

18th November 2020

CMP – ₹263.75/-

View – Buy

Quarterly Result Highlights

- **Broad based growth across geographies except for Americas which is expected to improve** – EPL's Q2FY21 revenue and EBITDA grew 5.4% and 9% to ₹7.7bn, and ~₹1.7bn respectively. Barring Americas which declined by 9% yoy all the regions posted healthy growth. There was an expected deceleration in revenue trajectory on a sequential basis as Q1FY21 had the benefit of revenue spillover from Q4FY20. Interestingly, revenue performance was driven by different geographies - **AMESA** reported +6.5% revenue growth while Americas revenue declined 7%. Management attributed **Americas** performance to substantial decline in demand for travel tubes due to lockdown related restrictions and a quick turnaround expected here. Europe continued its strong trajectory of double digit revenue growth for the tenth consecutive quarter while EBIT grew 34.7% and is >4x level seen in Q2FY19. Overall, EBITDA grew 9% to ₹1.66bn with EBITDA margin expansion of 70bps to 21.6% aided by lower RM costs. Segmentally, EBITDA grew double digit across geographies driven by strong focus on cost efficiencies except America which was impacted by weak revenue trajectory. Adjusted net profit declined 16% YoY to ₹670mn compared to ₹796mn due to an exceptional item expense of ₹203mn in Q2FY20. In **India**, normalcy was in Jun'20; very good recovery in Q2FY21 after weak Q1FY21. Q2FY21 had 7% growth in revenue and 28% in EBITDA. Headwinds from demand side from customers in Q3FY21. Large packs have done well for customers. Headwinds would be mitigated from wallet share gain and new pipelines products. **Europe** grew 11% in Q2FY21 Second wave looks very strong; Different opportunity should be able to get more steady oral business in Europe; opportunity of share gain in beauty and cosmetics and pharma; Conversion opportunity (rigid to plastic esp hair care shampoo and conditioner); Europe has very strong product pipeline. Margins will be further built from current 14.5%. **EAP/China** market seeing shift from physical retail to ecomm enabled by new emerging brands particular in beauty and cosmetics very niche local brands, focusing on these brands along with MNC brands in the region especially for personal care. The company is developing full range of laminates; now have portfolio around Platina like Platina Pro; commercialize as well; Platina Clear etc. Personal care revenue share for 1HFY21 at 47% compared to 45% 1HFY20.
- **Acquisition of Creative Stylo Packs for ₹2.5bn** – In line with its ambitions of scaling-up presence in Beauty and Cosmetics segment, EPL announced the acquisition of Creative Stylo Packs. The company is engaged in the business of plastic tubes, laminated tubes and corrugated boxes for the Beauty & Cosmetics and Pharma industry with marquee clients such as L'Oreal, Marico, Zydus etc. Annual production of 200mn tubes specialty plastic and decoration (Enough headroom for capacity and would be rationalize further); most of the business comes from Beauty and cosmetics (~85-90%) and 10-15% from Pharma. As per management, key reasons for the acquisition were, Enhanced presence in Beauty and Cosmetics space which accounts for 85% of acquired companies revenue, and improving the capability and enhancing capacities in Plastic tube segment. Creative's financials are quite impressive clocking revenue of ₹1.03bn and EBITDA margin of 29.6% v/s 20.5% in FY20 for EPL. The cost of acquisition is pegged at ₹2.5bn of which ₹1.6bn would be paid in cash for 72.5% stake and balance through issue of shares (~2.3mn shares) and assumption of debt. This pegs the valuation at 8-9x EV/EBITDA and 2.5x EV/Sales on FY20 basis (compared with EPL's valuation at 3x and 14.8x on EV/Sales and EV/EBITDA respectively).

Important Statistics

M.CAP (₹ bn)	83.23
52 Week H/L (₹)	319/105
NSE Code	EPL
BSE Code	500135

Shareholding pattern (%)	Sep'20
Promoter	52.0
DII	15.2
FII	14.3
Public & Others	18.5

Financials

	(₹ mn)		
Particulars	FY19	FY20	1HFY21
Revenues	27,069	27,601	15,118
EBITDA	4,991	5,575	3,128
EBITDA Margin (%)	18.4	20.2	20.7
Adjus. Net Profit	1,895	2,167	1,423
EPS (₹)	6	6.6	3.9
DPS (₹)	1.3	3.3	2.05
RoE (%)	14.4	14.8	
RoCE (%)	16.7	15.9	
P/E (x)	44.0	40.0	
EV/EBITDA (x)	17.5	15.2	
P/BV (x)	5.9	5.4	

Source: Company Filing, Way2wealth Research

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- **New product launches** – Sales of hand sanitizers in Q2FY21 was much lower than Q1FY21 due to pipeline filling that happened in Q1FY21. Hand wash, hand creams, hand soaps and hand sanitizers are the new products in the pipeline. Capex can be as high as annual depreciation of ₹2000- 2300mn. 1HFY21 capex was at ₹640mn. Net Debt for 1HFY21 at ₹2,332mn half of 1HFY20. Approved from board ₹1.5bn NCDs (₹500mn of NCD will be renewed) not related to acquisition. Announced interim dividend of ₹2.05/share for 1HFY21 and run-rate of last year will be maintained.

Outlook

EPL announced acquisition of Creative Stylo Packs which is engaged in the same business of manufacturing tubes but largely catering to Beauty and Cosmetic segment and having a much larger prominence of plastic tubes (compared to laminated tubes for EPL). The intent is to clearly strengthen presence in these categories which are highly relevant for tubes business. With this acquisition, EPL aims to diversify its portfolio of offering which could help gain an increased share of wallet from its existing customers and also help in customer acquisition. The acquisition seems a good strategic fit as it enhances growth levers to scale the double-digit mark; the capital allocation seems to be in the appropriate segment but the execution would be a key to monitor in our view. **We continue to view to as a value BUY with a fair value of ₹330-340, as the company has guided for an organic growth excluding new launches at healthy double digit which is sustainable.**

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Financial & Operating Performance

(₹ mn)

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY%	QoQ%	1HFY21	1HFY20	YoY(%)
Revenue	6,298	7,305	7,108	6,889	7,415	7,703	5.4	3.9	15,118	13,604	11.1
EBITDA	1,086	1,525	1,579	1,385	1,466	1,662	9.0	13.4	3,128	2,611	19.8
EBITDA Margin %	17.2	20.9	22.2	20.1	19.8	21.6			20.7	19.2	
Adjust Net Profit	283	796	601	486	565	670	(15.8)	18.6	1,235	1,079	14.5

Source: Company Filing, Way2wealth Research

Segment-wise revenue

(₹ bn)

	FY17	FY18	FY19	FY20	1HFY21	1HFY20	YoY (%)
Oral care	13.8	14.3	15.6	15.2	7.3	7.0	4.0
Non-Oral care	9.2	10	11.5	12.4	6.4	5.7	11.0

Source: Company Filing, Way2wealth Research

Geography wise revenue mix (%)

Region	FY17	FY18	FY19	FY20	Q1FY21	Q2FY21
AMESA	40	37	34	33	28	33
EAP	23	23	24	22	26	24
Americas	20	19	21	22	20	19
Europe	18	20	21	24	26	24

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	Q2FY21
Revenue (₹ mn)	2,251	2,433	2,516	2,153	2,190	2,590
Growth (%)	(4)	4	(1)	(9)	(3)	6
EBIT (₹ mn)	208	258	369	241	160	384
Margin (%)	9.2	10.6	14.7	11.2	7.3	14.8
Growth (%)	(40.0)	(4.0)	1.0	(18.0)	(23.0)	39.8

Source: Company Data, Way2Wealth Inst Equity

EAP	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Revenue (₹ mn)	1,388	1,749	1,740	1,353	2,021	1,908
Growth (%)	(11)	(5)	1	(12)	46	9
EBIT (₹ mn)	179	343	327	149	438	395
Margin (%)	12.9	19.6	18.8	11.0	21.7	20.7
Growth (%)	(14.0)	(5.0)	2.0	(6.0)	145.0	15.2

Source: Company Data, Way2Wealth Inst Equity

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Americas	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Revenue (₹ mn)	1,366	1,648	1,457	1,713	1,510	1,528
Growth (%)	3	15	(1)	4	10	(7)
EBIT (₹ mn)	131	245	215	297	155	155
Margin (%)	9.6	14.9	14.8	17.3	10.3	10.1
Growth (%)	(12.0)	27.0	30.0	(5.0)	18.0	(36.7)

Source: Company Data, Way2Wealth Inst Equity

Europe	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Revenue (₹ mn)	1,517	1,740	1,618	1,897	1,977	1,938
Growth (%)	17	18	12	16	30	11
EBIT (₹ mn)	33	117	97	135	179	158
Margin (%)	2.2	6.7	6.0	7.1	9.1	8.2
Growth (%)	69.0	210.0	497.0	28.0	442.0	35.0

Source: Company Data, Way2Wealth Inst Equity

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Disclosure of Interest Statement EPL Ltd. as on November 18, 2020

Name of the Security	EPL 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
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