

7th October 2020

CMP – ₹251.1/-

View – BUY

Company Background

Essel Propack (EPL) is a global manufacturing laminated plastic tubes company owned by Blackstone Group, catering to the FMCG and Pharma space. The company is the market leader in oral care tubes with global volume share of 36%. Employing over 3,366 people representing over 25 different nationalities, EPL functions in ten countries through 20 state of the art facilities, and is continuing to grow every year. It is the world's largest laminated tube manufacturer with units operating across countries such as USA, Mexico, Colombia, Poland, Germany, Egypt, Russia, China, Philippines and India. These facilities cater to diverse categories that include brands in Oral Care, Beauty & Cosmetics, Pharma & Health, Food, and Home, offering customized solutions through continuously pioneering first-in-class innovations in materials, technology and processes.

Important Statistics

Mcap (₹ bn)	79.24
52week H/L (₹)	319/105
NSE Code	ESSELPACK
BSE Code	500135

Investment Arguments

- **Strong performance in Q1FY21 with improved market share and addition of new clients in the China, Americas & Europe** – Essel Propack (EPL) reported a strong performance amid a challenging scenario of pandemic related lockdowns globally. Consolidated topline grew ~18% YoY to ₹7,415mn, led by strong performance in the overseas business with improved market share and addition of new clients in the China, Americas & Europe. East Asia Pacific mainly China (EAP) revenues increased 45.6% YoY on the back of 90.8% growth in the Personal Care segment and double-digit growth in the Oral care segment. Management mentioned that there was some spill over from Q4FY20 to Q1FY21. Revenue contribution from the personal care increased to 49% v/s. 45% in FY20, largely contributed by strong growth in East Asia Pacific (EAP), Europe and America region. Europe revenue increased 30.3% YoY mainly on the back of new order wins and ramp-up of volumes in existing orders. The personal care category recorded strong growth of ~21% YoY in Q1FY21, the oral care category reported growth of ~10% YoY in Q1FY21. However, like-to-like growth was robust at over 70% in Personal Care after considering the effect of the spill over. Contribution of personal care category in the topline increased to 49% in Q1FY21. The company reported exceptional items of ₹160mn pertaining to impairment of assets and other associated costs on account of scaling down the business of one of its overseas operating units. EBITDA grew 35% YoY and 5.9% QoQ to ₹1,466mn. On the margin front, saving in other expenditure under the company's ongoing cost optimisation schemes helped move EBITDA margins up 254 bps YoY to 19.8%. Finally, PAT moved up 14% to ₹456mn, mainly tracking sales and operating profits during the period. According to the management, the growth momentum is likely to continue in the overseas business (~70% of topline) supported by addition of new clients, market share gains and launch of new product categories. Management remains committed to increasing the share of personal care in the overall basket for FY21 (above 45%).
- **Hand Sanitiser tubes new source of income generation** – The introduction of the hand sanitiser tube has resulted in another source of revenue generation. In a short time, EPL has partnered with more than 50 brands (multinational and domestic) to become a leading supplier of hand sanitizer tubes with a strong order pipeline globally. Furthermore, the new category alone has the potential to scale up the business by an additional 150m tubes. The COVID-19 impact is being seen in certain categories, such as Travel Tubes. The conversion of hand sanitizers in tube form has been delayed

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in the US compared with other geographies; however, penetration is expected to increase going forward. EPL has a strong business pipeline in the US, with new customer additions also taking place; these additions, once complete, would complement growth in that region.

- **Packaging Industry aided the Healthcare and pharmaceutical products during COVID-19 pandemic** – The global packaging market size during the COVID-19 pandemic is projected to grow from USD 909.2bn in 2019 to USD 1,012.6bn by 2021 according to a report published by Global News Wire in May'20. During the COVID-19 pandemic, states and local municipalities are practicing extreme caution to avoid the spread of the coronavirus, so use of packaging products which prevent infections for Healthcare and pharmaceutical products was used on a large scale to fulfil the increasing global demand. APAC is projected to be the largest market during the forecast period fuelled by the easy availability of packaging raw materials and the presence of manufacturing facilities of most of the packaging companies.

As COVID-19 continues to consume revenues and impact businesses in a plethora of sectors, lockdown impositions and supply chain disruptions have adversely affected the packaging industry, which is worth over USD 900bn. Consumers across the globe will be inclined to shift their packaging providers to more viable countries in Asia like India apart from China and South Korea.

With countries drastically spending at online grocery and e-commerce stores, providers will ramp up their capacities for packaging materials employed in these sectors. Cost pressures are expected to rise in the packaging sector with consumers becoming sensitive to price.

The Indian packaging market was valued at USD 50.5bn in 2019, and it is expected to reach USD 204.81 bn by 2025, registering a CAGR of 26.7% during the period of 2020-2025 according to latest estimates by Mordor Intelligence. Owing to the rising population, increasing income levels, changing lifestyles, increased media penetration through the internet, television, and growing economy, the demand for packaging is growing. Moreover, it is one of the strongest growing sectors in the country.

Over the last few years, Indian packaging industry is an important sector driving technology and innovation growth in the country and adding value to the various manufacturing sectors including agriculture and FMCG segments. This buoyancy is primarily driven by factors like growing pharmaceutical, food processing, manufacturing industry, FMCG, healthcare sector and ancillary in the emerging economies like China, India, Brazil, Russia and few other East European countries. McKinsey listed 5 major trends that will change the global packaging industry over the next 5 years, namely - the effect of e-commerce, changing consumer preferences, FMCG and retail margin compression, sustainability and internet of things.

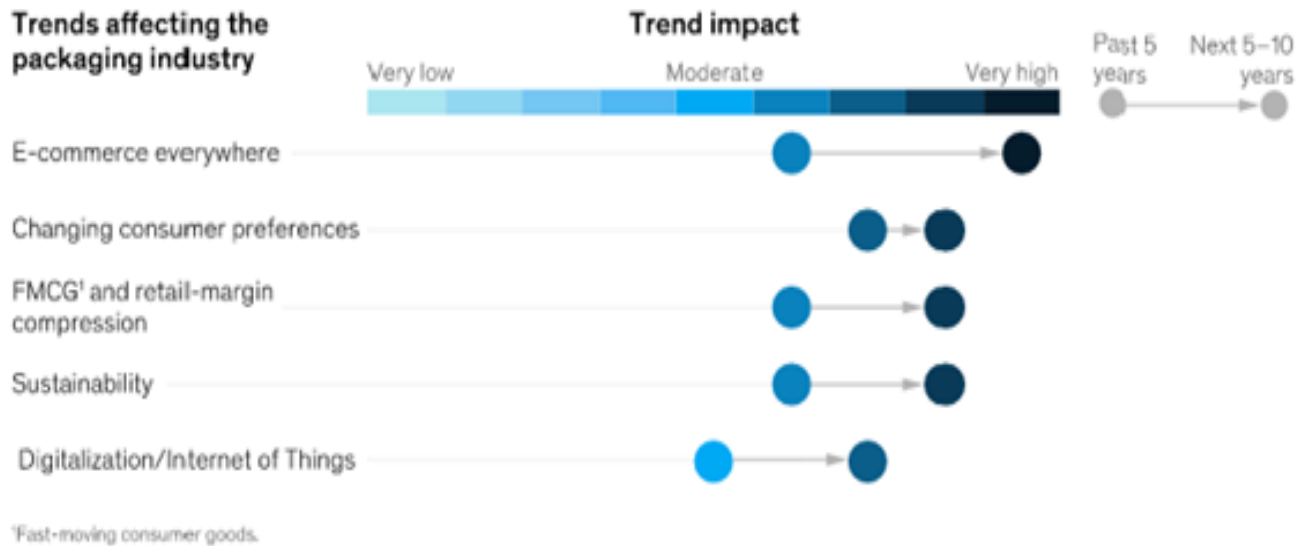
The rapid growth of the Indian market is primarily driven by the pharmaceuticals and foods and beverages industries. Huge investments in the food processing, personal care, and pharmaceuticals end-user industries are creating scope for expansion of the packaging market. According to the Indian Institute of Packaging (IIP), the packaging consumption in India has increased by 200% in the past decade, rising from 4.3 kg per person per annum (pppa) to 8.6 kg pppa.

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View – **BUY**

Five major trends could change the packaging industry in the next ten years.



McKinsey
& Company

Source: Mordor Intelligence, McKinsey & Co.

Market Concentration

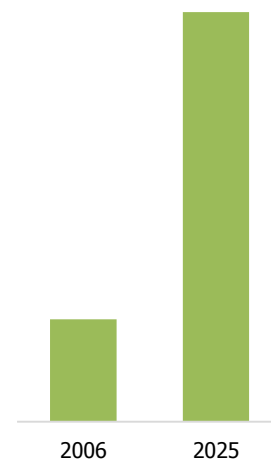
Consolidated – Market dominated by 1-5 major players

← Packaging Industry in India

Fragmented – Highly competitive market without dominant players

Market Summary

CAGR 26.7%



Source: Mordor Intelligence, McKinsey & Co.

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➤ **International geographies continue to drive growth; domestic business impacted due to lockdown related disruptions –**

- (i) **AMESA** revenue declined 3% on softness in end-consumer demand for beauty and personal care (personal care declined 23%). Oral care did well posting a double-digit growth. EBIT decline was sharper at 23% due to scale deleverage. The revenue decline was largely attributable to lower volume offtake by key customers in India due to lockdown. Personal care contribution fell to 46.0% in Q1FY21 (vs. 53.3% in Q1FY20), due to sluggish demand in beauty & cosmetics and home products categories
 - (ii) **EAP** revenue grew 46% as personal care sales nearly doubled (+91%) led by increased focus on regional players. Improved utilisation, various cost optimisation measures coupled with better product mix drives the segment EBIT margin up by 877 bps YoY, 1067 bps QoQ to 21.7% during Q1FY21. The region witnessed a V-shape recovery in China, with personal care growing at 90.8% YoY and strong 46% YoY overall revenue growth in the region. Growth was aided by the entry into new category of hand sanitizer, increase in wallet share across customers and strong growth from health and hygiene related products. Management highlighted that there would be some spill over of previous quarter. Excluding that, growth would still have been 70%+ in personal care from the region.
 - (iii) **Americas** revenue grew 11% on a favourable base (+3% in 1QFY20) with wallet share gain in leading oral care brands. This coupled with new customer wins across categories coupled with bottle to tube conversions helped drive volume growth in regions. Future growth would also be driven by new category 'sanitisers tubes'. Segment EBIT margin improved 63 bps YoY to 9.6%.
 - (iv) **Europe** continued its strong performance with revenue growth of 30% YoY. There was strong growth in the personal care segment by 37% YoY, while oral care category also growing smartly albeit a slow at 19% YoY in Q1FY21. Personal care contribution increased to 70% in Q1FY21 (vs. 66.9% in Q1FY20) Strong new customer wins across personal care categories; robust business development pipeline EPL now serves all major oral care players in the region. EBIT more than quadrupled and EBIT margin now stands at near double digit levels.
- **Platina tube** – The tube is now certified as per Acoustic Pulse Reflectometry (APR), RecyClass and Bureau of Indian Standards (BIS) guidelines. Raw material price fluctuation is a pass-through but with a lag
- **De-leveraging continues** – EPL's net debt declined 48% YoY/10% QoQ to ₹2,480 (Q1FY21- ₹2,760mn), aided by robust operating cash flow generation. The company incurred a capex of ₹122mn in Q1FY21 (~₹1,230mn capex in FY20). With major capex behind, we expect EPL to return excess cash to shareholders or pursue inorganic growth opportunities.

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View – **BUY****Outlook**

EPL sold 23% of stake worth \$252mn in a block deal to institutional investors in Sep'20. It sold 72.58mn shares at ₹256.5 per share taking its stake to 52% which it will continue to hold. The company's focus on improvement in operating performance across the region has helped the company to maintain its EBITDA margin ~20%. The company reported improvement in operational performance due to better traction in Europe and EAP. The company capitalised the opportunities by launching timely product, which supported the revenue growth and will continue to aid the performance in the coming quarters as well. We expect traction in the personal care segment to continue, driven by increasing penetration of laminated tubes in the end user industry which will help the company to maintain EBITDA margin in the range of 20-21%. Factoring in the company's strong growth outlook in Europe and China, along with efficient capital allocation (with rationalisation of capital expenditure) and reduction in net debt gives strong comfort on the balance sheet front. **With robust performance during lockdown and new product launches across geographies we view it as a *BUY* stock.**

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View – BUY

Financial & Operating Performance

(₹ mn)

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY%	QoQ%	FY19	FY20	YoY(%)
Revenue	6,298	7,305	7,108	6,889	7,415	17.7	7.6	27,069	27,601	2.0
EBITDA	1,086	1,525	1,579	1,385	1,466	35.0	5.8	4,991	5,574	11.7
EBITDA Margin %	17.2	20.9	22.2	20.1	19.8			18.4	20.2	9.5
Adjust Net Profit	283	593	601	486	444	56.9	(8.6)	1,923	2,166	12.6

Source: Company Data, Way2Wealth Inst Equity

Segment-wise revenue

(₹ bn)

	FY17	FY18	FY19	FY20	Q1FY21
Oral care	13.8	14.3	15.6	15.2	3.8
Non-Oral care	9.2	10	11.5	12.4	3.6

Source: Company Data, Way2Wealth Inst Equity

Geography wise revenue mix (%)

(₹ mn)

Region	FY17	FY18	FY19	FY20	Q1FY21
AMESA	40	37	34	33	28
EAP	23	23	24	22	26
Americas	20	19	21	22	20
Europe	18	20	21	24	26

AMESA (India & Egypt); EAP (China, Philippines); Americas (US, Mexico & Columbia); Europe (Poland, Germany & Russia)

Source: Company Data, Way2Wealth Inst Equity

Geography wise performance

(₹ mn)

AMESA	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue (₹ mn)	2,251	2,433	2,516	2,153	2,190
Growth (%)	(4)	4	(1)	(9)	(3)
EBIT (₹ mn)	208	258	369	241	160
Margin (%)	9	11	15	11	7
Growth (%)	(40)	(4)	1	(18)	(23)

Source: Company Data, Way2Wealth Inst Equity

(₹ mn)

EAP	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue (₹ mn)	1,388	1,749	1,740	1,353	2,021
Growth (%)	(11)	(5)	1	(12)	46
EBIT (₹ mn)	179	343	327	149	438
Margin (%)	13	20	19	11	22
Growth (%)	(14)	(5)	2	(6)	145

Source: Company Data, Way2Wealth Inst Equity

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(₹ mn)

Americas	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue (₹ mn)	1,366	1,648	1,457	1,713	1,510
Growth (%)	3	15	(1)	4	10
EBIT (₹ mn)	131	245	215	297	155
Margin (%)	10	15	15	17	10
Growth (%)	(12)	27	30	(5)	18

Source: Company Data, Way2Wealth Inst Equity

(₹ mn)

Europe	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue (₹ mn)	1,517	1,740	1,618	1,897	1,977
Growth (%)	17	18	12	16	30
EBIT (₹ mn)	33	117	97	135	179
Margin (%)	2	7	6	7	9
Growth (%)	69	210	497	28	442

Source: Company Data, Way2Wealth Inst Equity

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Disclosure of Interest Statement Essel Propack Ltd. as on October 7th, 2020

Name of the Security	Essel Propack Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	Yes
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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