

EPL**Rs 192***World's largest laminated tube manufacturer*

Sensex: 73,143

Nifty: 22,213

FINANCIALS SUMMARY

	SALES	OPM (%)	OP	OTHER INCOME	PBIDT	INTEREST	PBDT	DEPRECIATION	PBT	NET PROFIT	EPS (Rs)*
2103 (12)	3091.6	19.8	611.1	14.5	625.6	42.9	582.7	234.6	348.1	239.1	7.9
2203(12)	3,432.80	16.8	576.1	12	588.1	40.3	547.8	251.4	296.4	214.4	6.6
2303(12)	3,694.10	15.6	577.8	42.1	619.9	67.4	552.5	280.5	272	226.7	6.1
2403(12P)	3944.79	18.2	719.67	71.71	791.37	108.22	683.15	329.96	353.19	259.01	8.2
2503(12P)	4497.06	19	854.44	78.88	933.32	97.4	835.92	369.56	466.37	322.27	10.2

* On current equity of Rs 63.09 crore. Face Value: Rs 2. EO: Extraordinary items. EPS excludes EO and relevant tax. (P): Projections. Figures in Rs crore.
Source: Capitaline Databases

EPL is the world's largest specialty packaging company with 21 state of the art manufacturing facilities spanning across 11 countries (Brazil, China, Colombia, Egypt, Germany, India, Mexico, Philippines, Poland, and the United States) and 5 continents. EPL is the world leader in manufacturing of laminated plastic tubes. Its offerings in laminated and plastic tubes cater to oral care, beauty & cosmetics, pharma & health, food and industrials categories.

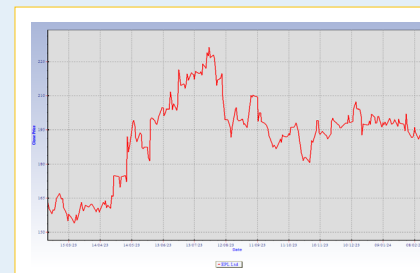
Beginning its remarkable journey in 1982, EPL stands tall today with a total annual production of over 8 billion tubes and a preferred partner to the world's biggest brands in Beauty & Cosmetics, Food, Oral Care, Pharma & Healthcare and Home Care.

Strong Promoter Group

As on 31 December 2023, the Blackstone Group L.P. (Blackstone), through Epsilon Bidco Pte. Ltd. (Epsilon is an affiliate of funds managed or advised by The Blackstone Group), owned a 51.5% stake in EPL. Blackstone is a large global alternative asset management company, with assets under management of over USD 1 trillion and a track record of around 30 years. The presence of Blackstone brings professional as well as technical expertise in the packaging sector through its portfolio companies that are spread across the globe. Blackstone to continue to leverage EPL global leadership position in the oral care segment and accelerate growth in the personal care segment as well as in new geographies. As the sponsor, Blackstone also provides robust financial backing to EPL, thereby improving its financial flexibility.

Well Diversified Presence

EPL has a global presence and operates across four geographical segments- Africa, Middle East and South Asia (AMESA; 33% of 9MFY24 revenue), East Asia Pacific (EAP; 24%), Americas (24%), and Europe (20%). The company has an established position in the global oral care tubes market, and commands more than a third of the global market share in FY23. The oral care segment accounted for 53% of the company revenue in FY23. EPL also caters to the personal care segment, which includes pharmaceutical, beauty and healthcare products, and food industries. As the personal care segment offers higher EBITDA margins than the oral care segment, the company has been focusing on increasing the former's revenue share.

**STOCK DATA**

BSE Code	:	500135
BSE Group	:	A
NSE Code	:	EPL
Bloomberg	:	EPLL IN
Reuters	:	EPLI.BO
Par Value	:	Rs 2
52-week High/Low	:	Rs. 236 / 152
Sector	:	Packaging

SHAREHOLDING PATTERN*

Category	% of equity
Foreign	: 10.50
Institutions	: 14.53
Govt Holding	: 0.00
Corporate Holding	: 1.43
Promoters	: 51.50
Public & Others	: 22.03
Totals	: 100

* as on 31/12/2023. Source: Capitaline Databases

Integrated Operations

EPL manufactures plastic laminate sheets at its plants in India and China, and supplies them to the other plants, which convert these sheets into tubes. This is followed by the printing and capping of the tubes before they are sold to customers. EPL is increasing the in-house manufacturing capabilities for caps and closures, which would provide further integration to the operations. The company sells around eight billion tubes annually.

Contracts with cost pass-through provide cash flow visibility

The company derived about half of its revenue from contracted customers in, with a tenor ranging around three years. These contracts allow for a pass-through of raw-material costs, albeit with a lag of three-to-four months. In addition, EPL negotiates for higher prices with its non-contracted customers based on the raw material prices and other overhead costs. Consequently, the company benefits from long-term revenue and cash-flow visibility, along with relatively lower volatility of margins, despite the sharp fluctuations in raw material, freight, packaging and other costs. The long-term cash flow visibility is further supported by the fact that many of the contracted customers are large and well-reputed MNCs. This further allows the company to effectively manage its capex cycle.

Focus on innovation and continued thrust on R&D

EPL has a strong client base for both oral and non-oral care product categories across the world. EPL's client list includes the world's biggest oral and non-oral care players such as Colgate, Unilever Plc, P&G, GSK etc. The FMCG space across the world is poised for rapid growth driven by changes in demographics, lifestyles and growing disposable incomes. EPL's distinct competitive advantage lies in its continuous effort to launch innovative products in the oral and non-oral categories. In the recent past, the company has successfully launched range of products including Platina 250, Green Maple Leaf, Organic Green Maple leaf and Etain which are eco-friendly laminated tube designed in line with RECYCLE as the sustainability theme. EPL's Platina, for instance, is the first fully sustainable and completely recyclable tube in the world, including shoulder and cap, to get this recognition. It has converted the likes of domestic and international giants such as Vicco, Hella, Colgate, etc into using 100% recyclable tubes. The company is on track to double its fully recyclable tube sales in FY24, with a mix of 20% of total volume, and targets 3 times volume by FY26 against 19% mix for 9MFY24.

The company has been spending on research and development amounting Rs 15.7 crore in FY23, Rs 17.1 crore in FY22 and Rs 21.2 crore in FY21 and has been working closely with customers to identify their requirements. At FY23, the company held 89 patents compared to 75 patents in FY22, and had 65 filing pending grants. EPL's focus on product and process innovation to develop sustainable packaging solutions across product categories would bolster its customers' efforts to reach out to environmentally-responsible end-users.

EPL has received recognition from the Washington-based Association of plastic recyclers, cyclos recyclability of packaging (Germany), and recyclass (Brussels) for its eco-friendly products. These innovative and sustainable offerings will help EPL develop strategic ties with suppliers and customers, enabling it to become an integral part of its value chain and would strengthen EPL's long-term customer relationships and provide new business opportunities, thereby providing it an edge over the competitors.

Operates across four geographical segments- Africa, Middle East and South Asia (AMESA; 33% of 9MFY24 revenue), East Asia Pacific (EAP; 24%), Americas (24%), and Europe (20%)

EPL manufactures plastic laminate sheets at its plants in India and China, and supplies them to the other plants, which convert these sheets into tubes

The company is witnessing significant interest for products from its Brazil plant

EPL greenfield Brazil plant which began production in the last quarter of FY 2023 has now stabilized in Q3FY24. The company is witnessing significant interest for products from its Brazil plant. The capacity utilization will be ramped up over a period. Margins for the Brazil business are accretive as compared to the margins for the overall America business. AMERICAS includes operations in United States of America, Mexico, Colombia and Brazil. EPL has a strong market presence in both North and South America through its wholly owned subsidiaries in USA, Mexico, Colombia and Brazil. America revenue rose 11.9% to Rs 252.8 crore in Q3FY24 compared to Q3FY23 while Ebitda jumped 49.1% to Rs 40.9 crore as Ebitda margin improved to 16.2% from 12.1%. For 9MFY24 America revenue grew 12% to Rs 722.5 crore representing 23% of total sales.

Headroom for growth in beauty & personal care and Pharma segments is much higher than oral care

The company's focus on personal care and beyond continues with the category now contributing 48% to total sales in 9MFY24. Along with personal care, it has seen significant gains in the pharma category as well, with India doing the highest ever revenue in pharma in December 2023. It is aggressively targeting the vast potential in the personal care and beyond segment, actively pursuing smaller customers and scaling up its hunting capabilities. It has made significant progress in building flexibility in its system for smaller back size orders that is critical for personal care and beyond category. The cost of producing smaller quantities for regional players tends to be higher. However, the company charges more to these customers and therefore generates better margins. The headroom for growth in beauty & personal care and Pharma segments is much higher than oral care.

Steady growth in oral care segment

EPL is a global leader in laminated tubes for oral category commanding around 37% of market share. The tubes industry is predominantly concentrated between few global players (Albea, CCL Industries, EPL). Major focus area for EPL has been in the laminated tubes whereas Albea is mostly focused on plastic tubes. EPL has a leadership position in oral category which has been driven by its focus on product innovation and value addition supported by strong R&D capabilities. Toothpaste being an essential consumer product is largely penetrated and offers stable demand in adverse economic environment. Going ahead, EPL is focused on gaining wallet share with companies where it has lower presence and increasing market share in geographies where it has limited presence (China, Brazil).

Benefits of structural interventions in Europe to flow in from Q4FY24

EPL has units in Poland and Germany which manufactures and sells laminated tubes and extruded plastic tubes. Europe revenue rose 8.6% to Rs 207.6 crore in Q3FY24 compared to Q3FY23 while Ebitda jumped 75.2% to Rs 19.1 crore. Ebitda margin improved to 9.2% from 5.7%. Earlier 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. The company has started making some structural interventions in Europe to optimize and prune the costs and the benefits of that beginning to flow through in Q4FY24 and beyond. It is continuing its efforts behind active pricing, mix improvement and cost as well as structural interventions in Europe.

The company is on track to double its fully recyclable tube sales in FY24, with a mix of 20% of total volume, and targets 3 times volume by FY26 against 19% mix for 9MFY24

EPL greenfield Brazil plant which began production in the last quarter of FY 2023 has now stabilized in Q3FY24

Business in AMESA remains resilient and very strong

EPL service this region through its seven units across India, and its subsidiary in AMESA (Africa, Middle East and South Asia). Amesha revenue fell 0.6% to Rs 350 crore in Q3FY24 compared to Q3FY23 but Ebitda rose 2.5% to Rs 74.9 crore. Ebitda margin improved to 21.4% from 20.8%. AMESA overall growth is at negative 0.6% as Egypt is going through significant economic challenges and because of that coupled with the currency issues and the currency devaluation, the revenue growth in Egypt is impacting the numbers but India standalone grew at 4.2%. The company expects the business in AMESA remains resilient and very strong.

Decent growth in EAP

EPL operates out of 5 units in China and 1 unit in the Philippines in EAP (East Asia Pacific). EAP revenue increased 11.6% to Rs 252.4 crore in Q3FY24 compared to Q3FY23 while Ebitda rose 11.4% to Rs 54.6 crore. Ebitda margin remained flat at 21.6% compared to 21.7%. The company foresees a potential rebound in China based on a low base effect and the Chinese government's efforts to stimulate economic recovery following the relaxation of COVID policies. EAP is positioned for future growth in the region.

Expects to achieve targeted EBITDA margins of around 20% going forward

The company is delivering continuous margin recovery over last six quarters. EPL Ebitda margin in Q3FY24 was 18.8% compared to 18.1% in Q2FY24, 17.5% in Q1FY24, 16.9% in Q4FY23, 16.6% in Q3FY23, 16.1% in Q2FY23 and 15.1% in Q1FY23. EPL margin improvement plan including active price management, mixed improvement and cost optimization. EPL monitors customer-level gross margin on a monthly basis and has active discussions with the customers if required. It expects to achieve targeted EBITDA margins of around 20% going forward. Polymer and foil USD prices have declined from Q1FY23 but have remain stable in the last 2 quarters. However the prices remain higher than pre Covid level.

Solid financials

EPL consolidated net sales increased 3% to Rs 975.10 crore in Q3FY24 compared to Q3FY23. Operating profit margin of the company was higher at 18.8% compared to 15.8% leading to 23% rise in operating profit to Rs 183.4 crore. Provision for interest jumped 56% to Rs 29.4 crore. PBDT increased 32% to Rs 177.7 crore. Provision for depreciation rose 20% to Rs 84.2 crore. PBT was up 45% to Rs 93.5 crore. Provision for tax was Rs 7 crore compared to Rs 1 crore. Net profit increased 37% to Rs 86.1 crore.

During 9MFY24 net sales of the company increased 6% to Rs 2886.9 crore compared to 9MFY23. Operating profit margin of the company was 18.1% compared to 15.5% leading to 24% growth in operating profit to Rs 523.4 crore. Provision for interest rose 78% to Rs 83.5 crore. PBDT increased 23% to Rs 483.2 crore. Provision for depreciation rose 23% to Rs 247.8 crore. PBT was up 24% to Rs 235.4 crore. Provision for tax increased 8% to Rs 43 crore compared to Rs 40 crore. Net profit increased 34% to Rs 190.9 crore.

Lower global interest rates to improve bottomline

The consolidated net debt at end of FY23 was Rs 506.4 crore, including Rs 154.5 crore for setting up greenfield project in Brazil. Adjusted for Brazil greenfield project loan, the net debt reduced by Rs 100.7 crore as compared to FY22 due to focus on capital allocation and reduction in working capital. Net debt increased to Rs 646

The company's focus on personal care and beyond continues with the category now contributing 48% to total sales in 9MFY24

Going ahead, EPL is focused on gaining wallet share with companies where it has lower presence and increasing market share in geographies where it has limited presence (China, Brazil).

crore at the end of 31st December 2023. With expectation of lower global interest rates in CY24, finance cost is expected to be lower for the company leading to improved bottomline for the company.

Outlook

Soft commodity prices will continue to put pressure on revenue in the near term. However, the company maintains its long-term ambition of double-digit revenue growth.

EPL expects to achieve targeted EBITDA margins of around 20% going forward.

The recovery in margin witnessed in recent quarters is expected to continue going forward, led by cost rationalization measures and operating leverage. Beside Brazil facility has stabilized in Q3 and is expected to contribute going forward, which will be both growth and margin-accretive for the company

The Pharma segment is performing very well. India witnessed the highest sales within Pharma segment in December 2023.

The focus of customers to swiftly move to recyclable tubes will work in favor of the company.

The headroom for growth in beauty & personal care and Pharma segments is much higher than oral care.

Mergers and Acquisition (M&A), and Greenfield & Brownfield expansions will all contribute to the growth of the company going ahead. The company does actively look for M&A opportunities. However, the current conditions are not conducive for an acquisition.

Valuation

In FY 2024 we expect the company to register sales and net profit of Rs 3944.79 crore and Rs 259.01 crore respectively. The sales and net profit is expected to increase to Rs 4497.06 crore and Rs 322.27 crore in FY2025. EPS works out to Rs 10.2 for FY2025. The scrip trades at Rs 192. P/E on FY 2025 projected EPS works out to 19 times.

The company is delivering continuous margin recovery over last six quarters

EPL : CONSOLIDATED RESULTS

PARTICULARS	2312 (03)	2212 (03)	VAR.(%)	2312 (09)	2212 (09)	VAR.(%)	2303 (12)	2203 (12)	Var.(%)
Net Sales	975.10	944.90	3	2886.90	2724.80	6	3,694.10	3,432.80	8
OPM (%)	18.8	15.8		18.1	15.5		15.6	16.8	
OP	183.40	149.00	23	523.40	423.20	24	577.8	576.1	0
Other Inc.	23.70	4.30	451	43.30	15.30	183	42.1	12	251
PBIDT	207.10	153.30	35	566.70	438.50	29	619.9	588.1	5
Interest	29.40	18.90	56	83.50	46.80	78	67.4	40.3	67
PBDT	177.70	134.40	32	483.20	391.70	23	552.5	547.8	1
Depreciation	84.20	69.90	20	247.80	201.50	23	280.5	251.4	12
PBT	93.50	64.50	45	235.40	190.20	24	272	296.4	-8
Net profit	86.10	62.80	37	190.90	142.40	34	226.7	214.4	6
EPS (Rs)*	#	#		#	#		6.1	6.6	

* EPS is on current equity of Rs 63.64 crore, Face value of Rs 2, Excluding extraordinary items.

EPS is not annualised. bps : Basis points. EO : Extraordinary items. Figures in Rs crore

Source: Capitaline Databases