

29 May 2024

India | Equity research | Q4FY24 results review

EPL

Speciality Chemicals

Patchy recovery; lower India EBITDA growth is concerning

EPL's Q4FY24 print was mixed, though it came slightly higher than our EBITDA estimate. The company reported mid-single digit growth in India [standalone] EBITDA, which is concerning. EAP was impacted by seasonality due to Chinese New Year. It had better performance in Americas and Europe with acceleration in revenue growth and improvement in margins, which shows company's efforts are yielding results. EPL has guided to improve EBITDA margin at >20% with cost optimisation efforts in Americas and Europe, mix benefit with higher sales in beauty & cosmetics, and operating leverage. We cut our EPS by 2-3% over FY25/26E factoring in gradual recovery in margins. Our target price has been reduced to INR 225 (earlier: INR 240), valuing the stock at 18x FY26E EPS (from 22x FY25E PE). Maintain **BUY**.

Revenue up 6.2% YoY / 5.5% QoQ to INR 10.3bn in Q4

Revenue growth was impacted from drop in key raw material prices which are a pass-through, while the company hinted at strong underlying volume growth. We see gross profit growth as proxy to volume that grew 13% YoY / 4.1% QoQ as Americas and Europe showed improvement. Americas revenue was up 15.9% YoY to INR 2.7bn, and in Europe revenue rose 2.4% YoY/ 23.5% QoQ to INR 2.6bn. We were disappointed with performance of AMESA where revenue grew 4.6% YoY to INR 3.5bn and EAP revenue increased 4.1% YoY to INR 2.2bn. AMESA revenue was hurt by 60% depreciation in Egyptian currency; however standalone (India performance) was also weak with gross profit / EBITDA growth of just 4.4%/ decline of 8.9%, respectively.

Brazil delivered 100% supplies to anchor customer, and is in the process of onboarding a few large MNCs with whom the company has supply contracts in other geographies, and local customers.

The company sees enough drivers to accelerate revenue growth - 1) push more tubes in beauty & cosmetic segment with emphasis on sustainability; 2) drive higher revenue from recyclable tubes which may contribute ~60% of revenue in FY26 (from 10% in FY23; and 21% in FY24), and in the process win market share; 3) ramp-up Brazil operations with the addition of ~6-8 customers; and 4) by shifting focus on cost optimisation in US and Europe.

Financial summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	36,941	39,161	43,343	46,905
EBITDA	5,778	7,143	8,549	9,403
EBITDA Margin (%)	15.6	18.2	19.7	20.0
Net Profit	2,267	2,070	3,443	3,988
EPS (INR)	7.1	6.5	10.8	12.5
EPS % Chg YoY	5.6	(8.7)	66.3	15.8
P/E (x)	26.6	29.1	17.5	15.1
EV/EBITDA (x)	11.3	9.3	7.5	6.6
RoCE (%)	9.8	11.1	12.8	13.2
RoE (%)	11.9	10.4	15.5	16.0

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Market Data

Market Cap (INR)	60bn
Market Cap (USD)	725mn
Bloomberg Code	EPLL IN
Reuters Code	EPLI BO
52-week Range (INR)	236 /175
Free Float (%)	41.0
ADTV-3M (mn) (USD)	1.7

Price Performance (%)	3m	6m	12m
Absolute	0.6	(3.8)	1.0
Relative to Sensex	(3.3)	(17.4)	(19.3)

Earnings Revisions (%)	FY25E	FY26E
Revenue	(3.6)	(3.5)
EBITDA	(5.2)	(5.1)
EPS	(1.7)	(2.8)

Previous Reports

09-11-2023: [Q2FY24 results review](#)

09-08-2023: [Q1FY24 results review](#)

EBITDA margin down 25bp QoQ to 18.5%

Gross profit was up 13% YoY to INR 5.9bn and gross profit margin was down 80bp QoQ to 57.5% probably on change in geography mix. Employee expenses were up 12% YoY to INR 2bn and other expenses were up 5.3% YoY to 2bn. EBITDA grew 23.5% YoY to INR 1.9bn and benefited from improvement in margin for Americas and Europe. Interest cost grew 55.8% YoY / 9.2% QoQ to INR 321mn due to capitalisation of Brazil operations. Reported PAT was down 73.5% YoY to INR 223mn due to one-time adjustment related to foreign exchange loss in Egypt [INR 465mn] and restructuring of operations in Europe region [INR 140mn]; effective tax rate stood at 16.9% in Q4FY24.

EPL has guided for EBITDA margin to improve over 20% in the near term led by better productivity, improved product mix more towards beauty & cosmetics, scaling sustainable tube business, cost optimisation in US and Europe. The company is rationalising manpower in Europe, and re-aligning manufacturing by shifting production to low-cost Poland from Germany.

Geography-wise performance

1) AMESA revenue rose 4.6% YoY to INR 3.5bn; EBITDA was down 12.7% YoY to INR 703mn, and EBITDA margin was 19.9%, down 150bp QoQ. **2) EAP** revenue rose 4.1% YoY to INR 2.2bn; EBITDA rose 6.2% YoY to INR 410mn with EBITDA margin at 18.4%, down 325bp. **3)** Revenue from **Americas** increased 15.9% YoY to INR 2.7bn, EBITDA rose 86% YoY to INR 478mn. EBITDA margin expanded 175bp QoQ to 17.9%. **4) Europe** revenue rose 2.4% YoY to INR 2.6bn; EBITDA was down 1.7% YoY to INR 283mn and EBITDA margin was 11%, up 180bp QoQ.

Q4FY24: Conference call highlights

- Brazil operation was able to achieve 100% of anchor customer volume requirement. Brazil is already EBITDA margin accretive to Americas and consolidated business. The company is in discussion with more buyers – a large MNC customer where it already has supply relationship in other geographies, and local customers.
- Company expects margin tailwind from expansion in margin in Americas and Europe as EPL has taken certain hard steps. Europe margins to scale to mid-teens in FY25.
- EAP performance was weak QoQ due to Chinese New Year which is seasonally weak. Else, EPL has done well with expansion in beauty & cosmetic segment.
- In India, EPL has won a supply agreement from a large customer who has been reluctant, and this significantly improves its outlook for India business.
- Standalone business revenue was optically lower due to lower sales of laminates.
- Capex will continue to be slightly below or equal to D&A cost for the next two years.

Risks

- 1)** Slower revenue growth in India and EAP, which are generally growth markets; and
- 2)** continued pressure on margins, particularly in Americas/Europe.

Exhibit 1: EPL – consolidated financials

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Net revenue	9,693	9,102	10,016	9,751	10,292	5.5	6.2
Cost of Goods sold	4,458	3,845	4,276	4,070	4,379	7.6	(1.8)
Gross profit	5,235	5,257	5,740	5,681	5,913	4.1	13.0
Gross profit margin (%)	54.0	57.8	57.3	58.3	57.5		
Employee cost	1,776	1,861	1,932	1,942	1,990	2.5	12.0
% of revenue	18.3	20.4	19.3	19.9	19.3		
Other expenses	1,913	1,806	1,998	1,905	2,014	5.7	5.3
% of revenue	19.7	19.8	19.9	19.5	19.6		
Total expenses	3,689	3,667	3,930	3,847	4,004	4.1	8.5
EBITDA	1,546	1,590	1,810	1,834	1,909	4.1	23.5
EBITDA margin (%)	15.9	17.5	18.1	18.8	18.5		
Depreciation	790	800	836	842	850	1.0	7.6
EBIT	756	790	974	992	1,059	6.8	40.1
EBIT margin (%)	7.8	8.7	9.7	10.2	10.3		
Other income	268	100	96	237	161	(32.1)	(39.9)
Finance cost	206	235	306	294	321	9.2	55.8
PBT	818	655	764	935	899	(3.9)	9.9
Tax expenses	(27)	106	254	70	152	117.1	(663.0)
ETR (%)	(3.3)	16.2	33.2	7.5	16.9		
Non-controlling interest	8.0	13.0	16.0	12.0	(72.0)		
Profit from associates	6.0	7.0	11.0	8.0	9.0		
Exceptional item	-	-	-	-	(605)		
PAT	843	543	505	861	223	(74.1)	(73.5)
Net profit margin (%)	8.7	6.0	5.0	8.8	2.2		
Adj EPS (INR)	2.7	1.7	1.6	2.7	2.6	(3.8)	(1.8)

Source: I-Sec research, Company data

Exhibit 2: Asia, Middle East, South Asia (AMESA) financials

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Revenue	3,379	3,358	3,791	3,500	3,536	1.0	4.6
EBITDA	805	732	803	749	703	(6.1)	(12.7)
EBITDA margin (%)	23.8	21.8	21.2	21.4	19.9		
EBIT	423	365	446	392	414	5.6	(2.1)
EBIT margin (%)	12.5	10.9	11.8	11.2	11.7		

Source: I-Sec research, Company data

Exhibit 3: East Asia and Pacific (EAP) financials

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Revenue	2,141	2,149	2,454	2,524	2,229	(11.7)	4.1
EBITDA	386	489	564	546	410	(24.9)	6.2
EBITDA margin (%)	18.0	22.8	23.0	21.6	18.4		
EBIT	248	351	428	412	271	(34.2)	9.3
EBIT margin (%)	11.6	16.3	17.4	16.3	12.2		

Source: I-Sec research, Company data

Exhibit 4: Americas financials

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Revenue	2,299	2,178	2,519	2,528	2,664	5.4	15.9
EBITDA	257	250	371	409	478	16.9	86.0
EBITDA margin (%)	11.2	11.5	14.7	16.2	17.9		
EBIT	59	24	91	175	240	37.1	306.8
EBIT margin (%)	2.6	1.1	3.6	6.9	9.0		

Source: I-Sec research, Company data

Exhibit 5: Europe financials

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Revenue	2,502	2,125	2,163	2,076	2,563	23.5	2.4
EBITDA	288	242	215	191	283	48.2	(1.7)
EBITDA margin (%)	11.5	11.4	9.9	9.2	11.0		
EBIT	134	79	46	23	99	330.4	(26.1)
EBIT margin (%)	5.4	3.7	2.1	1.1	3.9		

Source: I-Sec research, Company data

Exhibit 6: Geography-wise revenue

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Revenue							
AMESA	3,379	3,358	3,791	3,500	3,536	1.0	4.6
EAP	2,141	2,149	2,454	2,524	2,229	(11.7)	4.1
Americas	2,299	2,178	2,519	2,528	2,664	5.4	15.9
Europe	2,502	2,125	2,163	2,076	2,563	23.5	2.4
Unallocated	4	4	3	3	4		
Intersegment elimination	(632)	(712)	(914)	(880)	(704)		
Total revenue	9,693	9,102	10,016	9,751	10,292	5.5	6.2
Mix							
AMESA	34.9	36.9	37.8	35.9	34.4		
EAP	22.1	23.6	24.5	25.9	21.7		
Americas	23.7	23.9	25.1	25.9	25.9		
Europe	25.8	23.3	21.6	21.3	24.9		

Source: I-Sec research, Company data

Exhibit 7: Geography-wise EBITDA

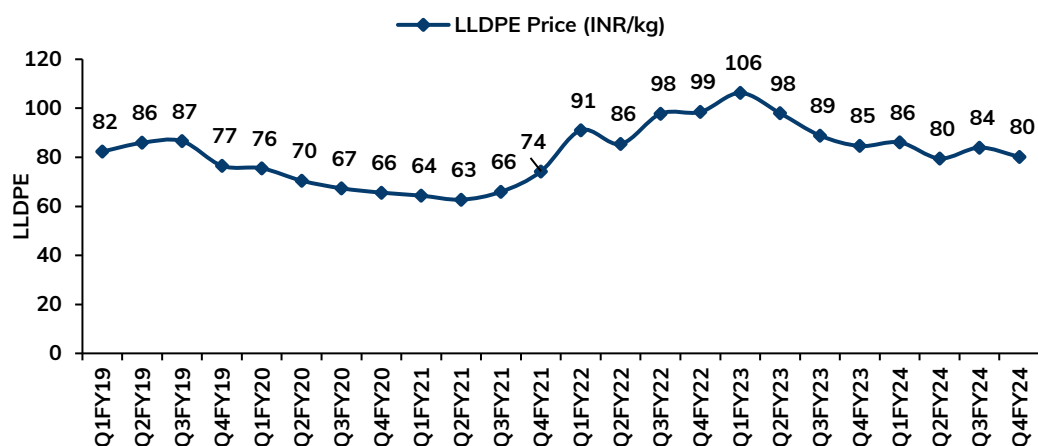
INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
EBITDA							
AMESA	805	732	803	749	703	(6.1)	(12.7)
EAP	386	489	564	546	410	(24.9)	6.2
Americas	257	250	371	409	478	16.9	86.0
Europe	288	242	215	191	283	48.2	(1.7)
Unallocated	-	-	-	-	-		
Intersegment elimination							
Total revenue	1,736	1,713	1,953	1,895	1,874	(1.1)	7.9
Mix							
AMESA	46.4	42.7	41.1	39.5	37.5		
EAP	22.2	28.5	28.9	28.8	21.9		
Americas	14.8	14.6	19.0	21.6	25.5		
Europe	16.6	14.1	11.0	10.1	15.1		

Source: I-Sec research, Company data

Exhibit 8: Earnings revision

INR mn	Revised		Earlier		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	43,343	46,905	44,969	48,616	(3.6)	(3.5)
EBITDA	8,549	9,403	9,020	9,911	(5.2)	(5.1)
EBITDA margin (%)	19.7	20.0	20.1	20.4		
PAT	3,443	3,988	3,498	4,096	(1.6)	(2.6)
EPS (INR)	10.8	12.5	11.0	12.9	(1.7)	(2.8)

Source: I-Sec research, Company data

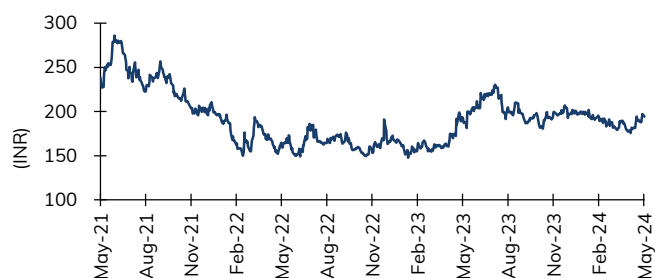
Exhibit 9: LLDPE prices down 5.3% YoY

Source: Ministry of Commerce, I-Sec research

Exhibit 10: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	51.5	51.5	51.5
Institutional investors	26.0	24.4	24.3
MFs and others	12.4	12.1	10.9
FIs/Banks	-	-	-
Insurance	2.6	2.3	2.3
FIIIs	10.9	10.0	11.1
Others	22.5	24.1	24.2

Source: Bloomberg

Exhibit 11: Price chart

Source: Bloomberg

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	36,941	39,161	43,343	46,905
Operating Expenses	31,163	32,018	34,794	37,502
EBITDA	5,778	7,143	8,549	9,403
EBITDA Margin (%)	15.6	18.2	19.7	20.0
Depreciation & Amortization	2,805	3,328	3,606	3,679
EBIT	2,973	3,815	4,944	5,724
Interest expenditure	674	1,156	1,182	1,182
Other Non-operating Income	-	-	-	-
Recurring PBT	2,720	3,253	4,403	5,235
Profit / (Loss) from Associates	(29)	35	35	35
Less: Taxes	373	582	964	1,251
PAT	2,347	2,671	3,439	3,984
Less: Minority Interest	(40)	(31)	(31)	(31)
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	2,267	2,070	3,443	3,988
Net Income (Adjusted)	2,267	2,070	3,443	3,988

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	16,207	16,465	19,997	23,841
of which cash & cash eqv.	2,444	2,073	4,041	6,626
Total Current Liabilities & Provisions	9,609	10,841	11,666	12,322
Net Current Assets	6,598	5,624	8,331	11,519
Investments	193	76	76	76
Net Fixed Assets	17,556	18,680	18,574	18,396
ROU Assets	1,156	1,012	1,012	1,012
Capital Work-in-Progress	1,780	720	720	720
Total Intangible Assets	1,159	1,159	1,159	1,159
Other assets	877	1,188	1,212	1,236
Deferred Tax Assets	308	376	376	376
Total Assets	36,304	38,087	41,553	45,255
Liabilities				
Borrowings	7,686	8,040	8,040	8,040
Deferred Tax Liability	632	634	634	634
Provisions	192	223	227	232
Other Liabilities	138	215	238	258
Equity Share Capital	636	637	637	637
Reserves & Surplus	19,256	20,278	22,860	25,852
Total Net Worth	19,892	20,915	23,497	26,489
Minority Interest	36	(9)	22	53
Total Liabilities	36,304	38,087	41,553	45,255

Source Company data, I-Sec research

Exhibit 14: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	9,102	10,016	9,751	10,292
% growth (YOY)	9	6	3	6
EBITDA	1,590	1,810	1,834	1,909
Margin %	17	18	19	19
Other Income	100	96	237	161
Extraordinaries	-	-	-	(605)
Adjusted Net Profit	543	505	861	223

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	5,882	6,796	7,620	8,187
Working Capital Changes	136	(931)	(752)	(615)
Capital Commitments	(3,871)	(3,746)	(3,500)	(3,500)
Free Cashflow	2,147	2,119	3,369	4,072
Other investing cashflow	(67)	276	642	693
Cashflow from Investing Activities	(21)	303	642	693
Issue of Share Capital	(300)	28	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	1,386	542	-	-
Dividend paid	(1,410)	(1,396)	(861)	(997)
Others	(1,059)	(1,804)	(1,182)	(1,182)
Cash flow from Financing Activities	(1,383)	(2,630)	(2,043)	(2,179)
Chg. in Cash & Bank balance	743	(208)	1,968	2,586
Closing cash & balance	2,611	2,014	4,041	6,626

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	7.1	6.5	10.8	12.5
Adjusted EPS (Diluted)	7.1	6.5	10.8	12.5
Cash EPS	15.9	16.9	22.1	24.1
Dividend per share (DPS)	2.2	2.3	2.7	3.1
Book Value per share (BV)	62.6	65.7	73.8	83.2
Dividend Payout (%)	30.2	35.4	25.0	25.0
Growth (%)				
Net Sales	7.6	6.0	10.7	8.2
EBITDA	0.3	23.6	19.7	10.0
EPS (INR)	5.6	(8.7)	66.3	15.8
Valuation Ratios (x)				
P/E	26.6	29.1	17.5	15.1
P/CEPS	11.9	11.2	8.5	7.9
P/BV	3.0	2.9	2.6	2.3
EV / EBITDA	11.3	9.3	7.5	6.6
EV/SALES	1.8	1.7	1.5	1.3
Dividend Yield (%)	1.1	1.2	1.4	1.7
Operating Ratios				
Gross Profit Margins (%)	54.7	57.7	58.7	58.9
EBITDA Margins (%)	15.6	18.2	19.7	20.0
Effective Tax Rate (%)	13.7	17.9	21.9	23.9
Net Profit Margins (%)	6.4	6.8	7.9	8.5
NWC / Total Assets (%)	18.2	14.8	20.1	25.5
Net Debt / Equity (x)	0.3	0.3	0.2	0.1
Net Debt / EBITDA (x)	0.9	0.8	0.5	0.2
Profitability Ratios				
RoCE (%)	9.8	11.1	12.8	13.2
RoE (%)	11.9	10.4	15.5	16.0
RoC (%)	10.7	12.1	14.2	15.7
Fixed Asset Turnover (x)	2.3	2.2	2.5	2.7
Inventory Turnover Days	60.1	61.1	60.1	59.1
Receivables Days	63.5	64.8	64.8	64.8
Payables Days	49.4	52.7	53.2	53.2

Source Company data, I-Sec research

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