Stock Update

EPL Ltd.

September 05, 2023

RETAILRESEARCH

EPL Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Packaging	Rs. 205.6	Buy in Rs. 203-210 band and add more on dips in Rs. 182-189 band	Rs. 226	Rs. 242	2 -3 quarters

HDFC Scrip Code	EPLLTDEQNR
BSE Code	500135
NSE Code	EPL
Bloomberg	EPLL:IN
CMP (Sept 04, 2023)	205.6
Equity Capital (RsCr)	63.2
Face Value (Rs)	2
Equity Share O/S (Cr)	31.6
Market Cap (RsCr)	6540
Book Value (Rs)	63
Avg. 52 Wk Volumes (in '000s)	890
52 Week High	236
52 Week Low	147

Share holding Pattern % (June, 2023)	
Promoters	51.53
Institutions	28.06
Non Institutions	20.41
Total	100.0

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst
Harsh Sheth
Harsh.Sheth@hdfcsec.com

Our Take:

EPL Limited (EPL) is the leading manufacturer of laminated plastic tubes in the world, with ~37% market share in oral care and catering to companies like Unilever, Colgate, P&G etc. In the Personal care market, its global share stands at ~8%, and with opportunity 3x as big as oral-care, the runway for growth is long. Moreover, its increasing share of higher-value personal care tubes will help improve margins. The tubes industry is predominantly concentrated between few global players like ALBEA S.A., CCL Industries and EPL. The company is engaged in a very niche business considering its products are an integral part of the FMCG and Pharma space with packaging being one of the four key P's of marketing mix that underpin the success of any brand. The opportunity in the business is quite evident by the fact that opportunity for oral care tubes is 14 bn p.a. while for beauty & cosmetics is 12bn p.a. and pharmaceuticals is 10bn p.a. EPL sells ~8bn tubes annually. EPL's integrated and vast operations make it a preferred one stop solution for its big clients who form long term partnership with EPL. Replacement of aluminium/ plastic tubes by laminated tubes continues at a good pace across the globe due to better aesthetics, lower cost, higher plastic-barrier properties, product and design flexibility and higher sustainability. The unique business model, extensive reach, excess capacity and management focus will help the company to gain market share.

Valuation & Recommendation:

EPL is a market leader that is set to continue gaining market share in an industry which is undergoing structural shift owing to innovative product introduction. EPL's strong innovation pipeline and a plethora of sustainable solutions is expected to be quickly adopted by larger personal care brands given their commitment to sustainability goals. A constant look out for establishing presence in white spaces and driving higher share of customer wallets brightens the company's prospects. EPL's management has committed to deliver double-digit revenue growth and formulated a comprehensive margin recovery plan, including ongoing pricing success which is expected to improve margins. Softening of raw material should further aid the margin recovery. Going ahead, we expect revenue and PAT CAGR of 12% and 23%, respectively, over FY23-25E and EBITDA margin improvement of 286 bps over same time frame. RoCE and RoE are expected to increase further from 12.7% and 11.9%, respectively in FY23 to 18.5% and 15.4% by FY25.

We think the base case fair value of the stock is Rs 226 (20.5x FY25E EPS) and the bull case fair value is Rs 242 (22x FY25E EPS). Investors can buy the stock in Rs 203-210 band (19x FY25E EPS) and add more on dips in Rs 182-189 band (17x FY25E EPS).

Financial Summary

Particulars (in Rs Cr)	Q1FY24	Q1FY23	YoY-%	Q4FY23	QoQ-%	FY21	FY22	FY23	FY24E	FY25E
Operating Income	910	832	9%	969	-6%	3,092	3,433	3,694	4,123	4,609
EBITDA	159	126	27%	155	3%	611	576	578	726	853
APAT	54	33	63%	84	-36%	240	214	228	259	350
Diluted EPS (Rs)	1.7	1.1	61%	2.7	-35%	7.6	6.8	7.2	8.1	11.0
RoE-%						14.9	12.2	11.9	12.5	15.4
P/E (x)						27	30	29	25	19
EV/EBITDA						11	12	12	10	8

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Revenue (in Rs Cr)													
AMSEA	219	259	236	277	282	308	323	314	320	360	352	338	336
EAP	202	191	204	185	206	214	246	197	193	217	226	214	215
Americas	151	153	174	175	164	186	190	196	197	223	191	230	218
Europe	198	194	177	200	178	188	173	209	197	205	206	250	213
EBIT (in Rs Cr.)													
AMSEA	16	38	32	22	31	35	35	28	31	33	40	42	37
EAP	44	40	39	22	35	35	42	16	25	38	37	25	35
Americas	16	16	20	20	12	17	5	19	11	11	11	6	2
Europe	18	16	10	19	10	8	-2	10	3	7	-4	13	8
EBIT Margin													
AMSEA	*7.3%*	*14.8%*	*13.3%*	*8.1%*	*11.0%*	*11.4%*	*10.9%*	*8.8%*	*9.7%*	*9.3%*	*11.5%*	*12.5%*	*10.9%*
EAP	*21.7%*	*20.7%*	*18.8%*	*11.7%*	*16.7%*	*16.5%*	*17.0%*	*8.1%*	*12.8%*	*17.4%*	*16.1%*	*11.6%*	*16.3%*
Americas	*10.3%*	*10.1%*	*11.6%*	*11.5%*	*7.3%*	*9.0%*	*2.8%*	*9.6%*	*5.3%*	*4.8%*	*5.7%*	*2.6%*	*1.1%*
Europe	*9.1%*	*8.1%*	*5.6%*	*9.4%*	*5.5%*	*4.0%*	*-1.3%*	*5.0%*	*1.7%*	*3.4%*	*-1.7%*	*5.4%*	*3.7%*

(Source: Company, HDFC sec)

Q1FY24 result highlights

In Q1FY24, EPL's revenue grew 9.4%YoY (-6.1% QoQ) to Rs 910 cr driven by growth across all regions. AMESA/ EAP/ Americas/ Europe reported revenue growth of 5%/ 11.5%/ 10.4%/ 7.8% YoY, respectively. AMESA region growth was impacted by the devaluation of the Egyptian Pound. India business reported revenue growth of 7% YoY. While EAP is witnessing a revival of growth on a low base though there is some demand softness from MNCs reducing exports from China.

EBITDA stood at Rs 159 cr (+26.6% YoY & +2.8% QoQ). EBITDA margin at 17.47% expanded by 237 bps/ 152bps on YoY/ QoQ respectively. Ocean freights and polymer & foil prices continued its downward trend during Q1. Americas' margins were impacted due to the one-time impact of health insurance. EBITDA margin for AMESA/ EAP/ Americas/ Europe grew 200 bps/ 335 bps/ -80 bps/ 260 bps YoY to 22%/ 23%/ 12%/ 11% respectively. Lag effect of price hikes have been factored in. Going forward, expect pricing to be softer driven by pass through of RM price softening.

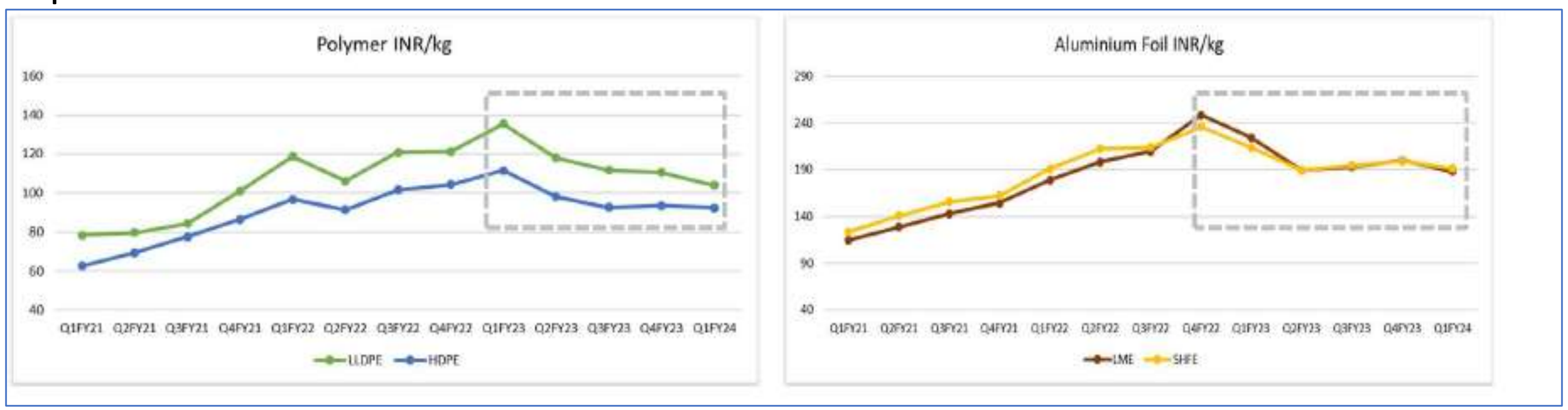
Mix continues to improve: Non-oral care/ oral care revenue grew 12.2%/ 7.8% YoY in Q1FY24. Mix improved with personal care contributing 49% of Q1FY24 revenue.

Update on Brazil Facility: Brazil's performance is steadily ramping up. The plant is fully operational. Commercial production and delivery is underway. While Q1 was relatively soft in terms of volume, EPL witnessed improved offtake in July 2023. Management is confident of new business and market share gains on the back of interest from potential customers.

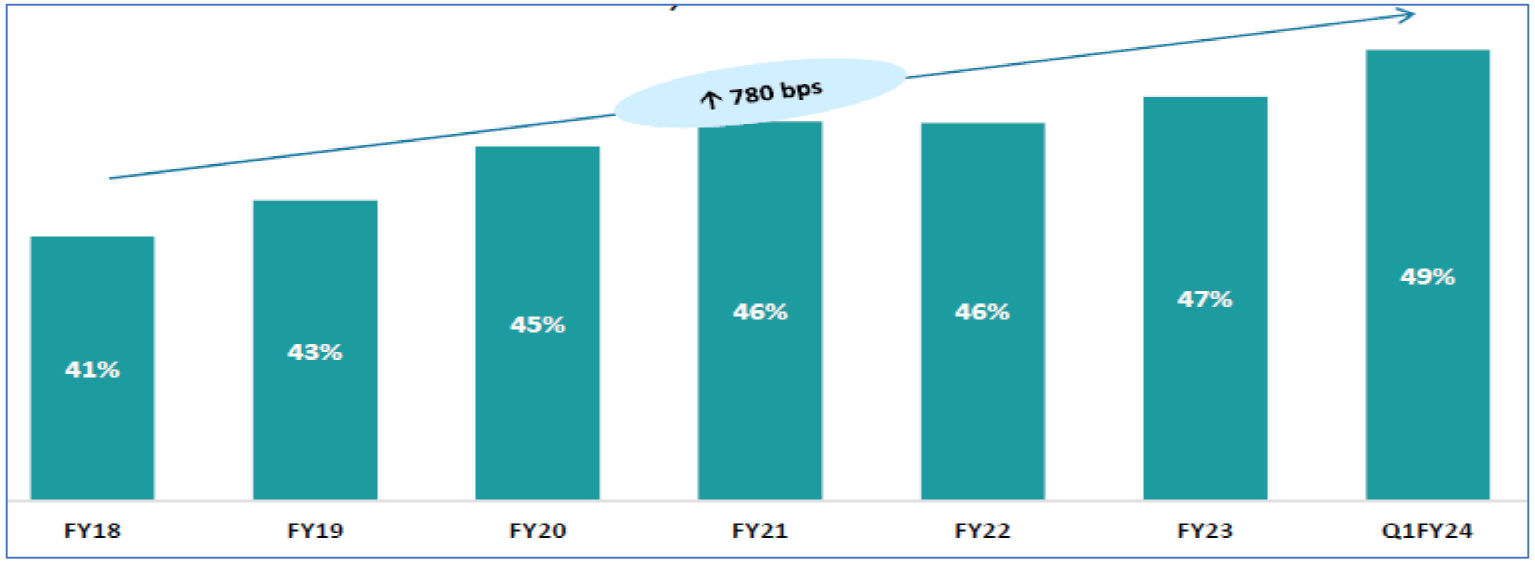
Appointment of CFO: Mr. Deepak Goel will be replacing Mr. Amit Jain as CFO. Mr. Goel comes with 22 years of experience across FMCG, financial services, and hospitality sectors spanning across companies like PepsiCo, GE, and OYO Vacation Homes.

RM prices continue to stabilize - Polymer and foil USD prices have declined from Q1FY23 and Q4FY22 level respectively, however the prices remain higher than pre-Covid level. USD rate in Q1FY24 was higher than FY21 by 10.5% which further increased the landed cost. Ocean freight rates have declined to below pre-Covid level.

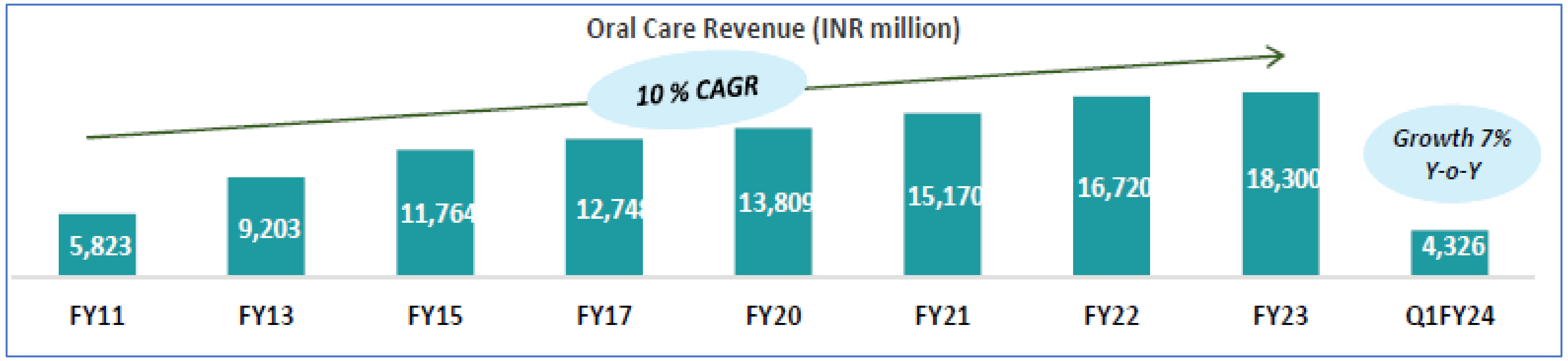
RM price movement



'Personal Care & beyond' category contribution stood at 49% in Q1FY24

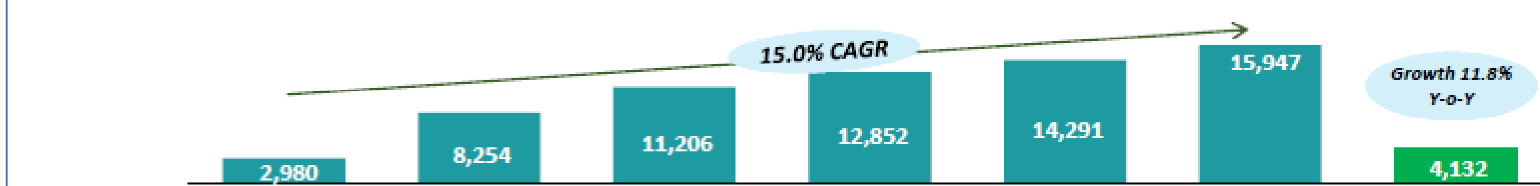


EPL has an established Global Leadership in Oral Care with the segment demonstrating steady long-term revenue growth at a CAGR of 10.0%



Personal Care & beyond' category has grown at a 15% CAGR over the last 13 years and continues to be the major growth driver for EPL in FY23. EPL is focused towards adding sub segments in B&C (Beauty & Cosmetics) category.

'Personal Care & beyond'' Revenue (INR million)



Sub-categories	FY11	FY15	FY20	FY21	FY22	FY23	Q1FY24
Face Care	✔	✔	✔	✔	✔	✔	✔
Hair Care	✖	✖	✔	✔	✔	✔	✔
OTC Medication #	✖	✔	✔	✔	✔	✔	✔
Prescription Medication #	✖	✖	✔	✔	✔	✔	✔
Food	✖	✔	✔	✔	✔	✔	✔
Home	✖	✖	✔	✔	✔	✔	✔
Hygiene Products #	✖	✖	✔	✔	✔	✔	✔
Eye Care	✖	✖	✓	✔	✔	✔	✔
Hand Cream	✖	✖	✓	✓	✓	✔	✔
New Applicator (B&C)	✖	✖	✖	✓	✓	Actively Pursuing ➡ ✓	✔
Grease / gear oil	✖	✖	✖	✖	✖	✔	✔

(Source: Company, HDFC sec)

Key Highlights – FY23

Americas (with operations in the USA, Mexico, Colombia, Brazil) – EPL has a strong market presence in both North and South America through its wholly owned subsidiaries in USA, Mexico, Colombia and Brazil. Backed by continued demand and new contract ramp up in Latin America, in FY23, the region delivered 19.0% revenue growth. Oral Care grew by 15.7% and Non-Oral Care by 25.3%. However, high inflation, tight labour market conditions, rising interest rates impacted bottom-line delivery. AMERICAS expanded into new country Brazil. EPL has invested ~USD 20 mn for the Brazil facility and has completed the facility in record time. EPL started the facility because of a request from anchor customer and first priority of company will be to supply to this anchor customer. Thereafter, it will look forward towards supplying to other customers as well.

AMESA - Africa, Middle East & South Asia (with operations in Egypt and India) – EPL services this region through its seven units across India, and a subsidiary in Egypt. In FY23, AMESA revenue grew strongly by 11.7% contributed by both Oral and Non-Oral categories. The Oral Care and Non-Oral Care category grew at 17.3% and 13.4% respectively. Continued recovery of Beauty & Cosmetics segment, wallet share gain in key customers and strong business development pipeline. Despite input cost increases, the EBIT grew by 13.6%.

Europe – EPL has units in Poland and Germany which manufactures and sells laminated tubes and extruded plastic tubes. While the market demand was volatile during the year, Europe revenue grew by 12.7% in FY23, aided by mix improvement and price recovery. The Oral Care and Non-Oral Care category grew at 9.0% and 8.4% respectively. The margins for this region were impacted by lag effect of price increases, inflation in minimum wages and energy prices combined with reverse operating leverage.

EAP (East Asia Pacific): EPL operates out of 5 units in China and 1 unit in the Philippines. In FY23, EAP revenue declined by 1.5% as China continued to be impacted by Covid related challenges through the year, with the situation easing out as the year ended. Personal Care grew by 5.9%, whereas Oral Care declined by 6.8%. Despite the decline in business, the region exercised tight control on operating expenses, thus restricting the EBIT decline to 3.1%.

Continued thrust on R&D and innovation gives an edge

EPL has an IP portfolio of 89 granted active patents and 65 filings pending grants. In FY23, EPL filed for 31 new global patents related to sustainability. According to EPL, 80% of its machines are capable of manufacturing sustainable tubes (vs.10% for its competitors). EPL leads on new sustainable offerings by focusing on the 3R's of sustainability, delivering both growth and competitive advantage:

Recycle: EPL has developed highly transparent tubes that can be recycled in HDPE code 2 recycle streams. EPL got the recognition on recyclability for these tubes from Association of Plastic Recyclers – USA (APR).

Reduce: In line with its customers' commitment on plastic usage reduction, EPL has developed thinner gauge tube sleeves without compromising on the flavour retention properties of the tube. EPL also has developed several new dispensers and applicators options that enables down-gauging and weight reduction of tubes helping in reducing the carbon footprint in the packaging.

Reuse: EPL has developed laminated tubes with up to 50% Post-Consumer Recycled (PCR) resin content, creating an avenue for using the recycled resins and also reducing the demand for fresh virgin plastic.

On Technology: EPL is increasing its Technological Quotient by strategically investing in acquiring / developing futuristic technologies. Helped by experience gained over the years and through long-term technological partnerships, EPL is running various programs:

1. for new product inclusions
2. to make complete tube more sustainable
3. for investments in preparing machines to address higher cost per tube ratios
4. to demonstrate defect free supplies to our customers

EPL's investments and upgradations to fulfil the market demands continue, with a focus on sustainability, high quality, zero wastage in value chain, and speed to market. Hence, majority of the investments address three key areas –

a. Aluminium Barrier Laminate to Plastic Barrier Laminate conversion to maintain and grow sustainable offerings.
b. Zero defect to ensure highest quality delivered.
c. Upgradations (Machine and Process) to ensure on time delivery with increased productivity.

In **Printing,** EPL is strategically is moving towards acquiring/ upgrading the latest technology to address the evolving needs of its customers. While the company continues shifting from Letterpress printing to Flexo Printing in Laminated Tube business, the demand in Plastic Tube business made EPL invest in the state-of-the-art 14 station/colour machine.

This technological upgradation not only enhances the capacity, but helps the company acquire more high-value customers in the market, adding to bottom line growth as a result of better mix.

Gold Medal by EcoVadis – an advantage

EPL has been awarded the prestigious 'Gold Medal" in the EcoVadis 2023 Sustainability Assessment with a score of 70 out of 100 overall. This places EPL in the 94th percentile and among the top 5% of the 90,000 odd companies assessed by EcoVadis across 160 countries. This is an improvement over the 90th percentile EPL was placed in last year, with a score of 65. With the Gold rating, EPL is now among the top 3% of businesses in the plastic products manufacturing sector. Further, Gold Medal certificate by EcoVadis rating puts EPL in an advantageous position in sustainable tubes which has been the highest-priority area for the entire FMCG customer base.

Focused on innovations

(Source: Company, HDFC sec)

Company's long term growth strategy

EPL's management has carved a 4 X 4 mantra for growth that aims to deliver industry leading profitable growth:

4 C's - Where EPL will win

- Category - Drive growth in Beauty & Cosmetics and Pharma
- Customer - Go for Global and Regional customers
- Country - Build wallet share in key countries
- Cost - Harness *'fuel for growth'*

4 Enablers - How EPL will win

- An ambition driven innovation program
- Bold sales and marketing to hunt down new growth opportunities
- Digital transformation to make EPL future-ready
- Build a 'one EPL' culture to foster cross-fertilization of ideas and promote horizontal collaboration across regions

Key Concerns

Volatility in raw material prices as they are highly correlated to the movement in crude prices. The principal raw material consumed is polymer granules which is a derivative of crude oil and is highly sensitive to any volatility in crude oil prices. Though the company has a pass through mechanism in place but a significant increase in crude/polymer prices can result in contraction of margins as the company may not be in a position to pass on the entire rise in prices in one go.

Volume growth in the global oral care market is 3-4% p.a.. Globally, toothpaste is a consolidated segment with 77% of market share held by top four brands with Colgate holding 42% share. This could mean slow growth in oral care segment and lower bargaining power with customers in case capacity increase happens in laminated packaging segment.

Management is very buoyant on the growth prospects of its European business going forward. In case of continued slowdown in the European business, the overall growth momentum could be impacted.

Company Overview

EPL Limited (formerly known as Essel Propack Ltd.) is the world's largest specialty packaging company specializing in the manufacture of laminated plastic tubes for the FMCG and pharmaceutical industries. With its 3,000 employees from 25 nations, EPL operates 20 state-of-the-art manufacturing facilities in eleven countries and sells approximately 8 billion tubes per year. With a 37% global market share in oral care, EPL has facilities in the U.S., Mexico, Colombia, Poland, Germany, Egypt, Russia, China, the Philippines and India. These facilities cater to the five core categories of Oral Care, Beauty & Cosmetics, Pharma & Health, Food & Nutrition and Home Care, providing customized solutions driven by continuous innovation in materials, technology, design and processes.

Epsilon Bidco, an affiliate of Blackstone group, owns 51.5% stake in EPL Ltd. Blackstone acquired 51% stake in the company at Rs.134 per share in April 2019. It got an additional 23% in the open offer at Rs.139 per share. In Sept 2020, it sold 23% stake at Rs. 256.50 per share. Mr Anand Kripalu was appointed as MD and CEO of EPL Ltd. in Aug 2021 after the new owners took over. Mr Kripalu is a 30 year veteran of FMCG industry with stints at Unilever, Diageo, Mondelez etc in the past. Presence of Blackstone and Mr Kripalu has helped EPL and could help it even in future to grow revenues, market share and margins.

Financials

Income Statement

Particulars (in Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	**3092**	**3433**	**3694**	**4123**	**4609**
Growth (%)	***12.0***	***11.0***	***7.6***	***11.6***	***11.8***
Operating Expenses	2481	2857	3116	3397	3756
EBITDA	**611**	**576**	**578**	**726**	**853**
Growth (%)	***9.6***	***-5.7***	***0.3***	***25.6***	***17.5***
EBITDA Margin (%)	***19.8***	***16.8***	***15.6***	***17.6***	***18.5***
Depreciation	235	251	281	323	347
Other Income	15	12	42	21	23
EBIT	**391**	**337**	**339**	**423**	**529**
Interest expenses	43	40	67	68	51
PBT	**332**	**296**	**272**	**355**	**478**
Tax	87	68	37	92	124
PAT	**245**	**229**	**235**	**263**	**354**
Share of Asso./Minority Int.	-5	-15	-7	-4	-4
Adj. PAT	**240**	**214**	**228**	**259**	**350**
Growth (%)	***15.4***	***-10.6***	***6.2***	***13.6***	***35.1***
EPS	7.6	6.8	7.2	8.1	11.0

Balance Sheet

Particulars (in Rs Cr) - As at March	FY21	FY22	FY23	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	63	63	64	64	64
Reserves	1635	1761	1926	2089	2319
Shareholders' Funds	**1698**	**1824**	**1989**	**2153**	**2383**
Minority Interest	33	34	4	8	12
Total Debt	554	657	890	710	485
Net Deferred Taxes	54	62	63	63	63
Total Sources of Funds	**2339**	**2577**	**2946**	**2947**	**2971**
APPLICATION OF FUNDS					
Net Block & Goodwill	1536	1475	1696	1653	1536
CWIP	23	145	175	175	175
Investments	15	7	19	19	19
Other Non-Curr. Assets	94	129	134	148	166
Total Non-Current Assets	**1667**	**1756**	**2025**	**1996**	**1897**
Inventories	415	594	608	678	758
Debtors	589	637	643	723	808
Cash & Equivalents	241	193	244	176	209
Other Current Assets	98	113	110	124	139
Total Current Assets	**1343**	**1537**	**1606**	**1701**	**1913**
Creditors	422	455	500	542	606
Other Current Liab & Provisions	249	261	185	209	233
Total Current Liabilities	**672**	**715**	**685**	**751**	**839**
Net Current Assets	672	821	921	951	1074
Total Application of Funds	**2339**	**2577**	**2946**	**2947**	**2971**

EPL Ltd.

Cash Flow Statement

Particulars (in Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	331	289	268	355	478
Non-operating & EO items	50	39	24	-12	-16
Interest Expenses	32	32	60	68	51
Depreciation	235	251	281	323	347
Working Capital Change	-38	-222	14	-87	-79
Tax Paid	-87	-78	-45	-92	-124
OPERATING CASH FLOW (a)	**522**	**312**	**602**	**555**	**657**
Capex	-172	-267	-383	-280	-230
Free Cash Flow	350	45	219	275	427
Investments	1	0	-15	0	0
Non-operating income	-107	0	8	0	0
INVESTING CASH FLOW (b)	**-278**	**-266**	**-389**	**-280**	**-230**
Debt Issuance / (Repaid)	-122	103	109	-180	-225
Interest Expenses	-39	-36	-66	-68	-51
FCFE	83	113	255	27	152
Share Capital Issuance	1	5	0	0	0
Dividend	-134	-138	-141	-95	-119
FINANCING CASH FLOW (c)	**-295**	**-66**	**-99**	**-343**	**-395**
NET CASH FLOW (a+b+c)	**-51**	**-20**	**114**	**-68**	**32**

One-year share price chart

Key Ratios

Particulars	FY21	FY22	FY23	FY24E	FY25E
Profitability Ratios (%)					
EBITDA Margin	19.8	16.8	15.6	17.6	18.5
EBIT Margin	12.6	9.8	9.2	10.3	11.5
APAT Margin	7.8	6.2	6.2	6.3	7.6
RoE	14.9	12.2	11.9	12.5	15.4
RoCE	18.1	14.2	12.7	14.7	18.5
Solvency Ratio (x)					
Net Debt/EBITDA	0.5	0.8	1.1	0.7	0.3
Net D/E	0.2	0.3	0.3	0.2	0.1
PER SHARE DATA (Rs)					
EPS	7.6	6.8	7.2	8.1	11.0
CEPS	15.0	14.7	16.0	18.3	21.9
Book Value	53.8	57.7	62.6	67.7	74.9
Dividend	2.1	2.2	2.2	3.0	3.8
Turnover Ratios (days)					
Debtor days	64	65	63	60	61
Inventory days	46	54	59	57	57
Creditors days	46	47	47	46	45
VALUATION					
P/E	27	30	29	25	19
P/BV	4	4	3	3	3
EV/EBITDA	11	12	12	10	8
EV / Revenues	2	2	2	2	1
Dividend Yield (%)	1.0	1.0	1.0	1.5	1.8
Dividend Payout (%)	27.0	31.7	30.0	36.9	34.1

(Source: Company, HDFC sec)

HARSH RAJENDRA SHETH

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Date: 2023.09.05 08:40:54 +05'30'

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.