



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

### EPL Limited

29 July 2021

#### RESULT UPDATE

Sector: Packaging Rating: BUY

CMP: Rs 266 Target Price: Rs 305

#### Stock Info

Sensex/Nifty 52,653 / 15,778

Bloomberg ESEL IN

Equity shares (mn) 315.6

52-wk High/Low Rs 318/ 199

Face value Rs 2

M-Cap Rs 76bn/ USD 1.1bn

3-m Avg volume USD 0.7mn

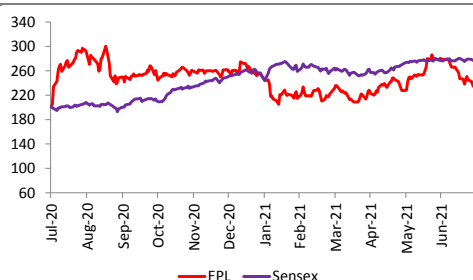
#### Financial Snapshot (Rs mn)

Y/E Mar	FY21	FY22E	FY23E
Net sales	30,916	36,444	41,002
EBITDA	6,111	7,318	8,948
PAT	2,391	3,501	4,714
EPS (Rs)	7.6	11.1	14.9
PE (x)	32.5	21.4	16.0
P/B (x)	5.0	4.1	3.6
EV/EBITDA (x)	14.7	10.8	8.6
RoE (%)	15	20	24
RoCE (%)	16	21	28
D/E (x)	0.4	0.2	0.1
OPM (%)	19.8	20.1	21.8
Dividend yield (%)	1.5	2.3	3.1
Dividend payout (%)	49	49	49

#### Shareholding Pattern (%)

	Jun'21	Mar'21	Dec'20
Promoter	52.0	52.0	52.0
-Pledged	-	-	-
FII	14.6	14.9	13.8
DII	14.7	13.5	15.6
Others	18.7	19.6	18.7

#### Stock Performance (1-year)



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#### Sequential margin recovery; outlook positive

EPL Limited's 1QFY22 result was slightly below our estimates with sales/EBITDA/APAT growth of 8%/-1%/30% YoY. Revenues were backed by strong growth in AMESA-India (+29% YoY, organic growth was in high-teens) and America (+9% YoY). EAP-China (+2% YoY) growth was lower while Europe declined (-10% YoY) on a high base (led by hand sanitizer tubes sales last year) and the Russia plant shutdown in 4QFY21. OPM was 18.1% vs. 19.8% YoY and 17.3% QoQ. The YoY decline in margin was due to 1) Columbia plant shutdown for 4 weeks (due to the national strike), 2) shutdown of one India plant for 3-4 weeks as one major oral care client halted production, 3) delay of 2-3 weeks in order dispatch from China due to logistics challenges and 4) a sharp rise in freight costs (4-5x in India-China, 1-2x in India-EU). Sequentially, OPM improved as RM prices softened (LDPE/HDPE prices are down 14%/10% from the 4QFY21 peak) and the company has re-negotiated prices with 90%+ clients (significant benefits expected in 2H). The in-house manufacturing of 'caps' should also boost margins going forward. The management maintained its guidance of double-digit volume growth over the next few years and a sequential improvement in OPM in FY22. We maintain our BUY rating on the stock with a target price of Rs 305 based on 20x FY23E EPS.

**AMESA (India) – strong recovery in the beauty & cosmetic category:** Sales/EBIT grew 29%/95% YoY and EBITM improved to 11% vs. 7.3% YoY. Adjusting for Creative Stylo Packs Pvt Ltd numbers, AMESA region growth was in the mid-teens (India growth was 17.3% YoY). Sales growth was led by a strong recovery in the beauty & cosmetics category, increased demand from pharmaceutical clients (new clients added), a new category (converting Henna cones into tubes) and wallet share gains. Margins improved due to higher personal care (PC) revenue share of 56.6% vs. 46% YoY. We expect sales CAGR of 12% and an average EBITM of 12.8% between FY21-23E led by a strong recovery in the B&C segment and increased demand from the pharmaceuticals category.

**EAP (mainly China) – low growth on a high base; higher freight costs hit margins:** Sales/EBIT grew 2%/-21% YoY and EBITM contracted to 16.7% vs. 21.7% YoY. Lower sales growth was due to a higher base (China witnessed a V-shaped recovery last year) and softness in demand for sanitizer tubes. Margins contracted due to higher freight costs and a decline in PC revenue share to 38.3% vs. 44.9% YoY. We expect sales CAGR of 12% and an average EBITM of 18.8% between FY21-23E led by an increased focus on fast-growing regional players and recovery in the oral care category (institutional sales) as travels are picking pace.

**Americas – Labour-related challenges impacting growth; improvement in 2H:** Sales/EBIT grew 9%/-23% YoY and EBITM contracted to 7.3% vs. 10.2% YoY. Lower sales growth was due to production shutdown at the Columbia plant for 4 weeks due to a national strike and continued labour challenges in the US (normalisation expected post Sep-2021). Margins were impacted due to lower capacity utilisation and a decline in PC sales share to 21.5% vs. 29.4% YoY. We expect sales CAGR of 12% and an average EBITM of 11.3% between FY21-23E given 1) labour shortage should resolve in 2H, 2) rise in travel tubes demand, 3) new client additions and 4) cross-selling of PC products to the existing oral care (OC) clients.

**Europe – Russia plant shutdown & a higher base impact growth; recovery in 2H:** Sales/EBIT declined 10%/45% YoY and EBITM declined to 5.5% vs. 9.9% YoY. Sales were impacted due to the shutdown of the non-profitable Russia plant in 4QFY21 and a higher base of sanitizer tubes last year. Margins were impacted due to lower utilisation and lower PC revenue share of 61.2% vs. 70% YoY. The management expects EBIT margin to be in mid-teens by FY23 led by a focus on premium products, the shutdown of the inefficient Russia plant and operating leverage. We expect sales CAGR of 12% and an average EBITM of 9% between FY21-23E led by the addition of a major OC client (sales started from 2H), improved client base in the PC category and wallet share gains.

## Exhibit 1: Quarterly financial statement

Particulars (Rs mn)	1QFY22	1QFY21	YoY	4QFY21	QoQ
<b>Net Sales</b>	<b>7,991</b>	<b>7,415</b>	<b>8%</b>	<b>8,102</b>	<b>-1%</b>
Add: Interest income	-	23	-	-	-
Add: Other Income (OI)	53	28	87%	30	77%
<b>Total Income</b>	<b>8,044</b>	<b>7,466</b>	<b>8%</b>	<b>8,132</b>	<b>-1%</b>
Cost of material	3,371	3,139	7%	3,496	-4%
Employees cost	1,557	1,486	5%	1,576	-1%
Other expenses	1,614	1,324	22%	1,632	-1%
<b>Total Expenditure</b>	<b>6,542</b>	<b>5,949</b>	<b>10%</b>	<b>6,704</b>	<b>-2%</b>
EBITDA	1,502	1,518	-1%	1,428	5%
<b>EBITDA (Excl. OI)</b>	<b>1,449</b>	<b>1,466</b>	<b>-1%</b>	<b>1,398</b>	<b>4%</b>
Depreciation	619	579	7%	601	3%
EBIT	883	939	-6%	827	7%
Interest cost	89	163	-45%	86	3%
EBT	794	776	2%	741	7%
Tax	189	159	19%	155	22%
Tax Rate %	24%	20%		21%	
Reported PAT	605	617	-2%	586	3%
<b>Adjusted PAT</b>	<b>579</b>	<b>444</b>	<b>30%</b>	<b>568</b>	<b>2%</b>
EPS (Rs.)	1.83	1.41	30%	1.80	2%
Gross Margin	57.8%	57.7%	15 bps	56.9%	96 bps
EBITDA margin (excl. OI)	18.1%	19.8%	-164 bps	17.3%	88 bps
PAT margin	7.2%	6.0%	125 bps	7.0%	24 bps

Source: Company, Systematix Institutional Research

## Exhibit 2: Geography-wise revenues

Segment Revenue	1QFY22	1QFY21	YoY	4QFY21	QoQ
AMESA	2,819	2,190	29%	2,766	2%
EAP	2,060	2,021	2%	1,849	11%
Americas	1,639	1,510	9%	1,749	-6%
Europe	1,784	1,977	-10%	2,002	-11%
<i>Unallocated</i>	<i>3</i>	<i>3</i>	<i>11%</i>	<i>3</i>	<i>0%</i>
<b>Total sales</b>	<b>8,305</b>	<b>7,700</b>	<b>8%</b>	<b>8,369</b>	<b>-1%</b>
<i>Less: Inter segment Revenue</i>	<i>-314</i>	<i>-285</i>	<i>10%</i>	<i>-267</i>	<i>18%</i>
<b>Net Sales</b>	<b>7,991</b>	<b>7,415</b>	<b>8%</b>	<b>8,102</b>	<b>-1%</b>
<b>Revenue share:</b>					
AMESA	34%	28%		33%	
EAP	25%	26%		22%	
Americas	20%	20%		21%	
Europe	21%	26%		24%	
Unallocated	0%	0%		0%	
<b>EBIT:</b>					
AMESA	311	160	95%	224	39%
EAP	345	438	-21%	216	60%
Americas	119	155	-23%	202	-41%
Europe	99	179	-45%	189	-48%
<i>Unallocated</i>	<i>-7</i>	<i>-6</i>	<i>21%</i>	<i>-9</i>	<i>-22%</i>
<i>Less: Inter segment</i>	<i>-37</i>	<i>-38</i>	<i>-2%</i>	<i>-7</i>	<i>429%</i>
<b>EBIT Margin</b>					
AMESA	11.0%	7.3%	374 bps	8.1%	293 bps
EAP	16.7%	21.7%	-492 bps	11.7%	507 bps
Americas	7.3%	10.2%	-297 bps	11.5%	-429 bps
Europe	5.5%	9.0%	-350 bps	9.4%	-389 bps

Source: Company, Systematix Institutional Research

**Exhibit 3: Change in estimates**

Particulars (Rs mn)	Revised estimates		Previous estimates		%change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Sales	36,444	41,002	36,444	41,002	0%	0%
EBITDA	7,318	8,948	7,318	8,948	0%	0%
PAT	3,501	4,714	3,501	4,714	0%	0%
EPS (Rs)	11.1	14.9	11.1	14.9	0%	0%
EBITDA margin	20.1%	21.8%	20.1%	21.8%	bps	bps
PAT margin	9.6%	11.5%	9.6%	11.5%	bps	bps

Source: Company, Systematix Institutional Research

## FINANCIALS (CONSOLIDATED)

### Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Net revenues</b>	<b>27,069</b>	<b>27,601</b>	<b>30,916</b>	<b>36,444</b>	<b>41,002</b>
Revenue growth (%)	11.7	2.0	12.0	17.9	12.5
- Op. expenses	22,078	22,026	24,805	29,126	32,053
<b>EBITDA (Excl. OI)</b>	<b>4,991</b>	<b>5,574</b>	<b>6,111</b>	<b>7,318</b>	<b>8,948</b>
EBITDA margins (%)	18.4	20.2	19.8	20.1	21.8
- Interest expenses	613	557	429	303	168
- Depreciation	1,861	2,298	2,346	2,629	2,821
+ Other income	285	134	145	364	410
- Tax	932	638	868	1,188	1,592
Effective tax rate (%)	33	22	25	25	25
Reported PAT	1,870	2,216	2,613	3,563	4,777
+/- Extraordinary items	-53	100	170	10	11
+/- Minority interest	-31	43	52	52	52
<b>Adjusted PAT</b>	<b>1,954</b>	<b>2,073</b>	<b>2,391</b>	<b>3,501</b>	<b>4,714</b>
EPS	6.2	6.6	7.6	11.1	14.9

Source: Company, Systematix Institutional Research

### Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Share capital	630	631	631	631	631
Reserves & Surplus	13,248	14,695	16,350	18,180	20,624
Networth	13,879	15,326	16,981	18,811	21,255
Minority interest	52	86	333	333	333
Total Debt	7,926	9,018	7,178	4,265	2,091
Def. tax liab. (net)	510	475	543	543	543
<b>Capital employed</b>	<b>22,366</b>	<b>24,906</b>	<b>25,035</b>	<b>23,953</b>	<b>24,221</b>
Net Fixed assets	13,486	14,034	15,585	14,956	14,135
Investments	168	160	149	149	149
Net Working capital	7,368	7,000	6,887	7,820	8,796
Cash and bank balance	1,344	3,712	2,414	1,027	1,141
<b>Capital deployed</b>	<b>22,366</b>	<b>24,906</b>	<b>25,035</b>	<b>23,953</b>	<b>24,221</b>
Net debt	6,582	5,306	4,764	3,238	950
WC (days)	86	85	68	66	66
DE (x)	0.57	0.59	0.41	0.22	0.10

Source: Company, Systematix Institutional Research

### Cash Flow

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
PAT	1,954	2,073	2,391	3,501	4,714
+ Non cash items	2,068	2,264	2,414	2,629	2,821
Cash profit	4,022	4,336	4,805	6,130	7,535
- Incr/(Decr) in WC	1,301	-368	-113	933	976
<b>Operating cash flow</b>	<b>2,721</b>	<b>4,705</b>	<b>4,917</b>	<b>5,197</b>	<b>6,558</b>
- Capex	3,089	2,846	3,897	2,000	2,000
<b>Free cash flow</b>	<b>-368</b>	<b>1,858</b>	<b>1,021</b>	<b>3,197</b>	<b>4,558</b>
- Dividend	394	1,041	1,293	1,733	2,333
+ Equity raised	316	0	0	-	-
+ Debt raised	585	1,093	-1,840	-2,913	-2,175
- Investments	37	-8	-11	-	-
- Misc. items	494	-450	-804	-62	-63
<b>Net cash flow</b>	<b>-392</b>	<b>2,368</b>	<b>-1,298</b>	<b>-1,387</b>	<b>113</b>
+ Opening cash	1,736	1,344	3,712	2,414	1,027
Closing cash	1,344	3,712	2,414	1,027	1,141

Source: Company, Systematix Institutional Research

### Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
P/E (x)	21.9	18.5	32.5	21.4	16.0
P/BV (x)	3.0	2.7	5.0	4.1	3.6
EV/EBITDA (x)	9.5	8.3	14.7	10.8	8.6
RoE (%)	14.8	14.2	14.8	19.6	23.5
RoCE (%)	16.1	14.5	15.8	20.9	27.5
Fixed Asset turnover (x)	1.3	1.2	1.1	1.2	1.3
Dividend (%)	62	165	205	275	370
Dividend yield (%)	1.0	2.5	1.5	2.3	3.1
Dividend payout (%)	21	47	49	49	49
Debtors days	67	65	70	65	65
Creditor days	34	41	62	60	60
Inventory days	53	61	61	61	61
Revenue growth (%)	12	2	12	18	13
EBITDA growth (%)	9	12	10	20	22
PAT growth (%)	13	6	15	46	35

Source: Company, Systematix Institutional Research

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## DISCLOSURES/APPENDIX

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Disclosure of Interest Statement	Update
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Served as an officer, director or employee	No

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**BUY (B):** The stock's total return is expected to exceed 15% over the next 12 months.

**HOLD (H):** The stock's total return is expected to be within -15% to +15% over the next 12 months.

**SELL (S):** The stock's total return is expected to give negative returns of more than 15% over the next 12 months.

**NOT RATED (NR):** The analyst has no recommendation on the stock under review.

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**ATTRACTIVE (AT):** Fundamentals/valuations of the sector are expected to be attractive over the next 12-18 months.

**NEUTRAL (NL):** Fundamentals/valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.

**CAUTIOUS (CS):** Fundamentals/valuations of the sector are expected to deteriorate over the next 12-18 months.

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