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Essel Propack Ltd.

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Non-oral care category-bigger growth opportunity

Essel Propack Ltd (EPL), part of the USD 4.2 billion Essel Group, is the largest specialty packaging company and laminated tube manufacturer in the world catering to the FMCG and Pharma space. It manufactures tubes for oral care, cosmetics, pharma, food and industrial product.

Investment Rationale

- **New product launches to drive growth going ahead:** EPL is constantly focusing on expanding its presence globally by launching new innovative products for the non-oral care brands. The company has developed various new products/tubes including Mystik, Aeir, Clarion, Velvetie, Etain, Green maple leaf, among others which the company believes will drive growth going ahead and strengthen its presence in non-oral care segment. We believe these value-added products would aid in new client additions and thus drive revenue and improve operational performance.
- **Focus on increasing contribution from non-oral care categories:** The company has gradually shifted its focus from the oral to non-oral category given its huge market potential and growth opportunities globally. The company is looking to expand its presence in categories such as cosmetics, consumer goods and pharmaceuticals. This will also aid in de-risking its business model and reduce dependence on oral care segment. Further, this bodes positively for margins as margin in non-oral care category is higher than oral care segment. The revenue contribution from non-oral care has increased from 35.2% in FY12 to 40.4% in FY17 and the company is further targeting to increase it to 50% over the next 2 years by using laminated tubes as packing material.
- **Growth across geographies led by Europe to boost revenue:** Capability augmentation in both laminated and plastic tubes, revival of Russian operations and new customer additions mainly in the non-oral care segment would drive revenue growth in Europe going ahead.Further, AMESA region, largest contributor to overall sales (40% in FY17), is expected to grow at a CAGR of 9% over FY17-20E driven by growth in Indian business helped by recovery in the FMCG industry. Sales from EAP region (22% of sales in FY17) is expected to register a CAGR of 10% over FY17-20E on the back of recovery in demand from China, healthy pipeline, setting up of a manufacturing base in the region and key management changes. Americas is expected to grow by 8% CAGR over FY17-20E helped by non-oral care business and improved sales from Colombia.

Outlook and Valuation:

Marquee clients, strong global presence, robust innovation track record and increasing presence in non-oral care segment will drive strong growth for EPL going ahead. Further, focus on strengthening capabilities both in terms of market outreach and technology introductions bodes well for the company. Consequently, we forecast consolidated revenue/PAT to grow at a CAGR of 12%/21% over FY17-20E. With increase in revenue contribution fron non-oral care segment we expect EBITDA margin to improve to 20.8% by FY20E. We initiate Essel Propack with an ACCUMULATE rating with a TP of Rs. 331 based on 16.5x FY20E EPS.

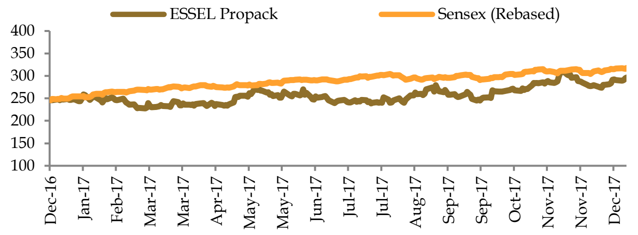
Market Data

Rating	**BUY**
CMP (Rs.)	295
Target (Rs.)	331
Potential Upside	12%
Duration	Long Term
Face Value (Rs.)	2
52 week H/L (Rs.)	317/226
Decline from 52WH (%)	6.9
Rise from 52WL (%)	30.5
Beta	0.3
Mkt. Cap (Rs.Cr)	4,636

Fiscal Year Ended

Y/E	FY17	FY18E	FY19E	FY20E
Revenue (Rs.Cr)	2,302	2,549	2,878	3,250
Adj. profit (Rs.Cr)	180	197	251	315
Adj. EPS (Rs.)	11.5	12.5	16.0	20.1
P/E (x)	25.8	23.5	18.4	14.7
P/BV (x)	4.5	3.9	3.3	2.8
ROE (%)	18.0	17.6	19.4	20.8

One year Price Chart



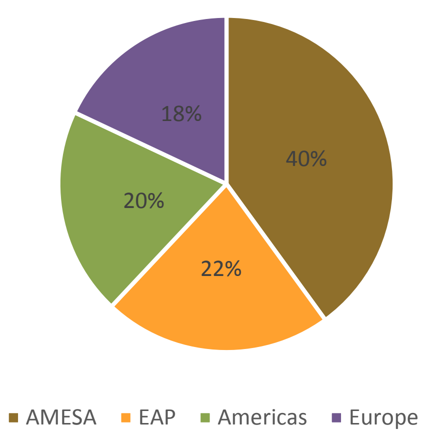
Source: Company, In-house research

Shareholding Pattern	Sep-17	Jun-17	Chg.
Promoters	57.2	57.1	0.2%
FII's	14.5	14.5	0.0%
MFs/Insti	5.2	5.1	2.0%
Public	10.8	10.9	-0.9%
Others	12.3	12.4	-0.8%

Essel Propack Ltd: Business overview

Essel Propack Ltd (EPL), part of the USD 4.2 billion Essel Group, is the largest specialty packaging company and laminated tube manufacturer in the world catering to the FMCG and Pharma space. It manufactures tubes for oral care, cosmetics, pharma, food and industrial product. The company generates revenue from Oral and non-oral segments, with oral segment being major revenue contributor of about 60%. Essel Propack enjoys a strong customer base in both oral and non-oral care product segments globally. EPL's biggest consumer names include world's largest oral and non-oral care players such as Colgate, Uniliver Plc, P&G, Johnson & Johnson, Glaxosmithkline, L'oreal Paris etc. The company is the first company to introduce laminated tubes in India. It is the world's largest producer of laminated plastic tubes with a 36% share of the world's oral care market in volume terms globally. Other than this, its products are extensively used in the packaging of products across categories such as Beauty & Cosmetics, Pharma & Health, Foods and Home. With over 2,852 employees, Essel Propack functions through 19 state of the art facilities and has presence in eleven countries including USA, Mexico, Colombia, Poland, Germany, Egypt, Russia, China, Philippines and India.

Revenue Mix



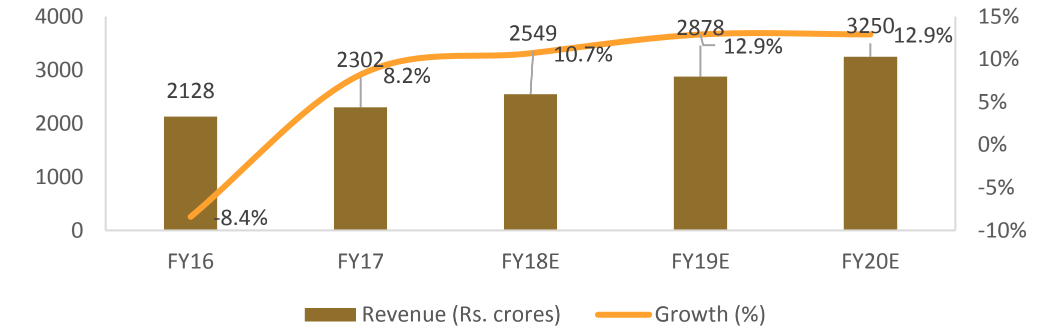
Source: Company, In-house research

Product range

New product launches to drive revenue growth going ahead

EPL is constantly focusing on expanding its presence globally through innovative new product launches for the non-oral care brands. The company has seen technology as a great enabler to deliver disruptive changes and is focusing on deploying cutting edge innovation across markets to deliver superior value add products. In a bid to strengthen its non-oral care business, EPL has developed a laminated plastic tube Mystik, the tube structure that can comprehensively protect highly abrasive formulations. It has created Mystik for packaging premium hair colorants (market size of 2.5 billion tubes globally) and developers with unique shaped inner barrier multilayer membrane that provides complete protection to all hair colorant formulations as well as any other aggressive product formulations like Rx Pharma products. The company believes this is a breakthrough innovation and thus offer brands a unique opportunity to upgrade their packaging. The company sees this a huge business opportunity in the non-oral care category.

Revenue to grow at 12% CAGR over FY17-20E



Source: Company, In-house research

Focus on increasing contribution of non-oral care categories in overall sales

The company has gradually shifted its focus from the oral to non-oral category given its huge market potential and growth opportunities globally. The company is looking to expand its presence in categories such as cosmetics, consumer goods and pharmaceuticals. This will also aid in de-risking its business model and reduce dependence on oral care segment. Further, this bodes positively for margins as margin in non-oral care category is higher than oral care segment. The revenue contribution from non-oral care has increased from 35.2% in FY12 to 40.4% in FY17 and the company is further targeting to increase it to 50% over the next 2 years by using laminated tubes as packing material. To achieve this, the company is expanding its presence in emerging markets such as Asia, Africa and Latin America and launching innovative products in the developed markets. The company is offering superior packaging solution in the form of its new generation laminated tubes in place of the plastic/aluminum tubes and bottles by leveraging customer insight, polymer and decoration technology, global presence and state of art equipment capability.

Growth across geographies led by Europe to boost revenue

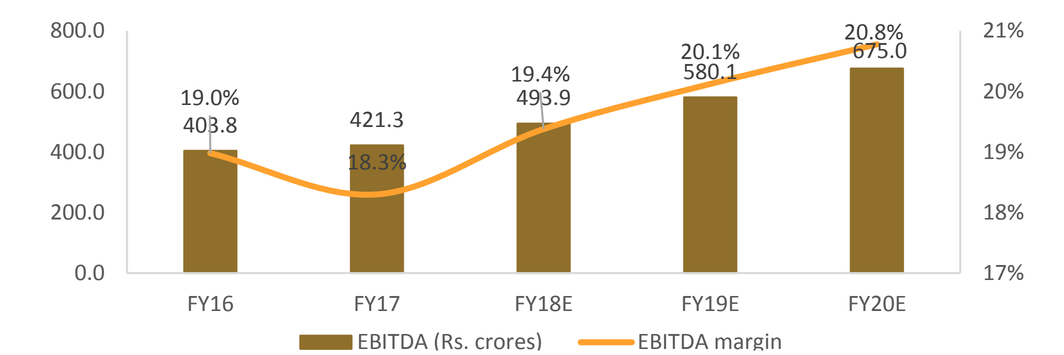
Capability augmentation in both laminated and plastic tubes, revival of Russian operations and new customer additions mainly in the non-oral care segment would drive revenue growth in Europe going ahead. Further the company is implementing various cost-effective programs which would help improve margins. Moreover, the acquisition of Essel Deutschland Germany (EDG) will help Essel to unlock synergies in European operations in terms of cross selling, sourcing flexibility and better capacity utilization at all of its Europe plants. Further, AMESA largest contributor to overall sales (40% in FY17), is expected to grow at a CAGR of 9% over FY17-20E driven by growth in Indian business helped by recovery in the FMCG industry. Sales from EAP region (22% of sales in FY17) is expected to register a CAGR of 10% over FY17-20E on the back of recovery in demand from China, healthy pipeline, setting up of a manufacturing base in the region and key management changes. Americas is expected to grow by 8% CAGR over FY17-20E helped by non-oral care business and improved sales from Colombia.

EBITDA margin to expand to 20.8% by FY20E

Overall EBITDA rose by 8% CAGR over FY13-17 on the back of better operating performance across regions. Americas recorded 19% CAGR in EBIT. As a result, EBIT margin expanded from 6.2% in FY12 to 10.9% in FY17. Europe staged a strong turnaround in EBIT which turned positive from FY15 onwards with CAGR of 15% from FY15-17. EBIT margin improved from -14.3% in FY12 to 5.6% in FY17. AMESA posted EBIT CAGR of 3%. Accordingly, EBIT margin improved marginally from 12.4% in FY12 to 13% in FY17.

Consequently, overall EBITDA margin improved by 120 bps over FY13-17 to 18.3% in FY17. We believe EBITDA margin to improve from FY18E onwards driven by recovery in Indian business after the GST related hiccups and improved overseas business performance. EBITA margin is expected to grow by 250 bps over FY17-20E to 20.8% in FY20E.

EBITDA to grow at 17% CAGR over FY17-20E



Source: Company, In-house research

Outlook and Valuation

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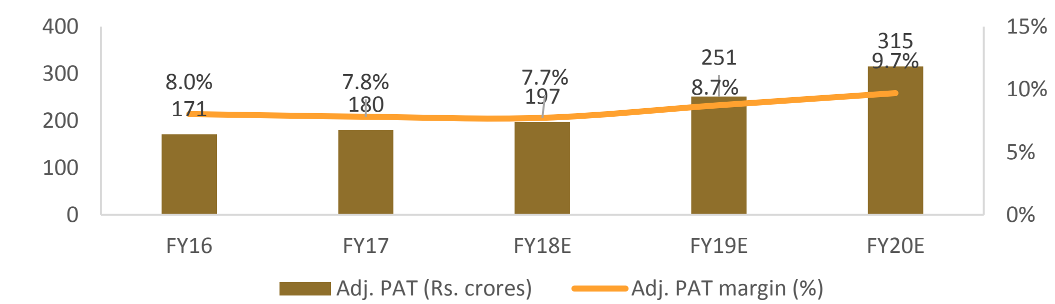
PAT to grow at 21% CAGR over FY17-20E



FUNDSINDIA

Profit & Loss Account (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
Total operating Income	**2,302**	**2,549**	**2,878**	**3,250**
Raw Material cost	1,008	1,076	1,193	1,326
Employee cost	406	449	508	573
Other operating expenses	467	529	598	675
EBITDA	**421**	**494**	**579**	**675**
Depreciation	141	163	177	189
EBIT	**280**	**331**	**402**	**486**
Interest cost	58	59	54	48
Other Income	35	31	38	46
Probit before tax	**258**	**302**	**386**	**484**
Tax	79	106	135	169
Profit after tax	**179**	**196**	**251**	**315**
Minority Interests	-	-	-	-
P/L from Associates	1	1	1	1
Adjusted PAT	**180**	**197**	**251**	**315**
E/o income / (Expense)	16	-	-	-
Reported PAT	**196**	**197**	**251**	**315**

Balance Sheet (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
Paid up capital	31	31	31	31
Reserves and Surplus	1,008	1,164	1,362	1,611
Net worth	1,039	1,195	1,393	1,642
Minority interest	6	6	6	6
Total Debt	792	742	672	572
Other non-current liabilities	23	23	23	23
Total Liabilities	**1,860**	**1,966**	**2,094**	**2,244**
Total fixed assets	1,165	1,141	1,094	1,025
Capital WIP	19	30	30	30
Goodwill	14	14	14	14
Investments	16	16	16	16
Net Current assets	606	726	901	1,119
Deferred tax asset (Net)	(32)	(32)	(32)	(32)
Other non-current assets	71	71	71	71
Total Assets	**1,860**	**1,966**	**2,094**	**2,244**

Cash Flow Statement (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
Pre tax profit	274	303	386	485
Depreciation	145	163	177	189
Chg in Working Capital	49	(45)	(54)	(69)
Others	(26)	28	17	2
Tax paid	(74)	(106)	(135)	(169)
Cash flow from operating activities	**369**	**343**	**391**	**438**
Capital expenditure	(231)	(150)	(130)	(120)
Chg in investments	(129)	-	-	-
Other investing cashflow	59	31	38	46
Cash flow from investing activities	**(301)**	**(119)**	**(92)**	**(74)**
Equity raised/(repaid)	1	-	-	-
Debt raised/(repaid)	28	(50)	(70)	(100)
Dividend paid	(44)	(41)	(53)	(66)
Other financing activities	(61)	(59)	(54)	(48)
Cash flow from financing activities	**(76)**	**(150)**	**(178)**	**(214)**
Net chg in cash	**(9)**	**74**	**121**	**150**

Key Ratios (Consolidated)

Y/E	FY17	FY18	FY19E	FY20E
Growth (%)				
Net Sales	7.9	10.7	13.0	13.0
EBITDA	4.3	17.2	17.3	16.6
Net profit	5.4	9.5	27.6	25.4
Margin (%)				
EBITDA	18.3	19.4	20.1	20.8
NPM	7.8	7.7	8.7	9.7
Return Ratios (%)				
RoE	18.0	17.6	19.4	20.8
RoCE	17.9	19.1	21.9	24.8
Per share data (Rs.)				
EPS	11.5	12.5	16.0	20.1
DPS	2.4	2.6	3.4	4.2
Valuation(x)				
P/E	25.9	23.6	18.5	14.8
EV/EBITDA	12.7	10.6	8.7	7.1
EV/Net Sales	2.4	2.1	1.8	1.5
P/B	4.5	3.9	3.3	2.8
Turnover Ratios (x)				
Net Sales/GFA	1.7	1.5	1.6	1.7
Sales/Total Assets	1.1	1.1	1.1	1.2

Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	**Buy**	More than equal to 15%
Hold	Upside or downside is less than 10%	**Accumulate***	Upside between 10% & 15%
Reduce	Less than equal to -10%	**Hold**	Between 0% & 10%
		Reduce/sell	Less than 0%

***** To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

***** Essel Propack Ltd is a mid-cap company.

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