

10th November 2023

CMP – ₹195.2/-

View – **ACCUMULATE**

Q2FY24 Result Highlights

- **Broad based growth across all regions in Q2FY24** – EPL's Q2FY24 Revenue grew 5.6%YoY (+10% QoQ) to ₹10.02bn aided by broad based growth across regions.AMESA/ EAP/ Americas/ Europe reported revenue growth of 5.5%/ 13.3%/ 13.2%/ 5.5% YoY respectively. AMESA posted the highest EBIT margin expansion of 250bps YoY to 11.8%, while EAP's EBIT margin remained flat at 17.4%. The Americas (including Brazil) witnessed a 115bps YoY margin contraction to 3.6%, primarily due to the ramp-up cost of Brazil plant. Europe margins also remained under pressure and contracted 129bps YoY to 2.1%.
- EBITDA at ₹1.81bn grew 21.8% YoY & 13.8% QoQ with margins at 18.1% expanded 240 bps/ 60 bps on YoY/ QoQ basis which was fifth straight quarter.PAT grew 12.8% YoY to ₹521mn.
- Interest cost increase of ~2x YoY to ₹306mn was due to high interest rate scenario in the Western region, as the company had taken loan for Brazil plant (interest rates in Brazil and South America are higher). This run rate will be sustainable for the next couple of quarters before reducing.
- The Oral care/Personal care segments rose 3.6%/2.5% YoY in 1HFY24 to ₹9.6bn/₹8.4bn respectively. The share of Personal care segment stood at ~48% during 1HFY24 v/s ~47% in FY23.As per the management, the Oral care will continue to grow at the current rate, but major acceleration will come from the Beauty and Cosmetics (B&C) segment
- AMESA demand growth was little subdued (~6% YoY) on account of short-term challenges in Egypt. Further, devaluation of Egyptian pound is also impacting the revenue. India grew by ~7% YoY during the quarter.
- For America Ex-Brazil, the company expects some growth acceleration going ahead. Also, the Americas has seen an EBIT margin expansion this quarter (15.4% in Q2FY24 v/s 12% in Q2FY23). The company continues to incur higher insurance charges and this will start reducing post Q4FY24. The company is committed to take EBITDA margin to mid-to-high-teen level.The majority of the margin erosion earlier was due to a significant increase in raw material prices coupled with higher labor and insurance costs (which are now starting to moderate) and the time taken by the company to revise pricing (cost increase passes on) with its customers
- **Brazil facility** – Brazil is both value- and margin-accretive to the Americas region. The plant is ramping-up well and has reached over 80% of the lead customer commitment in the first full quarter of operations. Expects this to touch 100% by Q4FY24. Trial runs have initiated and the company expects the conversion to start by Q4FY24. Incurred an EBITDA loss of ~₹58mn in Q2FY24 due to startup cost, which is not sustainable. The management has guided for good EBITDA margin by Q4FY24 and expects to witness this from the next month onwards.The company is in talks with ~8-10 prospective customers and has also supplied them with samples. Of this, a couple of customers are more active prospects.
- Currently the company has structured the cost base in Europe region for higher growth. If such growth doesn't come, then the company will tone down these costs to improve the margins

Important Statistics

Nifty	19,380
Sensex	64,741
MCAP (₹bn)	62.1
52 Week H/L (₹)	236/147
NSE Code	EPL
BSE Code	500135
Bloomberg Code	ESEL:IN

Shareholding Pattern (%)	Sep'23
Promoter	51.5
DII	15.5
FII	10.4
Public &Others	22.5

Financials

	(₹ mn)		
Particulars	FY20	FY21	FY22
Revenues	27,601	30,916	34,329
EBITDA	5,575	6,111	5,761
EBITDA Margin (%)	20.2	19.8	16.8
Net Profit	2,073	2,391	2,144
EPS (₹)	6.9	7.6	6.8
DPS (₹)	3.3	4.1	4.3
RoE (%)	14.8	15.8	12.2
RoCE (%)	15.9	17.4	11.0
P/E (x)	28.3	25.8	28.8
EV/EBITDA (x)	11.6	10.9	11.9
P/BV (x)	4.0	3.6	3.3

Particulars	FY23	FY24E	FY25E
Revenues	36,941	40,798	45,141
EBITDA	5,778	7,391	8,998
EBITDA Margin (%)	15.6	18.1	19.9
Net Profit	2,278	2,532	3,776
EPS (₹)	7.2	8.0	11.9
DPS (₹)	4.3	5.0	5.5
RoE (%)	11.9	12.3	16.9
RoCE (%)	2.2	11.8	15.0
P/E (x)	27.2	24.4	16.3
EV/EBITDA (x)	20.4	8.8	7.1
P/BV (x)	3.1	3.0	2.6

Source: Company, Way2Wealth

Relative Performance

Return(%)	1Yr	3Yr	5Yr
EPL	30.4	(16.9)	146.7
Nifty 50	6.8	49.6	82.6
Sensex	7.5	53.4	81.4

Source: Company, Way2Wealth

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 View – **ACCUMULATE**

- Plastic consumed in laminated tube is significantly lower than extruded tubes thereby saving cost, by using less plastic, better barrier properties and environment benefits. The only constraint was the seam, which EPL has now eliminated with the launch of Neo Seam
- Recyclable tube mix in 1HFY24 was 19% and the company is on track to reach its target of over 20% mix in FY24. The company further raised its target mix to 60% by FY26.
- The majority of all capacity capex was done in the last three years to be recyclable packaging compliant, i.e. ~US\$20mn investments in making Aluminum Barrier Laminate (ABL) lines and Plastic Barrier Laminate (PBL) lines ready. EPL's 85% capacity is recyclable-ready.

View

The company had a strong Q2FY24 performance with growth across all geographies. The management focus going ahead is achieving double-digit revenue growth by aggressively focusing on the personal care category (primarily B&C segment) and margin expansion of over 20% by putting in place active price management and launching innovative products. The major risk for the company is abnormal change in costs and the lag which it takes to revise prices with customers which it is working to reduce this lag. Multiple headwinds across geographies have majorly faded away and strong thrust in providing sustainable product offerings, this should enable EPL sustain its revenue growth. **Hence, we continue to maintain our ACCUMULATE stance with the stock trading at P/E 16.3x FY25E EPS of ₹11.9.**

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 View – **ACCUMULATE**
FINANCIAL & OPERATING PERFORMANCE

Particulars	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	YoY%	QoQ%	1H	1H	YoY%
	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	FY23	FY24	FY24			FY24	FY23	
Revenue	7,415	7,713	7,671	8,102	7,991	8,702	8,834	8,802	8,318	9,481	9,449	9,693	9,102	10,016	5.6	10.0	19,118	17,799	7.4
EBITDA	1,466	1,662	1,585	1,398	1,449	1,594	1,387	1,331	1,256	1,544	1,490	1,546	1,590	1,810	21.8	13.8	3,400	2,742	24.0
EBITDA Margin(%)	19.8	21.5	20.7	17.3	18.1	18.3	15.7	15.1	15.1	16.3	15.8	15.9	17.5	18.1	240	60	17.8	15.4	238
Net Profit	444	670	709	568	579	507	571	487	350	482	630	843	662	521	12.8	(21.3)	1,183	812	45.7

Source: Company, Way2Wealth

Segment-wise Revenue

	FY18	FY19	FY20	FY21	FY22	FY23	1HFY24	1HFY23	YoY (%)
Oral care	14.3	15.6	13.8	15.2	16.7	18.3	9.6	9.3	3.6
Non-Oral care	10.0	11.5	11.2	12.9	14.3	15.9	8.4	8.2	2.5

Source: Company, Way2Wealth

Geography wise Revenue mix (%)

Region	FY18	FY19	FY20	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
				FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	FY23	FY24	FY24
AMESA	37	34	33	28	33	31	31	34	34	37	36	38	30	37	35	37	38
EAP	23	24	22	26	24	27	24	25	24	28	22	23	22	24	22	24	25
Americas	19	21	22	20	19	23	20	20	21	21	22	24	17	24	24	24	25
Europe	20	21	24	26	24	22	24	21	21	20	24	24	19	20	26	23	22

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

Source: Company, Way2Wealth

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View – **ACCUMULATE**

Geography-wise Performance

AMESA	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Revenue (₹mn)	2,190	2,590	2,362	2,766	2,819	3,075	3,225	3,140	3,197	3,595	3,521	3,379	3,358	3,791
YoY Growth (%)	(2.7)	6.5	(6.1)	28.5	28.7	18.7	36.5	13.5	13.4	16.9	9.2	7.6	5.0	5.5
EBIT (₹mn)	160	384	315	224	311	352	353	277	309	333	404	423	365	446
Margin (%)	7.3	14.8	13.3	8.1	11.0	11.4	10.9	8.8	9.7	9.3	11.5	12.5	10.9	11.8
YoY Growth (%)	(23.1)	48.8	(14.6)	(7.1)	94.4	(8.3)	12.1	23.7	(0.6)	(5.4)	14.4	52.7	18.1	33.9

EAP	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Revenue (₹mn)	2,021	1,908	2,043	1,849	2,060	2,136	2,459	1,971	1,928	2,166	2,263	2,141	2,149	2,454
YoY Growth (%)	45.6	9.1	17.4	36.7	1.9	11.9	20.4	6.6	(6.4)	1.4	(8.0)	8.6	11.5	13.3
EBIT (₹mn)	438	395	385	216	345	353	419	160	247	377	365	248	351	428
Margin (%)	21.7	20.7	18.8	11.7	16.7	16.5	17.0	8.1	12.8	17.4	16.1	11.6	16.3	17.4
YoY Growth (%)	144.7	15.2	17.7	45.0	(21.2)	(10.6)	8.8	(25.9)	(28.4)	6.8	(12.9)	55.0	42.1	13.5

Source: Company, Way2Wealth

Americas	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Revenue (₹mn)	1,510	1,528	1,735	1,749	1,639	1,860	1,899	1,964	1,973	2,226	2,260	2,299	2,178	2,519
YoY Growth (%)	10.5	(7.3)	19.1	2.1	8.5	21.7	9.5	12.3	20.4	19.7	19.0	17.1	10.4	13.2
EBIT (₹mn)	155	155	201	202	119	168	53	189	105	106	109	59	24	91
Margin (%)	10.3	10.1	11.6	11.5	7.3	9.0	2.8	9.6	5.3	4.8	4.8	2.6	1.1	3.6
YoY Growth (%)	18.3	(36.7)	(6.5)	(32.0)	(23.2)	8.4	(73.6)	(6.4)	(11.8)	(36.9)	105.7	(68.8)	(77.1)	(14.2)

Europe	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Revenue (₹mn)	1,977	1,938	1,768	2,002	1,784	1,882	1,732	2,086	1,972	2,050	1,911	2,502	2,125	2,163
YoY Growth (%)	30.3	11.4	9.3	5.5	(9.8)	(2.9)	(2.0)	4.2	10.5	8.9	10.3	19.9	7.8	5.5
EBIT (₹mn)	179	158	99	189	99	75	(22)	104	34	70	(36)	134	79	46
Margin (%)	9.1	8.2	5.6	9.4	5.5	4.0	(1.3)	5.0	1.7	3.4	(1.9)	5.4	3.7	2.1
YoY Growth (%)	442.4	35.0	2.1	40.0	(44.7)	(52.5)	(122.2)	(45.0)	965.7	(6.7)	63.6	28.8	132.4	(34.3)

Source: Company, Way2Wealth

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FINANCIALS & VALUATIONS

(₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	24,239	27,069	27,601	30,916	34,329	36,941	40,798	45,141
EBITDA	4,649	4,991	5,575	6,111	5,761	5,778	7,391	8,998
EBITDA Margin (%)	19.2	18.4	20.2	19.8	16.8	15.6	18.1	19.9
Net Profit	1,766	1,925	2,073	2,391	2,144	2,278	2,532	3,776
EPS (₹)	5.6	6.0	6.9	7.6	6.8	3.7	8.0	11.9
DPS (₹)	1.2	1.25	3.3	4.1	4.3	4.3	5.0	5.5
P/E (x)	34.8	32.5	28.3	25.8	28.8	27.2	24.4	16.3
EV/EBITDA (x)	14.7	13.4	11.6	10.9	11.9	20.4	8.8	7.1
P/BV (x)	4.9	4.4	4.0	3.6	3.3	3.1	3.0	2.6
RoE (%)	15.4	14.4	14.8	15.8	12.2	11.9	12.3	16.9
RoCE (%)	11.3	16.7	15.9	17.4	11.1	11.2	11.8	15.0
Net Debt/Equity (x)	0.4	0.4	0.2	0.2	0.3	0.3	0.2	0.1
Debtor days	67	65	66	71	68	64	64	64
Inventory days	44	49	49	50	63	60	57	56
Creditor days	28	32	74	79	48	49	48	47
Cash Balances	7,299	6,314	6,432	4,962	1,927	2,444	3,854	4,476
FCF	1,028	1,344	3,712	2,414	509	2,147	3,317	4,619

Source: Company, Way2Wealth

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Disclosure of Interest Statement EPL Ltd. as on 10 November 2023

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