

14 August 2024

India | Equity research | Q1FY25 results review

EPL

Speciality Chemicals

Investment in sustainable tubes drives market share win

EPL's Q1FY25 print had multiple positive trends: 1) Market share win in oral care segment, which has been stable for few years, driven by sustainable tubes. 2) Pricing reduction at tail-end with revenue growth reflecting underlying performance. 3) More customers added in Brazil, which will likely help Americas to sustain high growth rate. 4) Europe margin showing smart improvement. Finally, EPL has started delivering consistent performance with broad-based double-digit revenue growth and EBITDA close to guidance of 20%. The only miss was slower-than-expected revenue growth in the personal care segment. We tweak our EPS estimates by ~1% for FY25/FY26. However, our target price increases to INR 275 (earlier INR 225), as we raise our FY26E P/E multiple to 22x (from 18x). Maintain **BUY**.

Revenue up 10.7% YoY/down 2.1% QoQ to INR 10.1bn

EPL has started growing in early teens as guided and was helped by stabilisation in raw material prices, though customer prices had some tail price reduction. Oral care segment noted a sharp jump in revenue, growing 15% YoY to INR 5bn, aided by sustainable tubes, which has helped market share gain to be stable at 35% for a few years. Personal care segment rose 6.1% YoY to INR 4.4bn – it remains a focus area for EPL, and continues to expect mix to improve towards personal care. Gross profit grew (proxy to volume) 14% YoY/1.4% QoQ to INR 6bn, implying strong underlying performance.

EPL has good performance across all its four geographies with strong growth in America, up 18.9% YoY, partly aided by its Brazil greenfield expansion. Brazil has delivered 100% supplies to its anchor customer, and has onboarded two MNCs and a local customer. Capacity utilisation is 75%, and EPL has enough provision to modularly increase capacity for future growth. Despite softness in China, EAP revenue has jumped 13.9% YoY.

The company sees sufficient drivers to propel revenue growth – 1) push more tubes in the beauty and cosmetics segment with emphasis on sustainability; 2) drive higher revenue from recyclable tubes, which will likely grow to contribute ~60% of revenue in FY26E (29% in Q1FY25, up 500bp YoY), and win more market share; 3) ramp-up Brazil operations with the addition of new customers; and 4) by shifting focus cost optimisation in US/Europe geography.

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	8,521	9,351
EBITDA Margin (%)	15.6	18.2	19.7	19.9
Net Profit	2,267	2,070	3,493	4,016
EPS (INR)	7.1	6.5	11.0	12.6
EPS % Chg YoY	5.6	(8.7)	68.8	15.0
P/E (x)	30.6	33.5	19.9	17.3
EV/EBITDA (x)	12.9	10.5	8.6	7.6
RoCE (%)	9.8	11.1	13.2	13.5
RoE (%)	11.9	10.4	15.7	16.0

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Market Data

Market Cap (INR)	69bn
Market Cap (USD)	826mn
Bloomberg Code	EPLL IN
Reuters Code	EPLI BO
52-week Range (INR)	242 /170
Free Float (%)	41.0
ADTV-3M (mn) (USD)	4.1

Price Performance (%)	3m	6m	12m
Absolute	15.6	13.0	9.1
Relative to Sensex	7.1	2.7	(11.8)

Earnings Revisions (%)	FY25E	FY26E
Revenue	-	-
EBITDA	(0.3)	(0.6)
EPS	1.4	0.7

Previous Reports

29-05-2024: [Q4FY24 results review](#)

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

EBITDA margin down 10bp QoQ to 18.4%; but adjusted for forex loss, it was up 60bp to 19.1%

Gross profit was up 14% YoY to INR 6bn and gross profit margin was up 205bp QoQ to 59.5%, probably on change in geography mix. Employee expenses were up 12.3% YoY to INR 2.1bn, as the company introduced performance-based incentive. Further, it started accounting for cost; and other expenses were up 13.3% YoY to INR 2bn. EBITDA grew 16.9% YoY to INR 1.9bn, and was impacted by forex loss of INR 63mn. Accounting rule requires forex gain to be accounted in other income; while forex losses are part of other expenses. EBITDA margin improved in EAP and Europe; while it dipped in the Americas and AMESA. Interest cost grew 23.4% YoY/down 9.7% QoQ to INR 290mn due to capitalisation of Brazil operations. Reported PAT was up 18.2% YoY to INR 642mn; effective tax rate was at 17.4% in Q1FY25.

EPL has guided for EBITDA margin to improve over 20% in the near-term, as it drives better productivity, improves product mix more towards beauty and cosmetics, sustainably scales its tube business, drives cost optimisation in US and Europe.

Geography-wise performance

1) AMESA revenue rose 9.5% YoY to INR 3.7bn; EBITDA was down 4.4% YoY to INR 700mn, and EBITDA margin was 19%, down 90bp QoQ. **2) EAP** revenue rose 13.9% YoY to INR 2.4bn; EBITDA rose 9.6% YoY to INR 536mn with EBITDA margin at 21.9%, up 350bp QoQ. **3) Americas** revenue increased 18.9% YoY to INR 2.6bn, EBITDA rose 63.2% YoY to INR 408mn. EBITDA margin decreased 220bp QoQ to 15.8%. **4) Europe** revenue rose 9% YoY to INR 2.3bn; EBITDA was up 29.8% YoY to INR 314mn and EBITDA margin at 13.6%, up 250bp QoQ.

Conference call highlights

- Market share win in oral care segment was across India, the Americas and Europe.
- Price reduction has bottomed out, and the company expects revenue growth to reflect underlying business performance.
- Gross profit margin of ~59% is sustainable.
- India margins are impacted by investment (aggressive go-to-market) to drive growth; and performance-based incentives. Corporate capability building cost is also loaded into standalone business. Nonetheless, the company expects margins for India also to improve.
- EPL expects Europe margin to further improve to mix teens; and operating leverage and cost optimisation helping to drive margins.
- Tax rate expected at 21–23%.

Risks

- Slower revenue growth in India and EAP, which are generally growth markets; and
- Pressure on margins, particularly in the Americas/Europe.

Exhibit 1: EPL – consolidated financials

INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Net revenue	9,102	10,016	9,751	10,292	10,074	(2.1)	10.7
Cost of Goods sold	3,845	4,276	4,070	4,379	4,079	(6.9)	6.1
Gross profit	5,257	5,740	5,681	5,913	5,995	1.4	14.0
Gross profit margin (%)	57.8	57.3	58.3	57.5	59.5		
Employee cost	1,861	1,932	1,942	1,990	2,090	5.0	12.3
% of revenue	20.4	19.3	19.9	19.3	20.7		
Other expenses	1,806	1,998	1,905	2,014	2,047	1.6	13.3
% of revenue	19.8	19.9	19.5	19.6	20.3		
Total expenses	3,667	3,930	3,847	4,004	4,137	3.3	12.8
EBITDA	1,590	1,810	1,834	1,909	1,858	(2.7)	16.9
EBITDA margin (%)	17.5	18.1	18.8	18.5	18.4		
Depreciation	800	836	842	850	836	(1.6)	4.5
EBIT	790	974	992	1,059	1,022	(3.5)	29.4
EBIT margin (%)	8.7	9.7	10.2	10.3	10.1		
Other income	100	96	237	161	65	(59.6)	(35.0)
Finance cost	235	306	294	321	290	(9.7)	23.4
PBT	655	764	935	899	797	(11.3)	21.7
Tax expenses	106	254	70	152	139	(8.6)	31.1
ETR (%)	16.2	33.2	7.5	16.9	17.4		
Non-controlling interest	13.0	16.0	12.0	(72.0)	15.0		
Profit from associates	7.0	11.0	8.0	9.0	(1.0)		
Exceptional item	-	-	-	(605)	-		
PAT	543	505	861	223	642	187.9	18.2
Net profit margin (%)	6.0	5.0	8.8	2.2	6.4		
Adj EPS (INR)	1.7	1.6	2.7	2.6	2.0	(22.5)	18.2

Source: I-Sec research, Company data

Exhibit 2: Oral care segment revenue grew strong 15% YoY

INR mn	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	QoQ (%)	YoY (%)
Revenue							
Oral care	4,326	4,968	5,168	4,750	4,973	4.7	15.0
Personal Care	4,132	4,447	4,249	4,414	4,382	(0.7)	6.1
Others	644	601	334	1,128	719	(36.3)	11.6
Total	9,102	10,016	9,751	10,292	10,074	(2.1)	10.7
Mix							
Oral care	47.5	49.6	53.0	46.2	49.4		
Personal Care	45.4	44.4	43.6	42.9	43.5		
Others	7.1	6.0	3.4	11.0	7.1		

Source: I-Sec research, Company data

Exhibit 3: Asia, Middle East, South Asia (AMESA) financials

INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Revenue	3,358	3,791	3,500	3,536	3,677	4.0	9.5
EBITDA	732	803	749	703	700	(0.4)	(4.4)
EBITDA margin (%)	21.8	21.2	21.4	19.9	19.0		
EBIT	365	446	392	414	430	3.9	17.8
EBIT margin (%)	10.9	11.8	11.2	11.7	11.7		

Source: I-Sec research, Company data

Exhibit 4: East Asia and Pacific (EAP) financials

INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Revenue	2,149	2,454	2,524	2,229	2,448	9.8	13.9
EBITDA	489	564	546	410	536	30.7	9.6
EBITDA margin (%)	22.8	23.0	21.6	18.4	21.9		
EBIT	351	428	412	271	392	44.6	11.7
EBIT margin (%)	16.3	17.4	16.3	12.2	16.0		

Source: I-Sec research, Company data

Exhibit 5: Americas financials

INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Revenue	2,178	2,519	2,528	2,664	2,589	(2.8)	18.9
EBITDA	250	371	409	478	408	(14.6)	63.2
EBITDA margin (%)	11.5	14.7	16.2	17.9	15.8		
EBIT	24	91	175	240	169	(29.6)	604.2
EBIT margin (%)	1.1	3.6	6.9	9.0	6.5		

Source: I-Sec research, Company data

Exhibit 6: Europe financials

INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Revenue	2,125	2,163	2,076	2,563	2,316	(9.6)	9.0
EBITDA	242	215	191	283	314	11.0	29.8
EBITDA margin (%)	11.4	9.9	9.2	11.0	13.6		
EBIT	79	46	23	99	135	36.4	70.9
EBIT margin (%)	3.7	2.1	1.1	3.9	5.8		

Source: I-Sec research, Company data

Exhibit 7: Geography-wise revenue

INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Revenue							
AMESA	3,358	3,791	3,500	3,536	3,677	4.0	9.5
EAP	2,149	2,454	2,524	2,229	2,448	9.8	13.9
Americas	2,178	2,519	2,528	2,664	2,589	(2.8)	18.9
Europe	2,125	2,163	2,076	2,563	2,316	(9.6)	9.0
Unallocated	4	3	3	4	4		
Intersegment elimination	(712)	(914)	(880)	(704)	(960)		
Total revenue	9,102	10,016	9,751	10,292	10,074	(2.1)	10.7
Mix							
AMESA	36.9	37.8	35.9	34.4	36.5		
EAP	23.6	24.5	25.9	21.7	24.3		
Americas	23.9	25.1	25.9	25.9	25.7		
Europe	23.3	21.6	21.3	24.9	23.0		

Source: I-Sec research, Company data

Exhibit 8: Geography-wise EBITDA

INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
EBITDA							
AMESA	732	803	749	703	700	(0.4)	(4.4)
EAP	489	564	546	410	536	30.7	9.6
Americas	250	371	409	478	408	(14.6)	63.2
Europe	242	215	191	283	314	11.0	29.8
Unallocated	-	-	-	-	-		
Intersegment elimination							
Total revenue	1,713	1,953	1,895	1,874	1,958	4.5	14.3
Mix							
AMESA	42.7	41.1	39.5	37.5	35.8		
EAP	28.5	28.9	28.8	21.9	27.4		
Americas	14.6	19.0	21.6	25.5	20.8		
Europe	14.1	11.0	10.1	15.1	16.0		

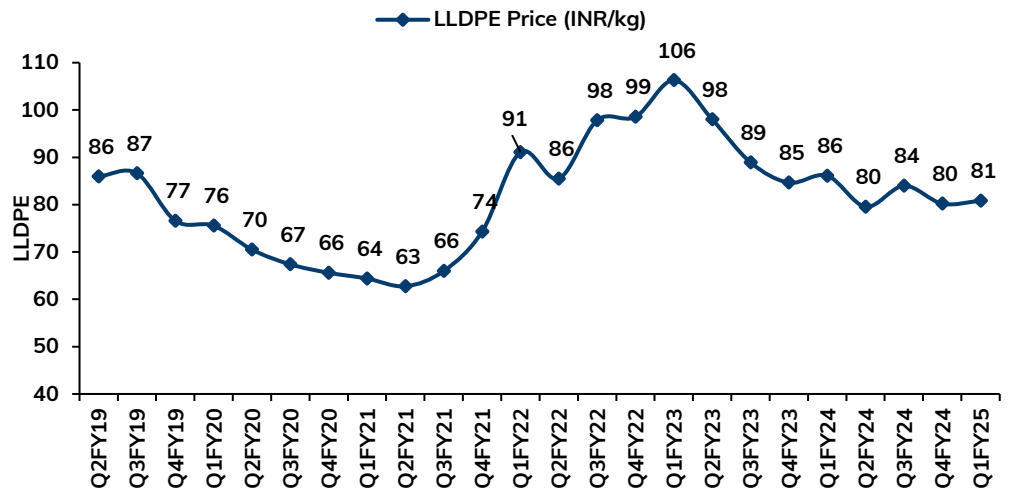
Source: I-Sec research, Company data

Exhibit 9: Earnings revision

INR mn	Revised		Earlier		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	43,343	46,905	43,343	46,905	-	-
EBITDA	8,521	9,351	8,549	9,403	(0.3)	(0.6)
EBITDA margin (%)	19.7	19.9	19.7	20.0		
PAT	3,493	4,016	3,443	3,988	1.4	0.7
EPS (INR)	11.0	12.6	10.8	12.5	1.4	0.7

Source: I-Sec research, Company data

Exhibit 10: LLDPE prices down 5.3% YoY



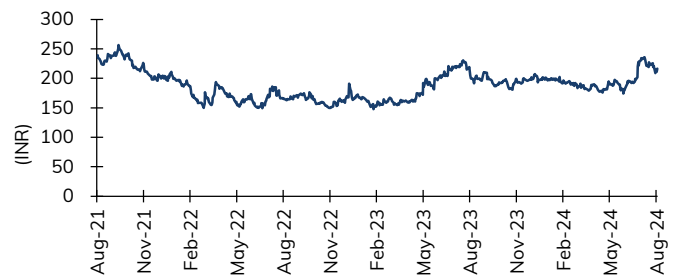
Source: Ministry of Commerce, I-Sec research

Exhibit 11: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	51.5	51.5	51.5
Institutional investors	24.4	24.3	22.9
MFs and others	12.1	10.9	9.2
FIs/Banks	-	-	-
Insurance	2.3	2.3	2.2
FIIIs	10.0	11.1	11.5
Others	24.1	24.2	25.6

Source: Bloomberg

Exhibit 12: Price chart



Source: Bloomberg

Financial Summary

Exhibit 13: 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	34,823	37,554
EBITDA	5,778	7,143	8,521	9,351
EBITDA Margin (%)	15.6	18.2	19.7	19.9
Depreciation & Amortization	2,805	3,328	3,394	3,462
EBIT	2,973	3,815	5,126	5,889
Interest expenditure	674	1,156	1,182	1,182
Other Non-operating Income	-	-	-	-
Recurring PBT	2,720	3,253	4,467	5,271
Profit / (Loss) from Associates	(29)	35	35	35
Less: Taxes	373	582	978	1,259
PAT	2,347	2,671	3,489	4,012
Less: Minority Interest	(40)	(31)	(31)	(31)
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	2,267	2,070	3,493	4,016
Net Income (Adjusted)	2,267	2,070	3,493	4,016

Source Company data, I-Sec research

Exhibit 14: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	16,207	16,465	19,823	23,471
of which cash & cash eqv.	2,444	2,073	3,867	6,256
Total Current Liabilities & Provisions	9,609	10,841	11,666	12,322
Net Current Assets	6,598	5,624	8,158	11,149
Investments	193	76	76	76
Net Fixed Assets	17,556	18,680	18,786	18,824
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	41,590	45,313
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	22,898	25,910
Total Net Worth	19,892	20,915	23,535	26,547
Minority Interest	36	(9)	22	53
Total Liabilities	36,304	38,087	41,590	45,313

Source Company data, I-Sec research

Exhibit 15: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	10,016	9,751	10,292	10,074
% growth (YOY)	6	3	6	11
EBITDA	1,810	1,834	1,909	1,858
Margin %	18	19	19	18
Other Income	96	237	161	65
Extraordinary	-	-	(605)	-
Adjusted Net Profit	505	861	223	642

Source Company data, I-Sec research

Exhibit 16: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	5,882	6,796	7,578	8,126
Working Capital Changes	136	(931)	(752)	(615)
Capital Commitments	(3,871)	(3,746)	(3,500)	(3,500)
Free Cashflow	2,147	2,119	3,326	4,011
Other investing cashflow	(67)	276	523	565
Cashflow from Investing Activities	(21)	303	523	565
Issue of Share Capital	(300)	28	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	1,386	342	-	-
Dividend paid	(1,410)	(1,396)	(873)	(1,004)
Others	(1,059)	(1,604)	(1,182)	(1,182)
Cash flow from Financing Activities	(1,383)	(2,630)	(2,055)	(2,186)
Chg. in Cash & Bank balance	743	(208)	1,794	2,390
Closing cash & balance	2,611	2,014	3,867	6,256

Source Company data, I-Sec research

Exhibit 17: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	7.1	6.5	11.0	12.6
Adjusted EPS (Diluted)	7.1	6.5	11.0	12.6
Cash EPS	15.9	16.9	21.6	23.5
Dividend per share (DPS)	2.2	2.3	2.7	3.2
Book Value per share (BV)	62.6	65.7	73.9	83.3
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	19.3	9.7
EPS (INR)	5.6	(8.7)	68.8	15.0
Valuation Ratios (x)				
P/E	30.6	33.5	19.9	17.3
P/CEPS	13.7	12.8	10.1	9.3
P/BV	3.5	3.3	2.9	2.6
EV / EBITDA	12.9	10.5	8.6	7.6
EV/SALES	2.0	1.9	1.7	1.5
Dividend Yield (%)	1.0	1.1	1.3	1.4
Operating Ratios				
Gross Profit Margins (%)	54.7	57.7	58.7	58.9
EBITDA Margins (%)	15.6	18.2	19.7	19.9
Effective Tax Rate (%)	13.7	17.9	21.9	23.9
Net Profit Margins (%)	6.4	6.8	8.1	8.6
NWC / Total Assets (%)	18.2	14.8	19.6	24.6
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	13.2	13.5
RoE (%)	11.9	10.4	15.7	16.0
RoC (%)	10.7	12.1	14.7	16.0
Fixed Asset Turnover (x)	2.3	2.2	2.4	2.6
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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