BUY (Maintain)

CMP: **INR 255** Target Price: **INR 350 (INR 275)** ▲ 37%

ICICI Securities

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07 September 2024

India | Equity Research | Company Update

EPL

Speciality Chemicals

Good growth + attractive FCF yield

Our conviction on EPL is now more fervent. EPL is at the cusp of transition– in our view, a rerating is imminent. An emerging theme is EPL's customers taking to reducing/reusing plastic wastes. EPL too, at this juncture, has transformed smartly to recyclable tubes, thus aligning with its customers. We do accede to the fact that the past two years have been choppy, but these were external factors that are largely behind. We expect EPL to grow EBITDA/net profit at CAGRs of 15.9%/35.6% over FY24–27E while FCF generation springs by 2.3x in FY27E and FCF yield (FY27E) is at an attractive 5.7% of its EV. EPL's global market share in laminate tubes is enviable at 35% in oral care and ~10% in personal care – headroom here exists. We raise TP to INR350 (from INR 275.) stems from a 16.5% higher FY26E EPS; PE multiple revised to 24x FY26E (from 22x). Retain **BUY**.

Recyclable tubes yielding market share win

EPL has demonstrated a degree of metamorphosis in the past three years. The company has increasingly emphasised on recyclable tubes, and carefully transformed itself to align with its global customers' expectations. EPL's client base is gravitating towards recyclable tubes. The patronage includes Colgate and L'oreal, who are aiming for 100% recyclable tubes by 2025; P&G seeks to achieve this by 2030. India too, as a nation, is adopting stringent extended producer responsibility (EPR) measures on using PCR (post-consumer resins); and is emphatic about recyclability targets. Earlier, laminates sheet with aluminum barriers were faced with recyclability issues; EPL has expanded its portfolio with plastic barrier tubes, which are recyclable. EPL's recyclable tube contribution has grown from 10% in FY23 to 29% in Q1FY25; it aspires to reach over 60% in FY27. In the past three years, EPL has upgraded 85% of its tube production capacities to produce recyclable tubes.

The investment in recyclable tubes is bearing fruit – oral care's revenue, which grew at a CAGR of 7.1% between FY19–24, leaped to 15% in Q1FY25. We envisage oral care revenue growth at CAGR 10.9% over the next three years with rising adoption of sustainable tubes and EPL winning more market share. Oral care revenue growth is aided by expansion/ramp-up in Brazil operations.

In personal care, EPL's revenue has grown at a CAGR of 11.1% over FY19–24; global market share in personal care has grown to ~10% (vs. 35% in oral care). EPL investing in innovation has enabled broader product categories targeting personal care, including neo-seam tubes, high-quality printing for better aesthetics and recyclability. EPL will likely keep its foot on the pedal and grow personal care in double-digits (CAGR of 13.6%) in the next three years.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	36,941	39,161	43,789	49,346
EBITDA	5,778	7,143	8,599	10,049
EBITDA Margin (%)	15.6	18.2	19.6	20.4
Net Profit	2,267	2,070	3,603	4,677
EPS (INR)	7.1	6.5	11.3	14.7
EPS % Chg YoY	5.6	(8.7)	74.1	29.8
P/E (x)	35.8	39.2	22.5	17.4
EV/EBITDA (x)	14.9	12.2	9.9	8.2
RoCE (%)	9.8	11.1	13.9	16.0
RoE (%)	11.9	10.1	16.2	18.4

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Market Data

Market Cap (INR)	81bn
Market Cap (USD)	966mn
Bloomberg Code	EPLL IN
Reuters Code	EPLI BO
52-week Range (INR)	266 /170
Free Float (%)	41.0
ADTV-3M (mn) (USD)	7.9

Price Performance (%)	3m	6m	12m
Absolute	41.3	39.0	21.8
Relative to Sensex	35.4	29.5	(0.1)

Earnings Revisions (%)	FY25E	FY26E
Revenue	1.0	5.2
EBITDA	0.9	7.5
EPS	3.1	16.5

Previous Reports

14-08-2024: Q1FY25 results review

29-05-2024: Q4FY24 results review

AMESA/EAP revenue growth focus; better Americas/Europe margins

We expect AMESA (India being largest) to likely see regulatory tailwind; adding to the cheer is the currency depreciation headwind in Egypt now largely being behind. India growth is expected to remain healthy, and EPL shall step up growth, particularly in the personal care category, in the India market. The company's EAP region has done well with opening up in the Chinese market; it has also invested to win new-age brands (personal care), which will likely help continue to drive growth. Americas' revenue shall continue to grow with the ramp-up in its Brazilian operations, recyclable tubes gaining traction and market share gains in personal/oral care segments. Americas' margins are expected to improve with its Brazil operations turning margin accretive; and cost optimisation. EPL's focus in Europe is to drive EBITDA margin to mid-teens, and significantly increasing its cost optimisation efforts. Europe leadership team also has been changed with new regional head, sales head and CFO who are expected to help drive revenue growth along with cost measures.

Net profit to grow at CAGR of 35.6% over FY24–27E

EPL's revenue will likely grow at a CAGR of 11.7% over FY24–27E; and this shall enable gross profit to grow at 12.8% with gross profit margin stabilising at 59.5%, covering inflation in operating cost during FY24–27E. We envisage, EBITDA margin surpassing the guided 20% levels in FY26E and anticipate EBITDA CAGR at 15.9%. However, D&A and finance cost shall largely be stable, which had higher inflation in past five years due to Brazil operations/ Creative Stylo merger (D&A) and higher interest rate + Brazil debt (finance cost); therefore, net profit to grow faster at CAGR of 35.6% over FY24–27E (vs. just 2.1% CAGR in past five years). EPL's aspiration is to achieve EBITDA of INR 10.5–12.5bn in FY27; and our estimate is at mid-point of the company's guidance.

FCF yield attractive at 5.7% of enterprise value

EPL's cashflow from operations is likely to grow at a CAGR of 12.6% over FY24–27E, largely driven by EBITDA growth; that said, a rise in tax rate could be a small drag. However, we expect capex to remain stable at INR 3.5bn p.a.; therefore, we expect increase in FY27E FCF generation by 2.3x to INR 4.9bn vs. FY24. This implies FCF yield of 5.7% of enterprise value for FY27E.

Return ratios were also depressed in FY24; however, post-tax RoCE may jump from 11.1% in FY24 to 16% in FY27E; and RoE is expected to improve from 10.4% in FY24 to 18.3% in FY27E.

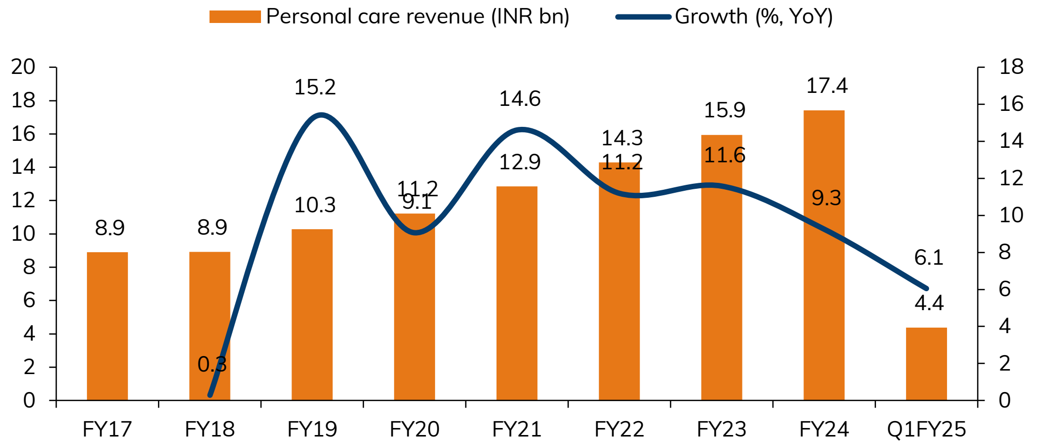
Personal care tubes offer continued growth opportunity

EPL's personal care tubes' revenue has grown at a CAGR of 11.1% over FY19-24. Personal care tubes' revenue contribution has improved from 43% in FY19 to 47.6% in FY24. Growth was driven by EPL's focus on driving conversion from traditional plastic extruder and aluminum tubes to laminate tubes. Laminate tubes offer a better barrier property with ease of use. Further, the company has addressed various challenges including: 1) neo-seam tubes, to improve aesthetics of tubes, and superior printing; and 2) introduction of recyclable tubes.

Notably, in FY24 and Q1FY25, personal care tubes' revenue was impacted from a drop in commodity prices (LLDPE/ HDPE). EPL has cut tubes' prices to pass-on the benefit of lower input costs and supply chain issues in India, particularly in Q1FY25.

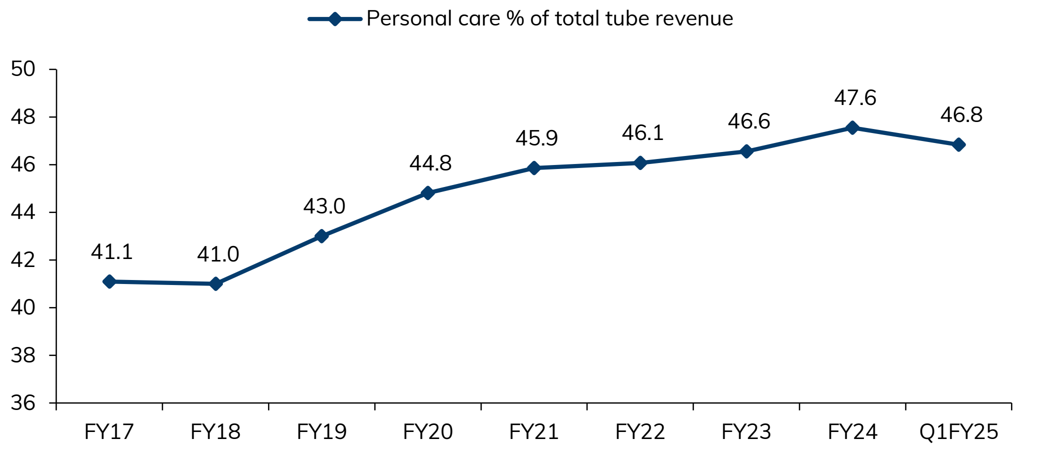
Unlike oral care, tubes have much smaller MOQs (minimum order quantity). EPL has significantly reduced MOQs for personal care to cater to the beauty and cosmetic segment. It has also increased hunting activities including addition of customers from online and new-age niche brands.

Exhibit 1: Personal care tubes revenue grew at CAGR of 11.1% over FY19–24



Source: Company data, I-Sec research

Exhibit 2: Personal care tubes revenue contribution grew from 43% in FY19 to 47.6% in FY24



Source: Company data, I-Sec research

Exhibit 3: Personal care tubes revenue growth by geographies

INR mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24	CAGR (%, 19-24)
Personal care segment								
AMESA	3,917	3,821	3,839	3,894	5,270	5,944	6,015	9.5
EAP	1,158	1,611	1,698	2,581	2,947	3,121	3,774	18.6
Americas	896	1,277	1,496	1,583	1,766	2,213	2,607	15.3
Europe	2,950	3,572	4,180	4,794	4,307	4,669	5,028	7.1
Total	**8,921**	**10,281**	**11,213**	**12,852**	**14,291**	**15,947**	**17,424**	**11.1**

Source: Company data, I-Sec research; Note: Some of the above numbers include our estimates

Globally, tubes sold is 42bn; of which, oral care tubes are 17bn, wherein EPL has strong market share of 35%. However, personal care, which is constituted of beauty & cosmetics (B&C), and pharmaceuticals has 22bn tubes sold annually; EPL has just ~10% market share in personal care. The company believes it can grab more market share in personal care; therefore, envisages double-digit growth in the foreseeable future.

Exhibit 4: EPL has only ~10% market share in personal care tubes; EPL believes it can grow in double-digit for foreseeable future, and grab higher market share

Source: Company data, I-Sec research

B&C is a bigger sub-segment within personal care with total tube demand of 13.8bn; here, EPL has ~11% market share with annual sales of 1.5bn tubes. EPL's market share in personal care in AMESA is strong at 35%; however, its market share in other geographies is significantly lower with EAP at 12%, Europe at 4% and Americas (US, Mexico and Columbia) at 7%. The company believes, with innovations on printing and recyclable tubes, EPL could grab more market share in these geographies.

Exhibit 5: EPL's personal care tube market share is lower across geographies except AMESA

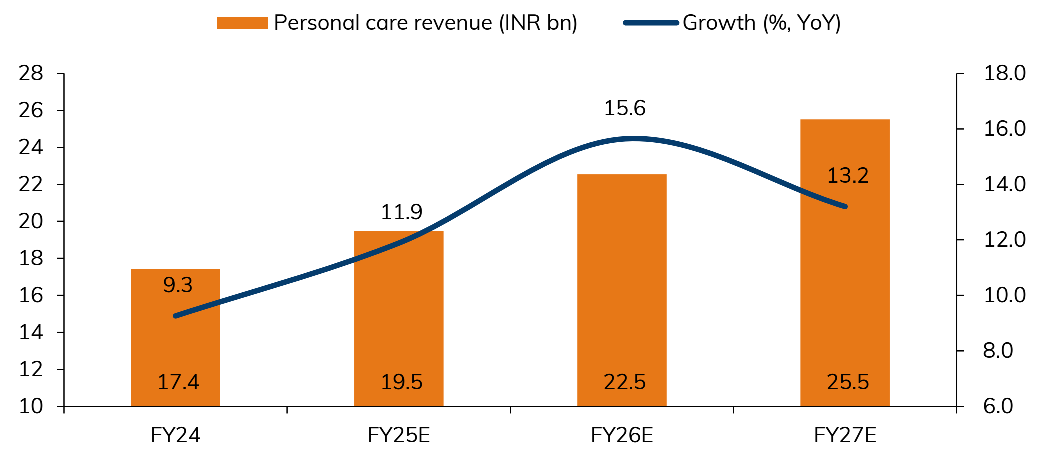
Source: Company data, I-Sec research

Exhibit 6: EPL expects innovation on neo-seam tubes and higher quality printing with recyclable tubes can help win more market share

Source: Company data, I-Sec research

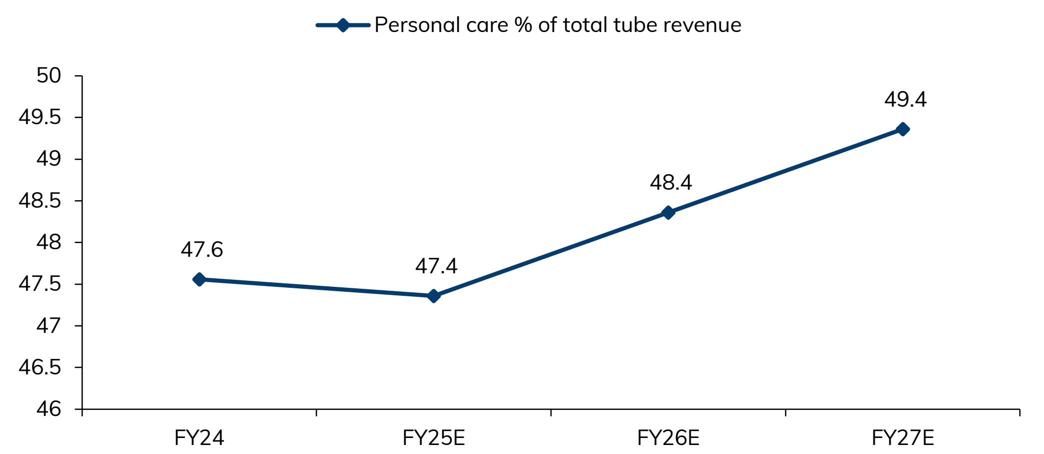
Further, in the past two years, EPL's focus was to normalise margins, which had taken a severe beating on account of various external factors. The company has normalised margins to ~19–20% in Q1FY25; and the focus has now shifted to growing volumes and market share. EPL also expects to keep EBITDA margins stable at ~20% going forward, and wishes to re-invest efficiencies to drive faster growth. Thus, EPL anticipates revenue growth to accelerate going forward.

Exhibit 7: Personal care tubes revenue likely to grow CAGR of 13.6% over FY24-27



Source: Company data, I-Sec research

Exhibit 8: Personal care tubes revenue contribution shall continue to rise

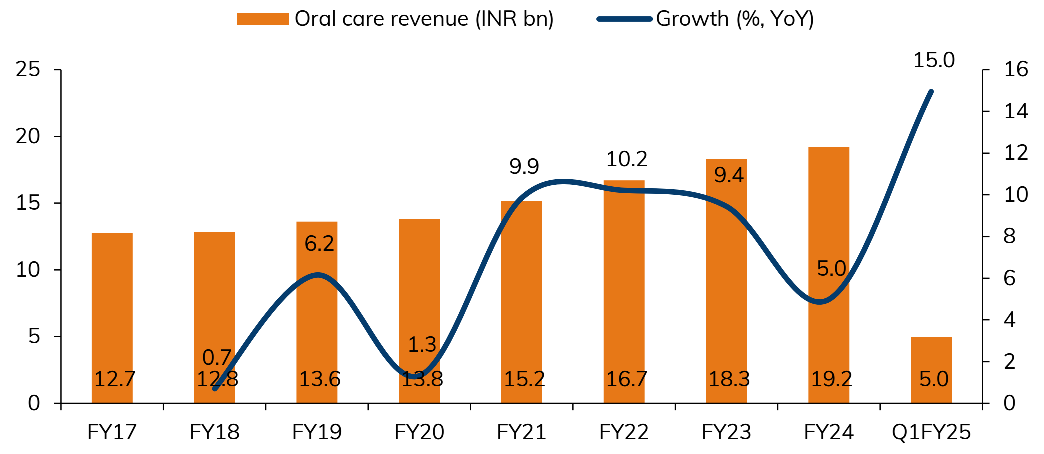


Source: Company data, I-Sec research

Adoption of recyclable tubes to drive oral care growth

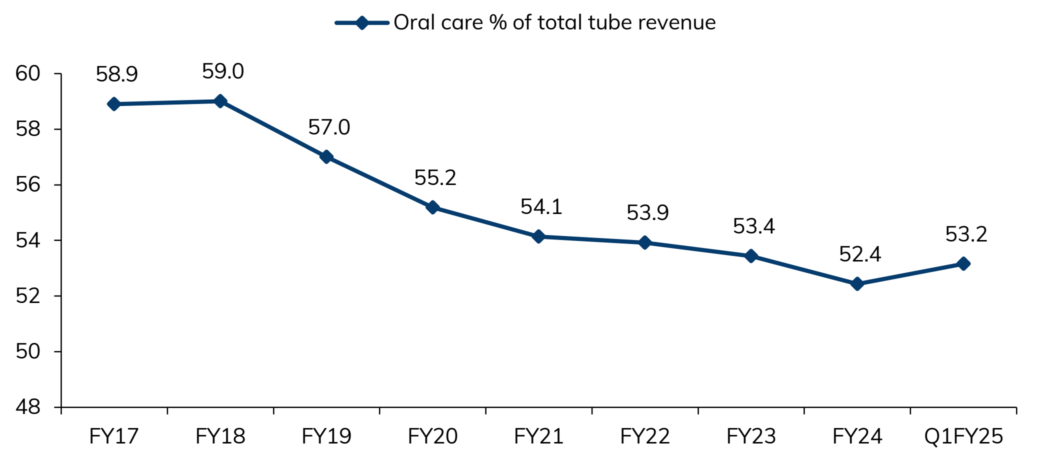
EPL's oral care tubes revenue has grown at CAGR of 7.1% over FY19-24. Oral care tubes' revenue growth was slower, as expected, due to lower volume growth for the category itself. Therefore, oral care tubes' revenue mix dipped from 57% in FY19 to 52.4% in FY24. EPL also has significantly higher global market share of ~35% in the oral care tube segment.

Exhibit 9: Oral care tubes revenue grew at CAGR of 7.1% over FY19-24



Source: Company data, I-Sec research

Exhibit 10: Oral care tubes revenue contribution dipped from 57% in FY19 to 52.4% in FY24



Source: Company data, I-Sec research

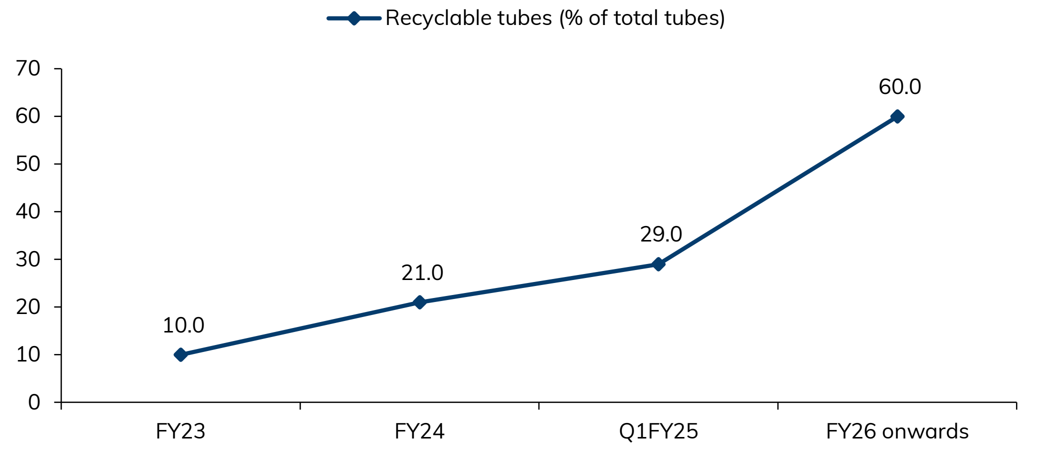
Exhibit 11: Oral care tubes revenue growth by geographies

INR mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24	CAGR (%, 19-24)
Oral care segment								
AMESA	3,917	3,993	3,854	4,038	4,398	5,159	5,346	6.0
EAP	3,212	3,439	3,224	3,810	4,081	3,803	3,836	2.2
Americas	3,771	4,275	4,394	4,754	5,291	6,122	6,428	8.5
Europe	1,902	2,152	2,351	2,568	2,950	3,216	3,602	10.8
Total	**12,801**	**13,628**	**13,823**	**15,170**	**16,720**	**18,300**	**19,212**	**7.1**

Source: Company data, I-Sec research; Note: Some of the above numbers include our estimates

However, oral care tubes' revenue growth spiked to 15% in Q1FY25. We expect a higher growth rate to sustain for the next few years in the segment due to three key factors: 1) EPL has started green field operation in Brazil, wherein it has already supplied 100% of long-term contracted tubes to its anchor customer. EPL has added three more customers in Brazil, including one local customer. These customers shall drive growth in oral care. 2) 85% of EPL's capacity has capability to produce recyclable tubes, which should help in smooth transition. Further, EPL has started winning more market share due to recyclable tubes, as its key customers have pledged for adopting recyclable tubes going forward. EPL expects recyclable tubes to be more than 60% of tubes sold by EPL FY27 onwards, which is a big jump from 21% in FY24. In the process, it expects to win more market share. 3) EPL has shifted focus to grow revenue/volumes faster while re-investing efficiencience to drive higher revenues.

Exhibit 12: EPL has huge focus on driving faster growth in recyclable tubes, which should help it grab higher revenue market share in oral care tube segment



Source: Company data, I-Sec research

Exhibit 13: Key FMCG companies have pledged to adopt recyclable tubes

Source: Company data, I-Sec research

The Indian government has issued a set of comprehensive regulations to address the environmental challenges posed by plastic packaging waste. The centre piece of these efforts is the Plastic Waste Management (PWM) Rules, 2016, which has been subsequently amended. PWM mandates the generators of plastic waste to take steps to minimise generation of plastic waste and also mandating the responsibilities of local bodies, gram panchayats, waste generators, retailers, and street vendors to manage plastic waste. It mandates the use of recycled plastics, sets recycling targets, and introduces the concept of EPR for plastic waste management.

EPR mandates that producers, brand owners, importers and plastic waste processors of plastic packaging are accountable for its collection and sustainable disposal. This approach shifts the burden of waste management from municipalities to the entities that bring packaging materials into the market.

Exhibit 14: Plastic packing categories covered under EPR

Category I	Rigid Plastic Packaging
Category II	Flexible Plastic Packaging of single layer or multilayer (more than one layer of different kind of plastic), plastic sheets or like and covers made of plastic sheet, carry bags, plastic sachet or pouches
Category III	Multi-layered plastic packaging (at least one layer of plastic and at least one layer of material other than plastic)

Source: Company data, I-Sec research

Exhibit 15: Minimum level of recycling (excluding end of life disposal) of plastic packaging waste as a % of EPR target

Plastic packaging category	2024-25	2025-26	2026-27	2027-28 onwards
I	50	60	70	80
II	30	40	50	60
III	30	40	50	60

Source: Company data, I-Sec research

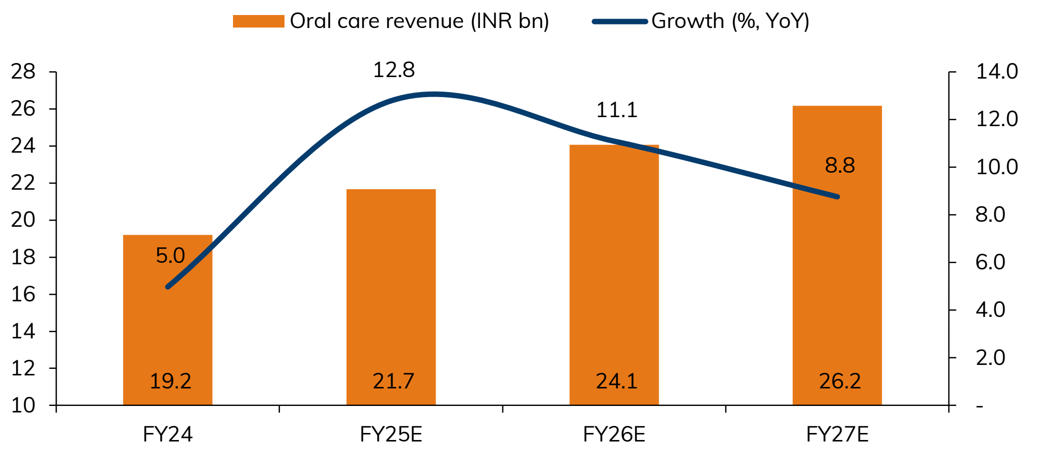
India (large market for EPL) has stringent regulations that require recyclability of plastic. EPL has made tubes recyclable, which helps its customer meet regulatory requirement ahead of competition. Flexible packaging, where EPL operates, is behind the curve in meeting regulation.

Exhibit 16: Flexible packaging is behind the curve to meet recycling content target of 10% in 2025

Category (As per EPR)	Recycling target (2025)	Recycled Content Target (2025)	Current Recycling Rates	Feasible Recyclability	Reusability
I-Rigid Plastics	50%	30%	>60% for PET	100%	100%
II- Flexible Packaging	30%	10%	<10%	Technically feasible, commercial viability lowdown-recycled into other applications such as road construction, waste-to-energy, downcycling and upcycling	Not reusable
III- MLP	30%	5%	0-0.5%		Not reusable

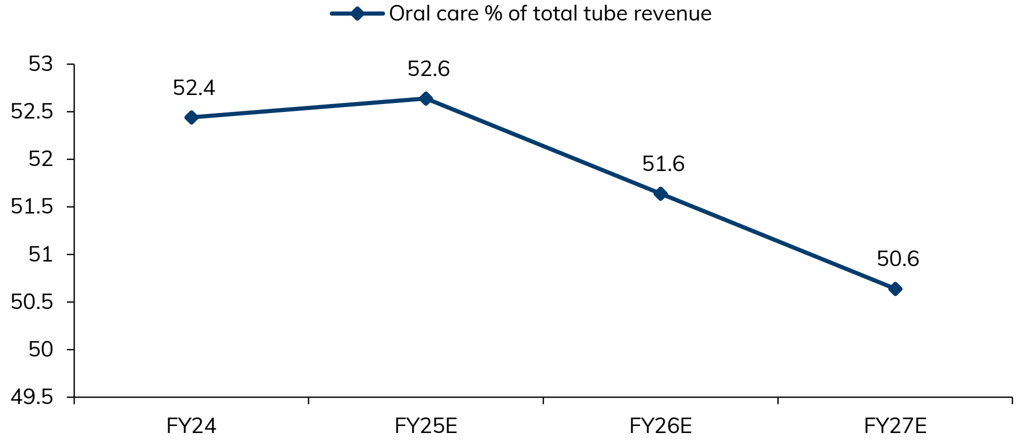
Source: Company data, I-Sec research

Exhibit 17: Oral care tubes' revenue shall grow at CAGR of 10.9% over FY24–27E



Source: Company data, I-Sec research

Exhibit 18: Oral care tubes revenue contribution to dip, but at slower pace



Source: Company data, I-Sec research

Geographical performance

AMESA – Egypt currency devaluation hit behind; India to drive consistent growth

AMESA revenue, in the past five years (FY19-24), grew at a CAGR of 8.1% - largely driven by consistent growth in India market. However, it was hurt from currency devaluation in Egypt, and lower input prices in FY24. AMESA region's EBITDA margin has been consistently above 20%, which slipped below 19% in FY22 and FY23; and back to ~20% EBITDA margin in FY24.

Exhibit 19: AMESA – Egypt devaluation and lower input prices drag revenue in FY24

INR mn	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	Q1FY25
AMESA									
Revenue	9,808	9,348	9,596	9,352	9,934	12,259	13,692	14,185	3,677
Growth (%)	*1.9*	*(4.7)*	*2.7*	*(2.5)*	*6.2*	*23.4*	*11.7*	*3.6*	*9.5*
EBITDA	**1,916**	**2,116**	**2,043**	**2,077**	**2,049**	**2,300**	**2,576**	**2,827**	**700**
EBITDA margin (%)	*19.5*	*22.6*	*21.3*	*22.2*	*20.6*	*18.8*	*18.8*	*19.9*	*19.0*
Growth (%)	*2.7*	*10.4*	*(3.5)*	*1.7*	*(1.3)*	*12.2*	*12.0*	*9.7*	*(4.4)*
EBIT	1,278	1,412	1,272	1,076	1,083	1,293	1,469	1,617	430
EBIT margin (%)	*13.0*	*15.1*	*13.3*	*11.5*	*10.9*	*10.5*	*10.7*	*11.4*	*11.7*
Growth (%)	*(0.7)*	*10.5*	*(9.9)*	*(15.4)*	*0.7*	*19.4*	*13.6*	*10.1*	*17.8*
Capex	1,113	694	1,385	199	193	1,263	1,265	1,083	
FCF (EBITDA-capex)	803	1,422	658	1,879	1,856	1,037	1,311	1,744	
Segmental ROCE (%)	*24.1*	*25.5*	*20.6*	*15.2*	*14.9*	*17.1*	*18.1*	*19.5*	

Source: Company data, I-Sec research

AMESA revenue growth will be driven by healthy growth in India market; and with PWM regulation kicking-in, EPL may grab higher market share with recyclable tubes as well. Performance, excluding India, should be stable at the least. We conservatively keep EBITDA margin to stay sub-20% over the next three years, which is much below its earlier levels.

Exhibit 20: AMESA EBITDA margin expectations are conservative. It has been 21-22% in past vs under 20% in our forecast

INR mn	FY24	FY25E	FY26E	FY27E	CAGR (%)
AMESA					
Revenue	14,185	15,604	17,476	19,224	10.7
Growth (%)	*3.6*	*10.0*	*12.0*	*10.0*	
EBITDA	**2,827**	**3,078**	**3,465**	**3,831**	**10.7**
EBITDA margin (%)	*19.9*	*19.7*	*19.8*	*19.9*	
Growth (%)	*9.7*	*8.9*	*12.6*	*10.6*	
EBIT	1,617	1,844	2,207	2,547	16.4
EBIT margin (%)	*11.4*	*11.8*	*12.6*	*13.2*	
Growth (%)	*10.1*	*14.1*	*19.6*	*15.4*	

Source: Company data, I-Sec research

EAP – China, largest market; performance has been good

EAP region's revenue in past five years (FY19-24) grew at CAGR of 7%, and was partly impacted by the Covid-19-led restrictions in China. EAP's EBITDA margin improved to 21.5% in FY24, which we believe has stabilised. The company aspires to drive volume growth in partnership with smaller brands/new-age brands in China.

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Exhibit 21: EAP – It was impacted from COVID, but recovery is good

INR mn	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	Q1FY25
EAP									
Revenue	5,529	5,744	6,673	6,230	7,820	8,626	8,498	9,356	2,448
Growth (%)	*1.3*	*3.9*	*16.2*	*(6.6)*	*25.5*	*10.3*	*(1.5)*	*10.1*	*13.9*
EBITDA	**1,110**	**1,249**	**1,422**	**1,436**	**1,900**	**1,781**	**1,749**	**2,008**	**536**
EBITDA margin (%)	*20.1*	*21.8*	*21.3*	*23.0*	*24.3*	*20.6*	*20.6*	*21.5*	*21.9*
Growth (%)	*(4.4)*	*12.5*	*13.8*	*1.0*	*32.3*	*(6.3)*	*(1.8)*	*14.8*	*9.6*
EBIT	781	906	1,047	998	1,434	1,277	1,237	1,462	392
EBIT margin (%)	*14.1*	*15.8*	*15.7*	*16.0*	*18.3*	*14.8*	*14.6*	*15.6*	*16.0*
Growth (%)	*(8.7)*	*16.0*	*15.6*	*(4.7)*	*43.7*	*(10.9)*	*(3.1)*	*18.2*	*11.7*
Capex	199	225	426	390	335	500	246	795	
FCF	911	1,025	996	1,046	1,565	1,281	1,503	1,213	
Segmental ROCE (%)	*19.2*	*21.7*	*23.1*	*20.9*	*27.7*	*22.9*	*21.6*	*25.1*	

Source: Company data, I-Sec research

EAP revenue growth will likely be driven by steady growth in China market; and also supplies of laminate sheets for global requirements. We expect EBITDA margin to improve slightly, closer to 22% (at historical levels).

Exhibit 22: EAP will continue to have healthy growth

INR mn	FY24	FY25E	FY26E	FY27E	CAGR (%)
EAP					
Revenue	9,356	10,572	11,841	13,025	11.7
Growth (%)	*10.1*	*13.0*	*12.0*	*10.0*	
EBITDA	**2,008**	**2,322**	**2,589**	**2,835**	**12.2**
EBITDA margin (%)	*21.5*	*22.0*	*21.9*	*21.8*	
Growth (%)	*14.8*	*15.6*	*11.5*	*9.5*	
EBIT	1,462	1,765	2,021	2,255	15.5
EBIT margin (%)	*15.6*	*16.7*	*17.1*	*17.3*	
Growth (%)	*18.2*	*20.7*	*14.5*	*11.6*	

Source: Company data, I-Sec research

Americas – Brazil, personal care and recyclable tubes shall drive growth

Americas' revenue, in the past five years (FY19-24), grew at a CAGR of 10.9%, and was partly helped by the commencement of its Brazilian green field operations in FY24. However, Americas' margins were worst hit from higher freight cost, sharply higher employee cost and the start-up cost of its Brazil operations. EBITDA margin has declined from 19–20% in FY19–20 to 14.2% in FY24. EPL has started focusing of margin expansion, with its Brazil operations likely to be margin accretive; and legacy business also showing improvement. The company has increased its focus on war-on-waste with a view to drive margin expansion to historical levels.

Exhibit 23: Americas – revenue growth partly aided by start of Brazil operations; but margins have dip sharply

INR mn	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	Q1FY25
Americas									
Revenue	4,828	4,885	5,889	6,184	6,521	7,362	8,758	9,889	2,589
Growth (%)	*2.3*	*1.2*	*20.6*	*5.0*	*5.5*	*12.9*	*19.0*	*12.9*	*18.9*
EBITDA	**705**	**838**	**1,102**	**1,253**	**1,121**	**988**	**987**	**1,409**	**408**
EBITDA margin (%)	*14.6*	*17.2*	*18.7*	*20.3*	*17.2*	*13.4*	*11.3*	*14.2*	*15.8*
Growth (%)	*(10.1)*	*18.9*	*31.4*	*13.8*	*(10.5)*	*(11.9)*	*(0.1)*	*42.8*	*63.2*
EBIT	527	611	818	888	712	529	379	530	169
EBIT margin (%)	*10.9*	*12.5*	*13.9*	*14.4*	*10.9*	*7.2*	*4.3*	*5.4*	*6.5*
Growth (%)	*(9.7)*	*16.1*	*33.8*	*8.6*	*(19.8)*	*(25.7)*	*(28.4)*	*39.8*	*604.2*
Capex	836	208	799	355	617	811	2,311	1,010	
FCF	(131)	631	303	898	504	177	(1,324)	399	
Segmental ROCE (%)	*18.7*	*18.9*	*21.9*	*20.4*	*15.5*	*10.5*	*5.7*	*6.6*	

Source: Company data, I-Sec research

Americas' revenue growth is expected to remain healthy with ramp-up in Brazil operation – with 100% supplies to anchor customer already achieved in Q1FY25; the company has also added three customers, including a local player. Americas' personal care segment is expected to grow faster with improved wallet share – oral care to benefit from recyclable tubes adoption. EPL expects its EBITDA margin to reach historical levels with Brazil's operations being margin accretive.

Exhibit 24: Americas will sustain good growth; and also improve margins to historical levels

INR mn	FY24	FY25E	FY26E	FY27E	CAGR (%)
Americas					
Revenue	9,889	11,471	13,077	14,646	14.0
Growth (%)	12.9	16.0	14.0	12.0	
EBITDA	**1,409**	**1,864**	**2,386**	**2,687**	**24.0**
EBITDA margin (%)	*14.2*	*16.2*	*18.2*	*18.3*	
Growth (%)	42.8	32.3	28.0	12.6	
EBIT	530	967	1,472	1,755	49.0
EBIT margin (%)	*5.4*	*8.4*	*11.3*	*12.0*	
Growth (%)	39.8	82.5	52.2	19.2	

Source: Company data, I-Sec research

Europe – margins have suffered for EPL

Europe revenue, in the past five years (FY19-24), grew at a CAGR of 8.8%, and was hurt from the shuttered Russia operations. However, EPL particularly suffered from EBITDA margins being sub-optimal in Europe, at ~10% which saw no major improvement in past many years despite company's consistent efforts. Higher freight cost, employee cost inflation and power & fuel cost in the past few years have added to its woes. EPL expects to drive operating leverage, and revenue growth with increasing share of established oral care segment in Europe; however, the company has struggled even in oral care business.

Exhibit 25: Europe – margins remain sub-optimal despite multiple efforts

INR mn	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	Q1FY25
Europe									
Revenue	4,353	5,096	5,852	6,771	7,686	7,484	8,435	8,927	2,316
Growth (%)	25.3	17.1	14.8	15.7	13.5	(2.6)	12.7	5.8	9.0
EBITDA	**517**	**511**	**603**	**866**	**1,119**	**788**	**765**	**924**	**314**
EBITDA margin (%)	*11.9*	*10.0*	*10.3*	*12.8*	*14.6*	*10.5*	*9.1*	*10.4*	*13.6*
Growth (%)	43.3	(1.3)	18.2	43.6	29.2	(29.6)	(2.9)	20.8	29.8
EBIT	245	120	179	383	625	256	202	247	135
EBIT margin (%)	*5.6*	*2.4*	*3.1*	*5.7*	*8.1*	*3.4*	*2.4*	*2.8*	*5.8*
Growth (%)	16.5	(51.0)	49.2	113.7	63.4	(59.0)	(21.1)	22.3	70.9
Capex	165	284	443	357	615	181	531	872	
FCF	353	227	161	509	504	607	234	52	
Segmental ROCE (%)	*7.3*	*2.7*	*4.0*	*8.2*	*13.0*	*5.4*	*4.2*	*4.8*	

Source: Company data, I-Sec research

Europe is highly competitive market with Albea having strong presence. Nonetheless, EPL has tried becoming leaner with cutting down under-performing facilities. Even Immediate focus for in Europe is to drive margins expansion to mid-teens with steady revenue growth largely driven by oral care segment. EPL has also changed leadership team at Europe including regional head, sales head and CFO.

Exhibit 26: EPL focus is to improve margins in Europe

INR mn	FY24	FY25E	FY26E	FY27E	CAGR (%)
Europe					
Revenue	8,927	9,820	10,998	12,098	10.7
Growth (%)	5.8	*10.0*	*12.0*	*10.0*	
EBITDA	**924**	**1,360**	**1,633**	**1,797**	**24.8**
EBITDA margin (%)	*10.4*	*13.9*	*14.9*	*14.9*	
Growth (%)	*20.8*	*47.2*	*20.1*	*10.0*	
EBIT	247	670	929	1,078	63.4
EBIT margin (%)	*2.8*	*6.8*	*8.4*	*8.9*	
Growth (%)	*22.3*	*171.1*	*38.7*	*16.1*	

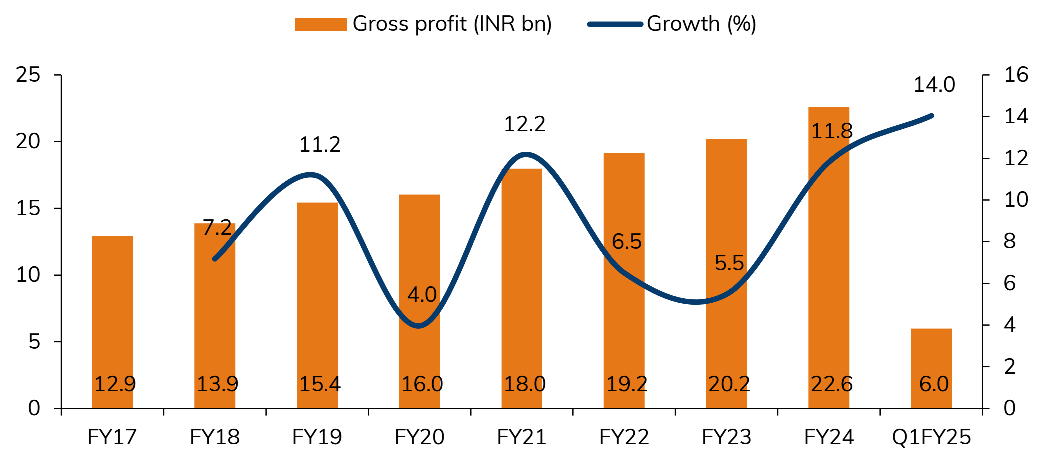
Source: Company data, I-Sec research

Gross profit growth – combination of volume growth and mix change

EPL's gross profit represents volume growth and impact of mix change. Personal care tubes have better profits vs oral care, and mix improvement in favour of personal care have helped EPL grow gross profit slightly faster. However, in FY22 and FY23 has been peculiar years where gross profit was impacted due to significant jump in raw-material prices and the company was catching-up in pass-through contracts all across. And, EPL also has to renegotiate pricing to incorporate inflation in operating cost such as freight and power which were not part of pass-through.

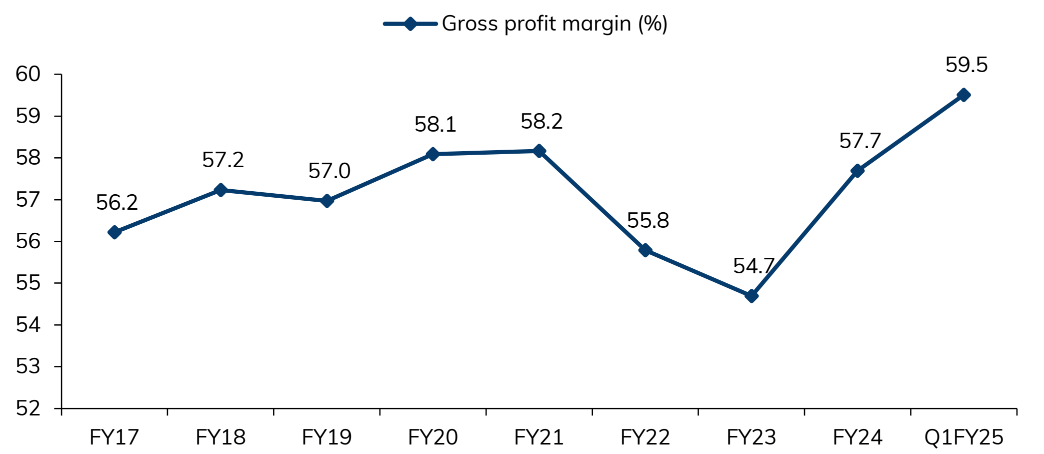
Gross profit margins in Q1FY25 are reminiscent of FY19/FY20-levels; including higher margins to cover up increased operating costs. Gross profit margin has scaled to 59.5%, which we believe now captures the underlying business dynamics.

Exhibit 27: EPL gross profit has grown at a CAGR of 7.9% over FY19–24…



Source: Company data, I-Sec research

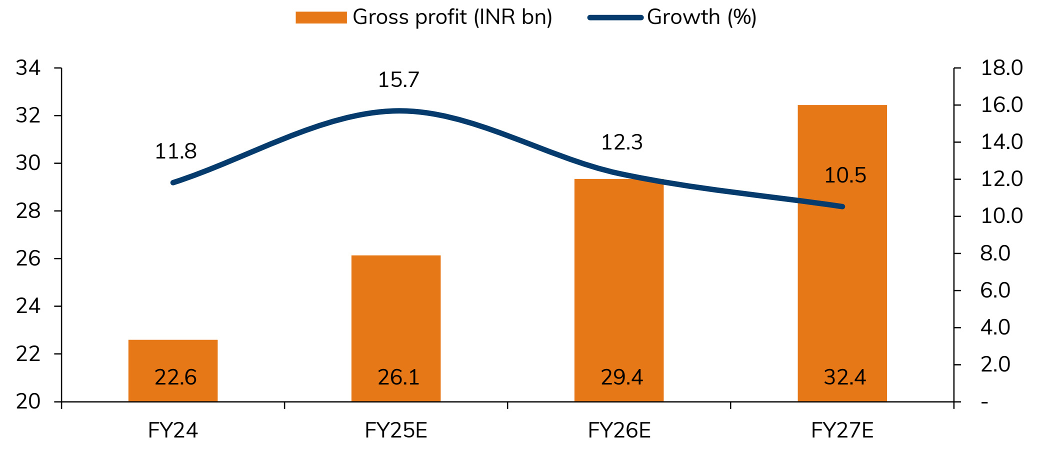
Exhibit 28: … and gross profit margins have completely recovered to over 59.5% in Q1FY25



Source: Company data, I-Sec research

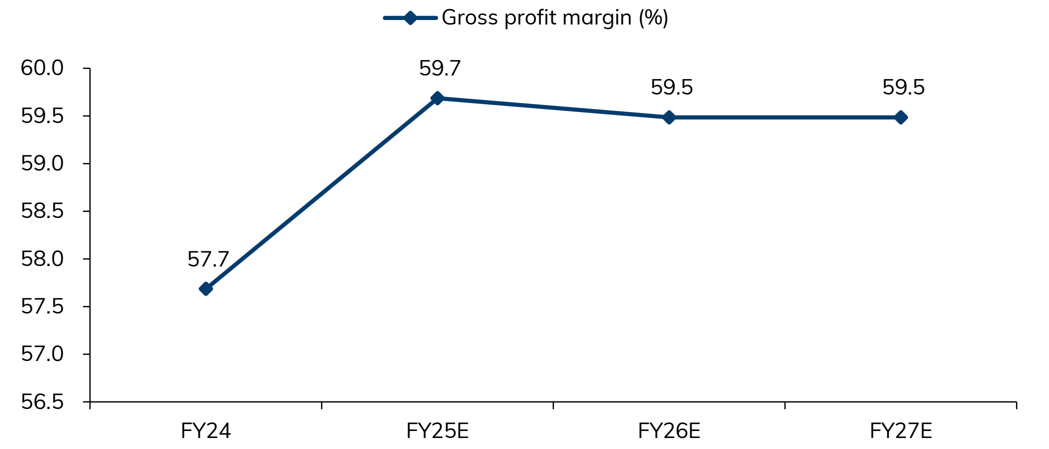
We forecast EPL's gross profit grow at CAGR of 12.8% over FY24-27E, largely driven by volumes; and we expect mix to improve towards personal care during the period. Yet we have built gross profit margin to be stable at 59.5%.

Exhibit 29: EPL gross profit likely to grow at CAGR of 12.8% over FY24-27E largely driven by volume…



Source: Company data, I-Sec research

Exhibit 30: … and gross profit margins to be stable



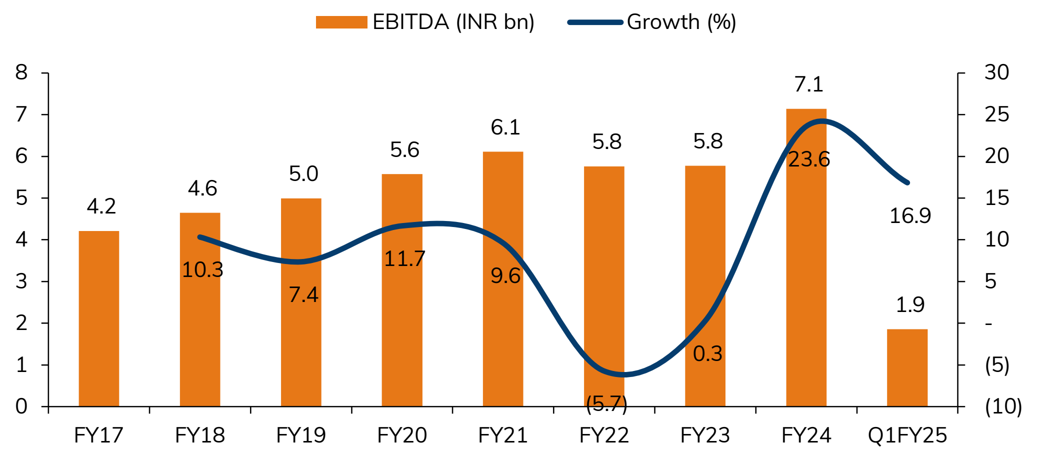
Source: Company data, I-Sec research

EBITDA to scale to guided 20%; EPL to re-invest efficiency to drive market share wins

EPL contracts covered for inflation in raw-materials; and rise in operating cost was not part of contracts as they have remained stable for past decade or so. However, post Covid-19, certain operating costs have increased sharply, particularly in the Americas and Europe geographies. These includes manpower cost (lower unemployment rate in US), freight cost, and power cost. Freight and power costs have come down again in FY24 while employee cost has been high. Employee cost has element of professional fees paid (TSA) which should stop from Aug'24 which should increase EBITDA margin by 40bp (saving of INR 160mn pa).

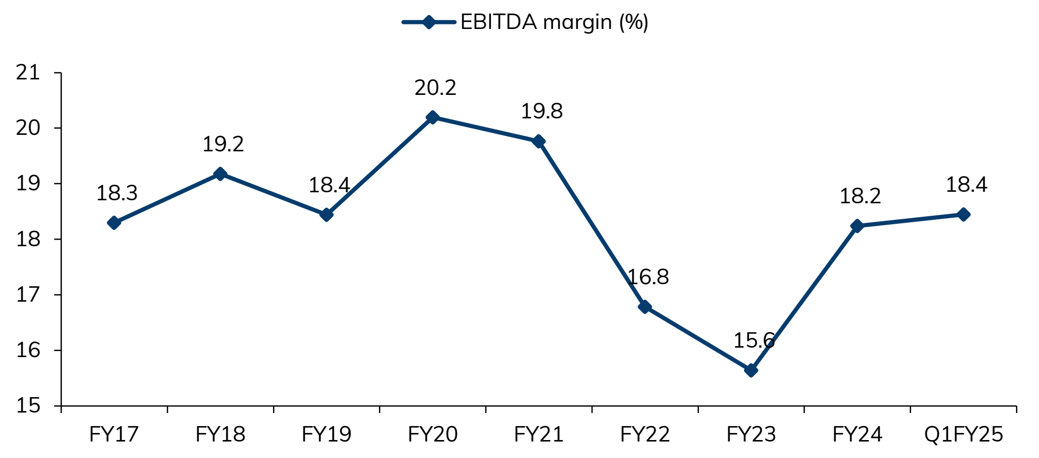
Excluding forex losses, EPL's EBITDA margin has improved to 19.1% in Q1FY25; and the company has guided to improve this further to 20% soon. Thereafter, the company anticipates to re-invest efficiencies to drive higher volumes and market share wins.

Exhibit 31: EPL EBITDA grew at CAGR of 7.4% over FY19-24…



Source: Company data, I-Sec research

Exhibit 32: … and EBITDA margin is slight away from guided range of ~20%



Source: Company data, I-Sec research

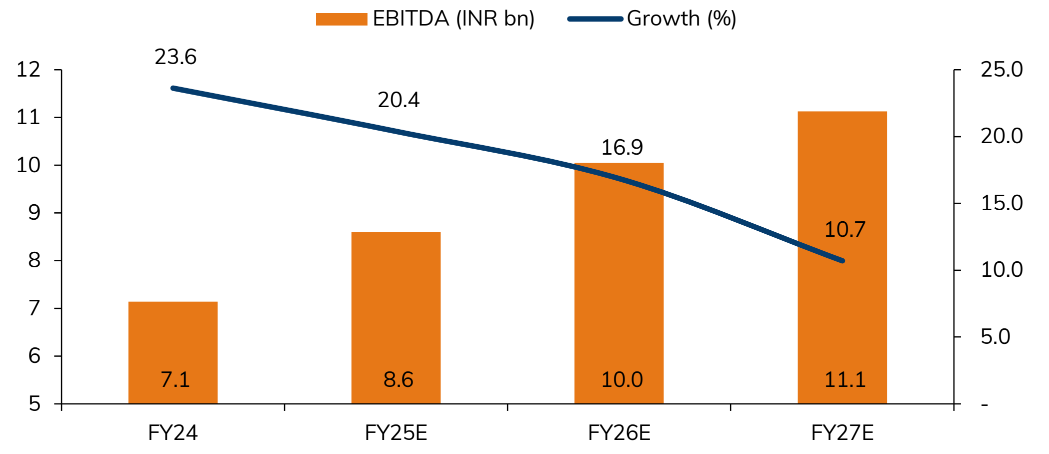
Exhibit 33: Cost inflation in key line item; and delay in re-negotiation has depressed margins

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Common size cost statement (% of revenue)								
Employee cost	17.6	17.9	18.5	19.2	19.6	18.9	18.7	19.7
Power & fuel	3.0	2.7	2.6	2.6	2.4	2.4	2.7	2.7
Repair & maintenance	1.5	1.4	1.4	1.4	1.6	1.6	1.5	1.6
Freight	2.9	3.2	3.2	3.0	3.4	4.4	3.4	3.2
Packaging material	3.3	3.4	3.6	3.5	3.7	4.4	4.7	4.3
Others	9.6	9.4	9.2	8.2	7.6	7.3	8.1	7.9
Total expenses	**37.9**	**38.1**	**38.5**	**37.9**	**38.4**	**39.0**	**39.0**	**39.4**

Source: Company data, I-Sec research

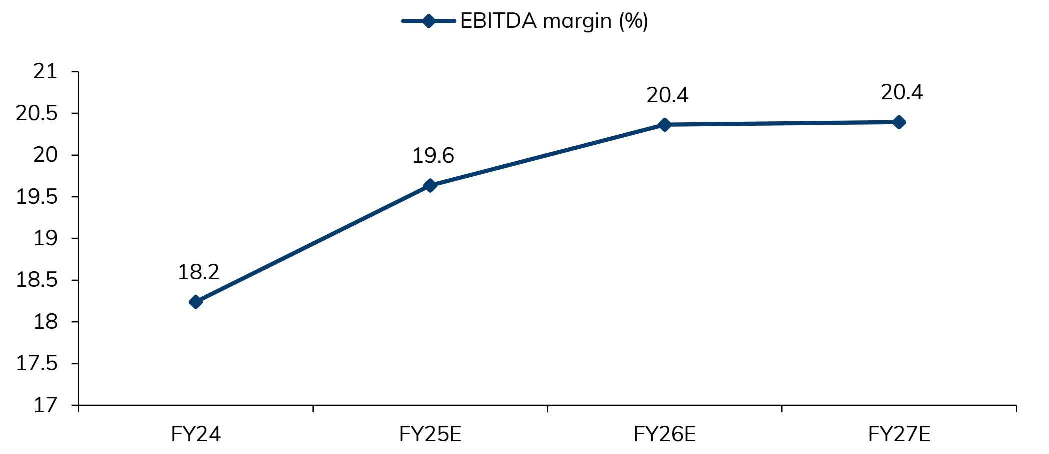
We anticipate EPL's EBITDA to grow at a CAGR of 15.9% over FY24-27E; and EBITDA margin stable at 20.4%. EPL's FY24 EBITDA growth was strong 23.6% on improvement in margins; and FY25E is also expected to be strong at 20.4%, and company to achieve targeted margin of 20% in FY26E.

Exhibit 34: EPL EBITDA likely grow at CAGR of 15.9% over FY24-27E…



Source: Company data, I-Sec research

Exhibit 35: … and targeted EBITDA margin of ~20% to be achieve in FY26E



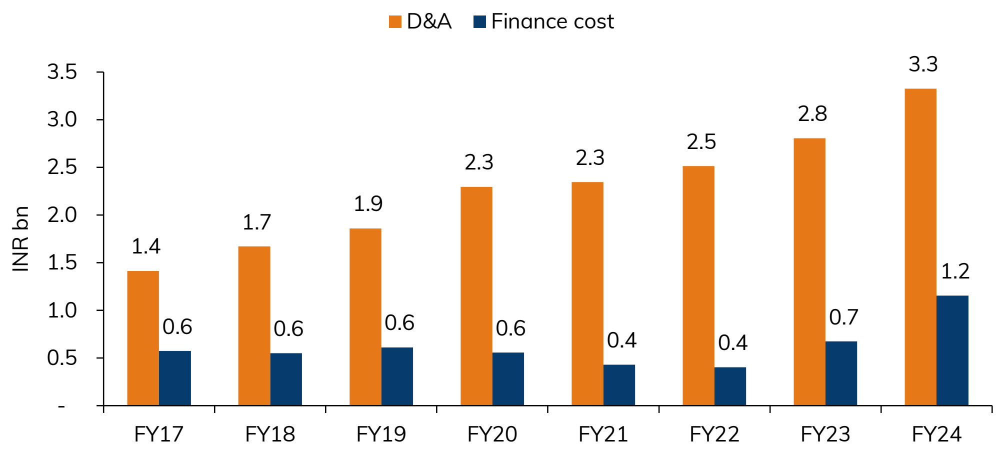
Source: Company data, I-Sec research

PAT growth capped by higher D&A and finance cost which should ease over FY24-27

EPL's net profit growth was significantly restricted. This was predominantly due to sharp growth in D&A, rising at a CAGR of 12.3% over FY19–24 on the back of the Creative Stylo acquisition, and its green field operations in Brazil. As its Brazilian operations scales up, the company shall absorb the fixed cost; and we believe, incremental capex will likely be equal to D&A, therefore, restricting growth in D&A cost.

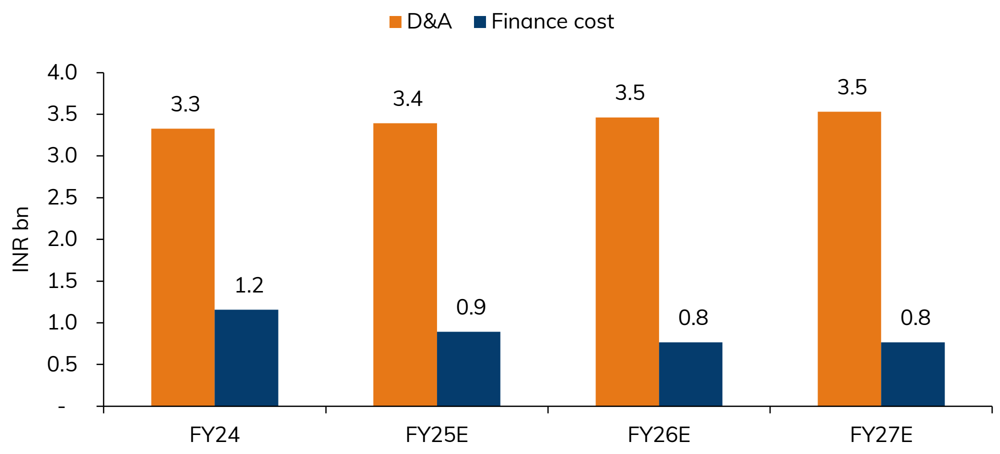
Similarly, finance cost has increased at a CAGR of 13.5% over FY19–24 due to EPL's investments in its Brazil operations which has inflated its debt alongside the rise in interest rates. We believe with strong FCF generation, EPL is likely to reduce debt, and separately, interest rates to have peaked.

Exhibit 36: D&A/finance cost grew at CAGRs of 12.3%/13.5% over FY19–24…



Source: Company data, I-Sec research

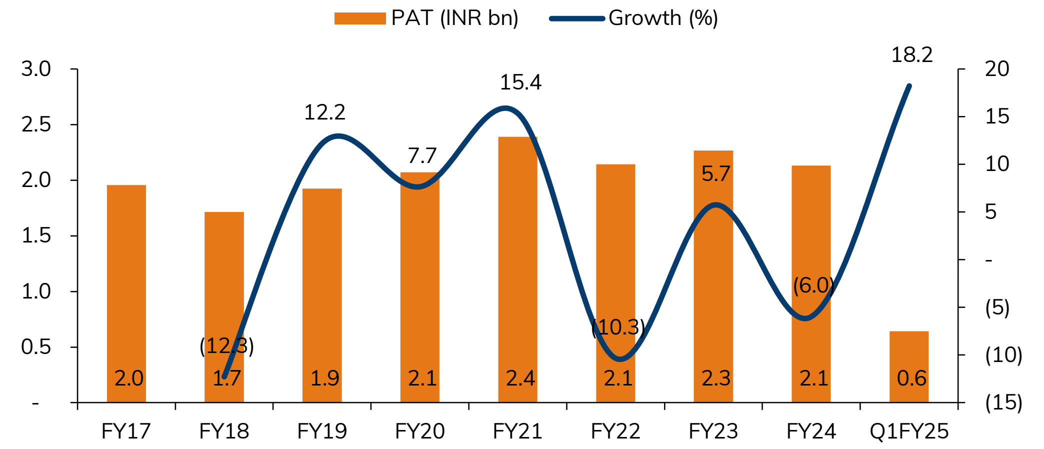
Exhibit 37: …however, they are likely to grow slower or dip over FY24–27E



Source: Company data, I-Sec research

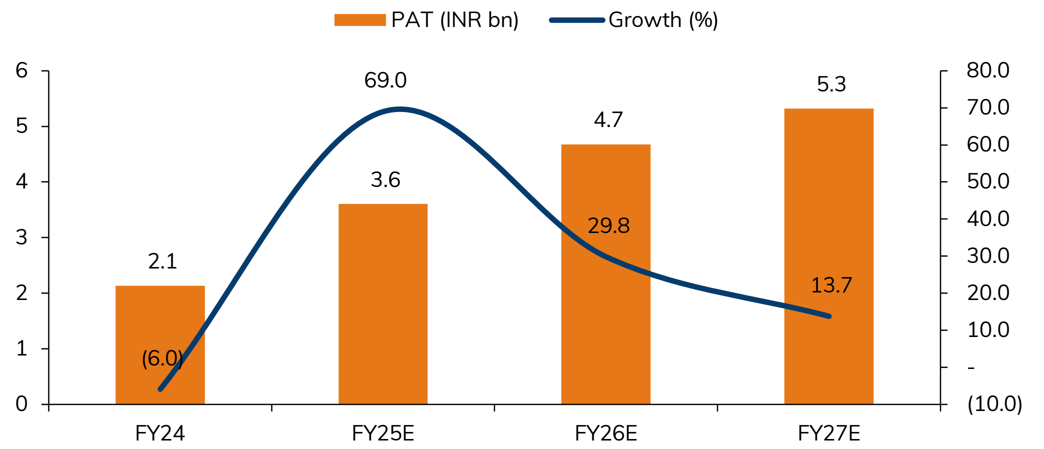
EPL's net profit growth in past five years (FY19–24) has been unimpressive at a CAGR of just 2.1%. However, with revenue growth accelerating, margin normalised, and D&A/finance cost headwind behind, we expect EPL's net profit to grow at CAGR of 35.6% over FY24–27E.

Exhibit 38: PAT grew slow at CAGR of 2.1% over FY19–24…



Source: Company data, I-Sec research

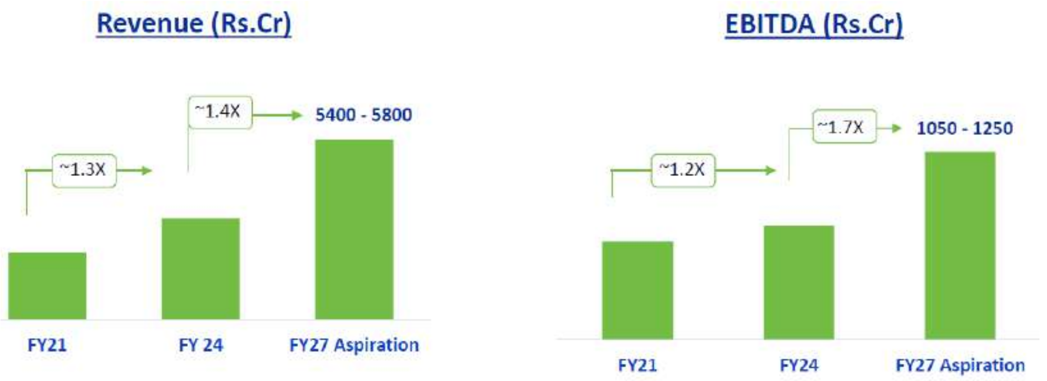
Exhibit 39: …however, it will likely rise at a CAGR of 35.6% over FY24-27E



Source: Company data, I-Sec research

Our revenue/EBITDA expectation for EPL is at mid-range of company guidance where EPL expects FY27E revenue jump to INR 54-58bn (I-Sec: INR 54.5bn) and EBITDA to grow to INR 10.5-12.5bn (I-Sec: INR 11.1bn).

Exhibit 40: Our estimates are at mid-range of company aspiration for FY27E



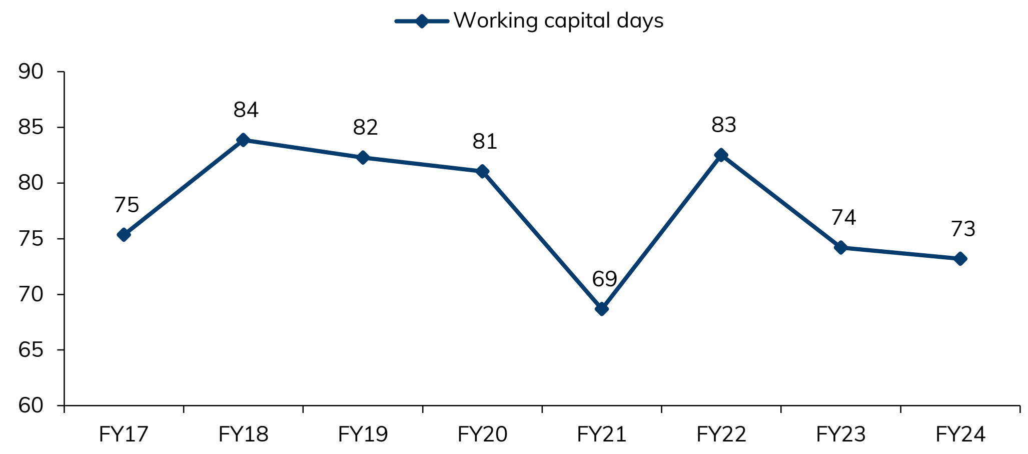
Source: Company data, I-Sec research

Balance sheet healthy; disciplined capital allocation

EPL has kept working capital (inventory + receivables – payables) days under control, under 75 days, in the past two years; though it had jumped to 83days in FY22. The company has paid consistent dividend (40% payout ratio), invested in Brazil green field operations and completed Creative Stylo acquisition. Yet, it has managed to kept debt under control with net debt to EBITDA at just 1.1x in FY24.

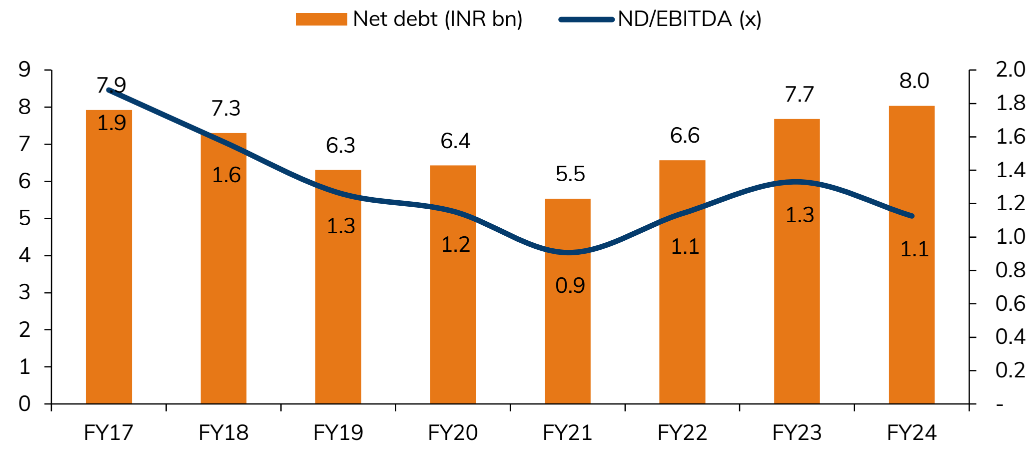
We do not expect much improvement in working capital day in coming years; however, net debt is likely to reduce with healthy FCF generation and stable capex.

Exhibit 41: EPL working capital days have remained stable to lower



Source: Company data, I-Sec research

Exhibit 42: Net debt to EBITDA has been comfortable



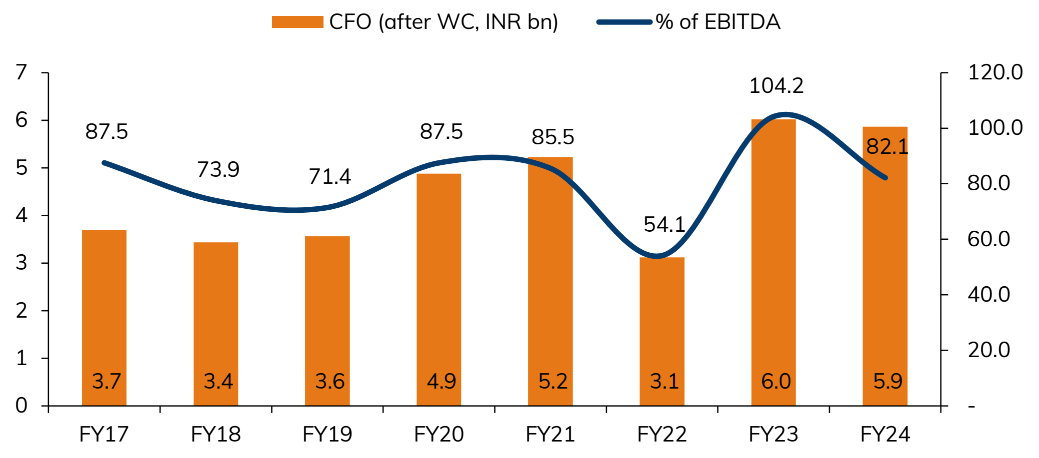
Source: Company data, I-Sec research

Attractive FCF yield

EPL's cashflow from operations (CFO) after working capital (WC) has scaled to ~INR 6bn annual run rate; and average conversion has been ~80% of EBITDA since FY17; with only FY22 being unimpressive at 54%. The company's capex guidance has been equal to depreciation; and the only bump has been its Brazil green field operations in FY23 and FY24. We anticipate capex to be in the range of INR 3.5bn p.a. going forward, excluding any potential acquisition.

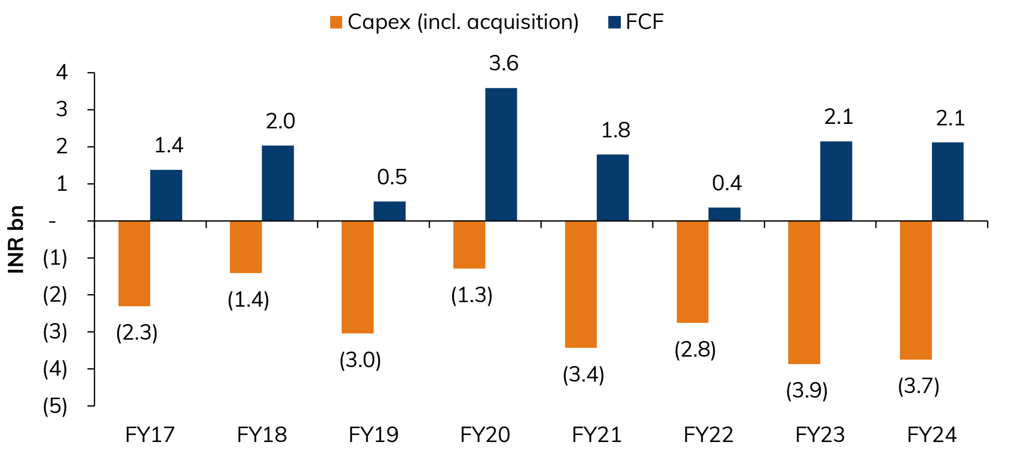
EPL had positive FCF generation in each of its past eight years, and has now scaled to an annual run rate of INR 2.1bn. Over the next three years (FY24–27E), we expect EPL's CFO (after WC) to jump from INR 5.9bn in FY24 to INR 8.4bn with rise in EBITDA (average conversion expected to 75%, lower than its historical average, as we have assumed higher tax rates). Assuming unchanged capex, we anticipate FCF generation in the next three years to remain attractive at INR 4.9bn (2.3x of FY24). At CMP, this works out to a FCF yield of 5.7% of enterprise value.

Exhibit 43: EPL's CFO (after WC) improved to INR 6bn run rate p.a. post volatile FY22/FY23



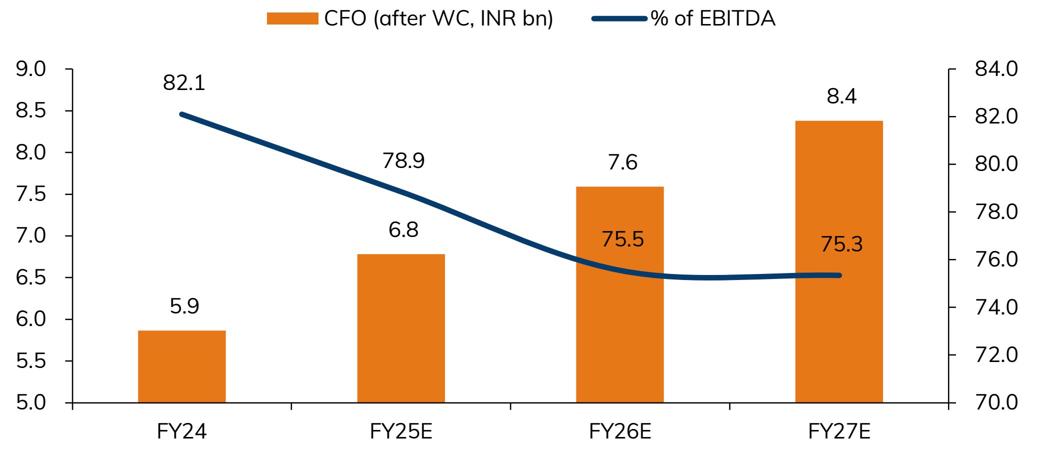
Source: Company data, I-Sec research

Exhibit 44: Even in its toughest times, EPL's FCF generation remained positive



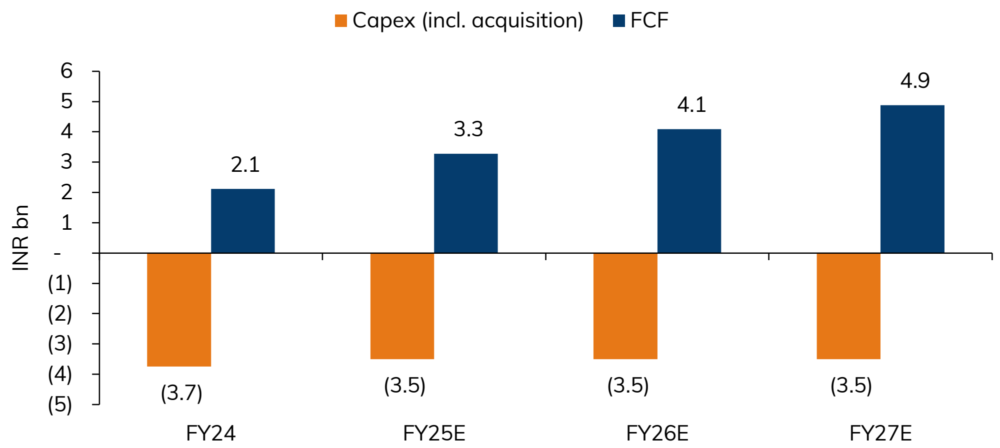
Source: Company data, I-Sec research

Exhibit 45: EPL FCF generation to grow at a CAGR of 12.6% over FY24–27E



Source: Company data, I-Sec research

Exhibit 46: While FCF generation is likely to jump 2.3x in FY27E vis-à-vis FY24

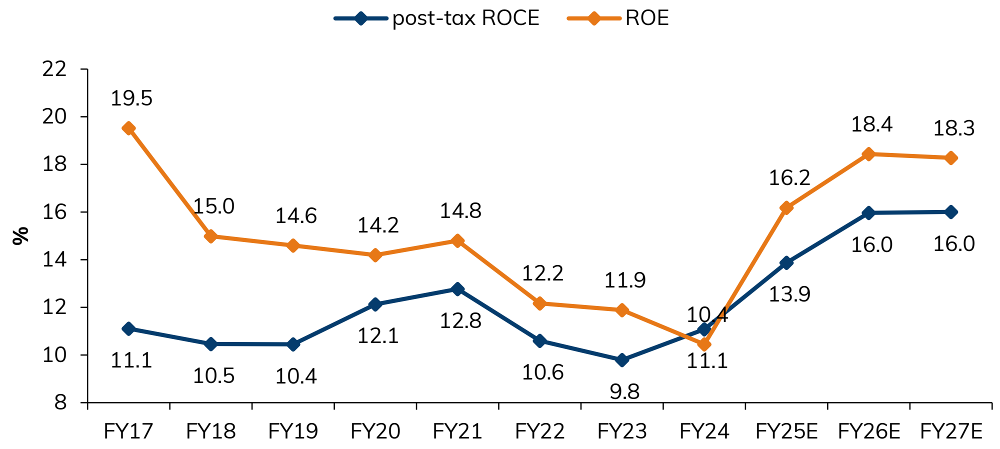


Source: Company data, I-Sec research

Healthy return ratios

EPL's post-tax RoCE and RoE were depressed in FY24 at 11.1% and 10.4%, respectively. With improvement in operating profit, we expect the company's return ratios to be healthy at 16% and 18.3%, respectively in FY27E.

Exhibit 47: EPL's return ratio to become healthy again with improvement in operating profits



Source: Company data, I-Sec research

Valuation: Maintain BUY; target price revised to INR 350

The plastic packaging industry may see a shake-up with the adoption of recyclability and incorporation of PCR content in plastic. Even brands globally have very aggressive recyclable packaging adoption; which means, packaging companies may increasingly find it necessary to invest in technology and machine/tools to incorporate capabilities/ requirement of brands. Generally, a significant transformation that involves technology adoption drives significant industry consolidation; and larger players benefit – those who have resources for a smooth transition win.

EPL has an enviable market share in the tubes market, and has been aggressively investing in recyclable tubes with 85% of its capacity already capable of producing these recyclable tubes. We have seen early signs of revenue acceleration for EPL on the back of recyclable tubes in Q1FY25.

Further, the company's efforts towards normalising margins to ~20% is close to fruition; the company wishes to re-invest in improving efficiencies beyond 20% to hasten revenue growth. Net profit growth is likely to significantly accelerate to 35.6% CAGR over FY24-27E (~2.1% over past five years).

A ramp-up in earnings and stable capex is likely to drive FCF generation; which, in our view, is poised to grow by 2.3x to INR 4.9bn in FY27E (5.7% of company EV).

We have revised our EPS estimate for FY25/FY26 by 3.1%/16.5%. Our target price is now higher, at INR 350 (from INR 275) with FY26E PE multiple raised to 24x (from 22x). Maintain **BUY**.

Exhibit 48: Revised estimates

INR mn	Revised		Earlier		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	43,789	49,346	43,343	46,905	1.0	5.2
EBITDA	8,599	10,049	8,521	9,351	0.9	7.5
EBITDA margin (%)	19.6	20.4	19.7	19.9		
PAT	3,603	4,677	3,493	4,016	3.1	16.5
EPS (INR)	11.3	14.7	11.0	12.6	3.1	16.5

Source: Company data, I-Sec research

Exhibit 49: Peers' valuation snapshot

INR mn	CMP (INR)	Mcap	Revenue			CAGR (%) FY24-26E	EPS (INR)			CAGR (%) FY24-26E
			FY24	FY25E	FY26E		FY24	FY25E	FY26E	
EPL	**255**	**81,160**	**39,161**	**43,789**	**49,346**	**12%**	**6.5**	**11.3**	**14.7**	**50%**
Galaxy Surf.	3,056	1,08,341	37,944	40,497	41,503	5%	85.0	104.2	114.7	16%
Mold-Tek	794	26,380	8,313	9,856	12,646	23%	24.7	32.8	52.2	45%
Fine Organics	5,424	1,66,291	22,695	24,935	28,690	12%	145.7	158.7	176.0	10%
Rossari Bio.	882	48,641	18,306	20,776	24,201	15%	23.7	30.2	35.4	22%
Median						12%				22%

Source: Bloomberg, I-Sec research

Exhibit 50: Peers' valuation snapshot

INR mn	PE (x)		EV/EBITDA (x)		ROCE (post-tax)		GB turnover (x)		Capex	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
EPL	**22.5**	**17.4**	**9.9**	**8.2**	**13.9**	**16.0**	**1.0**	**1.1**	**3,500**	**3,500**
Galaxy Surf.	29.3	26.6	18.8	16.8	14.6	14.4	2.2	2.1	2,000	1,500
Mold-Tek	24.2	15.2	13.2	9.4					658	1,276
Fine Organics	34.2	30.8	25.0	22.4					1,750	1,250
Rossari Bio.	29.2	24.9	16.8	14.6	13.6	13.9	2.4	2.5	1,523	800
Median	**28.2**	**24.9**	**16.7**	**14.6**	**13.6**	**13.9**	**2.2**	**2.1**		

Source: Bloomberg, I-Sec research

Risks

Downside risks

- Slower-than-expected growth in personal and oral care segment; and technology transition does not bring any benefits for EPL.
- Lower-than-expected margins from forex volatility, and rise in operating cost.
- Drag on EPS from under performance in Brazil and Europe operations.

Upside risks

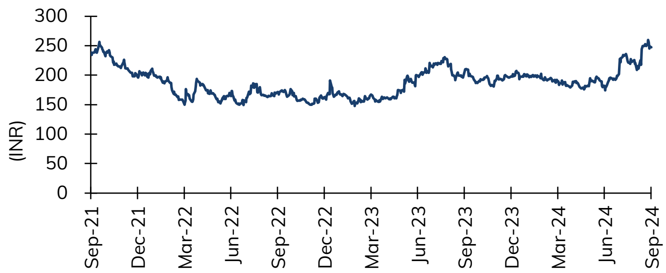
- Higher-than-expected market share gain in personal and oral care tubes segment.
- Better-than-expected turnaround in Europe.
- Inorganic growth opportunities.

Exhibit 51: 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
FIIs	10.0	11.1	11.5
Others	24.1	24.2	25.6

Source: Bloomberg

Exhibit 52: Price chart



Source: Bloomberg

Financial Summary

Exhibit 53: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	36,941	39,161	43,789	49,346
Operating Expenses	**31,163**	**32,018**	**35,190**	**39,297**
EBITDA	5,778	7,143	8,599	10,049
EBITDA Margin (%)	**15.6**	**18.2**	**19.6**	**20.4**
Depreciation & Amortization	2,805	3,328	3,394	3,462
EBIT	2,973	3,815	5,205	6,587
Interest expenditure	674	1,156	894	767
Other Non-operating Income	-	-	-	-
Recurring PBT	2,720	3,253	4,608	6,140
Profit / (Loss) from Associates	**(29)**	**35**	**35**	**35**
Less: Taxes	**373**	**582**	**1,009**	**1,467**
PAT	2,347	2,671	3,599	4,673
Less: Minority Interest	(40)	(31)	(31)	(31)
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	2,267	2,070	3,603	4,677
Net Income (Adjusted)	**2,267**	**2,070**	**3,603**	**4,677**

Source Company data, I-Sec research

Exhibit 54: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	16,207	16,465	17,989	22,507
of which cash & cash eqv.	2,444	2,073	1,856	4,332
Total Current Liabilities & Provisions	9,609	10,841	11,749	12,774
Net Current Assets	**6,598**	**5,624**	**6,241**	**9,732**
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**	**39,758**	**44,358**
Liabilities				
Borrowings	**7,686**	**8,040**	**6,040**	**6,040**
Deferred Tax Liability	**632**	**634**	**634**	**634**
Provisions	192	223	227	232
Other Liabilities	138	215	240	271
Equity Share Capital	636	637	637	637
Reserves & Surplus	19,256	20,278	22,980	26,488
Total Net Worth	**19,892**	**20,915**	**23,617**	**27,125**
Minority Interest	36	(9)	22	53
Total Liabilities	**36,304**	**38,087**	**39,758**	**44,358**

Source Company data, I-Sec research

Exhibit 55: 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
Extraordinaries	-	-	(605)	-
Adjusted Net Profit	505	861	223	642

Source Company data, I-Sec research

Exhibit 56: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	**5,882**	**6,796**	**7,626**	**8,617**
Working Capital Changes	136	(931)	(845)	(1,025)
Capital Commitments	(3,871)	(3,746)	(3,500)	(3,500)
Free Cashflow	**2,147**	**2,119**	**3,281**	**4,092**
Other investing cashflow	**(67)**	**276**	**297**	**321**
Cashflow from Investing Activities	(21)	303	297	321
Issue of Share Capital	(300)	28	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	1,386	342	(2,000)	-
Dividend paid	(1,410)	(1,396)	(901)	(1,169)
Others	(1,059)	(1,604)	(894)	(767)
Cash flow from Financing Activities	(1,383)	(2,630)	(3,795)	(1,937)
Chg. in Cash & Bank balance	**743**	**(208)**	**(217)**	**2,476**
Closing cash & balance	2,611	2,014	1,856	4,332

Source Company data, I-Sec research

Exhibit 57: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	7.1	6.5	11.3	14.7
Adjusted EPS (Diluted)	7.1	6.5	11.3	14.7
Cash EPS	15.9	16.9	22.0	25.6
Dividend per share (DPS)	2.2	2.3	2.8	3.7
Book Value per share (BV)	62.6	65.7	74.2	85.2
Dividend Payout (%)	30.2	35.4	25.0	25.0
Growth (%)				
Net Sales	7.6	6.0	11.8	12.7
EBITDA	0.3	23.6	20.4	16.9
EPS (INR)	5.6	(8.7)	74.1	29.8
Valuation Ratios (x)				
P/E	35.8	39.2	22.5	17.4
P/CEPS	16.0	15.0	11.6	10.0
P/BV	4.1	3.9	3.4	3.0
EV / EBITDA	14.9	12.2	9.9	8.2
EV/SALES	2.3	2.2	1.9	1.7
Dividend Yield (%)	0.8	0.9	1.1	1.4
Operating Ratios				
Gross Profit Margins (%)	54.7	57.7	59.7	59.5
EBITDA Margins (%)	15.6	18.2	19.6	20.4
Effective Tax Rate (%)	13.7	17.9	21.9	23.9
Net Profit Margins (%)	6.4	6.8	8.2	9.5
NWC / Total Assets (%)	18.2	14.8	15.7	21.9
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	13.9	16.0
RoE (%)	11.9	10.1	16.2	18.4
RoIC (%)	10.7	12.1	14.9	17.7
Fixed Asset Turnover (x)	2.3	2.2	2.5	2.8
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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