

BSE SENSEX

60,158

S&P CNX

17,722



Stock Info

Bloomberg	EPLL IN
Equity Shares (m)	316
M.Cap.(INRb)/(USDb)	50.9 / 0.6
52-Week Range (INR)	193 / 147
1, 6, 12 Rel. Per (%)	-2/-4/-14
12M Avg Val (INR M)	80
Free float (%)	48.5

Financials Snapshot (INR b)

Y/E MARCH	2023E	2024E	2025E
Sales	37.1	42.9	46.3
EBITDA	5.9	7.5	8.5
Adj. PAT	2.0	2.9	3.6
EBITDA margin (%)	15.9	17.5	18.4
Cons. Adj. EPS (INR)	6.3	9.3	11.4
EPS Gr. (%)	-6.6	46.4	23.0
BV/Sh. (INR)	59.5	63.8	70.2

Ratios

Net D:E	0.3	0.2	0.1
RoE (%)	10.8	15.0	17.0
RoCE (%)	10.3	13.5	15.6
Payout (%)	71.4	53.9	43.8

Valuations

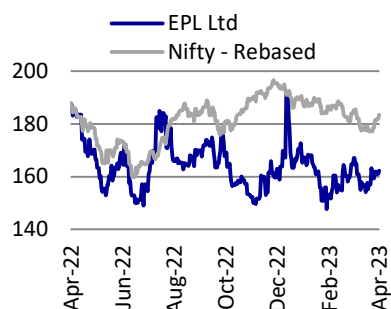
P/E (x)	25.2	17.2	14.0
EV/EBITDA (x)	9.5	7.3	6.1
Div. Yield (%)	2.8	3.1	3.1
FCF Yield (%)	2.8	6.6	8.4

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	52.6	52.6	52.6
DII	9.2	8.8	7.2
FII	18.2	18.6	20.5
Others	20.0	20.0	19.7

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR160

TP: INR215 (+34%)

Buy

Light at the end of the tunnel

EPLL has been facing challenges for the last few quarters amid lockdown-led demand slowdown across key geographies and high raw material prices. However, with the pandemic now behind us, demand is improving and raw material prices are easing. In this report, we highlight the current demand and raw material scenario in key geographies, new businesses opportunities and progress toward sustainability. Here are the key highlights:

- Demand in China (EAP) is expected to revive soon, while other geographies in EAP have a healthy demand outlook. Europe is facing cost-related challenges due to high energy prices and an increase in the minimum wage requirement, while the cost situation is improving in the Americas.
- The Brazil market offers a huge opportunity to EPLL with the current market size of ~3.5m tubes. The Brazil project is expected to be completed on time.
- Raw material prices are softening; however, they are still higher than the pre-Covid level. Freight costs have moved back to the pre-Covid level, leading to margin expansion across regions. EPLL has also increased prices across geographies to improve its margin profile.
- The company is adding new customers and increasing its wallet share with existing customers by offering more sustainable products. EPLL's core focus is to promote sustainability within the organization to attract more customers.

Demand recovering across geographies

EAP

- The EAP region has been under pressure for the last few quarters (7%/-6%/1%/-8% YoY revenue growth in 4QFY22/1QFY23/2QFY23/3QFY23), mainly due to Covid-related restrictions in China. The EAP region, except China, is delivering good growth.
- However, demand from China is expected to revive soon, as pandemic-related restrictions are withdrawn.
- The EAP region has a higher proportion of Oral care (~65%) v/s Beauty, Cosmetics (B&C) and Pharmaceutical (~35%).

Europe

- The oral care segment in Europe is witnessing good growth, while demand growth in the non-oral care segment is still a challenge. As Covid-led restrictions have ended, the non-oral care segment is expected to recover.
- The cost is a major challenge for EPLL in Europe due to high energy prices and an increase in the minimum wage rate requirement, leading to margin pressure.
- Energy prices in Europe are currently stable but are at elevated levels.
- To mitigate inflationary pressures, EPLL is continuously in talks with customers for price hikes and has been successful in increasing prices in the last two quarters. However, a further increase is required to achieve previous margin levels.

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

Americas

- Demand is robust in the Americas. Even the demand for travel tubes is also coming back now.
- The Americas region has a higher mix of the oral care segment. The company is gaining market share in this region.
- On the cost front, the manpower availability is improving and energy costs have also stabilized at elevated levels in this region.

AMESA

- The company is witnessing good sequential growth across all the regions. India is also delivering good growth; however, rural demand is not improving, thereby hurting demand for the FMCG sector.

Brazil: Project is on track

- The Brazil project is progressing well for the company.
- The tube market size in Brazil is ~3.5m, of which some part is manufactured in-house by the largest FMCG player (Colgate). However, the market is evolving and the management sees a huge growth opportunity in this region.
- The current major manufacturer is a division of Amcor (Switzerland). However, the Amcor plants are not located in the strategic locations (i.e. they are far away from demand areas). EPL is building its facilities around strategic locations, which should help it gain market share and further reduce the gap with major players.
- EPLL plans to expand to other segments as well in these regions.

Softening in RM costs and price revisions to aid margins

- In a sign of relief for EPLL, the freight cost is returning to pre-Covid levels. Key raw material (polymer) prices have also eased sequentially, but they are still higher than the pre-Covid level.
- The company is in talks with clients regarding pricing increases due to inflation. Pricing for the contracted customers is based on defined formulas and their revisions happen with a lag effect. The company is witnessing major benefits with non-contracted customers, whom EPLL is regularly in touch with for price revisions.

New business additions – a continuous process

- The company is adding new businesses every year in the form of higher wallet share and new customer acquisitions.
- Global customers believe in having at least two vendors in any category. The company is planning to offer new and sustainable products to customers and increase its wallet share.
- The tube packaging industry has a high level of supplier stickiness (for few years at least), which enables the company to garner a higher market share. Over the years, EPLL has increased its market share in India and is also gradually trying to increase its share in other geographies.
- Customers who left earlier due to pricing factors (to maintain margins) are coming back to EPLL, but we believe the company will not go below a certain price point in order to protect margins.

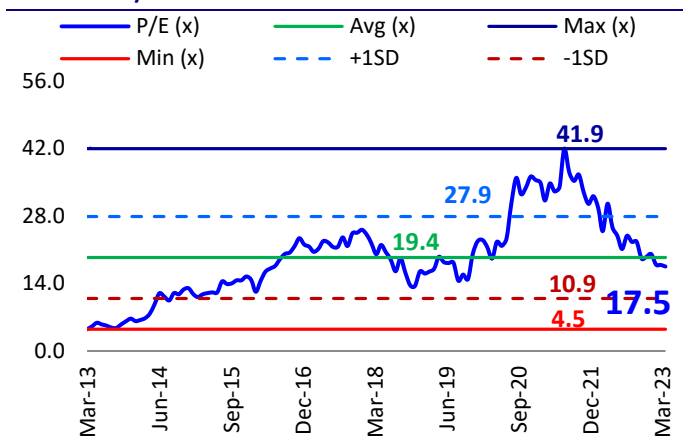
Moving closure toward sustainability

- EPLL is at the forefront in terms of recyclability and sustainability because the barrier properties in tubes with the lowest amount of plastics offered by the company are the best in the industry. EPLL continues to invest in R&D for developing products that are thinner or are lighter.
- Customers also prefer suppliers who have higher sustainability within the organization.
- EPLL has the highest number of recyclable laminated tubes in the world. Recyclable tubes make up ~10% of EPLL's total product portfolio.
- The company is on track to achieve its target of doubling the volumes of 'Platina' tubes (recyclable tubes). Platina is the most superior 100% recyclable tube.

Valuation and View

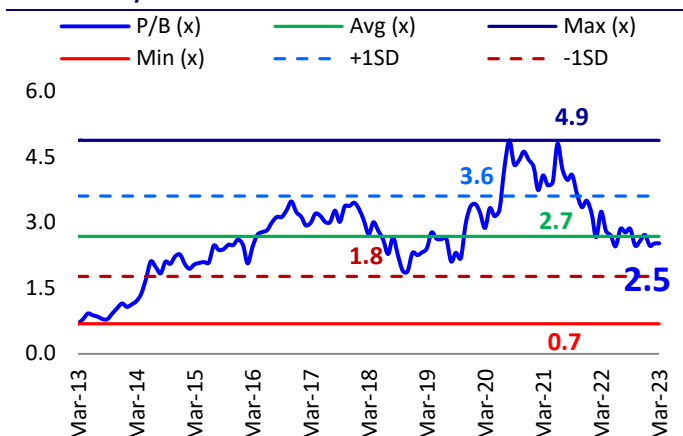
- With the demand recovery visible across geographies, along with the softening in raw material prices and price hikes across regions in recent months, we expect the sequential recovery in margin to continue.
- EPLL's earnings momentum is expected to improve further, driven by: 1) a growing revenue contribution from the B&C and Pharma segments, 2) a gradual shift to laminated tubes from aluminum tubes and rigid packaging, 3) customer additions across geographies as well as greater cross-selling opportunities, and 4) focus on sustainability, which will fuel double-digit profitable growth.
- We expect a revenue/EBITDA/PAT CAGR of 12%/20%/34% over FY23-25. We value the stock at 19x Dec'24E EPS to arrive at a TP of INR215. We retain our BUY rating on the stock.

Exhibit 1: P/E Band



Source: MOFSL, Company

Exhibit 2: P/B Band



Source: MOFSL, Company

Exhibit 3: EPLL’s customer portfolio



Source: Company, MOFSL

Exhibit 4: Global tube market

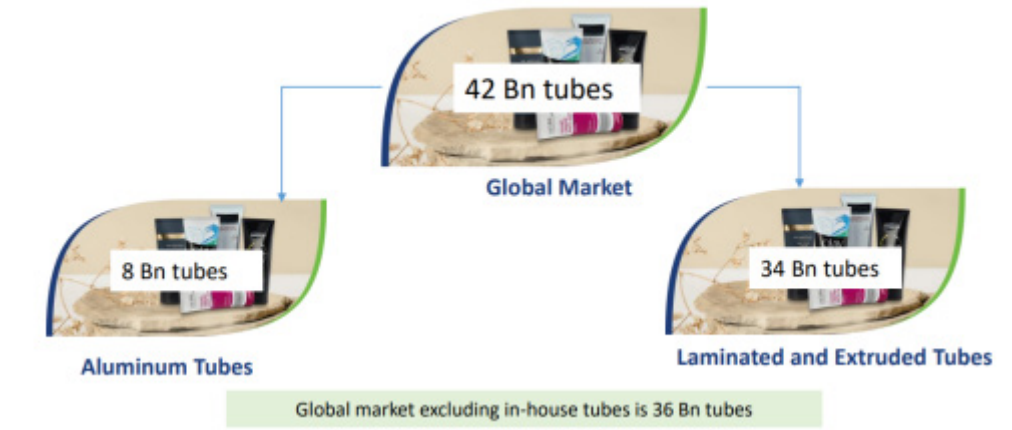
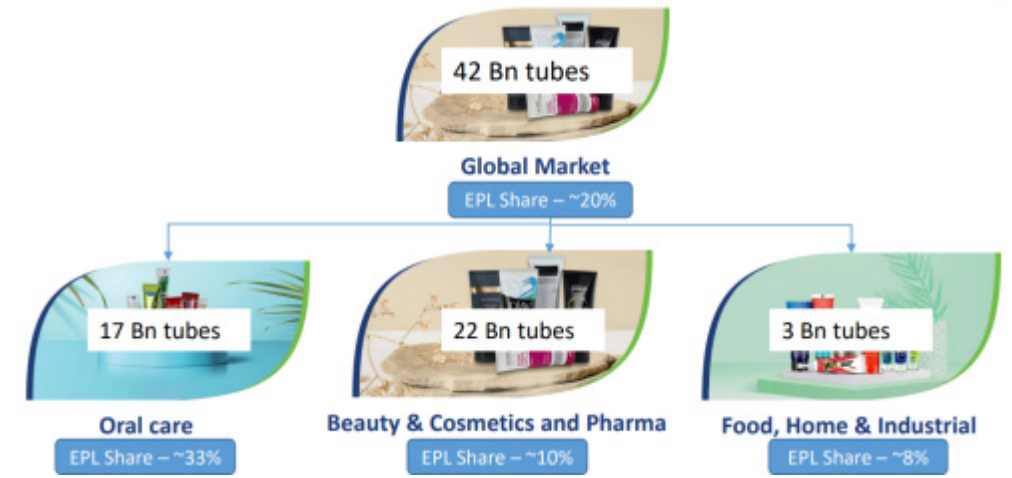
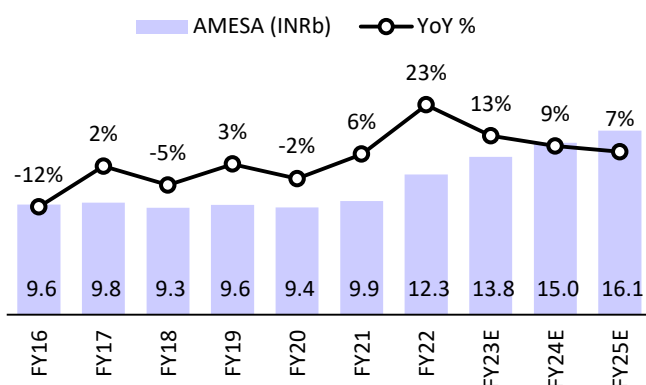


Exhibit 5: Global tube market – category overview

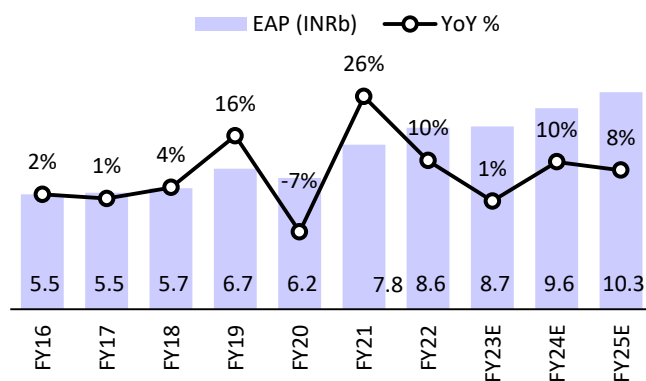


Source: Company, MOSL

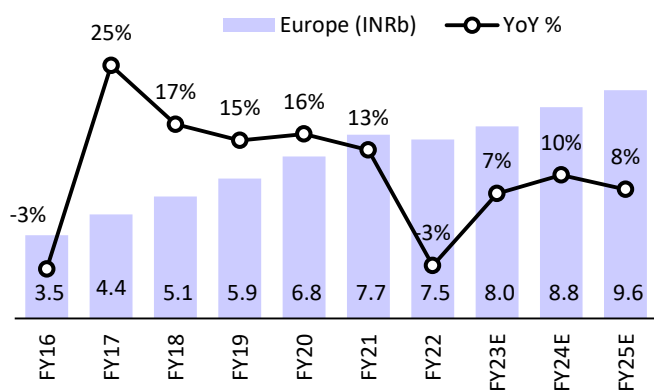
Story in Chart

Exhibit 6: Expect AMESA to post 8% CAGR over FY23-25


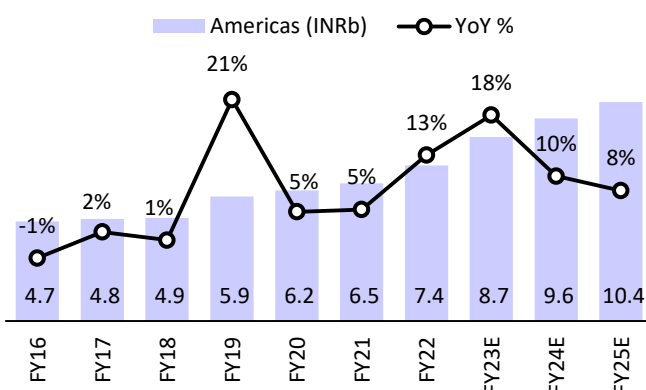
Source: MOFSL, Company

Exhibit 7: Expect EAP to post 9% CAGR over FY23-25


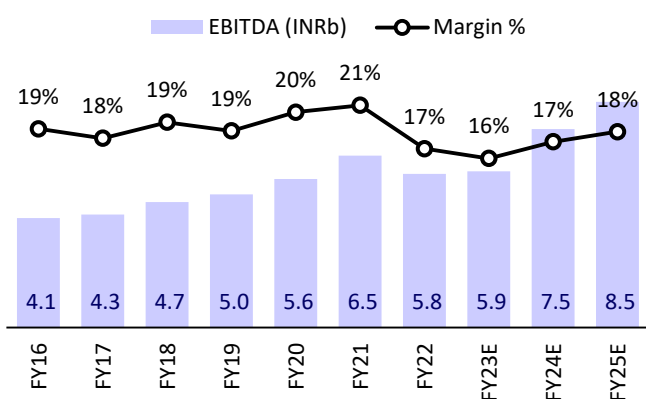
Source: MOFSL, Company

Exhibit 8: Expect Europe to post 9% CAGR over FY23-25


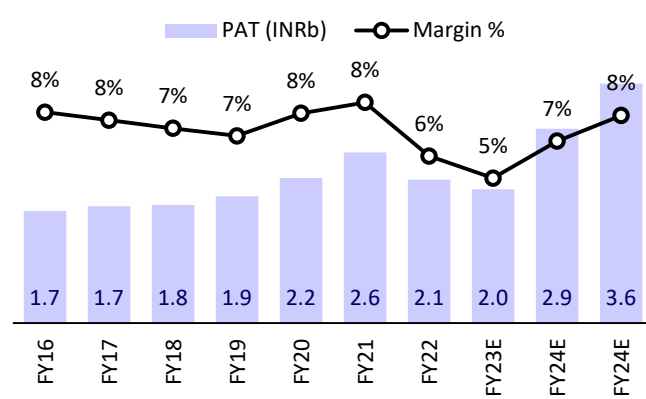
Source: Company, MOFSL

Exhibit 9: Expect America to post 9% CAGR over FY23-25


Source: Company, MOFSL

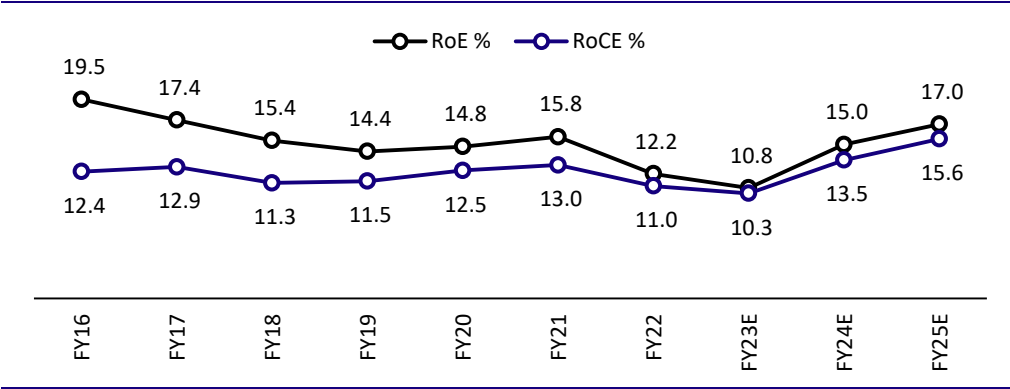
Exhibit 10: EBITDA to post 20% CAGR over FY23-FY25E


Source: Company, MOFSL

Exhibit 11: PAT to post 34% CAGR over FY23-25E


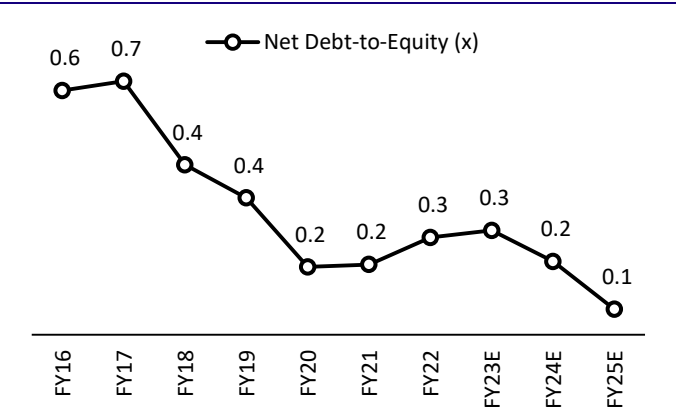
Source: Company, MOFSL

Exhibit 12: Return ratios to improve going forward



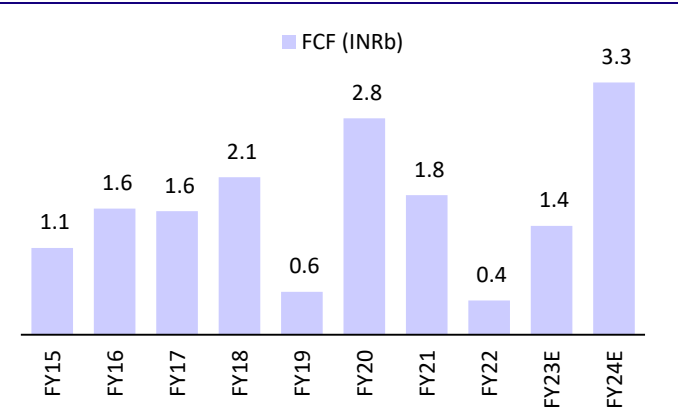
Source: Company, MOFSL

Exhibit 13: Net debt-to-equity to contract further



Source: Company, MOFSL

Exhibit 14: Increase in FCF to reduce leverage



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Income from Operations	23,023	24,239	27,069	27,614	30,916	34,328	37,105	42,925	46,303
Change (%)	8.2	5.3	11.7	2.0	12.0	11.0	8.1	15.7	7.9
Raw material cost	10,079	10,366	11,648	11,581	12,934	15,176	16,519	18,887	19,910
Employees Cost	4,052	4,338	5,006	5,311	6,064	6,500	6,889	7,726	8,242
Other Expenses	4,673	4,886	5,424	5,147	5,807	6,891	7,812	8,804	9,610
Total Expenditure	18,804	19,590	22,078	22,039	24,805	28,567	31,220	35,417	37,763
% of Sales	81.7	80.8	81.6	79.8	80.2	83.2	84.1	82.5	81.6
EBITDA	4,219	4,649	4,991	5,575	6,111	5,761	5,885	7,508	8,541
Margin (%)	18.3	19.2	18.4	20.2	19.8	16.8	15.9	17.5	18.4
Depreciation	1,415	1,671	1,861	2,298	2,346	2,514	2,735	2,977	3,257
EBIT	2,804	2,978	3,130	3,277	3,765	3,247	3,150	4,531	5,284
Int. and Finance Charges	581	550	613	556	429	403	653	607	434
Other Income	353	264	285	133	145	120	193	206	218
PBT bef. EO Exp.	2,576	2,691	2,802	2,854	3,481	2,964	2,690	4,130	5,067
EO Items	157	-50	31	-94	-161	0	-11	0	0
PBT after EO Exp.	2,732	2,642	2,833	2,760	3,320	2,964	2,679	4,130	5,067
Total Tax	787	889	932	638	868	675	613	1,115	1,368
Tax Rate (%)	28.8	33.7	32.9	23.1	26.1	22.8	22.9	27.0	27.0
Profit/loss from associates	10.5	-10.4	53.2	-6.0	-9.0	-76	-38	-42	-46
Minority Interest	53	26	29	43	52	69	37	41	46
Reported PAT	1,903	1,716	1,925	2,073	2,391	2,144	1,992	2,932	3,606
Adjusted PAT	1,747	1,766	1,895	2,167	2,552	2,144	2,003	2,932	3,606
Change (%)	4.1	1.1	7.3	14.4	17.8	-16.0	-6.6	46.4	23.0
Margin (%)	7.6	7.3	7.0	7.8	8.3	6.2	5.4	6.8	7.8

Consolidated - Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	314	315	631	631	631	632	632	632	632
Total Reserves	10,076	12,191	13,249	14,695	16,350	17,613	18,183	19,534	21,561
Net Worth	10,390	12,506	13,880	15,326	16,981	18,245	18,815	20,166	22,193
Minority Interest	57	43	52	86	333	336	336	336	336
Total Loans	7,924	7,299	6,313	6,432	5,536	6,572	6,572	5,572	3,572
Deferred Tax Liabilities	317	357	510	475	543	619	619	619	619
Capital Employed	18,688	20,204	20,754	22,319	23,393	25,772	26,342	26,693	26,720
Gross Block	15,637	17,691	20,495	22,434	25,500	27,236	29,536	33,136	35,436
Less: Accum. Deprn.	3,984	5,992	7,564	9,862	12,208	14,722	17,457	20,433	23,691
Net Fixed Assets	11,652	11,699	12,931	12,572	13,292	12,514	12,079	12,702	11,745
Goodwill on Consolidation	142	142	142	142	1,159	1,159	1,159	1,159	1,159
Capital WIP	193	417	413	352	273	1,466	2,766	1,466	1,466
Total Investments	153	131	168	160	149	72	72	72	72
Curr. Assets, Loans&Adv.	10,254	12,032	11,547	14,833	15,241	17,715	18,079	20,351	21,838
Inventory	2,460	2,864	3,234	3,692	4,149	5,941	6,244	6,792	6,932
Account Receivables	3,766	4,590	4,934	4,903	5,891	6,367	6,913	7,997	8,626
Cash and Bank Balance	1,028	1,735	1,344	3,715	2,414	1,927	1,397	1,698	2,112
Loans and Advances	3,000	2,843	2,035	2,523	2,787	3,480	3,525	3,863	4,167
Curr. Liability & Prov.	3,707	4,217	4,447	5,740	6,721	7,154	7,813	9,057	9,560
Account Payables	1,473	1,884	2,065	3,538	4,222	4,547	4,961	5,628	6,001
Other Current Liabilities	1,834	2,037	2,113	1,942	2,163	2,268	2,486	3,005	3,102
Provisions	400	295	269	260	336	339	366	424	457
Net Current Assets	6,547	7,815	7,100	9,093	8,520	10,561	10,266	11,294	12,278
Appl. of Funds	18,688	20,204	20,754	22,319	23,393	25,772	26,342	26,693	26,720

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)									
EPS	5.5	5.6	6.0	6.9	8.1	6.8	6.3	9.3	11.4
Cash EPS	10.0	10.9	11.9	14.1	15.5	14.7	15.0	18.7	21.7
BV/Share	32.9	39.6	43.9	48.5	53.7	57.7	59.5	63.8	70.2
DPS	1.1	1.2	1.2	3.3	4.1	4.3	4.5	5.0	5.0
Payout (%)	21.8	26.4	23.6	56.7	54.2	63.4	71.4	53.9	43.8
Valuation (x)									
P/E	28.9	28.6	26.7	23.3	19.8	23.6	25.2	17.2	14.0
Cash P/E	16.0	14.7	13.4	11.3	10.3	10.8	10.7	8.5	7.4
P/BV	4.9	4.0	3.6	3.3	3.0	2.8	2.7	2.5	2.3
EV/Sales	2.5	2.3	2.1	1.9	1.7	1.6	1.5	1.3	1.1
EV/EBITDA	13.6	12.1	11.1	9.6	8.8	9.6	9.5	7.3	6.1
Dividend Yield (%)	0.7	0.7	0.7	2.1	2.6	2.7	2.8	3.1	3.1
FCF per share	5.1	6.5	1.8	9.0	5.8	1.4	4.4	10.5	13.5
Return Ratios (%)									
RoE	17.4	15.4	14.4	14.8	15.8	12.2	10.8	15.0	17.0
RoCE	12.9	11.3	11.5	12.5	13.0	11.0	10.3	13.5	15.6
RoIC	12.2	11.2	11.4	13.6	14.4	11.7	10.9	14.5	16.6
Working Capital Ratios									
Fixed Asset Turnover (x)	1.5	1.4	1.3	1.2	1.2	1.3	1.3	1.3	1.3
Asset Turnover (x)	1.2	1.2	1.3	1.2	1.3	1.3	1.4	1.6	1.7
Inventory (Days)	39	43	44	49	49	63	61	58	55
Debtor (Days)	60	69	67	65	70	68	68	68	68
Creditor (Days)	23	28	28	47	50	48	49	48	47
Leverage Ratio (x)									
Current Ratio	2.8	2.9	2.6	2.6	2.3	2.5	2.3	2.2	2.3
Interest Cover Ratio	4.8	5.4	5.1	5.9	8.8	8.1	4.8	7.5	12.2
Net Debt/Equity	0.7	0.4	0.4	0.2	0.2	0.3	0.3	0.2	0.1
			82	67	69				

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	2,743	2,631	2,886	2,854	3,311	2,888	2,690	4,130	5,067
Depreciation	1,415	1,671	1,861	2,298	2,346	2,514	2,735	2,977	3,257
Interest & Finance Charges	284	277	380	423	381	355	460	401	217
Direct Taxes Paid	-764	-816	-901	-638	-866	-776	-613	-1,115	-1,368
(Inc)/Dec in WC	494	-488	-404	-127	-380	-2,217	-234	-728	-569
CF from Operations	4,172	3,276	3,821	4,811	4,792	2,764	5,038	5,665	6,603
Others	-485	159	-257	-100	432	353	-49	-42	-46
CF from Operating incl EO	3,687	3,435	3,564	4,711	5,224	3,117	4,989	5,623	6,557
(Inc)/Dec in FA	-2,069	-1,375	-3,003	-1,878	-3,396	-2,668	-3,600	-2,300	-2,300
Free Cash Flow	1,618	2,060	561	2,833	1,828	449	1,389	3,323	4,257
(Pur)/Sale of Investments	98	1	2	8	5	4	0	0	0
Others	-769	184	1,122	680	586	22	193	206	218
CF from Investments	-2,740	-1,189	-1,879	-1,190	-2,805	-2,642	-3,407	-2,094	-2,082
Issue of Shares	7	510	53	0	7	50	0	0	0
Inc/(Dec) in Debt	546	-1,199	-1,028	119	-1,219	1,031	0	-1,000	-2,000
Interest Paid	-392	-372	-485	-556	-321	-278	-653	-607	-434
Dividend Paid	-414	-478	-478	-1,176	-1,341	-1,380	-1,422	-1,580	-1,580
Others	-508	-1	-138	469	-317	-377	-37	-41	-46
CF from Fin. Activity	-762	-1,539	-2,076	-1,143	-3,191	-954	-2,112	-3,229	-4,061
Inc/Dec of Cash	184	706	-391	2,377	-772	-479	-530	301	414
Opening Balance	844	1,028	1,735	1,344	3,116	2,414	1,927	1,397	1,698
Closing Balance	1,028	1,735	1,344	3,715	2,414	1,927	1,397	1,698	2,112

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
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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