

ESSEL PROPACK

RoEs to return: All four regional engines afire

India Equity Research | Miscellaneous

Essel Propack (EPL) is the largest laminated tubes packaging firm globally and a force to reckon with in the global packaging industry. Adhering to the growth cornerstones of innovation and customer-driven R&D, the company has captured one-third market share in laminated tubes. We expect RoE to exceed 21% in FY17 from 13.5% in FY14 as: (1) penetration in non-oral care segment is on the rise; and (2) subsidiaries in Europe and America are turning profitable. While EPL has historically traded at 5-7x EV/EBITDA band, we have valued it at 7x considering that EPL's RoE will transcend its historical range of 8-10%. Our target EV/EBITDA is at 21% discount to global peers despite EPL's margins being much higher. Initiate coverage with 'BUY' and target price of INR184 (57% upside).

Innovation DNA spurring market share gains

The packaging industry has been innovation driven. EPL has enhanced its laminated tubes market share from ~28% in CY02 to ~34% currently, a feat it accomplished owing to sizeable investments in innovation. R&D and innovations have been the company's unequivocal hallmarks, enabling it to pioneer the paradigm shift in packaging, redefining the market and unlocking growth potential.

RoE kickers: Non-oral care focus, turn around in subsidiaries

To propel growth, EPL has set sights on the global 22bn tubes non-oral market. We expect non-oral revenue CAGR of ~15% over FY14-17E, riding conversions in US & Europe and growth in cosmetics, foods & pharma in China & India. Oral care is anticipated to remain the cash cow and log stable revenue CAGR of 7% over next 3 years. Earlier, losses in Americas and Europe had hammered EPL's performance. However, these subsidiaries are now turning around.

Outlook and valuations: Growth impulsion; initiate with 'BUY'

We expect increase in asset turn (focus on high IRR capex) and higher PAT margins (revenue growth, operating leverage) to catapult EPL's RoE to 21.3% in FY17E. Consequently, PAT will post CAGR of 27.0% over FY14-17E. We initiate coverage with 'BUY' recommendation with a TP of INR184 (at 7x FY17E EV/EBITDA), implying a discount of 21% on EV/EBITDA and 27% on P/E compared to global peers.

Financials

Year to March	FY14	FY15E	FY16E	FY17E
Net revenues (INRmn)	21,266	23,215	25,684	28,570
EBITDA (INRmn)	3,541	3,924	4,567	5,138
Adjusted Net Profit (INRmn)	1,083	1,325	1,773	2,221
Diluted EPS (INR)	6.9	8.4	11.3	14.1
EPS growth (%)	39.1	22.3	33.8	25.2
Diluted P/E (x)	17.0	13.9	10.4	8.3
EV/EBITDA (x)	7.7	6.9	5.6	4.7
ROE (%)	13.5	17.9	20.3	21.3

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: ESSL.BO, B: ESEL IN)

CMP	: INR 117
Target Price	: INR 184
52-week range (INR)	: 138 / 51
Share in issue (mn)	: 157.1
M cap (INR bn/USD mn)	: 18 / 293
Avg. Daily Vol.BSE/NSE('000)	: 314.9

SHARE HOLDING PATTERN (%)

	Current	Q2FY15	Q1FY15
Promoters *	56.4	59.9	61.1
MF's, FI's & BK's	3.8	3.9	2.9
FII's	8.7	8.9	9.4
Others	31.1	27.3	26.6
* Promoters pledged shares (% of share in issue)			1.3

PRICE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	(0.5)	(1.9)	(1.4)
3 months	4.8	(4.7)	(9.5)
12 months	31.1	125.6	94.5

Niraj Mansingka, CFA

+91 22 6623 3315
niraj.mansingka@edelweissfin.com



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Nihal Jham

+91 22 6623 3352
nihal.jham@edelweissfin.com

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"Today, I can proudly state that over the years EPL has not only been able to absorb the latest in the field of technology very well, but has also successfully improved upon it by concerted R&D that is any day far ahead of any of its competitors"

Mr. S C Goel, Non-Executive Chairman, EPL



EPL has been focusing on its core competence— knowledge of polymers & polymer processing —and conducting business in an OEM environment

Innovation has seen EPL consistently logging double-digit growth and outperforming tubes global growth rate of ~5%

"ETAİN is a new generation pinnacle of technology, innovation... commands excellent shelf appeal... sell on its own without a need for outer packaging"
Ms. Wendi Caraballo of EPL - ETAİN

Investment Rationale

Innovation DNA spurring market share gains

The packaging industry has been innovation driven in products as well as manufacturing. EPL, over the years, has enhanced market share of laminated tubes from ~28% in CY02 to ~34% now, a feat that could not have been accomplished without sizeable investments in innovation.

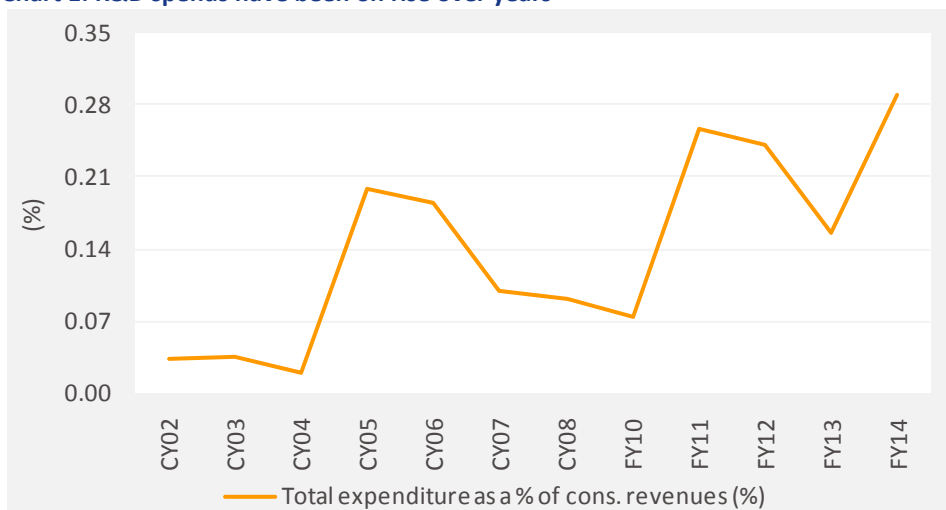
R&D and innovation have been EPL's hallmarks, enabling it to pioneer the paradigm shift in packaging—first moving from aluminium tubes to laminated tubes and now, from bottles and plastic tubes to laminated tubes,—thereby redefining the market and unlocking growth potential.

Fig. 1: Innovation in laminated tubes industry

From 1990 till ~2005	~2010 onwards
Aluminium oral tubes to laminated tubes	Moving from bottles and plastic tubes to laminated tubes (esp. non-oral)

Source: Edelweiss research

Chart 1: R&D spends have been on rise over years



Source: Company, Edelweiss research

Strong R&D-driven products

Innovation has been inherent in EPL's DNA. Driven by innovation, the company, over the years, has reinforced its knowledge base in diverse aspects such as polymers, polymer processing, manufacturing systems, markets, logistics and sourcing. It invests ~0.3% of revenue in R&D, mostly in the evolution of laminated tubes. In FY14 itself, EPL either obtained/applied for 78 patents globally compared to 18 in FY12.

EPL's R&D-driven products have special features such as tamper-evidence, controlled dispensing and anti-counterfeit. Research on material sciences have created new structures such as metallic finish, 100% recyclable and advanced decorative finishes like 3D, diamond

crystal effect, etc., making them preferred packing choices for shampoos and hair-styling gels, as well as creating opportunities in premium personal care products. Some recent patented innovations include Egnite, Green Maple Leaf, Etain, I-shine, Titanium, etc. Other high-potential innovations include Minitubes (proprietary technology for making small size laminated tubes with wide acceptance in pharma) and Invisseam technology (laminated tubes with concealed seams).

Fig. 2: EPL's innovative offerings



EGNITE

High lustre metallic look, entirely made of plastic and suited for premium cosmetics and toiletries. Eye-catching.



TITANIUM / SUPERNOVA

Tube on "Resource Reduction" platform.



ETAIN

Fully-recyclable packaging tube made using a percentage of recycled material with the aim of reducing the amount of virgin plastic in tube packaging.



ELITE

Premium look with special sensory effects like foam, dew drop, diamond crystals etc.



GREEN MAPLE LEAF

Recyclable tube with proprietary oxygen barrier. It is especially suited for cosmetics, toiletries and food products.



FUSION

Vibrant look through multi-disciplinary printing in a single platform.

Source: Company, Edelweiss research

EPL is revitalising its image. The company recently changed its logo



Customer specifications drive innovation

- Based on the requirements of Shahnaz Husain and Olivia, EPL innovated and developed 'Egnite' tubes.
- The company manufactured fragrant tubes for Procter & Gamble (P&G) so that customers could smell the inner formulation by simply rubbing a particular spot.
- Unilever's *Kissan Jam Squeeze* called for a specially 'packaged' tube where the product could be filled in high temperatures of 90 degree Celsius.
- EPL manufactured 'ultra-clear' transparent tubes for *Dabur Honey*, which is as clear as glass. It is the same for ketchup clients.
- Similarly, keeping corporate sustainability in mind, EPL's product innovation team introduced Etain tubes. These tubes are made out of post consumer regrind and used for packaging toiletries, cosmetics and dentifrice (toothpastes) for players like Colgate.
- For the luxe set of *Christian Dior* and *Chanel*, EPL created iridescent tubes involving an interplay of rainbow colours.

Fig. 3: A few consumer products being packaged by EPL



Source: Company

Dominant player in top-2 global tubes markets, India and China



EPL has been successful in converting bottled/packaged foods into tubes in Indian market as well

There exists immense potential of conversion of bottles to stand-up laminated tubes. Growth in these businesses will make conversions quicker

Sharpening focus on non-oral care to drive margins

Better printing, lower conversion costs and barrier properties of laminated tubes compared to aluminium and plastic tubes are driving the conversion to laminated tubes. This is the primary reason why the traditional users of aluminium and plastic tubes i.e., pharma and cosmetics respectively, are moving towards using laminated tubes.

EPL has been at the forefront of this and successfully converted key niche customers into using laminated tubes. Some of these players include:

- Kissan Jam Squeeze, Milkmaid and Go Cheese in foods
- Shahnaz Husain's beauty tubes in cosmetics
- L'Oreal products for European markets in cosmetics / skin care

The major non-oral care categories which EPL is focused on are cosmetics, pharmaceuticals and food. At present, the company's non-oral sales in India is equally distributed between foods and pharma, while in China it is mainly led by foods. Going ahead, EPL's growth in laminated tubes is expected to come from: (1) conversions in the developed markets of US and Europe; (2) growth in cosmetics and foods in China; and (3) pharma, cosmetics and foods in India.

Table 1: Non-oral market: Focus areas and opportunities

Category	Sub-category	Opportunity
Non-oral care (25% of EPL's volumes)	Food	Conversion from bottles to tubes on convenience platform
	Cosmetics	Make over beyond the existing packaging such as aluminum tubes, plastic tubes and bottles.
	Pharmaceuticals	Pharmaceutical creams and ointments categories shift out of aluminum tubes.

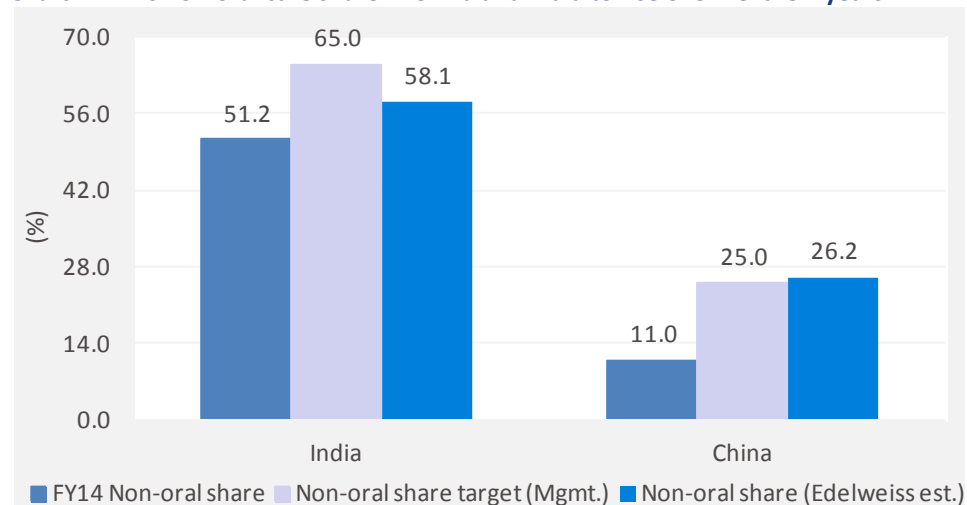
Source: Edelweiss research

EPL is well-poised to increase its current 39% share in non-oral care to ~45% by FY17E. We expect the company's non-oral share in India and China to increase from 51% and 11%, respectively, in FY14 to 58% and 26%, in FY17E. EPL recently (Jan'15) commissioned a facility in Suzhou, China dedicated to cosmetics tubes production. Suzhou is a cosmetic hub and accounts for 2/3rds of overall cosmetics manufacturing in China.

Future growth in China and India to be led by cosmetics, foods and pharma.

Laminates are increasingly wresting market share in non-oral category. To quote Mr. Jerry Ruud, Vice President, Sales and Marketing, Berry Plastics (2011), *“Graphic capabilities are often the major reason why laminates are being chosen more often lately over plastic extruded tubes”*

Chart 2: EPL's non-oral care share in China and India to rise over next few years



Source: Company, Edelweiss research

In 2006, EPL decided to extensively diversify into non-oral care

In 2006, EPL was at the crossroad to either: (1) further enhance its 32% global market share in laminated tubes by utilising its capabilities, or (2) bolster its share in the large non-oral care market by expanding into plastic tubes.

The company chose the latter in light of the potential volumes (~2x oral care volumes) and humungous revenue opportunities. However, expansion into non-oral care necessitated reconfiguring its DNA:

- While oral care tube orders generally entail millions of pieces, non-oral tube orders comprised ~100K pieces.
- Also, while pharma required small size tubes, cosmetics required big diameter tubes.
- Unlike in oral care, EPL needed different front- and back-end capabilities.
- To persuade existing plastic/aluminium tube users to shift to laminated tubes, EPL invested in R&D to offer features like attractive & distinct decoration, good dispensing systems including tamper evident closures, etc.

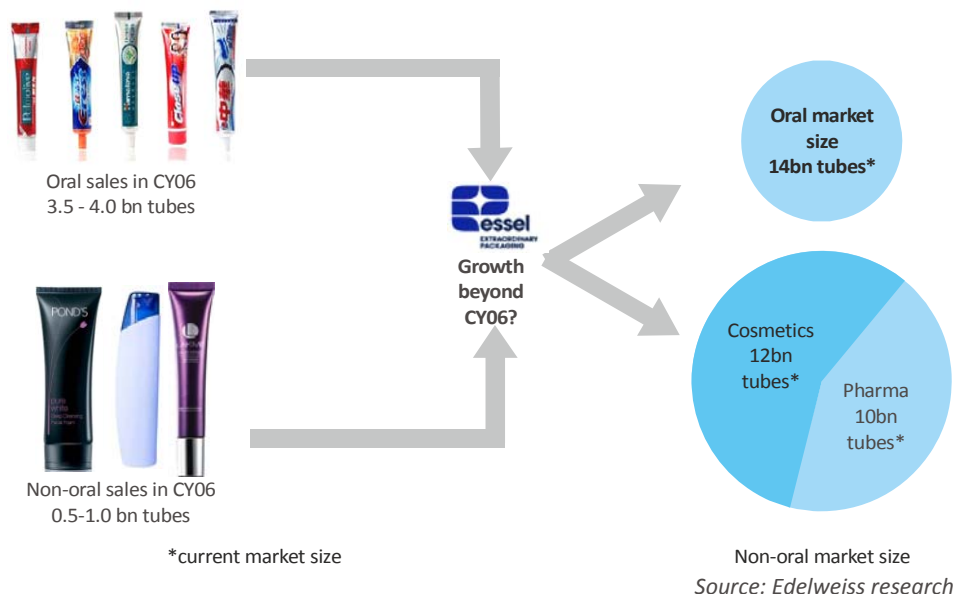
EPL's decision in CY06 led to it expanding in the US and European markets. With investments in R&D over the past few years, the company's offerings in laminated tubes currently have huge conversion potential. It has been seeing traction in converting plastic and aluminum tubes packaging (especially non-oral care) in key markets of India and China

Non-oral share in India has also increased from 47% in FY12 to 51% in FY14. India's non-oral revenues are equally distributed between foods and pharma



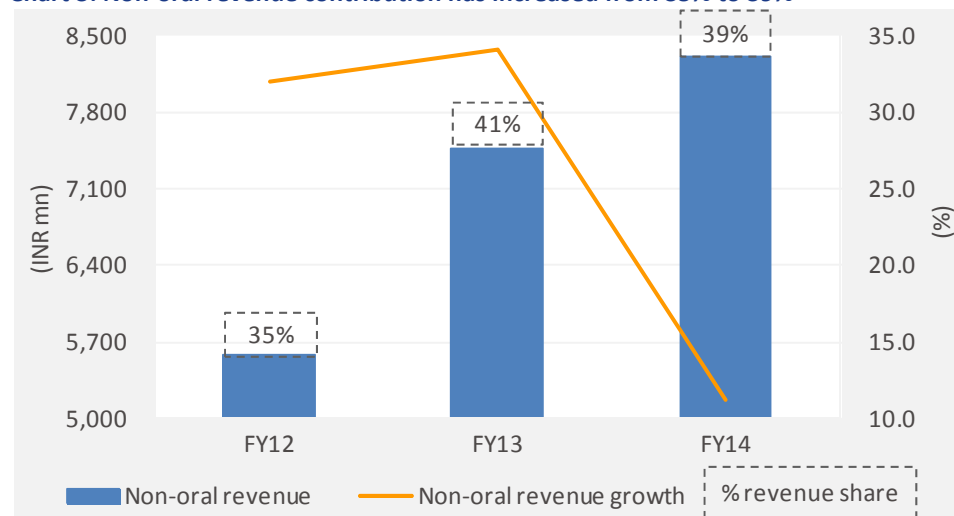
EPL has tasted success in foods segment in China with the conversion of *Wasabi* pastes

Fig. 4: In 2006, EPL chose to expand in non-oral care segment



EPL has constantly increased its revenue share in the non-oral care category—from 30% in FY11 to 39% in FY14. This was enabled by higher revenue CAGR of 25% (FY11-14) in non-oral care segment compared to 10% CAGR in oral care during the same period.

Chart 3: Non-oral revenue contribution has increased from 35% to 39%



Source: Company, Edelweiss research

Future growth in China and India to be led by cosmetics, foods and pharma

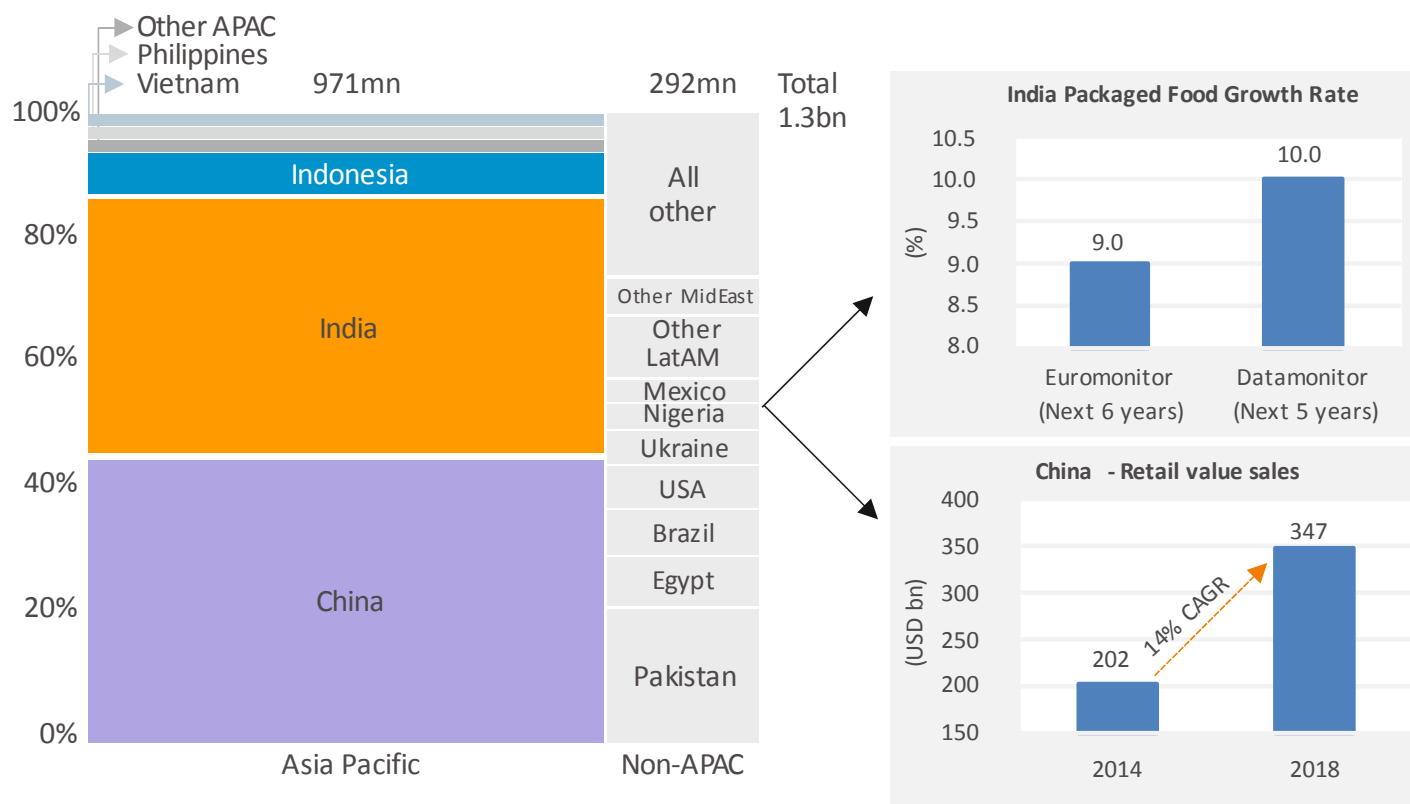
a. China and India packaged food thrust to drive surge

China: As per Euromonitor, China, with a current size of USD207bn, is one of the largest packaged food markets in the world—retail value sales posted 12.3% CAGR during CY09-13. The ongoing premiumisation trend and new products launched by manufacturers will continue to spur the packaged food surge — expected to clock CAGR

of 14.5% over CY14-18E to reach USD347bn. EPL has already made inroads in the market by converting the packaging of *Wasabi* pastes into tubes.

India: The domestic packaged food industry was worth USD39.7bn in CY13 and is estimated to touch USD65.4bn by CY20, growing at CAGR of ~8.5%. With sales volume of 30mt, India is one of the largest markets for packaged food in the world, just behind US, China, Brazil and Mexico, and the second largest in Asia. But, with per capita consumption of 24kg per year, this market is still at a nascent stage, offering humungous growth opportunities.

Fig. 5: Major growth in middle class globally will be in India and China
Global growth in middle class between 2010-2020 (forecast)

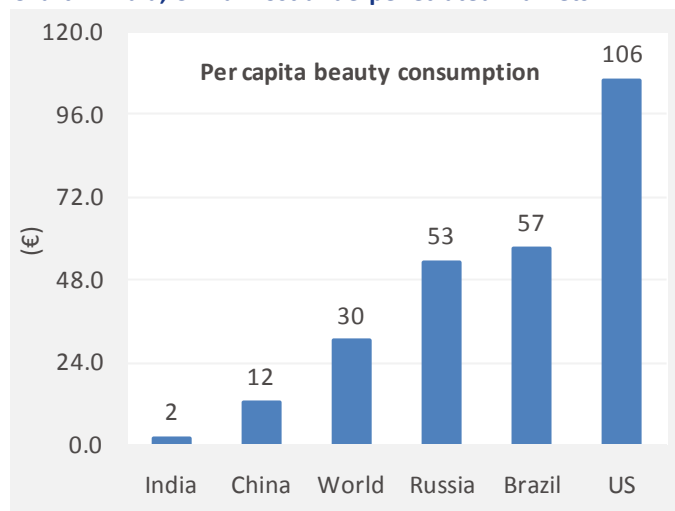


Source: Bain & Company, Various, Edelweiss research

b. Cosmetics in India/China remains unde penetrated compared even with Russia/Brazil

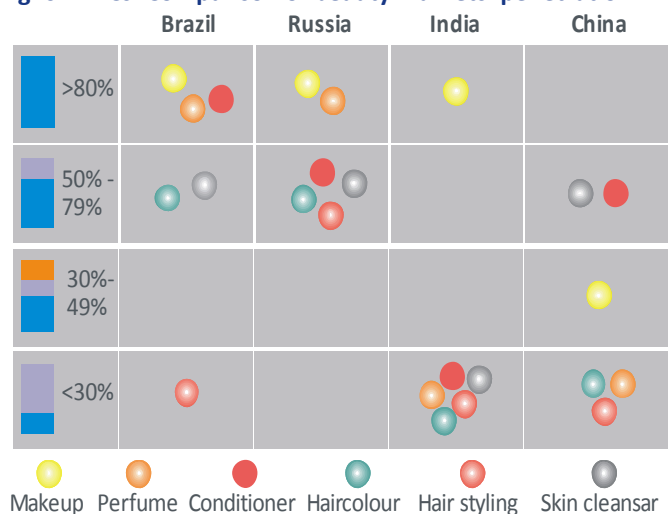
In cosmetics, India and China still have enormous development potential, riding surge in emerging middle class. India particularly holds huge growth potential as its population evolves along with a burgeoning middle class.

Chart 4: India, China most underpenetrated markets



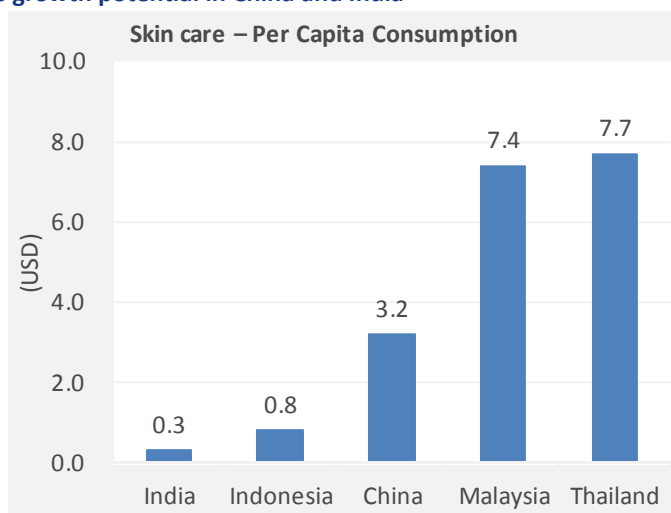
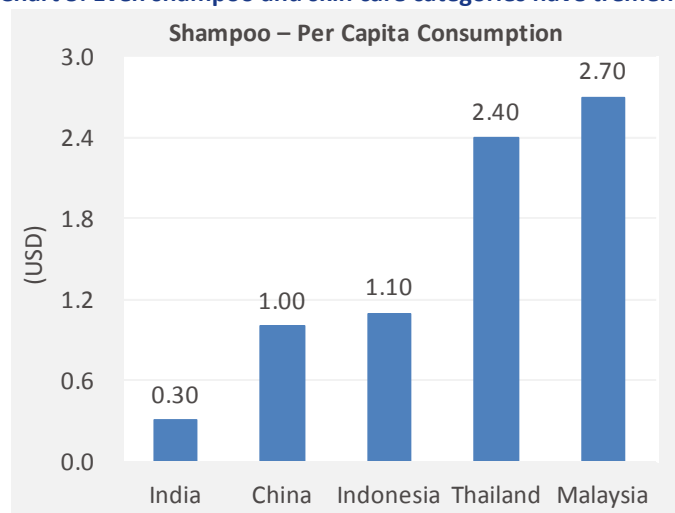
Source: L'Oreal

Fig. 6: BRICs: Comparison of beauty markets' penetration



Source: GTI

Chart 5: Even shampoo and skin care categories have tremendous growth potential in China and India



Source: Dabur

Oral care to remain cash cow

Overall, led by growth in foods and cosmetic categories, share of non-oral in India and China is set to catapult from 51% and 11% (in FY14) to 58% and 26%, respectively, in FY17E. Such growth will lend impulse to EPL's overall non-oral care share, which is set to surge from 39% in FY14 to ~45% in FY17E.

Oral care to sustain growth charge

EPL enjoys ~55% and ~60% market share in the oral care segment in China and India, respectively. The company's oral care revenue increased at CAGR of 10% during FY11-14. Going ahead, we expect oral care revenues to post CAGR of 7% over FY14-17, led by growth in India, Egypt and Poland. Also, large order flow in Mexico will offset lower realisation due to correction in crude prices.

Chart 6: Oral care grew 19% in FY14 on new contracts in Poland

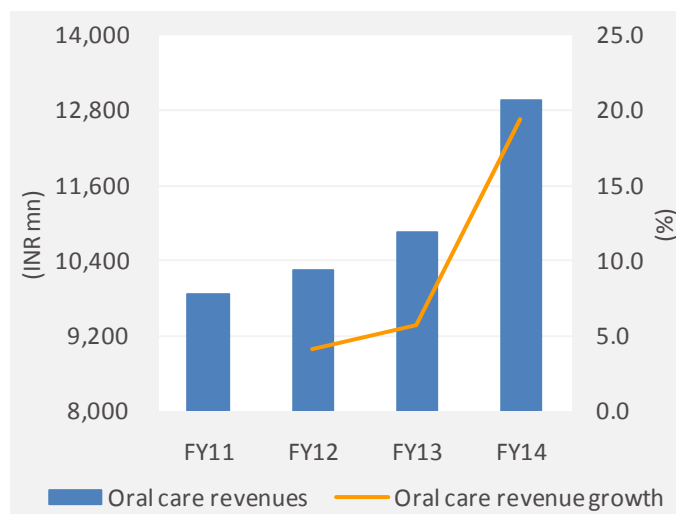
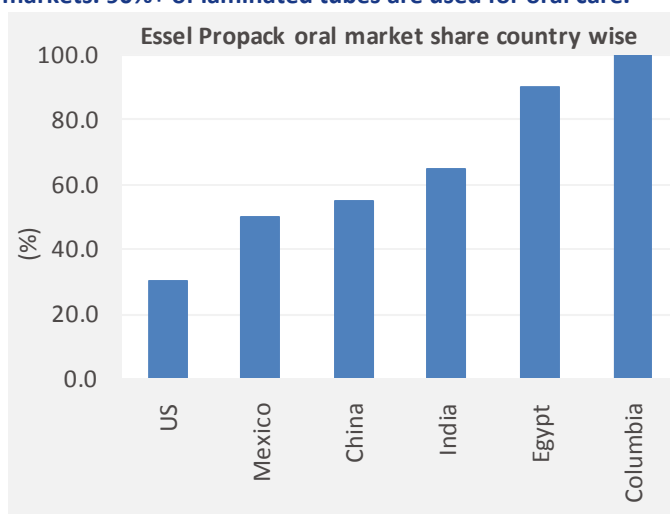


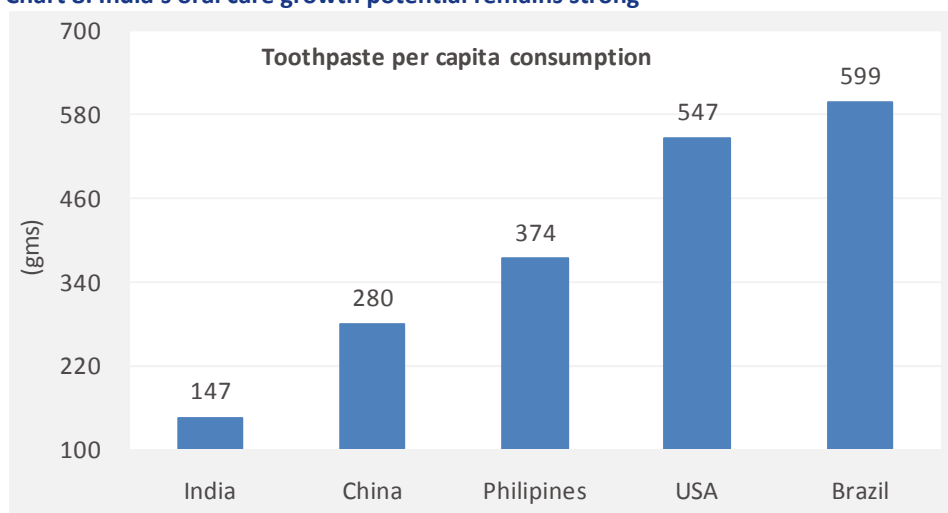
Chart 7: EPL has major market share in most oral care markets. 90%+ of laminated tubes are used for oral care.



Source: Company

Potential upsides will come from new contracts from HUL to supply to the Indian oral care market

Chart 8: India's oral care growth potential remains strong



Source: Colgate India

We estimate RoE to catapult to 21.3% in FY17 from 13.5% in FY14, driven by improvement in margins in Europe and Americas

Turnaround in subsidiaries to propel RoE to 21% plus

EPL aims to improve its return ratios. To achieve the same, it is focusing on:

- Improving EBITDA margins by sharpening focus on the non-oral care segment;
- Capping capital expenditure to depreciation quantum;
- Approving capex only for projects carrying IRR in high teens; and
- Gradually reducing leverage by using its internal accruals.

Management is targeting revenue CAGR of 15%, PAT CAGR of 20% and sustainable EBITDA margins of 20% over next 2-3 years. As a result, EPL expects its RoE to surpass 20% levels.

We estimate the company's RoE to spurt to 21.3% in FY17 from 13.5% in FY14, led by improvement in margins in Europe and Americas. In the past, its overall performance was hammered by its loss-making subsidiaries in Americas and Europe. In FY14, Poland, Mexico

In FY14, Poland, Mexico and US plastics businesses lost INR268mn in net income

and US plastics businesses lost INR268mn. However, in H1FY15, the Poland and Mexico arms broke even and are now improving.

Poland: Volumes/revenues surged significantly after EPL completed laminated tube capacity expansion on back of a large long-term oral contract with a FMCG major. Consequently, Poland's FY14 revenues jumped 55% and achieved breakeven at EBITDA level. Full impact of the order will play out in FY16. In Q3FY15, Europe EBIT margins (Poland is a major contributor) rose to 6.7% versus -2.8% in FY14, an increase of 9.5%. Poland's plastic tubes business has also seen improvement. Management now plans to shift focus and further expand margins by turning around low-margin businesses. We expect Poland margins to jump further as capacity scales up.

Mexico: Americas posted EBIT margin of 7.0% in FY14, which jumped to 10.0% in Q3FY15. Management attributed this surge to improvement in margins of the Mexico facility. EPL recently won 2 long-term laminated tube contracts and at current capacity utilisation of ~65%, margins of this facility are likely to further improve.

Chart 9: We expect Europe and America margins to improve led by improvement in Poland and Mexico

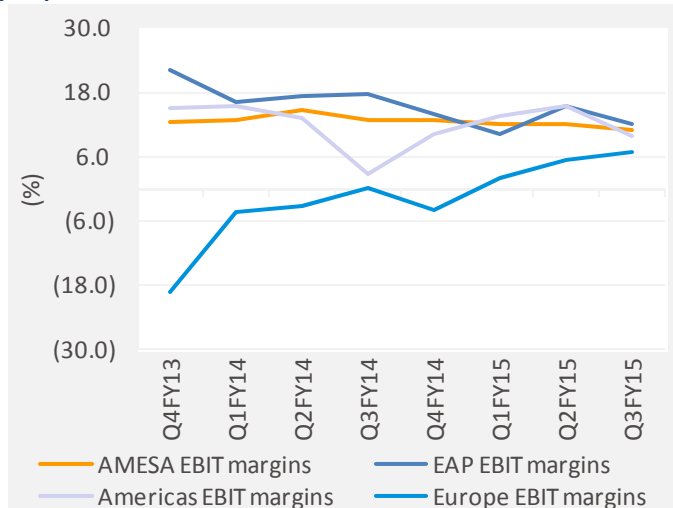
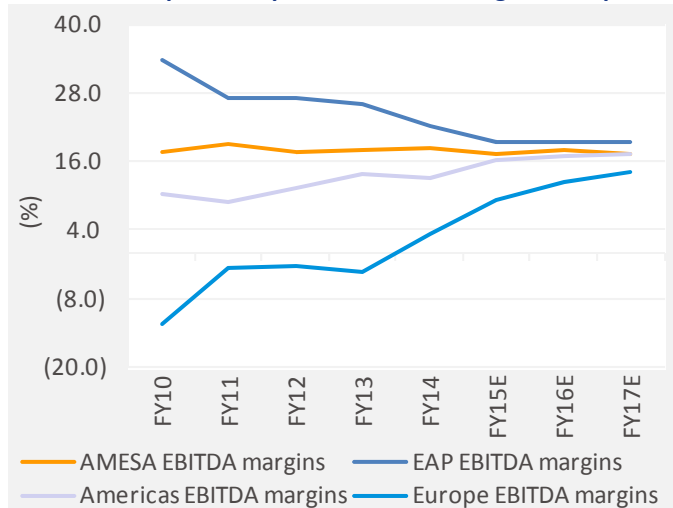


Chart 10: Europe surge to spur RoCE

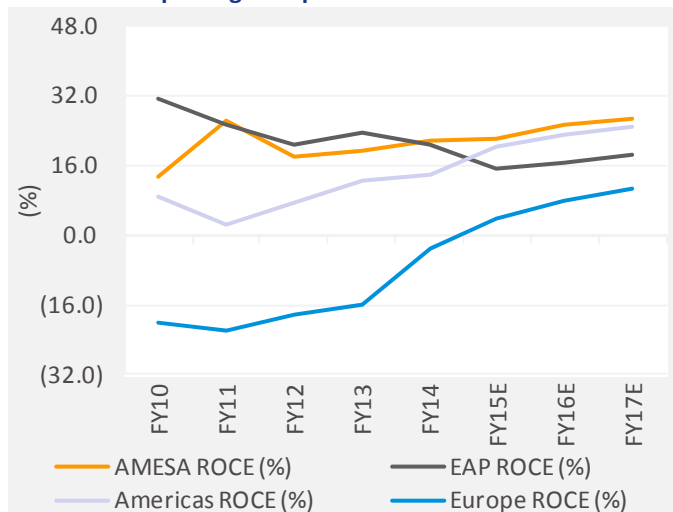
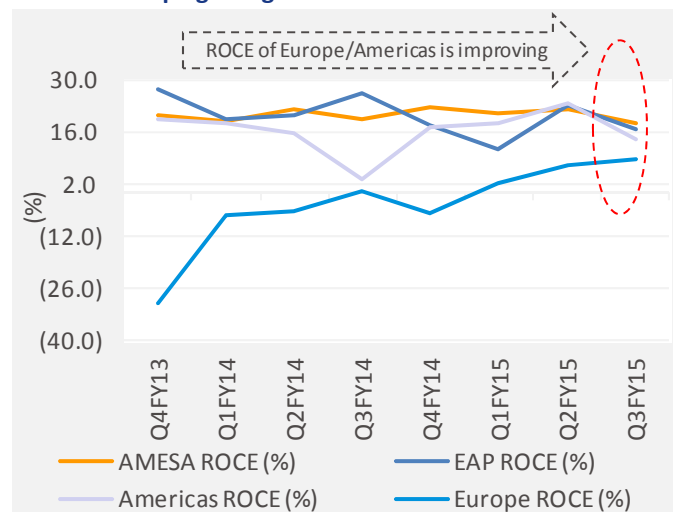


Chart 11: Europe getting out of the woods



Source: Company, Edelweiss research

Valuation

Revenue, EBITDA and adj. PAT are estimated to post CAGR of 10.3%, 13.2% and 27.0%, respectively, over FY14-17

Our FY17E EBITDA margin at 18.0% is lower than EPL's target of 20%...

...however, FY17E RoE of 21.3% is higher than EPL's 20% target. Adjusted for FY14 reduction in net worth of INR3.6bn, FY17E adjusted RoE is expected to touch 15.9%

EPL has emerged as a force to reckon with in the global packaging industry, especially in the laminated tubes segment. We like the company as:

- **A true global firm thriving in multi-cultural environment:** EPL's product knowhow is from an American firm, its equipment is Swiss and laminates making technology is from Japan. On the global front, the company initially commenced operations in Egypt and China, and subsequently expanded to the other markets of Europe and Latin America.
- **Innovation driven:** EPL's products have evolved due to out-of-box thinking and anticipating customers' needs.
- **Focus on RoCE/IRR in all incremental capex:** All capex has to now go through stringent filters of IRR in high teens. If a location becomes unviable, assets therein are recalled / relocated as the situation demands.
- Revenue, EBITDA and PAT are expected to post CAGR of 10.3%, 13.2% and 27.0%, respectively, over FY14-17.
- **Leverage likely to dip:** EPL's Gross debt/equity is expected to fall from 1.4x in FY14 to 0.8x in FY17. Gross debt/EBITDA is estimated to drop from 2.9x in FY14 to 1.8x in FY17.
- We expect cash earnings per share to spurt from INR15.5 in FY14 to INR24.7 in FY17, riding surge in profitability.

Table 2: Financials and valuation snapshot

Year to March	FY14	FY15E	FY16E	FY17E
Net revenues (INRmn)	21,266	23,215	25,684	28,570
EBITDA (INRmn)	3,541	3,924	4,567	5,138
Adjusted profit (INRmn)	1,083	1,325	1,773	2,221
Diluted EPS (INR)	6.9	8.4	11.3	14.1
EBITDA growth (%)	13.1	10.8	16.4	12.5
EPS growth (%)	39.1	22.3	33.8	25.2
EBITDA margins (%)	16.7	16.9	17.8	18.0
Pre-tax ROCE (%)	13.7	15.3	17.6	19.2
ROE (%)	13.5	17.9	20.3	21.3
EV/EBITDA (x)	7.7	6.9	5.6	4.7

Source: Company, Edelweiss research

Target price of INR184 offers 57% upside from current levels

We are using the EV/EBITDA metric to estimate EPL's value. Global packaging companies trade at LTM median EV/EBITDA of 9.9x, while EPL (on similar metrics) trades at 6.9x. Ideally, the company should trade at similar valuations as its global peers. However, since EPL's 3-year average RoE of 9.7% still lags global companies' median of 11.9%, we believe the stock will trade at a discount to global peers. Our target EV/EBITDA of 7.0x on FY17E leads to target price of INR184, which implies FY17E P/E of 13.0x. EPL's target price (for March 2016), implies discount of 21% on EV/EBITDA valuations and 27% on P/E compared to global peers. Our target price of INR184, offers 57% upside from current levels. We initiate coverage with 'BUY' recommendation.

Our target EV/EBITDA of 7.0x is at a discount of 21% to median multiple of ~10x for comparable global firms. We anticipate further increase in multiple in future as EPL sustains high return ratios

EPL's EBITDA and PAT margins are higher than comparable global peers. However, its RoE has lagged peers, which we believe is due to lower asset turn

Table 3: EPL's 7x EV/EBITDA valuations imply target price of INR184

Particulars	
EV/EBITDA (x)	7.0
FY17E EBITDA (INR mn)	5,138
FY16E Target EV (INR mn)	35,964
FY16E Debt (INR mn)	9,572
FY16E Cash (INR mn)	2,366
FY16E Minority Interest adjustment @2x (INR mn)	331
FY16E Investment (INR mn)	480
FY16E Target Equity Value (INR mn)	28,907
Number of shares (mn)	157
Mar '16 Target Price (INR/share)	184
FY17E EPS (INR/share)	14.1
FY17E Book Value (INR/share)	72.3
FY17E CEPS (INR/share)	24.7
FY17E ROE (%)	21.3
Post-tax FY17E ROCE (%)	14.0
Implied Target FY16E EV/EBITDA (x)	7.9
Implied Target FY17E P/E (x)	13.0
Implied Target FY17E P/BV (x)	2.5
Implied Target FY17E P/CEPS (x)	7.4
CMP (INR/share)	117

Source: Edelweiss research

Key value drivers

- Growth in key markets of India and China.
- Increased utilisation of assets in Poland and Mexico (from order wins) leading to higher revenue growth and significant margin expansion.
- Increase in margins in key markets of China and India, driven by higher penetration in non-oral category.

Attractive compared to global peers

EPL's operating metrics stand out compared to peers. The company's EBITDA and PAT margins are higher than comparable global peers, but its RoE has lagged peers, which we believe has been due to lower asset turn. We anticipate asset turn to improve on: (1) better capacity utilisation in Mexico and Poland; and (2) sharpening focus on high-margin non-oral care tubes.

Table 4: Higher revenue growth and margins versus global peers

Industry present	Listed companies	Market capitalisation (USD mn)	EV (USD mn)	LTM revenues (USD mn)	3-yrs revenue CAGR (%)	3-yrs avg. EBITDA margins (%)	3-yrs avg. PAT margins (%)
Laminated tubes	Essel Propack	293	414	376	14.7	16.9	4.3
Flexible packaging	Sealed Air Corporation, USA	9,578	13,670	7,751	12.3	13.6	1.6
Flexible packaging	Bemis Co Inc., USA	4,568	5,869	4,344	(6.6)	12.2	4.3
Flexible packaging	Uflex	151	411	977	18.1	13.8	4.3
Plastic tubes (mostly metal)	Silgan Holdings Inc, USA	3,636	5,013	3,912	3.7	13.3	4.6
Plastic tubes	Berry Plastics Group Inc., USA	4,066	7,841	5,038	2.8	14.5	0.8
Plastic caps and closures	Aptargroup Inc., USA	3,979	4,421	2,598	3.6	17.3	7.1
Median - ex-Essel		4,023	5,441	4,128	3.6	13.7	4.3
Mean - ex-Essel		4,330	6,204	4,103	5.7	14.1	3.8

Source: Bloomberg, Edelweiss research

Table 5: Comparable peers trade at median LTM EV/EBITDA of 9.9x versus EPL's 6.9x.

Industry present	Listed companies	3-yrs avg. post-tax ROCE (%)	Recent post-tax ROCE (%)	3-yrs avg. ROE (%)	Recent ROE (%)	EV/LTM revenues (x)	LTM P/E (x)	LTM EV/EBITDA (x)	1-year forward P/E (x)	Cash conversion	ATO	D/E
Laminated tubes	Essel Propack	7.9	10.0	9.7	16.6	1.1	15.0	6.9	10.4	81	1.3	1.3
Flexible packaging	Sealed Air Corporation, USA	5.4	7.6	9.1	20.2	1.8	37.2	14.6	22.7	59	4.0	3.8
Flexible packaging	Bemis Co Inc., USA	7.6	7.7	11.9	12.3	1.4	23.9	10.0	17.8	80	2.2	0.9
Flexible packaging	Uflex	7.9	7.7	9.3	8.6	0.4	3.9	3.5	3.1	NA	1.5	0.6
Plastic tubes	Silgan Holdings Inc, USA (mostly n	9.1	9.6	24.1	25.6	1.3	19.9	9.8	18.2	53	2.3	2.3
Plastic tubes	Berry Plastics Group Inc., USA	2.2	5.3	NM	NM	1.6	58.9	11.4	22.5	51	2.5	NM
Plastic caps and closures	Aptargroup Inc., USA	10.0	10.4	13.0	14.8	1.7	20.8	9.6	21.8	48	1.8	0.8
Median - ex-Essel		7.8	7.7	11.9	14.8	1.5	22.3	9.9	20.0	53	2.3	0.9
Mean - ex-Essel		7.0	8.1	13.5	16.3	1.3	27.4	9.8	17.7	58	2.4	1.7

Source: Bloomberg, Edelweiss research

We believe EPL traded at much lower historical EV/EBITDA and P/E bands, which was low due to low ROE during those periods.

We expect ROE to increase and hence the valuation multiples.

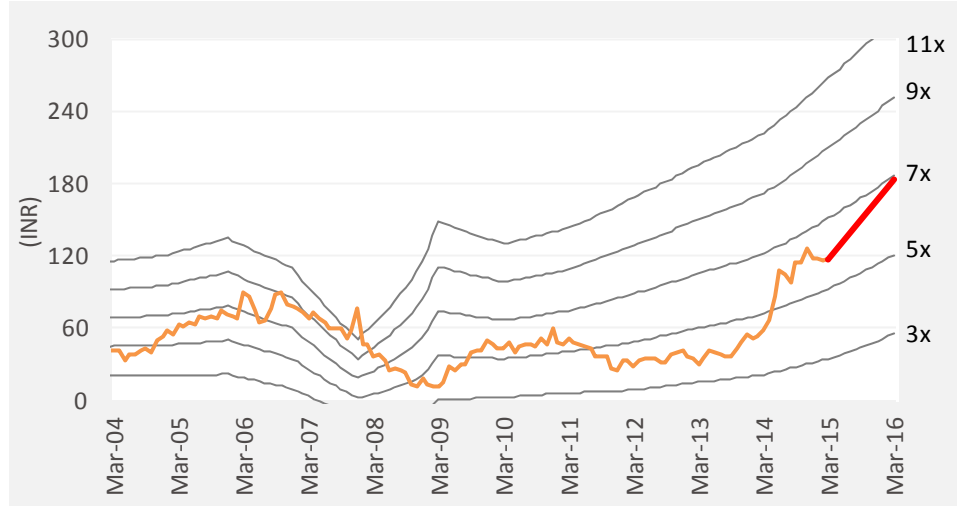
Historical P/E and EV/EBITDA bands not justified

EPL's historical EV/EBITDA and P/E valuations indicate the company has traded at much lower valuations in the past. Its median 1-year forward EV/EBITDA and P/E since December 2003 is 5.5x and 10.0x, respectively. During the corresponding period, EPL reported average RoE of 8.1%.

We expect increase in asset turn (focus on high IRR capex) and higher PAT margins (revenue growth, operating leverage) to catapult EPL's RoE to 21.3% in FY17. Consequently, PAT will post CAGR of 27% over FY14-17E. We believe the stock should trade at a premium to its historical valuations as EPL has evolved as a global player with its intellectual property offering significant barriers to entry.

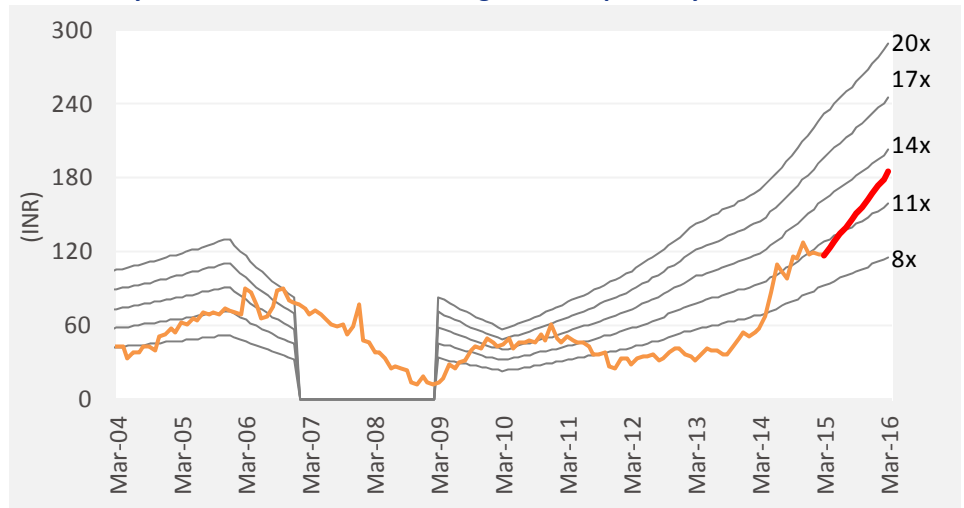
Both historical EV/EBITDA and P/E were low due to losses/restructuring in business since CY06. However, owing to focused approach and turnaround in operations, valuation bands are expected to re-rate hereon

Chart 12: 1-year forward median EV/EBITDA 5.5x in past 11 years with SD of 1.9x



Source: Bloomberg, Edelweiss research

Chart 13: 1-year forward median P/E average 10.0x in past 11 years with SD of 3.9x



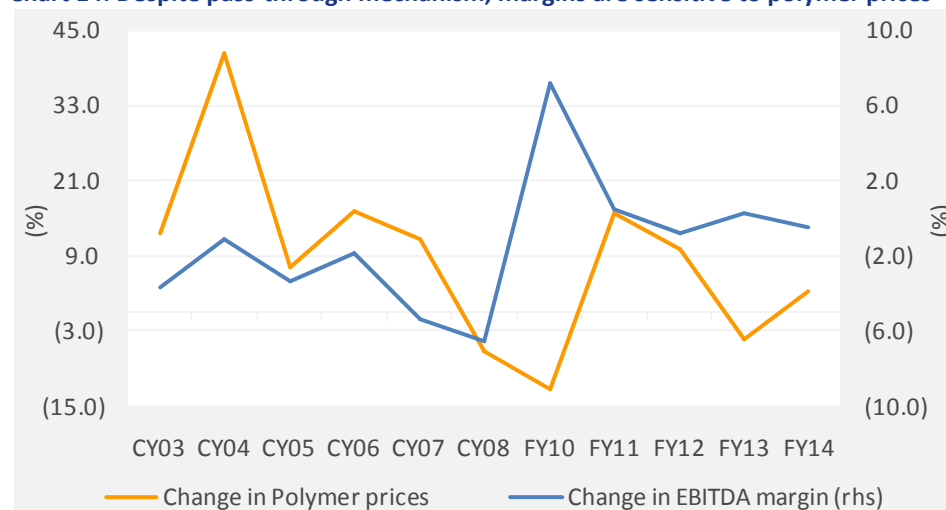
Source: Bloomberg, Edelweiss research

Key Risks

Sustained rise in crude prices

EPL's raw materials are crude oil based polymers, which are highly correlated to the movement in crude prices ($r=0.78$). Though there is a pass through mechanism in its contracts, there is a lag period for the same. Hence, for a quarter or two, margins may be under pressure. In the past too, a significant increase in crude/polymer prices had resulted in contraction in margins, highlighting that the company may not be in a position to pass on the entire increase, especially in case of oral care contracts. Also, as EPL does not sell to end consumers, it is unable to aggressively price its products.

Chart 14: Despite pass-through mechanism, margins are sensitive to polymer prices



Source: Company, Bloomberg

Pace of adoption/conversion to laminated packaging in non-oral segments

EPL's growth will be driven by the non-oral segment, particularly in China and India. Though the overall non-oral market (food, cosmetics and pharma) is expected to grow at 8% plus levels, the company's higher growth will be dependent on increase in penetration/adoption of laminated packaging. In case, EPL is not able to convert a significant portion of the existing market, it will not be able to grow its non-oral revenues in line with our expectations of 15% CAGR till FY17.

Company Description

World's largest manufacturer of laminated tubes

EPL, earlier known as Essel Packaging, was incorporated in 1982 and is a part of the Essel Group. The Essel Group is among India's most prominent business houses with a diverse portfolio of assets in media, packaging, entertainment, technology-enabled services, infrastructure development, education and precious metals.

The company is one of the largest specialty packaging players globally manufacturing laminated plastic tubes, extruded plastic tubes, caps & closures and flexible laminates.

Its products are extensively used in packaging of oral care products, cosmetics, food and pharmaceuticals.

In FY14, EPL delivered over 6bn tubes to over 400 clients globally. The company's clientele includes the world's biggest oral and non-oral care players such as Colgate, Unilever, P&G and GSK.

It has manufacturing operations at 25 facilities in 12 countries across the world. The company's operating units are spread across:

- AMESA (Africa, Middle East & South Asia with operations in Egypt and India).
- Americas (Operations in US, Mexico and Colombia).
- EAP (East Asia Pacific with operations in China, Philippines and Indonesia).
- Europe (Operations in UK, Germany, Poland and Russia).


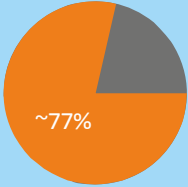

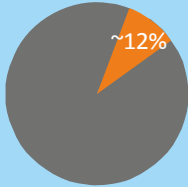

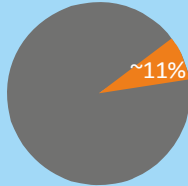
EPL has one-third market share in oral care tubes across the globe.

Fig. 7: Key milestones





















Source: Edelweiss research, Company

Fig. 8: EPL makes 3 types of packaging products – (1) Laminated tubes, (2) Plastic tubes, and (3) Flexible packaging

Product	Overview	% share of revenues
Laminated products 	<ul style="list-style-type: none"> Used for packaging in sectors such as oral care, food, cosmetics, pharma and industrial applications. World oral care laminated tubes constitute ~70% of the total industry's production of laminated tubes. EPL has ~34% market share in laminated tubes globally. 	
Plastic Tubes 	<ul style="list-style-type: none"> Plastic seamless tubes used in the packaging of high-end, low-volume products like cosmetics, skin and hair care. EPL has recently forayed into plastic extruded tubes market with a focus on select markets viz. India, Europe and the USA. 	
Flexible packaging 	<ul style="list-style-type: none"> Entered into the flexible packaging business in CY06 by acquiring Packaging India Private Limited. Categories served include foods, personal & home care products, pharmaceutical segments etc. It has 3 manufacturing plants in India and primarily caters to the local market. 	

Source: Company, Edelweiss research

Fig. 9: Tubes are used for oral and non-oral applications; EPL serves ~400 clients across the world

Category	Sub-category	Description	Key clients
Oral care (75% of EPL's volumes)		<ul style="list-style-type: none"> Oral care category is principal laminated tube user. Major share of laminated tubes manufactured by EPL caters to the oral care industry. EPL is the exclusive supplier to some major oral care brands with ~33% global market share in the category. 	  
	Beauty & Cosmetics	<ul style="list-style-type: none"> Packaging services for sunscreen lotions, lip balms, hair care ointments and other skin care products. Tubes are also customised depending on usage of products. 	  
	Pharmaceuticals	<ul style="list-style-type: none"> Tubes are used to package ointments and lotions. 	  
	Food	<ul style="list-style-type: none"> Custom-made tubes are used extensively in the food and condensed milk segments. Laminated tubes are also used in packaging of food items such as sauces and pastes. 	    
	Home (Industrial)	<ul style="list-style-type: none"> Tubes suitable for diverse home use such as adhesives, paints, crayons and shoe polish. Manufactures tubes with high resistance to oil and grease, aggressive active ingredients. The company's industrial range of tubes is used in speciality grease, lubricants and pesticides. 	   

Source: Company, Edelweiss research

Fig. 10: EPL has 25 manufacturing plants spread across the world with capacity to make 8bn tubes. Of these, 3 plants manufacture plastic tubes



Table 6: Over the years, EPL has continuously relocated plants depending on market conditions. Currently, most facilities are in the high growing AMESA and EAP regions

	CY02	CY08	FY14	Q3FY15
AMESA	8	10	12	12
EAP	5	5	6	7
Americas	4	7	3	3
Europe	1	4	3	3
TOTAL	18	26	24	25

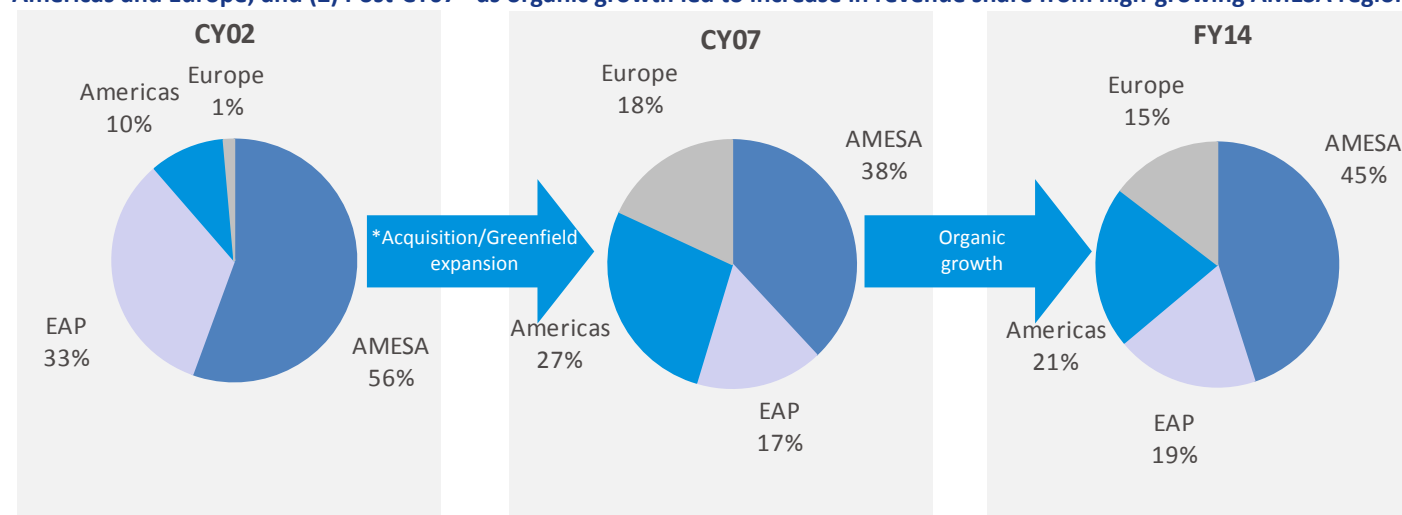
Source: Edelweiss research

Table 7: EPL has broken into 4 geographical regions: (1) AMESA, (2) EAP, (3) Americas and (4) Europe

Geographical region	Description
AMESA (Africa, Middle East & South Asia) (Operations in India and Egypt)	<ul style="list-style-type: none"> Oral care accounted for ~49% of total revenue in India. Market leader in India with ~60% market share in laminated tubes and ~40% market share in plastic tubes. No.1 in laminated tube market in Egypt. Has 9 tube facilities, of which 8 are located in India and 1 in Egypt.
EAP (East Asia Pacific) (Operations in China, Philippines & Indonesia)	<ul style="list-style-type: none"> Oral care accounted for ~89% of total revenues in China in FY14, but focus now is on the non-oral segment. Market leader in the oral care segment in China with ~55% share. Has 4 manufacturing locations in China and a facility in Philippines. It also has an associate in Indonesia.
Americas (Operations in the USA, Mexico and Colombia)	<ul style="list-style-type: none"> Laminated tubes constitute the mainstay in all these markets and extruded plastic tubes are manufactured only in US. Has strong market presence in US, Mexico and Colombia with 30% market share in Americas. Has one plant each in USA, Mexico and Colombia.
Europe (Operations in the UK, Germany, Poland and Russia)	<ul style="list-style-type: none"> The company offers both laminated tubes and plastic extruded tubes in Europe. Focus in Europe is also on the non-oral care category. The Polish unit is the manufacturing hub with facilities in Russia and Germany as well.

Source: Company, Edelweiss research

Chart 15: EPL's evolution has been in 2 parts: (1) Pre-CY07 - when it grew via inorganic route and bolstered revenue share from Americas and Europe; and (2) Post-CY07 - as organic growth led to increase in revenue share from high-growing AMESA region



Source: Company, Edelweiss research

***Acquisitions/green-field expansion**

- Set up green-field laminated tubes unit, US (2002)
- Acquired Arista Tubes, UK (2004)
- Acquired Telcon Packaging, UK (2005)
- Set up co-extruded plastic tubes plant, Poland (2006)
- Acquired Packaging India (2006)

Table 8: Management overview

Name / Designation		
	Dr. Subhash Chandra Goel Non-Executive Chairman	Dr. Subhash Chandra, who promoted EPL in 1982, is the company's Chairman as well as of other Essel Group companies. He has taken the Essel Group from a family-owned business to a global entity in packaging, media, entertainment, satellite communication and online gaming. Dr. Chandra has been recipient of numerous honorary degrees, industry awards and civic honours.
	Mr. Ashok Goel Vice Chairman and Managing Director	Mr. Ashok Goel has been associated with EPL as Director since 1984. A commerce graduate, Mr Goel is an experienced businessman who also oversees management of the Essel Group's 3 leisure properties. Mr. Goel also serves on the Boards of various other companies. He is President and Founder Member of the Indian Association of Amusement Parks & Industries and Vice President of Organisation of Plastic Processors of India.
	Mr. M. R. Ramasamy President	Mr. M. R. Ramasamy is President of Americas & EAP and responsible for the tubes business in these geographies. Prior to his current role, Mr Ramasamy held various positions across divisions within EPL. Mr. Ramasamy has been with EPL for over 20 years and has an engineering degree in chemical & plastics and is an Executive MBA from Lansbridge University, Canada.
	Mr. Mrinal Kanti Banerjee Director, Creativity & Innovation	Mr. M. K. Banerjee, a qualified electrical engineer, has over 29 years of experience. He has been with EPL since past 23 years. Mr. Banerjee started his career as a Production Manager at M/S Guardian Plasticoat, after which he joined EPL in 1985 as Assistant Manager, Customer Service. At EPL, his experience spans across various stages of tube manufacturing and includes blown film, extrusion lamination, slitting, printing, production planning and control.
	Mr. Dileep Joshi Director Human Capital	Mr. Dileep Joshi has been with EPL as Director, Human Capital (Global) since October 2009. He is a post graduate in HRM from Tata Institute of Social Sciences. Mr. Joshi has more than 20 years of experience and has held senior management positions in HR at Essar Group, Piramal Group and ICI India.
	Mr. A. V. Ganapathy Chief Financial Officer	Mr. A. V. Ganapathy has been with EPL as the Chief Financial Officer (CFO) – Global since June 2007. He is a qualified ACA, AICWA and ACS. Prior to joining EPL, Mr. Ganapathy worked with the Unilever Group as Commercial Director of Finance, Supply Chain and IT, and was responsible for handling Sri Lankan operations. He has worked with the Unilever Group for over 20 years across operations in India, Indonesia and Sri Lanka.

Source: Company

Industry Overview

Packaging encompasses wide range of material types across paper, board, plastic, metal, glass, wood and other materials. The largest share of global packaging is accounted for by paper and board packaging. The global packaging industry is currently valued at USD433bn and estimated to grow to USD820bn by 2016. While consumer market dominates industry accounting for ~70% of sales, industrial application accounts for the balance 30%. Of consumer markets, food remains the largest segment, followed by beverage, healthcare and cosmetics.

The sector includes five main types of packaging.

Table 9: Break-up of global packaging market

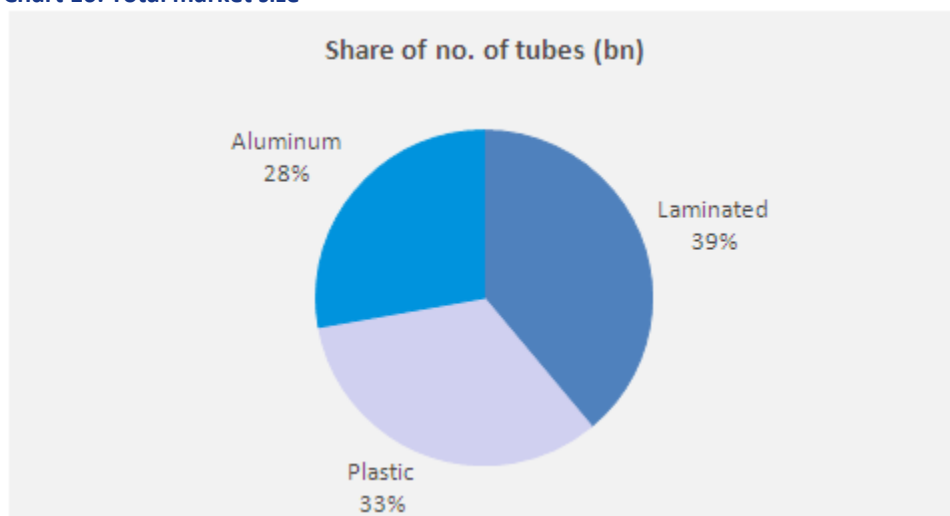
	Examples	Major usage categories	Estimated Size (USDbn)	% share
Categories				
Paper and board	Cartons, boxes, bags, wrappers	Processed foods, detergents	147	34
Rigid plastics	Tubes, cups, bottles, pots, cans and closures	Oral care, cosmetics	117	27
Glass	Bottles, jars, jugs	Soft drinks, alcoholic beverages	48	11
Flexible plastics	bags, film, pouches, tubes,	Hot drinks, beauty, personal care and home care products	43	10
Cans	deodorants, air fresheners	Insect repellents, beer, soft drinks & health drinks	26	6
Other	Containers, pallets, sacks		52	12
			433	100

Source: Indian Institute of Packaging, Edelweiss research

Global tubes market

Tubes are a part of the rigid plastics category and a niche sector in the packaging industry. This sector caters to healthcare, cosmetics, pharmaceutical and industrial products. The market consists of laminated tubes, plastic tubes and aluminum tubes. Plastic and laminated tubes are made of polymer. The total market size globally is 36bn tubes.

Chart 16: Total market size



Source: Company, Edelweiss research

Over the past decade, size of the tube market remained relatively stable at ~35bn tubes. However, there has been a significant shift from aluminum tubes to plastic and laminated tubes.

Plastic tubes

Current size is 12bn tubes. Plastic tubes usage is primarily concentrated in the Americas and Western Europe. Cosmetics and personal care industries form major end-user sectors, followed by the pharmaceutical sector.

Laminated tubes

Current size is 14bn tubes. Laminated tubes are well penetrated globally. Oral care or the toothpaste category is the principal laminated tube user, accounting for 72% of world's production.

The laminated tube space is dominated by EPL, which is a global leader in the category with 33% market share.

Financial Outlook

Improving performance: Turnaround in loss-making units; higher non-oral revenues

EPL's performance has been improving over past 3-4 years, which was apparent in the company's recent quarterly results. Going ahead, improvement in performance will majorly be led by the loss-making subsidiaries turning profitable, which will boost revenues and margins, and also growth in non-oral revenues. We expect revenue to increase at CAGR of 10.3% till FY17E and EBITDA margins should expand by 133bps till FY17E to 18.0%. Overall, despite the goodwill write-off from equity of INR360bn in FY14, RoE's will see significant 782bps improvement (adj. RoE – 483bps) to 21.3% (adj. RoE of 15.9%) in FY17E.

Chart 17: Consolidated revenue to rise at CAGR of 10.1% to INR28.6bn by FY17E (FY11-14: 14.7%)

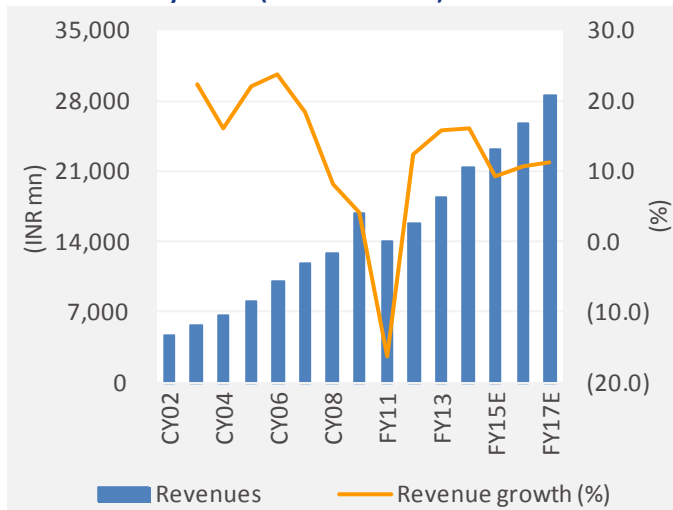
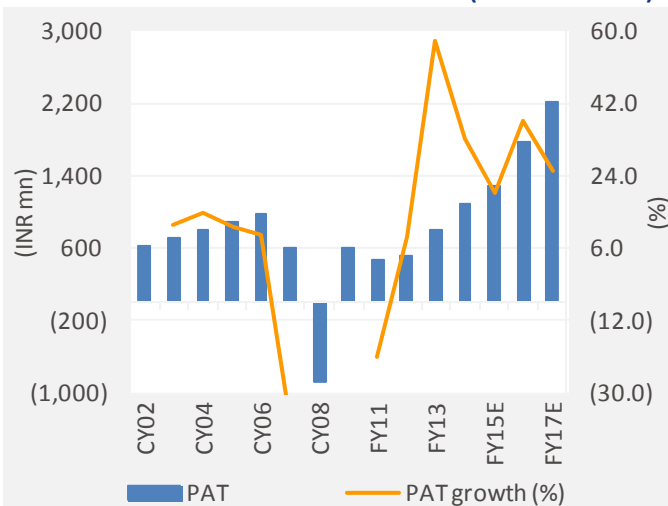
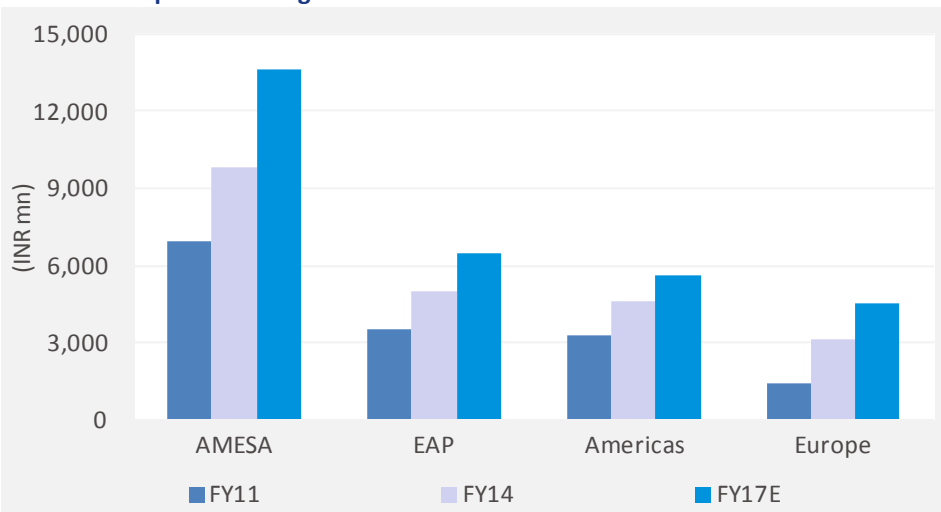


Chart 18: Management targeting PAT CAGR of 20%, we estimate CAGR of 27.0% over FY14-17 (FY11-14: 24.8%)



Source: Company, Edelweiss research

Chart 19: Europe will see highest revenue CAGR at 13.6% over FY14-17E



Source: Company, Edelweiss research

Chart 20: Consolidated EBITDA margin to be stable at ~18%

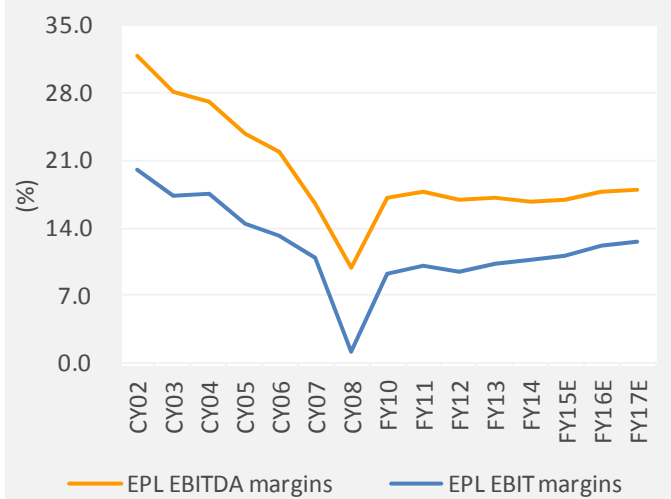


Chart 21: Europe margins to improve, EAP to moderate

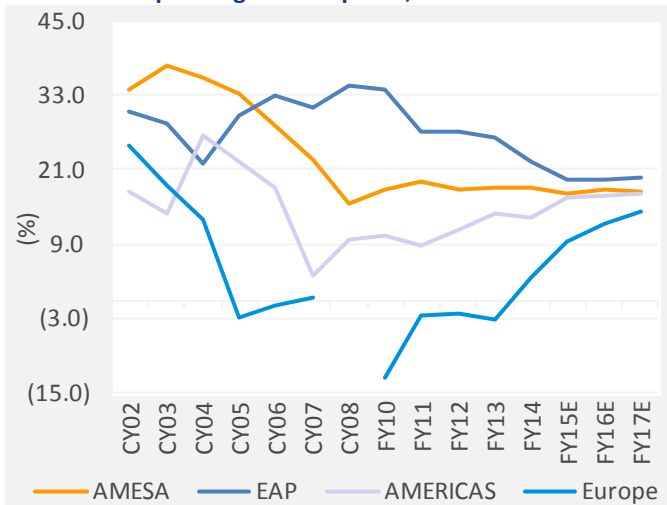


Chart 22: Quarterly margin trend also indicates improvement...

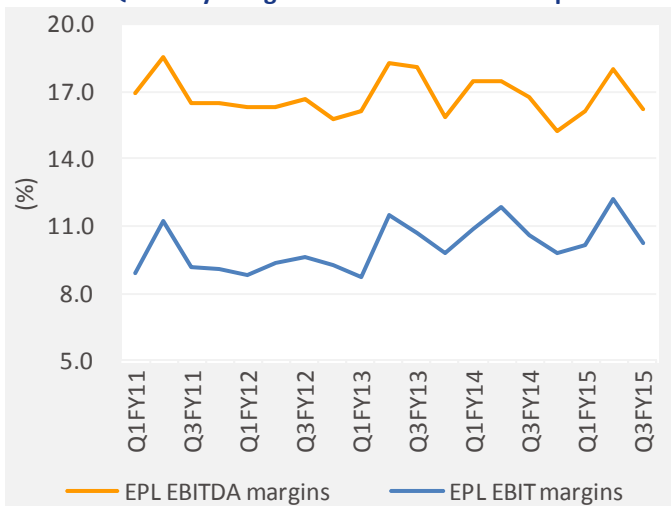


Chart 23: ... with all segments turning profitable

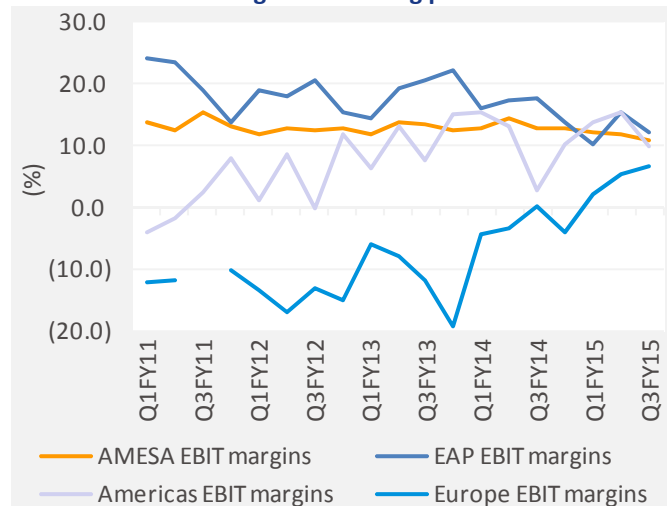
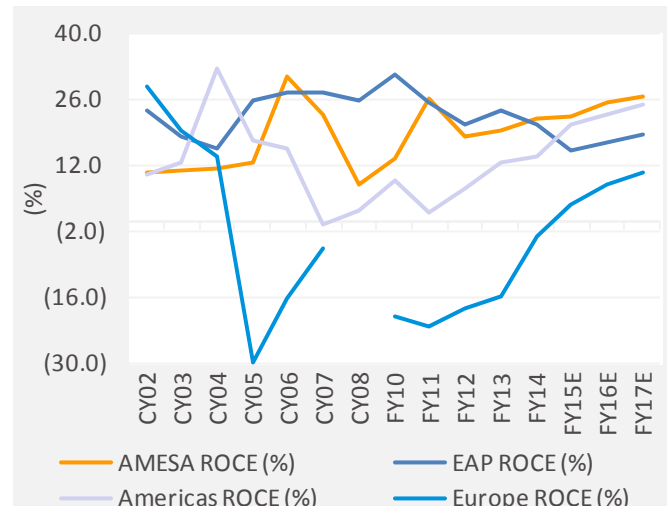
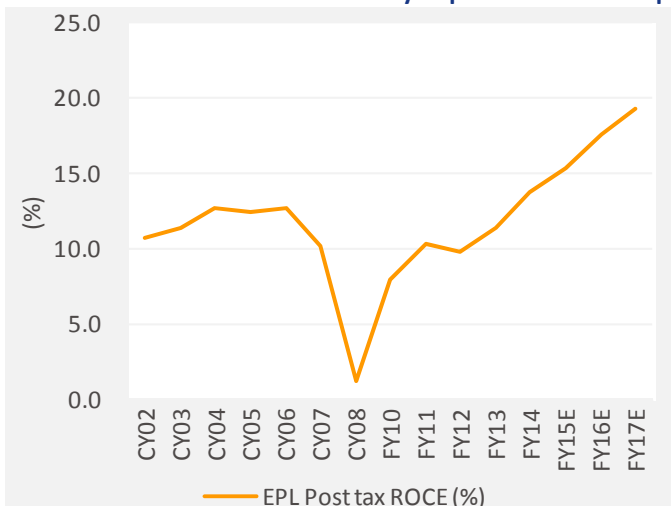


Chart 24: Overall RoCE will rise led by improvement in Europe



Source: Company, Edelweiss research

Chart 25: We see EPL's RoE to rise in excess of 20%, in line with management's target of 20%

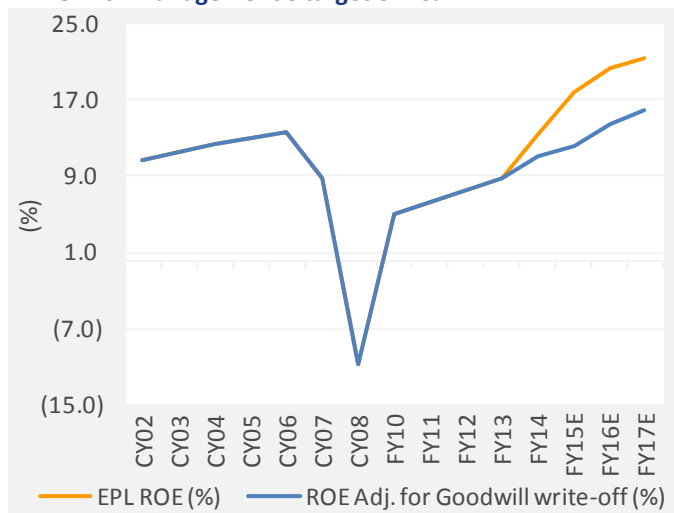
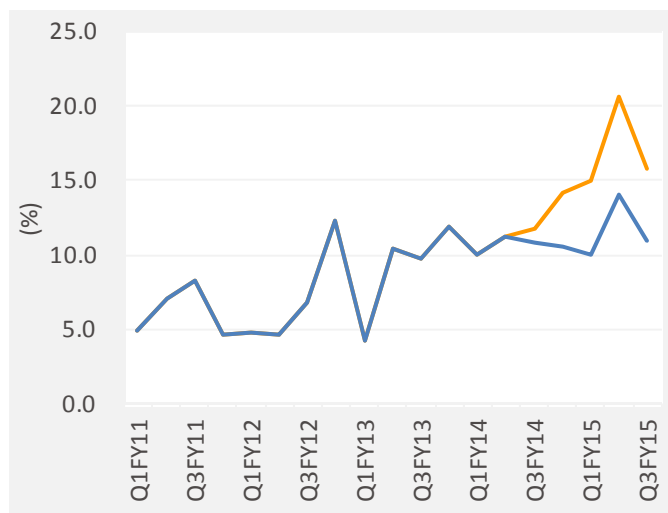


Chart 26: Quarterly RoE also indicates improvement



Source: Company, Edelweiss research

In FY14, EPL wrote off INR3.6bn of goodwill, which reduced its net worth. To offset impact of improvement in RoE, we have also adjusted RoE by reversing the write-off. Despite this, adj. RoE has been expanding led by higher PAT growth. In case goodwill had not been written off, the company's book value per share (BVPS) in FY17E would have been INR95/share instead of INR72/share.

Chart 27: Targeting capex in line with depreciation

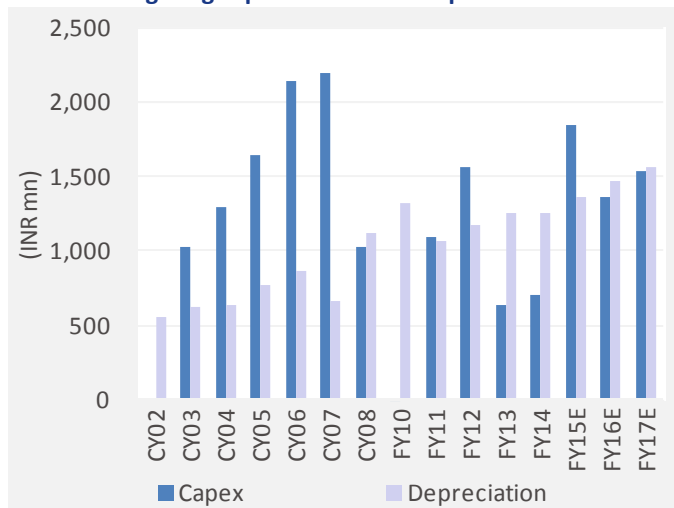
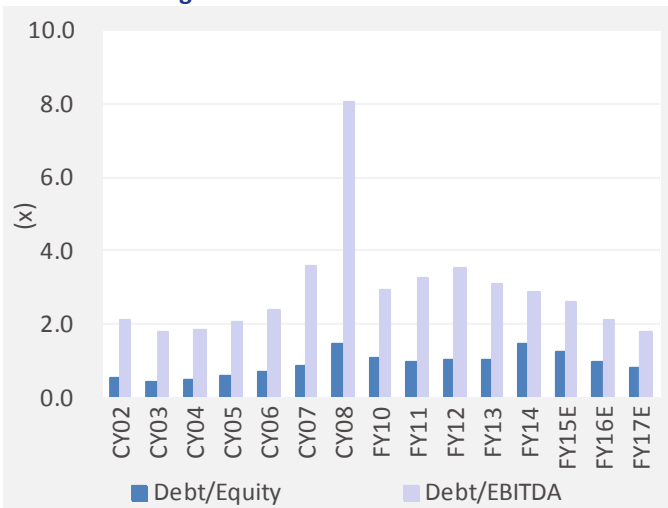


Chart 28: Leverage comfortable



Source: Company, Edelweiss research

ANNEXURE

Fig. 11: Some recent award-winning tubes manufactured by EPL



Best Pharmaceutical (winner in 2013) tube featuring Plastic Barrier Laminate (PBL) custom constructed to maintain the stability and strength of the highest strength of Benzoyl Peroxide used in product. Essel Propack America employed flexographic high-end printing with hot foil to achieve metallic look around brand name and other highlighted areas



Best Pharmaceutical (runners-up in 2013) tube made of an extruded plastic mono PE material that makes consumer recycling easy and lightweight to allow effortless squeezing and dispensing of the product. Essel Propack decorated the tube using a print design that is typically ideal for a labeled tube, but with sophisticated machinery is accomplished in a 6-color offset print



Best Dentifrice (runners-up in 2013). new generation plastic barrier laminate (PBL) with an EVOH barrier to lock in the strawberry flavor.



Best Tube of the year (Winner of Ted Klein Tube of the Year in 2012) - direct-printed laminate tube using six-color flexographic decoration. Essel Propack provided its five-layer Stealth laminate to prevent any migration



Best personal Care Tube of the year (winner in 2012) tube: direct-printed laminate tube using six-color flexographic decoration. Shoulders in a matching masterbatch were extruded onto the matte-lacquered, soft-touch tubes. Caps oriented to the tubes were made by EPL in-house in a slightly pearled resin that matched the tube.



Runners-up for Personal Care Tube of the year (winner in 2012) tube: It is labeled tube. EPL applied a 10-color label to the tube in 370° coverage and extends all the way up to the tube's end, so consumers won't be able to determine a label was used.

Source: Various news items

Financial Statements

Key assumption

Essel Propack	FY14	FY15E	FY16E	FY17E
MACRO ASSUMPTIONS				
GDP(Y-o-Y %)	6.9	7.4	8.0	8.7
Inflation (Avg)	9.5	6.7	5.0	5.0
Repo rate (exit rate)	8.0	7.5	6.8	6.5
USD/INR (Avg)	60.5	61.0	62.0	62.0
SECTOR ASSUMPTIONS				
Crude price (Brent)	108	93	80	81
LLDPE price (USD/mt)	1,488	1,297	1,080	1,250
FINANCIAL ASSUMPTIONS				
Revenue growth - AMESA (%)	11.1	12.0	10.3	12.3
Revenue growth - EAP (%)	18.3	5.1	10.4	11.8
Revenue growth - Americas (%)	7.1	5.4	8.3	7.6
Revenue growth - Europe (%)	28.0	13.6	15.2	12.0
EBIT margins - AMESA (%)	13.2	12.5	13.4	13.2
EBIT margins - EAP (%)	16.2	13.4	13.6	14.0
EBIT margins - Americas (%)	7.0	9.9	10.4	10.6
BALANCE SHEET ASSUMPTIONS				
Capex (INR mn)	1,822	1,845	1,363	1,535
Inventory (days)	62	65	66	65
Receivables (days)	57	61	62	62

Income statement

(INR mn)

Year to March	FY14	FY15E	FY16E	FY17E
Net Revenues	21,266	23,215	25,684	28,570
Raw Material Costs	10,395	11,132	12,011	13,283
Gross Profit	10,871	12,083	13,673	15,287
Employee Expenses	3,360	3,865	4,406	4,978
Other Expenses	3,969	4,295	4,700	5,171
EBITDA	3,541	3,924	4,567	5,138
Depreciation & Amortisation	1,258	1,365	1,466	1,569
EBIT	2,284	2,559	3,101	3,568
Less: Interest Expense	814	805	779	737
Add: Other income	224	176	203	271
Add: Exceptional items	(8)	(50)	0	0
Profit Before Tax	1,686	1,879	2,526	3,103
Less: Provision for Tax	569	545	707	838
Less: Minority Interest	39	45	45	44
Reported Profit	1,078	1,289	1,773	2,221
Less: Exceptional Items (Net of Tax)	(5)	(36)	0	0
Adjusted Profit	1,083	1,325	1,773	2,221
Equity Shares Outstand. (mn)	157	157	157	157
Adjusted Basic EPS (INR)	6.9	8.4	11.3	14.1
No. of Diluted shares outstanding (mn)	157.1	157.1	157.1	157.1
Adjusted Diluted EPS (INR)	6.9	8.4	11.3	14.1
Adjusted Cash EPS (INR)	15.5	17.7	21.3	24.7
Dividend per share (DPS)	1.3	1.7	2.1	2.5
Dividend Payout Ratio (%)	21.3	20.1	19.0	17.4

Common size metrics (% net revenues)

Year to March	FY14	FY15E	FY16E	FY17E
Operating expenses	83.3	83.1	82.2	82.0
Materials costs	48.9	48.0	46.8	46.5
Staff costs	15.8	16.6	17.2	17.4
S G & A expenses	18.7	18.5	18.3	18.1
Depreciation	5.9	5.9	5.7	5.5
Interest Expense	3.8	3.5	3.0	2.6
EBITDA Margins	16.7	16.9	17.8	18.0
Net Profit Margin	5.3	5.9	7.1	7.9

Growth metrics (%)

Year to March	FY14	FY15E	FY16E	FY17E
Revenues	16.1	9.2	10.6	11.2
EBITDA	13.1	10.8	16.4	12.5
PBT	33.8	11.4	34.4	22.8
Adjusted Profit	39.1	22.3	33.8	25.2
EPS	39.1	22.3	33.8	25.2

Balance sheet		(INR mn)			
Year to March	FY14	FY15E	FY16E	FY17E	
Share Capital	314	314	314	314	
Reserves & Surplus	6,744	7,774	9,211	11,045	
Shareholders' Funds	7,059	8,088	9,526	11,359	
Minority Interest	76	120	165	209	
Long Term Borrowings	6,449	6,000	5,500	5,000	
Short Term Borrowings	3,795	4,148	4,072	4,074	
Total Borrowings	10,244	10,148	9,572	9,074	
Long Term Liabilities & Provisions	115	114	114	114	
Deferred Tax Liability (net)	44	129	230	323	
Sources of funds	17,537	18,599	19,607	21,080	
Gross Block	24,043	25,888	27,251	28,786	
Net Block	8,804	9,284	9,181	9,147	
Capital work in progress	331	331	331	331	
Intangible Assets	203	203	203	203	
Total Fixed Assets	9,337	9,817	9,714	9,680	
Non Current Investments	454	470	480	490	
Cash and Cash Equivalents	1,416	1,436	2,366	3,720	
Inventories	2,249	2,531	2,731	3,021	
Sundry Debtors	3,675	4,134	4,574	5,088	
Loans & Advances	2,758	2,750	2,750	2,750	
Other Current Assets	1,035	1,172	1,297	1,443	
Total Current assets (ex-cash)	9,717	10,588	11,352	12,301	
Trade Payable	1,830	1,830	1,974	2,184	
Other Current Liabilities and Provisions	1,557	1,881	2,331	2,928	
Total Current Liabilities and Provisions	3,387	3,711	4,305	5,112	
Net Current Assets (ex-cash)	6,330	6,877	7,047	7,189	
Uses of Funds	17,537	18,599	19,607	21,080	
Book value per share	45	51	61	72	

Free cash flow					
Year to March	FY14	FY15E	FY16E	FY17E	
Reported Profit	1,078	1,289	1,773	2,221	
Add: Depreciation	1,258	1,365	1,466	1,569	
Interest (Net of Tax)	539	572	561	538	
Others	(954)	(360)	(9)	(78)	
Operating cash flow	1,921	2,866	3,791	4,250	
Less: Changes In WC	912	547	170	143	
Less: Capex	1,822	1,845	1,363	1,535	
Free Cash Flow	(812)	474	2,258	2,572	

Peer comparison valuation

Name	Market cap	Diluted PE (X)		EV/EBITDA (X)		ROAE (%)	
	(USD mn)	CY15E/FY16E	CY16E/FY17E	CY15E/FY16E	CY16E/FY17E	CY15E/FY16E	CY16E/FY17E
Essel Propack	293	10.4	8.3	5.6	4.7	20.3	21.3
Bemis	4,568	17.8	17.1	9.7	9.4	17.6	17.6
Silgan Holdings	3,636	18.2	17	9.4	9	27.9	26.6
AptarGroup	3,979	21.8	20.2	9.8	9.3	14.6	17.2
Median (Ex Essel Propack)	-	18.2	17.1	9.7	9.3	17.6	17.6
AVERAGE (Ex Essel Propack)	-	19.3	18.1	9.6	9.2	20.1	20.4

Source: Edelweiss research

Cash flow metrics					
Year to March	FY14	FY15E	FY16E	FY17E	
Operating Cash Flow	1,921	2,866	3,791	4,250	
Financing Cash Flow	(329)	(1,161)	(1,691)	(1,622)	
Investing Cash Flow	(1,789)	(1,685)	(1,170)	(1,274)	
Net Cash Flow	(197)	20	931	1,354	
Capex	(1,822)	(1,845)	(1,363)	(1,535)	
Dividends Paid	(193)	(259)	(336)	(387)	

Profitability ratios (%)

Year to March	FY14	FY15E	FY16E	FY17E
ROE (%)	13.5	17.9	20.3	21.3
Pre-tax ROCE (%)	13.7	15.3	17.6	19.2
Inventory Days	62	65	66	65
Debtors Days	57	61	62	62
Payable Days	52	60	58	57
Cash Conversion Cycle	67	66	70	70
Current Ratio	3.3	3.2	3.2	3.1
Gross Debt/EBITDA	2.9	2.6	2.1	1.8
Gross Debt/Equity	1.4	1.2	1.0	0.8
Adjusted Debt/Equity	1.5	1.3	1.0	0.8
Net Debt/Equity	1.2	1.1	0.7	0.5
Interest Coverage Ratio	2.8	3.2	4.0	4.8

Operating ratios (x)

Year to March	FY14	FY15E	FY16E	FY17E
Total Asset Turnover	1.2	1.3	1.3	1.4
Fixed Asset Turnover	2.1	2.5	2.7	3.1
Equity Turnover	2.6	3.0	2.9	2.7

Valuation parameters

Year to March	FY14	FY15E	FY16E	FY17E
Diluted EPS (INR)	6.9	8.4	11.3	14.1
Y-o-Y Growth (%)	39.1	22.3	33.8	25.2
CEPS (INR)	15.5	17.7	21.3	24.7
Diluted P/E (x)	17.0	13.9	10.4	8.3
P/BV (x)	2.6	2.3	1.9	1.6
EV/Sales (x)	1.3	1.2	1.0	0.8
EV/EBITDA (x)	7.7	6.9	5.6	4.7
Dividend Yield(%)	1.1	1.4	1.8	2.1

Additional Data

Directors Data

Dr. Subhash Chandra	Non- Executive Chairman	Mr. Boman Moradian	Independent Director
Mr. Ashok Goel	Vice Chairman & MD	Mr. Mukund Chitale	Independent Director
Mr. Atul Goel	Director	Ms. Radhika Pereira	Independent Director
Mr. Tapan Mitra	Independent Director		

Auditors - MGB & Co LLP

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Whitehills Advisory Serv	55.11	Sudarshan Securities Pvt Ltd	1.51
Warburg Invest Luxembourg SA	4.30	UTI Asset Management Co Ltd	1.35
Clareville Cap Opp Mstr Fd	3.05	Veena Investments Pvt Ltd	1.20
Gagandeep Credit Capital	2.21	Zee Entertainment Enterprises Lt	1.16
DSP Blackrock Investment Manager	1.55	General Insurance Corp of India	1.08

** as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
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**in last one year*

Insider Trades

Reporting Date	Acquired / Seller	B/S	Qty Traded
17-Feb-14	Rupee Finance And Management Private Ltd	Buy	54349450
17-Feb-14	Ganjam Trading Company Private Limited	Sell	54349450
7-Apr-14	Ganjam Trading Company Private Limited	Buy	1798783
6-May-14	Whitehills Advisory Services Pvt. Ltd.	Buy	82779060
6-May-14	Rupee Finance Limited	Sell	82779060
8-May-14	Rupee Finance and Management Private Ltd	Buy	3798783
16-May-14	Whitehills Advisory Services Pvt Ltd	Buy	3798783
16-May-14	Rupee Finance and Management Pvt Ltd	Sell	3798783
13-Jun-14	Ganjam Trading Company Private Limited	Buy	1640000

**in last one year*

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400, Email: research@edelweissfin.com

Nischal Maheshwari
Head Research
nischal.maheshwari@edelweissfin.com

Coverage group(s) of stocks by primary analyst(s): *Miscellaneous*

Aarti Industries, Essel Propack

Recent Research

Date	Company	Title	Price (INR)	Recos
10-Feb-15	Aarti Industries	Volume growth to boost earnings; <i>Result Update</i>	284	Buy
10-Nov-14	Aarti Industries	Margins improve; <i>Result Update</i>	298	Buy
12-Aug-14	Aarti Industries	Good performance despite shutdowns; <i>Result Update</i>	260	Buy

Distribution of Ratings / Market Cap

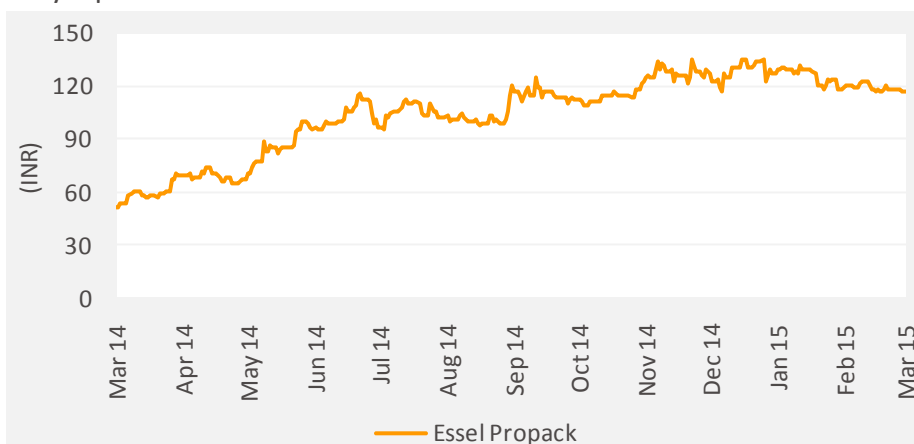
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	150	46	10	207
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	143	58	6	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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