

EPL

Refer to important disclosures at the end of this report

Covid-19 headwinds to weigh in the near term

- EPL's EBTIDA/PAT came in below our estimates by 6%/7% due to a 320bps EBIT margin decline in Americas and a 130bps decline in the AMESA region. According to management, the muted margin performance was due to continued investments in geographies despite short-term headwinds on consumption stemming from Covid-19.
- Revenues increased 7.9% yoy to Rs7.7bn, in line with our estimate of Rs7.6bn. Management expects Covid-19-related demand headwinds to weigh in on near-term revenue performance as travel-related tube demand continues to suffer.
- Management also highlighted some pressure on gross margins going ahead due to a lag in passing on the cost increase arising from rising polymer prices. We leave our revenue estimates unchanged but trim our FY21-23E EBITDA/PAT by 2-4% as we factor in margin headwinds.
- We maintain Hold rating with a revised TP of Rs250, valuing it on 10x Mar-23E EV/EBITDA (implied P/E of 26.5x/23x on FY22/23E EPS). In our view, EPL is fairly valued and await a better entry point.

EAP and Americas deliver growth but AMESA's woes continue

EPL's revenues from Americas increased 19% yoy on new customer wins and ramping up pilot clients to commercial orders. Strong growth in EAP continued in Q3 as well, with 9M revenue already above FY20 revenue. EAP revenues increased 17.4% yoy on penetration into high-growth regional beauty and cosmetic and pharma clients. AMESA revenue declined 6.1%/8.8% yoy/qoq and was a negative surprise to us given improved qoq recovery among end-clients. As per management, the weakness in AMESA was due to sluggish demand in the beauty and cosmetics segment. Overall oral care revenues increased 2.4% yoy (Emkay est.), while non-oral care revenues increased 14.6% yoy (Emkay est.). Adj. EBITDA margin declined in across all geographies except for AMESA due to continued investments in the business for future growth and Covid-19-related operational costs: AMESA (+50bps yoy); EAP (-20bps yoy); Americas (-330bps yoy); and Europe (-40bps yoy).

Balance sheet continues to strengthen

EPL's net debt was reduced by 55%/31% yoy/qoq on robust operating cash-flow generation. We expect EPL to generate Rs8.3bn in cumulative FCF over FY21-23E on a modest 10% revenue CAGR over FY21-23E. In our view, EPL can increase its capex if growth picks up.

Outlook: CMP factors in earnings growth and strong balance sheet

As we await a favorable entry point, we maintain Hold rating with a revised TP of Rs250 vs. (Rs260 earlier) based on 10x Mar-23E EV/EBITDA (implied P/E of 26.5x/23x on FY22/23E EPS). Key risks: 1) demand slowdown for client products; and 2) inability to pass on the increase in raw material prices to customers.

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	27,069	27,601	30,112	33,644	36,617
EBITDA	4,991	5,574	6,259	7,267	8,056
EBITDA Margin (%)	18.4	20.2	20.8	21.6	22.0
APAT	1,923	2,166	2,658	2,998	3,462
EPS (Rs)	6.1	6.9	8.4	9.4	10.9
EPS (% chg)	7.0	12.6	21.8	12.8	15.5
ROE (%)	14.6	14.8	16.5	17.1	18.4
P/E (x)	39.0	34.7	28.5	25.3	21.9
EV/EBITDA (x)	16.0	13.9	12.4	10.5	9.2
P/BV (x)	5.4	4.9	4.5	4.2	3.9

Source: Company, Emkay Research

CMP	Target Price
Rs 238 as of (February 2, 2021)	Rs 250 (▼) 12 months
Rating	Upside
HOLD (■)	5.0 %

Change in Estimates

EPS Chg FY21E/FY22E (%)	(4)/(4)
Target Price change (%)	(3.8)
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	8.4	9.4
Consensus	8.5	10.7
Mean Consensus TP (12M)	Rs 296	

Stock Details

Bloomberg Code	EPLL IN
Face Value (Rs)	2
Shares outstanding (mn)	316
52 Week H/L	319 / 130
M Cap (Rs bn/USD bn)	75 / 1.03
Daily Avg Volume (nos.)	358,128
Daily Avg Turnover (US\$ mn)	1.3

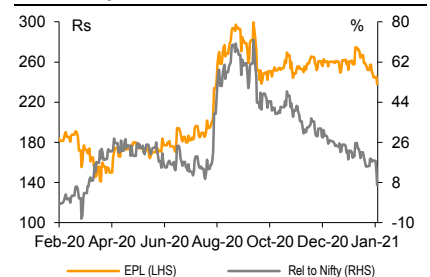
Shareholding Pattern Dec '20

Promoters	52.0%
FIIIs	13.8%
DIIIs	15.6%
Public and Others	18.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	(6)	2	38
Rel. to Nifty (13)	(25)	(23)		10

Relative price chart



Source: Bloomberg

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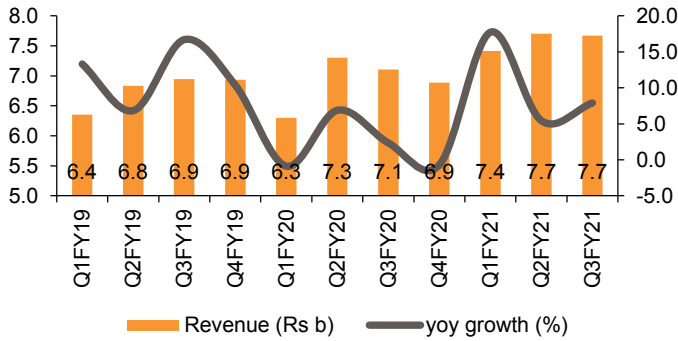
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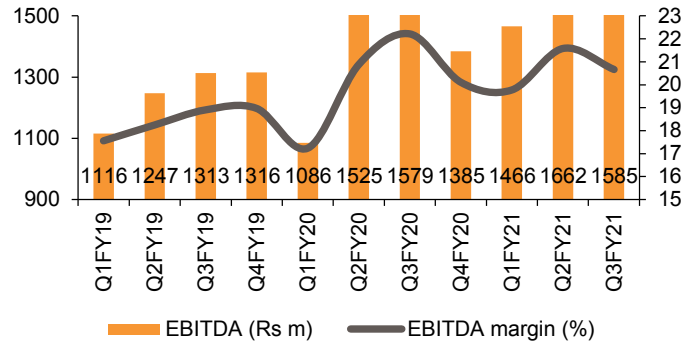
Story in Charts

Exhibit 1: Revenue increases 8% yoy to Rs7.7bn



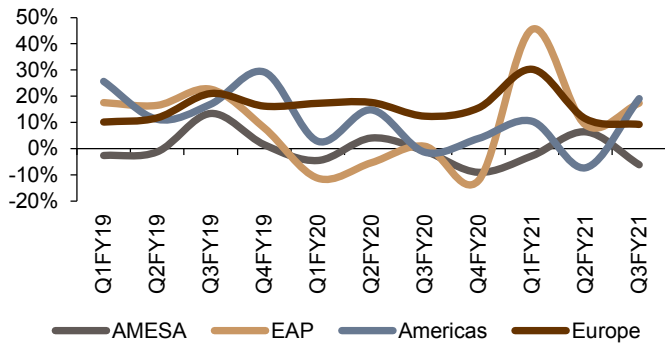
Source: Company, Emkay Research

Exhibit 2: EBITDA margin declines 155bps yoy to 20.7%



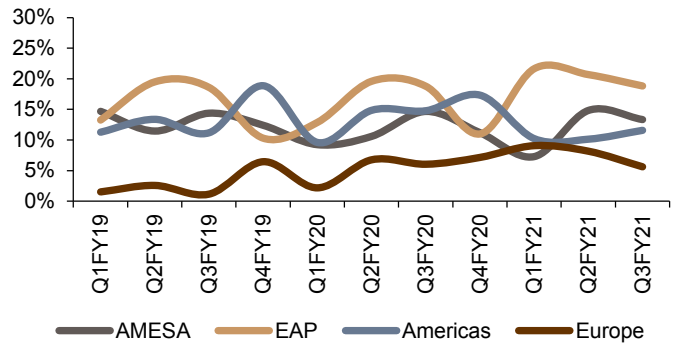
Source: Company, Emkay Research

Exhibit 3: Revenue growth in Europe, EAP and Americas



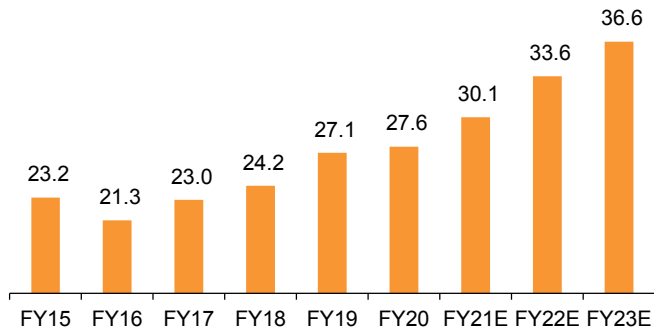
Source: Company, Emkay Research

Exhibit 4: Margin declines across Americas, Europe and AMESA



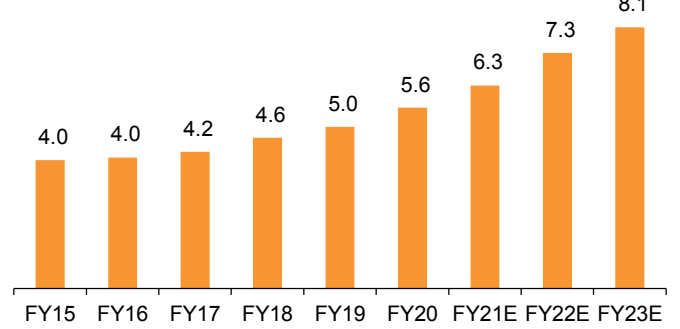
Source: Company, Emkay Research

Exhibit 5: 10% revenue CAGR in FY21-23E



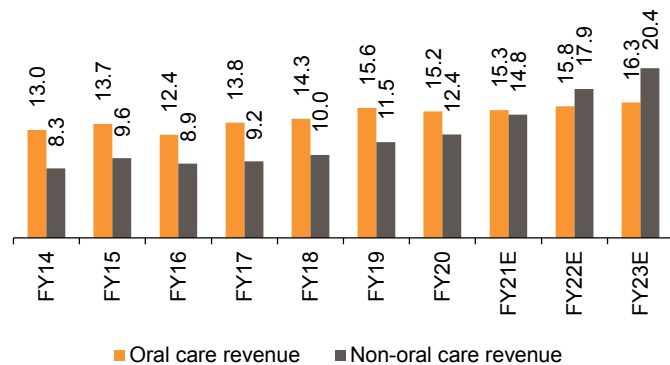
Source: Company, Emkay Research

Exhibit 6: EBITDA CAGR of 13% in FY21-23E



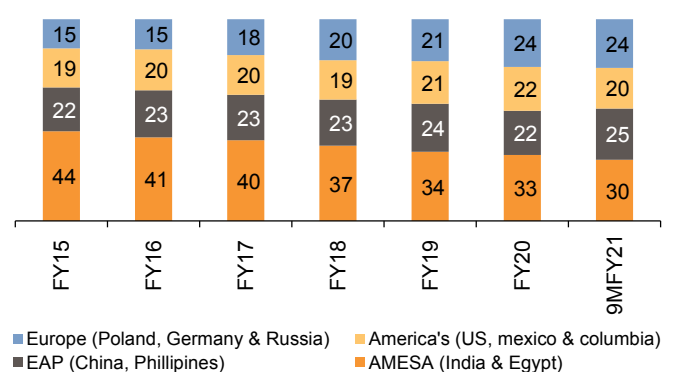
Source: Company, Emkay Research

Exhibit 7: Segment-wise revenue (Rs bn)

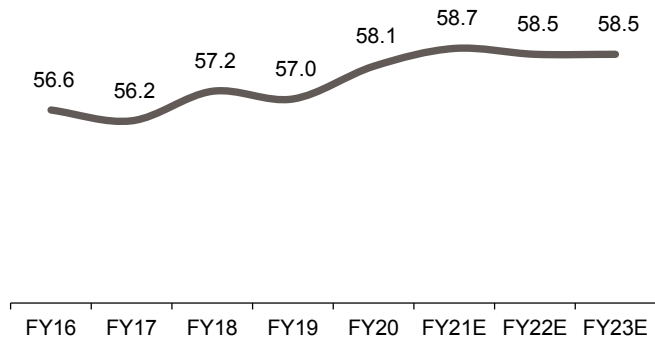


Source: Company, Emkay Research

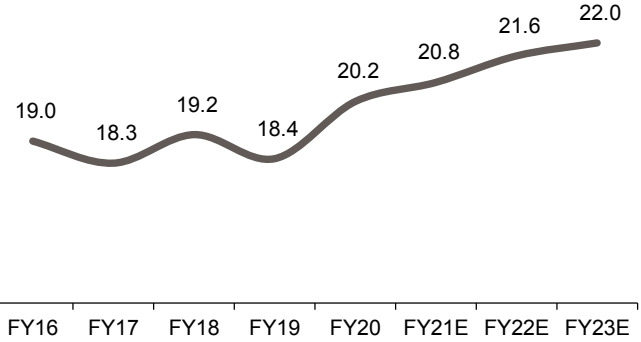
Exhibit 8: Geography-wise revenue mix (%)



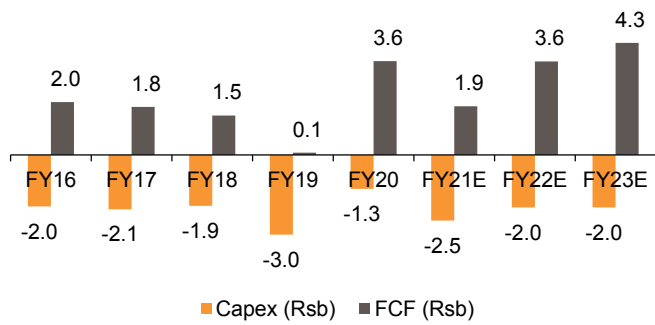
Source: Company, Emkay Research

Exhibit 9: Gross margin (%)

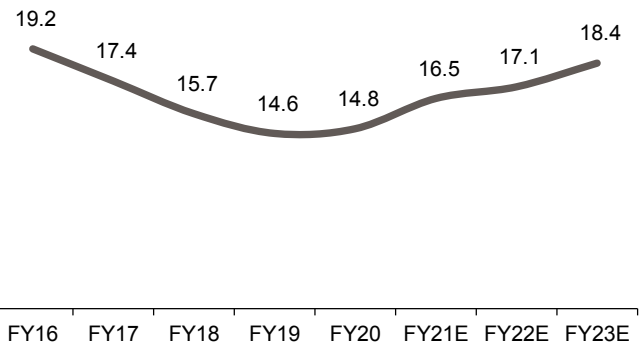
Source: Company, Emkay Research

Exhibit 10: EBITDA margin (%)

Source: Company, Emkay Research

Exhibit 11: FCF

Source: Company, Emkay Research

Exhibit 12: ROE (%)

Source: Company, Emkay Research

Exhibit 13: Actual vs. Estimates (Q3FY21)

(Rs mn)	Actual	Emkay Estimate	Consensus Estimate	% variation Emkay	% variation Consensus	Comment
Sales	7,671	7,606	7,777	1%	-1%	In-line with estimates
EBITDA	1,585	1,681	1,690	-6%	-6%	Below estimates due to higher employee and other expenses
EBITDA Margin	20.7%	22.1%	21.7%	-144 bps	-107 bps	
Adj. PAT	709	762	748	-7%	-5%	Below estimates due to miss in EBITDA

Source: Company, Bloomberg consensus, Emkay Research

Exhibit 14: Quarterly result summary

Y/E, Mar (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY%	QoQ%	9MFY21	9MFY20	YoY%
Revenue	7,108	6,889	7,415	7,703	7,671	7.9	-0.4	22,789	20,712	10.0
Cost of revenue	2,931	2,847	3,139	3,222	3,052	4.1	-5.3	9,413	8,720	7.9
as % of sales	41.2	41.3	42.3	41.8	39.8			41.3	42.1	
Employee Cost	1,315	1,366	1,486	1,472	1,550	17.9	5.3	4,508	3,945	14.3
as % of sales	18.5	19.8	20.0	19.1	20.2			19.8	19.0	
Other expenses	1,284	1,290	1,324	1,347	1,484	15.6	10.2	4,155	3,857	7.7
as % of sales	18.1	18.7	17.9	17.5	19.3			18.2	18.6	
Total Expenditure	5,530	5,504	5,949	6,041	6,086	10.1	0.7	18,076	16,523	9.4
EBITDA	1,579	1,385	1,466	1,662	1,585	0.4	-4.6	4,713	4,190	12.5
Depreciation	580	574	579	578	588	1.4	1.7	1,745	1,724	1.2
EBIT	999	811	887	1,084	997	-0.2	-8.0	2,968	2,466	20.4
Other Income	42	8	52	32	32	-23.1	0.0	116	126	-8.6
Interest cost	134	130	163	97	84	-37.1	-13.4	344	426	-19.3
PBT	907	688	776	1,019	945	4.2	-7.3	2,740	2,166	26.5
Total Tax	289	197	159	334	220	-23.8	-34.1	713	441	61.7
Adjusted PAT	618	491	617	685	725	17.3	5.8	2,027	1,725	17.5
(Profit)/loss from JV's/Ass/MI	17	5	12	15	16	-5.3	6.7	43	45	-3.4
APAT after MI	601	486	605	670	709	17.9	5.8	1,984	1,680	18.1
Extra ordinary items	-	-	161	-	-			161	94	
Reported PAT	601	486	444	670	709	17.9	5.8	1,824	1,587	14.9
Margins (%)						bps	bps			bps
EBIDTA	22.2	20.1	19.8	21.6	20.7	(155)	(91)	20.7	20.2	45
EBIT	14.1	11.8	12.0	14.1	13.0	(105)	(108)	13.0	11.9	112
PBT	12.8	10.0	10.5	13.2	12.3	(44)	(91)	12.0	10.5	157
PAT	8.7	7.1	8.3	8.9	9.5	76	56	8.9	8.3	57
Effective Tax rate	31.8	28.6	20.5	32.8	23.3	(856)	(950)	26.0	20.4	566

Source: Company, Emkay Research

Exhibit 15: Quarterly segmental summary

Y/E, Mar (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY%	QoQ%	9MFY21	9MFY20	YoY%
Segment Revenues										
AMESA	2,516	2,153	2,190	2,590	2,362	-6.1	-8.8	7,142	7,199	(0.8)
EAP	1,740	1,353	2,021	1,908	2,043	17.4	7.1	5,972	4,877	22.4
AMERICAS	1,457	1,713	1,510	1,528	1,735	19.1	13.5	4,773	4,471	6.8
EUROPE	1,618	1,897	1,977	1,939	1,768	9.3	-8.8	5,684	4,875	16.6
Less: Intersegment Revenues	224	229	285	265	240	7.1	-9.4	790	717	10.2
Total	7,106	6,886	7,412	7,700	7,668	7.9	-0.4	22,780	20,705	10.0
Segment Results										
AMESA	369	241	160	384	315	-14.7	-18.0	859	835	2.9
EAP	327	149	438	395	385	17.7	-2.5	1,218	849	43.4
AMERICAS	215	297	155	155	201	-6.6	29.7	511	591	(13.7)
EUROPE	97	135	179	158	99	1.7	-37.3	436	247	76.2
Total	1,009	822	931	1,092	1,000	-0.9	-8.4	3,023	2,522	19.8
Add- Unall Income / (Exp)	26	5	-153	21	25	-2.3	19.0	-107	-39	174.4
Less- Interest Exp	134	130	163	97	84	-37.1	-13.4	344	426	(19.3)
PBT	901	697	615	1,016	941	4.5	-7.4	2,572	2,057	25.0
Segment Capital Employed										
AMESA	6,529	7,464	6,839	6,796	6,759	3.5	-0.5	6,796	6,529	3.5
EAP	4,677	4,897	5,392	5,243	5,679	21.4	8.3	5,243	4,677	21.4
AMERICAS	4,228	4,656	4,434	4,222	4,334	2.5	2.7	4,222	4,228	2.5
EUROPE	4,749	6,227	5,036	4,978	5,026	5.8	1.0	4,978	4,749	5.8
Unallocated	-5,370	-6,472	-5,526	-4,814	-5,025	-6.4	4.4	-4,814	-5,370	(6.4)
Total	14,813	16,772	16,175	16,425	16,773	13.2	2.1	16,425	14,813	13.2
Segment Margins (%)										
						(bps)	(bps)			(bps)
AMESA	14.7	11.2	7.3	14.8	13.3	-130	-150	12.0	11.6	40
EAP	18.8	11.0	21.7	20.7	18.8	0	-190	20.4	17.4	300
AMERICAS	14.8	17.3	10.2	10.1	11.6	-320	140	10.7	13.2	-250
EUROPE	6.0	7.1	9.0	8.1	5.6	-40	-250	7.7	5.1	260
PBIT Margins%	14.2	11.9	12.6	14.2	13.0	-120	-110	13.3	12.2	110

Source: Company, Emkay Research

Conference call highlights

Personal care

- The share of personal care products in overall revenue mix stood at 45% in 9MFY21 vs. 45% in FY20 and 43% in FY19.
- The increase in market share was mainly due to an increase in demand for health and hygiene products which offset the headwinds in the beauty and cosmetic segment.
- EPL continues to expand its health and hygiene portfolio, with new product introduction in the hand wash segment (tubes). However, the segment's growth trend saw a downward trajectory qoq.
- Management remains committed to increasing the share of personal care products in the overall basket.

Oral care

- ESEL witnessed 9.2% yoy growth in 9MFY21 and managed to maintain its leadership position in the segment.
- Increased its wallet share across customers, especially in Europe and Americas, and market share in China.
- Management highlighted that challenges in travel/mini tubes continued due to travel restrictions and lower promotion campaign by its clients.

Regions

- Revenue growth was witnessed across Americas (+19% yoy), EAP (+17% yoy) and Europe (+7% yoy), while revenues declined in AMESA (-6% yoy).
- **Americas:** Revenue increased by 19% yoy on new customer wins across categories in personal care.
- **Europe:** Delivered 9% yoy revenue growth, driven by improved product pipeline and new customer wins in the personal care segment. Management highlighted that it witnessed some shift toward premium products by its customers.
- **EAP:** Growth in the Beauty and Cosmetics and Health and Hygiene portfolios led to a 17% yoy revenues increase.
- **AMESA:** Overall revenues declined 6% yoy due to a decline in the contribution from personal care on weak demand for beauty & cosmetic products and the segment continues to remain under pressure.
- Management expects growth to be driven by volume growth, while overall revenue growth could remain stable.

Raw materials

- Management highlighted that raw material pricing pressure was witnessed during the quarter as most clients (50%+ portfolio) do not have an easy pass-through agreement. The pass-through would have a lag impact.
- Management expects RM pricing pressure to continue and remain as a near-term headwind.

Others

- **Platina:** EPL is building a portfolio across this brand for its recyclable products with Platina Pro being built and Platina Clear in pipeline. EPL has witnessed good traction for these products across its global clients.

Balance sheet

- Net debt stood at Rs1.6bn as of 31 December 2020.
- Capex spends for 9MFY21 stood at Rs1,046mn.

Exhibit 16: Changes in estimates

All fig in Rs mn (except % and EPS)	FY21E			FY22E			FY23E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenues	30,112	30,112	0%	33,644	33,644	0%	36,617	36,617	0%
EBITDA	6,500	6,259	-4%	7,536	7,267	-4%	8,239	8,056	-2%
EBITDA margins, %	21.6%	20.8%	-80 bps	22.4%	21.6%	-80 bps	22.2%	22.0%	-19 bps
Net profits	2,607	2,497	-4%	3,122	2,998	-4%	3,520	3,462	-2%
EPS	8.2	7.9	-4%	9.8	9.4	-4%	11.1	10.9	-2%

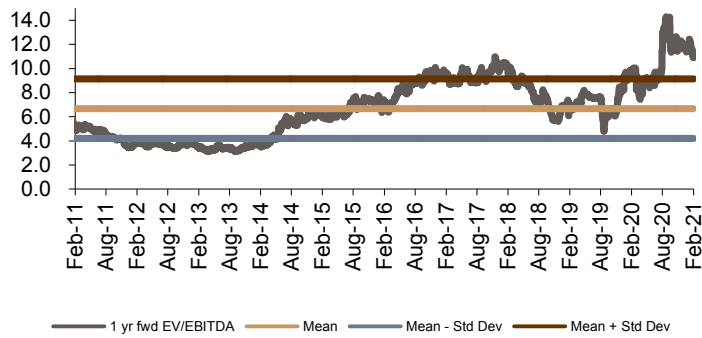
Source: Emkay Research

Exhibit 17: Key assumptions

Key Assumptions (Rs bn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Oral care revenue	13.8	14.3	15.6	15.2	15.3	15.8	16.3
Non-oral care revenue	9.2	10.0	11.5	12.4	14.8	17.9	20.4

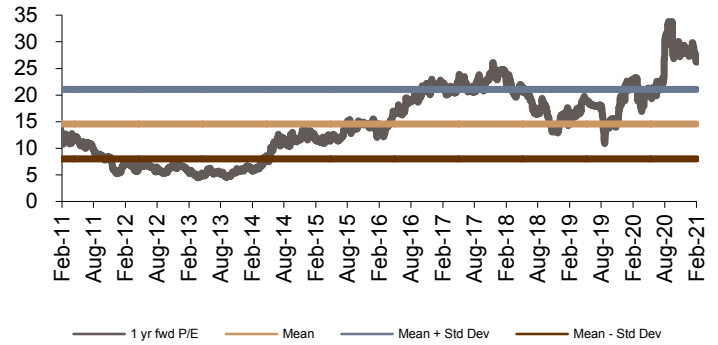
Source: Company, Emkay Research

Exhibit 18: EPL 1-yr forward EV/EBITDA



Source: Bloomberg, Emkay Research

Exhibit 19: EPL 1-yr forward P/E



Source: Bloomberg, Emkay Research

Exhibit 20: Peer comparison

Companies	Mcap (USD mn)	Reco	TP	PE (x)			EV/EBITDA (x)			ROE (%)		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Mold - Tek Packaging*	129	NA	NA	23.0	17.9	15.2	12.4	9.8	8.4	19.0	20.4	20.2
EPL	1030	Hold	250	28.5	25.3	21.91	12.4	10.5	9.2	16.5	17.1	18.4
Average				25.8	21.6	18.6	12.4	10.1	8.8	17.7	18.7	19.3

Source: *Bloomberg consensus, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	27,069	27,601	30,112	33,644	36,617
Expenditure	22,078	22,026	23,853	26,377	28,561
EBITDA	4,991	5,574	6,259	7,267	8,056
Depreciation	1,861	2,298	2,231	2,704	2,904
EBIT	3,130	3,277	4,028	4,563	5,152
Other Income	285	134	160	100	160
Interest expenses	613	557	504	504	504
PBT	2,802	2,854	3,684	4,159	4,808
Tax	932	638	995	1,123	1,298
Extraordinary Items	31	(94)	(161)	0	0
Minority Int./Income from Assoc.	53	(50)	(32)	(39)	(48)
Reported Net Income	1,954	2,073	2,497	2,998	3,462
Adjusted PAT	1,923	2,166	2,658	2,998	3,462

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	631	631	636	636	636
Reserves & surplus	13,249	14,695	16,274	17,473	18,858
Net worth	13,880	15,326	16,910	18,109	19,494
Minority Interest	52	86	139	198	267
Loan Funds	6,314	6,432	4,832	4,832	4,832
Net deferred tax liability	436	375	375	375	375
Total Liabilities	20,681	22,219	22,255	23,514	24,967
Net block	13,074	13,639	13,912	13,208	12,304
Investment	168	160	160	160	160
Current Assets	11,473	13,764	13,690	16,344	19,284
Cash & bank balance	1,344	3,712	2,723	4,091	5,948
Other Current Assets	1,626	1,324	1,445	1,614	1,757
Current liabilities & Provision	4,447	5,740	5,901	6,593	7,176
Net current assets	7,027	8,025	7,789	9,751	12,108
Misc. exp	0	0	0	0	0
Total Assets	20,681	22,219	22,255	23,514	24,967

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	2,517	2,720	3,524	4,059	4,648
Other Non-Cash items	84	974	(140)	21	21
Chg in working cap	(878)	1,309	(753)	(594)	(500)
Operating Cashflow	3,130	4,876	4,371	5,571	6,278
Capital expenditure	(3,089)	(2,846)	(2,503)	(2,000)	(2,000)
Free Cash Flow	41	2,030	1,867	3,571	4,278
Investments	(38)	8	0	0	0
Other Investing Cash Flow	44	1,469	0	0	0
Investing Cashflow	(2,798)	(1,236)	(2,343)	(1,900)	(1,840)
Equity Capital Raised	73	17	585	0	0
Loans Taken / (Repaid)	371	118	(1,600)	0	0
Dividend paid (incl tax)	(394)	(888)	(1,498)	(1,799)	(2,077)
Other Financing Cash Flow	(159)	38	0	0	0
Financing Cashflow	(723)	(1,272)	(3,017)	(2,302)	(2,581)
Net chg in cash	(391)	2,368	(989)	1,368	1,857
Opening cash position	1,735	1,344	3,712	2,723	4,091
Closing cash position	1,344	3,712	2,723	4,091	5,948

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	18.4	20.2	20.8	21.6	22.0
EBIT Margin	11.6	11.9	13.4	13.6	14.1
Effective Tax Rate	33.3	22.4	27.0	27.0	27.0
Net Margin	6.9	8.0	8.9	9.0	9.6
ROCE	17.3	15.9	18.8	20.4	21.9
ROE	14.6	14.8	16.5	17.1	18.4
RoIC	17.7	17.9	21.8	24.1	27.6

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	6.1	6.9	8.4	9.4	10.9
CEPS	12.0	14.1	15.4	17.9	20.0
BVPS	44.0	48.6	53.2	57.0	61.3
DPS	1.3	3.3	4.7	5.7	6.5

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	39.0	34.7	28.5	25.3	21.9
P/CEPS	19.8	16.8	15.5	13.3	11.9
P/BV	5.4	4.9	4.5	4.2	3.9
EV / Sales	3.0	2.8	2.6	2.3	2.0
EV / EBITDA	16.0	13.9	12.4	10.5	9.2
Dividend Yield (%)	0.5	1.4	2.0	2.4	2.7

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.3	0.2	0.1	0.0	(0.1)
Net Debt/EBIDTA	1.0	0.5	0.3	0.1	(0.2)
Working Cap Cycle (days)	76.6	57.0	61.4	61.4	61.4

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	11.7	2.0	9.1	11.7	8.8
EBITDA	7.4	11.7	12.3	16.1	10.9
EBIT	5.1	4.7	22.9	13.3	12.9
PAT	12.1	6.1	20.5	20.1	15.5

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	7,108	6,889	7,415	7,703	7,671
EBITDA	1,579	1,385	1,466	1,662	1,585
EBITDA Margin (%)	22.2	20.1	19.8	21.6	20.7
PAT	601	486	444	670	709
EPS (Rs)	1.9	1.5	1.4	2.1	2.3

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	83.0	75.0	75.0	52.0	52.0
FIs	3.8	4.6	4.9	14.3	13.8
DIs	2.4	2.3	2.4	15.3	15.6
Public and Others	10.8	18.1	17.8	18.5	18.7

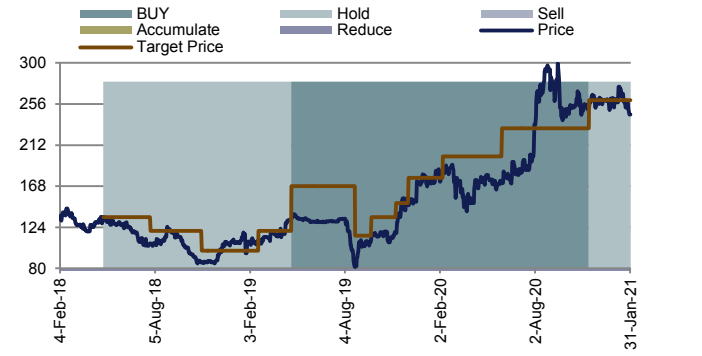
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
13-Nov-20	253	260	12m	Hold	Varshit Shah
30-May-20	171	230	12m	Buy	Varshit Shah
26-May-20	173	200	12m	Buy	Varshit Shah
4-Mar-20	173	200	12m	Buy	Varshit Shah
7-Feb-20	182	200	12m	Buy	Varshit Shah
3-Dec-19	148	177	12m	Buy	Varshit Shah
9-Nov-19	118	150	12m	Buy	Varshit Shah
23-Sep-19	114	135	12m	Buy	Varshit Shah
23-Aug-19	82	115	12m	Buy	Varshit Shah
7-May-19	134	168	12m	Buy	Varshit Shah
23-Apr-19	134	168	12m	Buy	Varshit Shah
19-Feb-19	110	120	12m	Hold	Varshit Shah
2-Nov-18	86	99	12m	Hold	Varshit Shah
27-Jul-18	107	120	12m	Hold	Ashit Desai
28-Apr-18	135	135	12m	Hold	Ashit Desai

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 03 Feb 2021 16:16:57 (SGT)

Dissemination Date: 03 Feb 2021 16:17:57 (SGT)

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