ICICI Direct Research

Exhibit 11: Americas region revenue trend



Source: Company, ICICI Direct Research

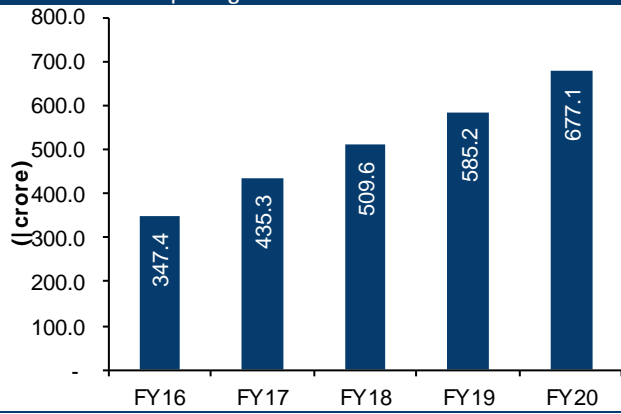
Exhibit 12: Segment EBIT margin in Americas region



Source: Company, ICICI Direct Research

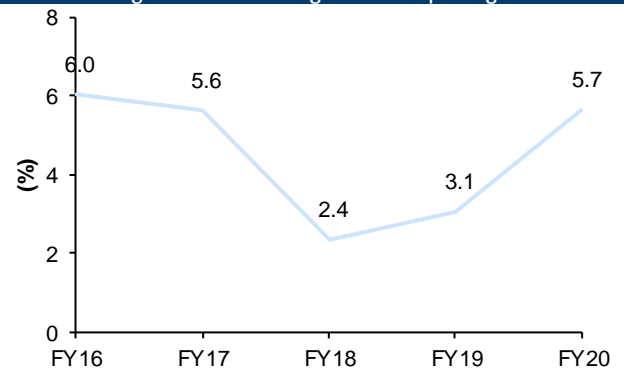
Financial story in charts

Exhibit 13: Europe region revenue trend



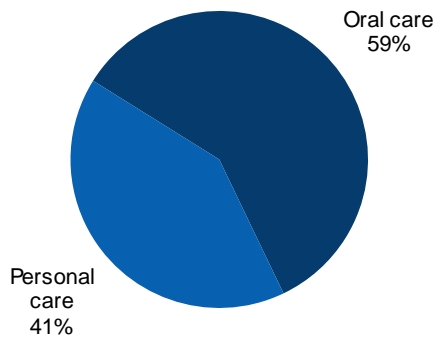
Source: Company, ICICI Direct Research

Exhibit 14: Segment EBIT margin in Europe region



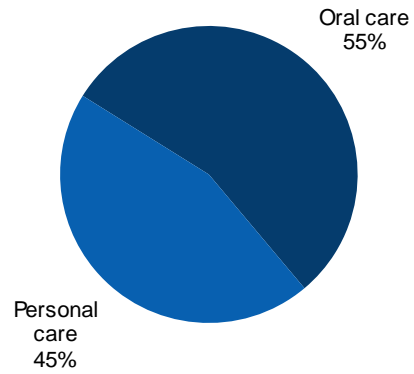
Source: Company, ICICI Direct Research

Exhibit 15: Revenue contribution (segment wise in FY18)



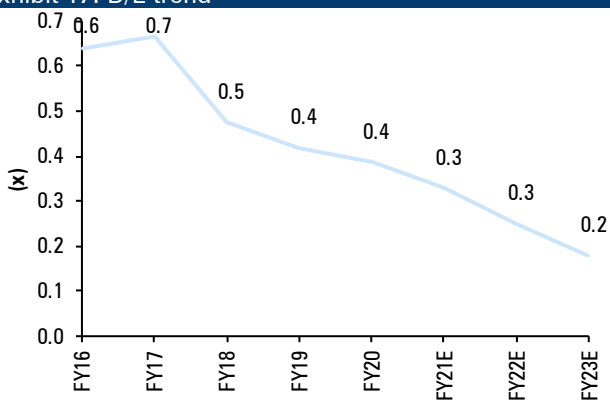
Source: Company, ICICI Direct Research

Exhibit 16: Revenue contribution (segment wise in FY20)



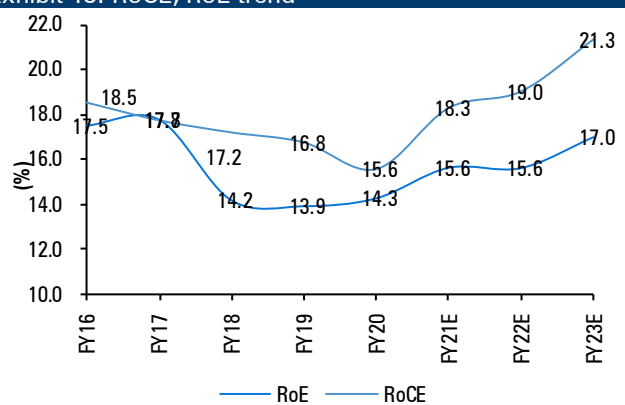
Source: Company, ICICI Direct Research

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 (Q3FY21 revenue & EBIT contribution, 30%, 32%)

- Amesa region's revenue de-grew ~6% YoY in Q3FY21. The segment EBIT margin declined 134 bps YoY to ~13% in Q3FY21
- The performance was largely hit by lower offtake of travel and beauty & cosmetics packs. However, offtake of pharma packs was strong
- Consolidation of Creative Stylo packs in coming quarters would help drive segment revenue and profitability, going forward. Revenue and adjusted EBITDA of Creative Stylo Packs' for FY20 was at ₹ 103 crore and ~₹ 31 crore (EBITDA margin ~31%)

EAP region (Q3FY21 revenue & EBIT contribution, 26%, 38%)

- EAP region's revenue growth of ~17% YoY led by low base, client addition, launch of new products
- Segment EBIT margin remained flat at 18.8% in Q3FY21
- Market share gain from regional players and increasing focus on fast growing regional would aid future growth of the company

America region (Q3FY21 Revenue & EBIT contribution, 22%, 20%)

- America region revenue increased 19% YoY in Q3FY21 led by low base and demand revival
- 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 319 bps YoY to 11.6% mainly due to additional costs pertaining to Covid-19 related measures

Europe region (Q3FY21 revenue & EBIT contribution, 22%, 10%)

- Segment revenue growth of 9~% YoY, segment EBIT margin at 5.6% was flat on a YoY basis
- European region operations were impacted by second wave of Covid-19

Others

- Annual capex would be in line with depreciation (~₹ 230-250 crore)
- Net debt declined to ₹ 161 crore in 9MFY21 compared to ₹ 276 crore incurred during FY20
- Focus on double digit growth across geographies
- EBITDA growth would be in the range of mid-teens while overall EBITDA margin is likely to remain in the range of 20-21%, given the rising input prices
- The company passes inflationary pressure with a lag on 50% of its total sales volume, which would keep gross margin under check (in case of sharp rise in input prices)
- Effective tax rate would be in the range of 27-28%

Financial summary

Exhibit 19: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Net Sales	2760.1	3057.7	3365.7	3745.8
Growth (%)	2.0	10.8	10.1	11.3
Expenses				
Raw Material Expenses	1156.8	1262.8	1400.5	1534.4
Employee Expenses	531.1	601.9	616.7	686.7
Manufacturing & Other Exp	514.7	562.6	676.5	752.9
Total Operating Expenditure	2202.6	2427.4	2693.7	2974.1
EBITDA	557.4	630.4	672.1	771.7
Growth (%)	11.7	13.1	6.6	14.8
Interest	55.7	56.1	54.7	44.7
Other Income	13.4	16.0	17.6	19.8
Depreciation	229.8	232.7	249.1	273.4
PBT before Exceptional Items	285.4	357.5	385.9	473.3
Less: Exceptional Items	9.4	16.1	0.0	0.0
PBT	276.0	341.4	385.9	473.3
Total Tax	63.8	93.7	104.2	132.5
Profit from Associates	-0.6	-0.7	-0.7	-0.7
PAT	211.6	247.0	281.0	340.1

Source: Company, ICICI Direct Research

Exhibit 20: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	211.6	247.0	281.0	340.1
Depreciation	229.8	232.7	249.1	273.4
CF bef working capital chag	497.0	535.8	584.7	658.3
Net Increase in Current Assets	-17.3	-203.1	-73.3	-142.1
Net Increase in Current Liabilities	133.7	40.9	12.7	75.5
Net CF from operating act	613.5	373.6	524.1	591.6
(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	-26.9	-87.1	-29.7
Cash and Cash Equ at the beg	90.4	311.6	284.7	197.6
Cash	311.6	284.7	197.6	167.9

Source: Company, ICICI Direct Research

Exhibit 21: 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	1592.2	1736.6	1940.1
Total Shareholders funds	1532.6	1655.3	1799.7	2003.1
Total Debt	591.8	541.8	451.8	361.8
Total Liabilities	2190.9	2263.6	2318.0	2431.5
Assets				
Total Gross Block	3881.6	4012.7	4242.7	4472.7
Less Total Accumulated Depreciation	2523.5	2756.2	3005.3	3278.7
Net Block	1358.1	1256.5	1237.4	1194.0
Total CWIP	31.1	50.0	50.0	50.0
Total Fixed Assets	1389.2	1306.5	1287.4	1244.0
Other Investments	16.0	36.0	56.0	76.0
Inventory	367.2	460.8	507.2	564.4
Debtors	490.3	586.4	599.4	667.1
Loans and Advances	17.8	19.8	21.7	24.2
Cash	311.6	284.7	197.6	167.9
Other Current Assets	107.0	118.6	130.5	145.3
Total Current Assets	1293.9	1470.2	1456.4	1568.8
Creditors	519.9	502.6	507.2	564.4
Provisions	27.8	78.7	79.4	88.4
Total Current Liabilities	615.0	655.9	668.6	744.1
Net Current Assets	679.0	814.3	787.8	824.7
Total Assets	2190.9	2263.6	2318.0	2431.5

Source: Company, ICICI Direct Research

Exhibit 22: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per Share Data				
EPS	6.7	7.8	8.9	10.8
Cash EPS	14.0	15.2	16.8	19.5
BV	48.6	52.5	57.1	63.5
DPS	4.4	3.9	4.3	4.3
Operating Ratios				
EBITDA Margin	20.2	20.6	20.0	20.6
PAT Margin	7.9	8.5	8.3	9.1
Return Ratios				
RoE	14.3	15.6	15.6	17.0
RoCE	15.6	18.3	19.0	21.3
RoIC	18.1	21.0	21.5	24.7
Valuation Ratios				
EV / EBITDA	13.2	11.6	10.8	9.2
P/E	33.7	28.8	25.4	21.0
EV / Net Sales	2.7	2.4	2.2	1.9
Market Cap / Sales	2.6	2.3	2.1	1.9
Price to Book Value	4.6	4.3	4.0	3.6
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	0.3	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 23: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap			EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)			
	(₹)	TP(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,464	3,010	Hold	2,36,298	32.8	39.9	46.3	75.1	61.7	53.2	52.7	43.8	37.5	26.7	28.6	28.5	31.1	33.4	34.0			
Astral Polytechnik (ASTPOL)	2,072	1,260	Hold	31,217	20.7	25.5	27.8	100.0	81.3	74.6	41.8	35.8	33.1	22.3	24.5	24.1	17.3	19.1	18.6			
Amber Enterprises (AMBEN)	2,745	3,015	Buy	8,632	29.8	68.2	97.6	92.0	40.3	28.1	35.9	18.7	14.0	8.4	15.3	18.7	6.5	13.0	15.8			
Bajaj Electricals (BAJELE)	741	585	Buy	8,424	11.8	17.1	23.0	NM	43.4	32.2	26.3	20.2	15.9	10.8	14.7	18.6	8.3	13.0	15.4			
Berger Paints (BERPAI)	721	675	Hold	70,024	7.8	9.7	11.7	92.7	74.7	61.4	60.3	50.8	43.0	26.9	30.3	34.0	23.8	25.7	27.9			
Crompton Greaves(CROGR)	416	480	Buy	26,083	7.9	9.5	12.0	52.3	43.7	34.6	37.6	31.9	25.8	31.1	34.8	41.1	27.4	28.4	32.1			
EPL (ESSPRO)	226	250	Hold	7,130	7.8	8.9	10.8	28.8	25.4	21.0	11.6	10.8	9.2	18.3	19.0	21.3	15.6	15.6	17.0			
Havells India (HAVIND)	1,115	1,255	Hold	69,565	16.1	17.8	22.9	69.3	62.6	48.6	45.8	41.2	32.5	23.7	25.5	30.8	20.6	21.2	25.7			
Kansai Nerolac (KANNER)	576	605	Buy	31,042	10.3	12.0	14.0	56.1	47.8	41.1	36.4	32.1	27.9	18.4	19.6	20.5	14.3	15.1	15.7			
Pidilite Industries (PIDIND)	1,753	1,920	Buy	89,017	22.1	28.2	32.9	79.2	62.2	53.3	50.0	39.9	34.7	28.4	31.5	32.4	22.8	25.3	25.9			
Polycab India (POLI)	1,301	1,385	Buy	19,369	57.9	67.2	79.7	22.5	19.3	16.3	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1			
Supreme Indus (SUPIND)	1,967	2,010	Buy	24,986	62.2	50.0	58.0	31.6	39.4	33.9	19.5	21.4	18.6	27.3	21.7	23.2	28.4	20.4	20.9			
Symphony (SYMLIM)	1,024	1,090	Hold	7,164	13.1	29.8	40.0	77.9	34.4	25.6	61.3	26.7	19.7	16.7	35.7	41.8	17.1	34.1	38.7			
Time Techno (TIMTEC)	53	43	Hold	1,199	7.5	4.0	9.1	7.1	13.3	5.8	3.1	4.3	2.8	12.5	8.0	13.2	9.3	5.0	10.7			
V-Guard Ind (VGUARD)	241	210	Buy	10,322	3.7	5.3	6.2	65.4	45.3	38.8	34.5	25.4	21.6	20.1	25.3	26.9	15.1	19.5	20.8			
Voltas Ltd (VOLTAS)	1,002	845	Hold	33,140	12.3	22.6	29.8	81.4	44.4	33.6	57.7	31.1	25.2	12.8	20.1	21.9	9.1	15.3	17.5			

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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