

Retail Research	IPO Note
Sector: EMS	Price Band (Rs): 218-230
18th January 2023	Recommendation: AVOID

EPACK Durable Limited

Company Overview:

EPACK Durable Limited is India's second largest room air conditioner original design manufacturer (ODM) in terms of number of units (indoor units + outdoor units) manufactured in FY23 through the ODM route. Since 2003, the company evolved from a RAC brand OEM to an ODM partner, focusing on product development and innovation. The company also started manufacturing of various value addition used in RAC such as sheet metal, injection moulding, cross flow fans and PCBA components. The company expanded its operations in the small domestic appliances market by manufacturing induction cooktops, mixer-grinders, and water dispensers alongside RACs.

Key Highlights:

1. Product portfolio:

a) Room air conditioners: The company designs and manufactures window air conditioners, indoor units and outdoor units. They also manufacture split air conditioners with specifications ranging from 0.75 ton to 2 ton across a range of energy ratings and types of refrigerants including split inverter air conditioners.

b) Small domestic appliances: The company currently designs and manufactures induction cooktops, mixer-grinders and water dispensers.

c) Components: The company manufacture heat exchangers, cross flow fans, axial fans, sheet metal press parts, injection moulded components, copper fabricated products, PCBAs, universal motors and induction coils for captive consumption as well as part of the product offerings to the customers.

2. Manufacturing Facility: The company has achieved the highest level of backward integration for RACs in India, all within a single location and grown organically. Its manufacturing facilities in Dehradun, Uttarakhand and Bhiwadi, Rajasthan which can annually produce 0.9 mn IDUs, 0.7 mn ODUs, 0.4 mn ODU Kits and 0.4 mn WACs. Additionally, the company can manufacture 0.1 mn water dispensers, 1.2 mn induction cooktops and 0.30 mn mixer grinders along with their components. Sri City Manufacturing Facility has an annual manufacturing capacity of 0.7 mn IDUs and 0.7 mn ODUs and can produce 0.7 mn induction cooktops along with their components.

3. Long-standing relationships with established customers: The company has established long-standing relationships with many Indian and global customers. RAC products are used by Blue Star, Daikin Airconditioning, Carrier Midea, Voltas, Havells, Haier Appliances, Infiniti Retail and Godrej and Boyce. On average, the company has worked with them for 8.7 years. SDA products are used by Bajaj Electricals, BSH Household Appliances and Usha International with an average relationship length of 6.3 years. The company's growth and market share is due to the strong client relationships which will continue to leverage for future growth.

Valuation: The company is valued at FY23 PE and EV/EBITDA multiple of 65.7x and 25.6x respectively, at the upper price band on post-issue capital. EPACK is expanding and setting up new manufacturing facilities in Bhiwadi, Rajasthan and Sri City, Andhra Pradesh which will further augment the capacity. The company is likely to grow on back of strong growth in Indian RAC Market which is expected to grow at a CAGR of 15.7% during FY23-FY28 period. However, looking at the steep valuation at which business is offered to investors, it is advisable to AVOID the issue.

Issue Details	
Date of Opening	19 January 2024
Date of Closing	23 January 2024
Price Band (Rs)	218 - 230
OFS	1,04,37,047 equity shares
Fresh Issue (Rs cr)	400
Issue Size (Rs cr)	627 - 640
No. of shares	2,87,85,671 – 2,78,28,351
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	2,109 – 2,203
BRLMs	Axis Capital Ltd, DAM Capital Advisors Ltd, ICICI Securities Ltd.
Registrar	KFIN Technologies Limited
Bid Lot	65 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%

Objects of Issue	
	Estimated utilization from net proceeds (Rs cr)
Funding capital expenditure requirements for setting up of a manufacturing facility in Bhiwadi, Rajasthan	110.6
Funding capital expenditure requirements for setting up of a manufacturing facility in Sri City, Andhra Pradesh	105.3
Purchase of equipment for the Bhiwadi Manufacturing Facility	14.1
Repayment and / or prepayment, in part or in full, of certain outstanding loans of our Company	80.0
General corporate purposes [^]	-
Total proceeds from fresh issue [^]	400.0

[^]The amount utilized for general corporate purposes shall not exceed 25% of the Gross Proceeds.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	5,12,48,484	65.4
Public & Others	2,71,58,903	34.6
Total	7,84,07,387	100.0

Post Issue @Lower Price Band		
Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	4,60,73,123	47.6
Public & Others	5,06,82,888	52.4
Total	9,67,56,011	100.0

Post Issue @Upper Price Band		
Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	4,60,73,123	48.1
Public & Others	4,97,25,568	51.9
Total	9,57,98,691	100.0

Source: RHP, SSL Research

Key Financials

	FY21	FY22	FY23	1HFY24
Revenue from operation (Rs cr)	736	924	1,539	615
EBITDA (Rs cr)	42	69	103	37
Adj. PAT (Rs cr)	8	17	34	3
EBITDA Margin (%)	5.7	7.4	6.7	6.0*
Adj. PAT Margin (%)	1.1	1.9	2.2	0.4*
Adj. EPS (As per Cap. Structure)	1.0	2.2	4.3	0.3*
Adj. EPS (On Fully Dilutive Basis)	1.0	2.1	4.1	0.3*
ROE (%)	11.3	14.3	10.7	0.6*
ROCE (%)	11.9	11.0	9.7	2.6*
Total Debt / Equity	3.5	3.2	1.6	0.8*

* Not Annualized

Source: RHP, SSL Research

Risk Factors

- **Customer concentration risk:** A significant portion of the revenue is generated from certain key customers (Top 5 customer contributed 80% of the revenue as of 1HFY24) and the loss of one or more such customers could adversely affect the business, results of operations, financial condition and cash flows.
- **Long term contract:** The customers do not make long-term commitments and may cancel or change their sourcing requirements. Such cancellations or changes may adversely affect the financial condition, cash flows and results of operations.
- **Manufacturing risk:** The company's business is dependent on the three manufacturing facilities and are subject to certain risks in the manufacturing process. Any slowdown or shutdown in the manufacturing operations could have an adverse effect on the business, financial condition and results of operations.
- **New product:** If the company is unable to introduce new products and respond to changing customer requirements, including due to changing customer preferences and regulatory requirements in a timely and effective manner, the demand for the products may decline which may have an adverse effect on the business, results of operations and financial condition.

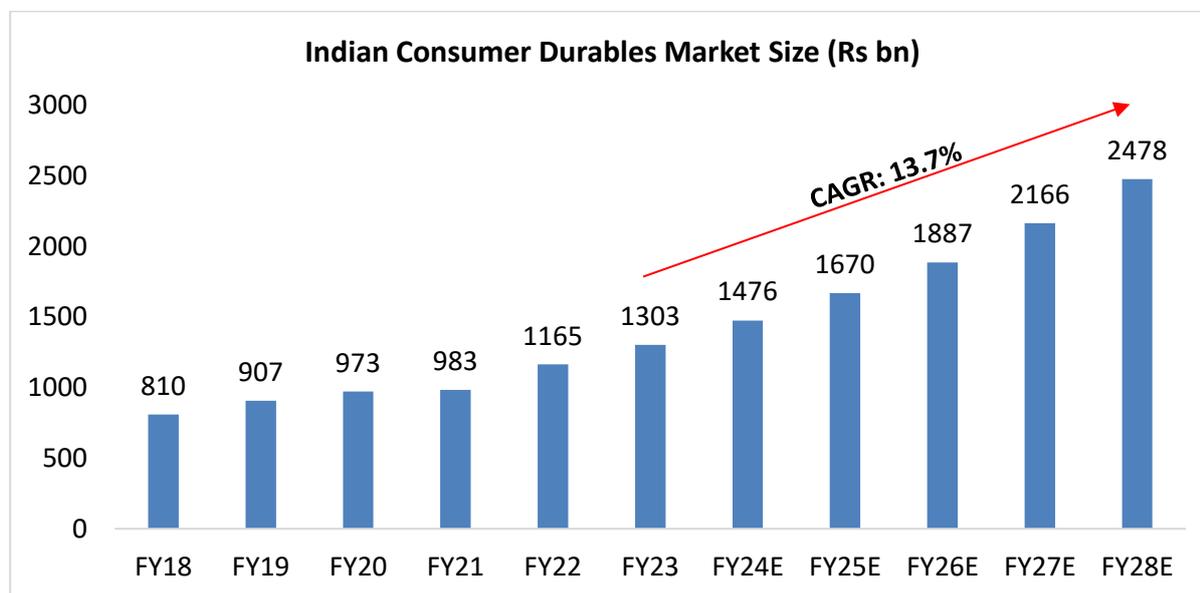
Growth Strategy

- **Expand product portfolio:** Expanding existing product portfolio including RAC and SDA components product portfolio.
- **Improvement in operating efficiency:** Continue to drive operational efficiencies through expansion of the integrated manufacturing capabilities and continued investment in the R&D infrastructure.
- **Increase in wallet share:** Increase wallet share with existing customers and continue to focus on expanding the customer base.
- **Strengthen the supply chain:** Further explore initiatives to strengthen control over the supply chain.

Industry Overview

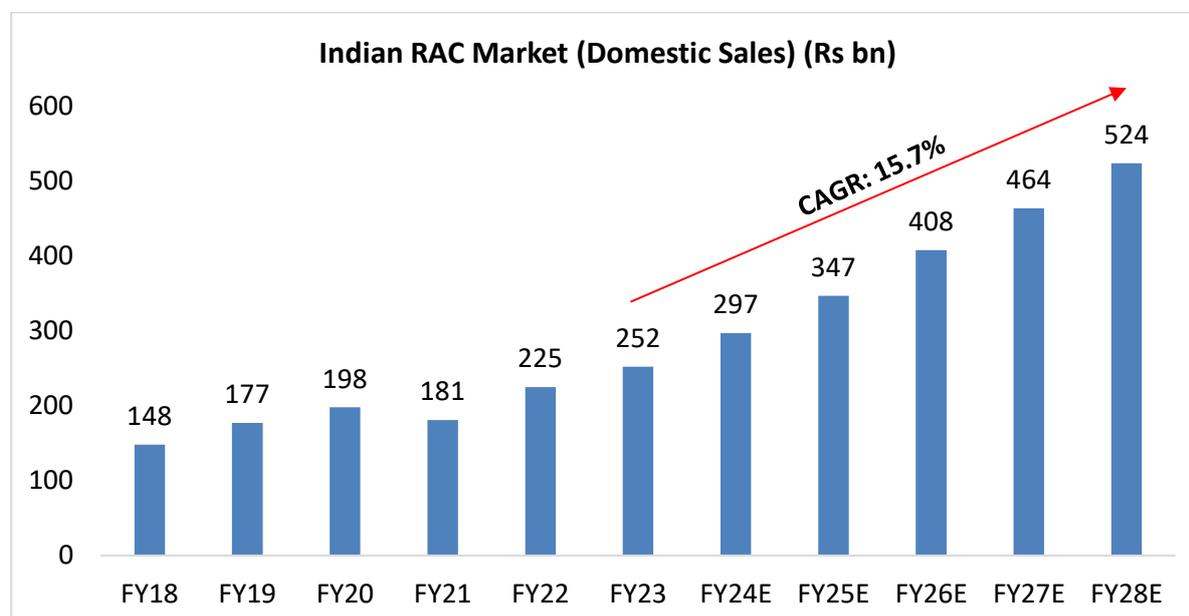
Indian Consumer Durables Market

Over the past five years, the consumer durables market in India has experienced significant growth. The market is anticipated to experience growth acceleration fuelled by rising rural consumption, a shorter replacement cycle, increased retail penetration and the availability of numerous brands and products at various price points. A developing Indian economy, greater consumer spending power and improved access to high-quality items at reasonable prices have transformed India's consumer durables market. The overall market size of consumer durables market for FY23 is estimated at Rs 1,303 bn, and the market is expected to grow at a 13.7% CAGR until FY28 to Rs 2,478 bn. India's RAC market is likely to grow at 15.7% CAGR during FY23-FY28E period to Rs 524 bn.



Source: RHP, SSL Research

Indian RAC Market – Domestic sales



Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY21	FY22	FY23
Revenue from Operations	736	924	1,539
YoY growth (%)	-	25.5	66.5
Cost Of Revenues (incl Stock Adj)	649	794	1,324
Gross Profit	87	130	215
Gross margins (%)	11.8	14.0	14.0
Employee Cost	17	23	33
Other Operating Expenses	28	38	79
EBITDA	42	69	103
EBITDA margins (%)	5.7	7.4	6.7
Other Income	3	3	1
Net Interest Exp.	26	29	31
Depreciation	9	16	26
Exceptional Items	0	0	-2
PBT	11	26	45
Tax	3	9	12
Adj PAT	8	17	34
Adj. PAT margin (%)	1.1	1.9	2.2
Adj. EPS (As per Cap. Structure)	1.0	2.2	4.3

BALANCE SHEET			
(Rs cr)	FY21	FY22	FY23
Assets			
Net Block	81	238	324
Capital WIP	0	8	92
Intangible Assets under development	35	88	95
Other Non current Assets	3	15	83
Current Assets			
Inventories	140	277	294
Trade receivables	234	356	479
Cash and Bank Balances	12	59	75
Other Current Assets	15	34	22
Total Current Assets	401	727	871
Current Liabilities & Provisions			
Trade payables	152	334	389
Other current liabilities	28	190	219
Short-term provisions	7	7	7
Total Current Liabilities	187	531	615
Net Current Assets	215	196	255
Total Assets	334	546	849
Liabilities			
Share Capital	48	52	71
Reserves and Surplus	21	70	243
Total Shareholders Funds	69	122	314
Total Debt	239	384	492
Long Term Provisions	1	2	3
Other Long Term Liabilities	18	26	26
Net Deferred Tax Liability	7	12	14
Total Liabilities	334	546	849

Rs cr	FY21	FY22	FY23
Cash flow from Operating Activities	47	-29	19
Cash flow from Investing Activities	-7	-204	-218
Cash flow from Financing Activities	-43	254	235
Free Cash Flow	42	-171	-206

RATIOS			
	FY21	FY22	FY23
Profitability			
Return on Assets (%)	1.5	1.6	2.3
Return on Capital (%)	11.9	11.0	9.7
Return on Equity (%)	11.3	14.3	10.7
Margin Analysis			
Gross Margin (%)	11.8	14.0	14.0
EBITDA Margin (%)	5.7	7.4	6.7
Net Income Margin (%)	1.1	1.9	2.2
Short-Term Liquidity			
Current Ratio (x)	1.1	0.9	0.9
Quick Ratio (x)	0.7	0.5	0.6
Avg. Days Sales Outstanding	116	141	114
Avg. Days Inventory Outstanding	70	110	70
Avg. Days Payables	75	132	92
Fixed asset turnover (x)	9.1	3.9	4.8
Debt-service coverage (x)	0.2	0.2	0.2
Long-Term Solvency			
Total Debt / Equity (x)	3.5	3.2	1.6
Interest Coverage Ratio (x)	1.4	1.9	2.5
Valuation Ratios			
EV/EBITDA (x)	48.3	30.9	21.7
P/E (x)	231.1	103.4	53.8
P/B (x)	26.2	14.8	5.8

Source: RHP, SSL Research

Peer Comparison

	EPACK Durable Ltd.	Amber Enterprises India Ltd.	PG Electropast Ltd.	Dixon Technologies (India) Ltd.	Elin Electronics Ltd.
CMP	230.0	3,716.5	2,109.6	6,369.1	161.7
Sales (Rs cr)	1,538.8	6,927.0	2,160.0	12,192.0	1,075.0
EBITDA (Rs cr)	102.5	422.0	177.0	519.0	65.0
Net Profit (Rs cr)	33.5	164.0	77.0	255.0	27.0
M.Cap (Rs Cr)	2,203.4	12,522.3	5,490.2	38,096.0	803.0
Enterprise Value (Rs cr)	2,620.4	13,670.3	5,420.2	38,210.0	731.0
EBITDA Margin (%)	6.7	6.1	8.2	4.3	6.0
Net Margin (%)	2.2	2.4	3.6	2.1	2.5
PE(x)	65.7	76.4	71.3	149.4	29.7
EV/EBITDA	25.6	32.4	30.6	73.6	11.2
RoE (%)	10.7	8.8	22.0	22.5	6.7
RoCE (%)	9.7	10.7	17.3	24.2	9.9

The data is based on FY23 financial data.

For EPAC Durable Limited the Market cap, PE(x), and EV/EBITDA (x) are calculated on post-issue equity share capital based on the upper price band.

CMP as on 17th January 2024.

Source: RHP, SSL Research

SBICAP Securities Limited

(CIN): U65999MH2005PLC155485 | Research Analyst Registration No INH000000602

SEBI Registration No.: Stock Broker: INZ000200032 | CDSL: IN-DP-314-2017 | NSDL: IN-DP-NSDL-369-2014 | Research Analyst: INH000000602

Portfolio Manager: INP000004912 | IRDA/RW/IR2/2015/081 | IRDA/RW/IR1/2016/041 | IRDA: CA0103

Registered & Corporate Office: Marathon Futurex, A Wing, 12th Floor, N. M. Joshi Marg, Lower Parel, Mumbai-400013.

For any information contact us:

022-6854 5555**E-mail: helpdesk@sbicapsec.com | Web: www.sbisecurities.in****DISCLOSURES & DISCLAIMERS:**

Analyst Certification: The views expressed in this research report ("Report") accurately reflect the personal views of the research analysts ("Analysts") employed by SBICAP Securities Limited (SSL) about any and all of the subject issuer(s) or company(ies) or securities. This report has been prepared based upon information available to the public and sources, believed to be reliable. I/We also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

The Analysts engaged in preparation of this Report or his/her relative:-

- (a) do not have any financial interests in the subject company mentioned in this Report; (b) do not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) do not have any material conflict of interest at the time of publication of the Report.

The Analysts engaged in preparation of this Report:-

(a) have not received any compensation from the subject company in the past twelve months; (b) have not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) have not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the Report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

Name	Qualification	Designation
Sudeep Shah	MMS-Finance	DVP- Technical & Derivative Research
Sunny Agrawal	B.E, MBA (Finance)	DVP - Fundamental Research
Rajesh Gupta	PGDBM (Finance), MA (Bus. Eco)	AVP - Fundamental Research
Monica Chauhan	C.A.	Research Analyst - Equity Fundamentals
Harsh Vasa	CA	Research Analyst - Equity Fundamentals
Sumeet Shah	B.E., CFA	Research Analyst - Equity Fundamentals
Sweta Padhi	MBA (Finance)	Research Analyst - Equity Fundamentals
Uday Chandgothia	B-Tech, MBA (Finance)	Research Associate - Equity Fundamentals
Gautam Updhyaya	MBA (Finance)	Research Analyst - Equity Derivatives
Vinayak Gangule	BE (IT)	Research Analyst - Equity Technicals
Pratik Patni	BSc (Biotech Entire)	Research Analyst- Equity Derivatives
Ghanshyam Gupta	MBA (Finance)	Research Analyst- Currency Derivative
Sagar Peswani	B.Tech (ECE)	Research Associate - Equity Technicals
Kalpesh Mangade	B.Com	MIS Analyst - Retail Research

For other Disclosures please visit: https://bit.ly/R_disclaimer02