SYSTEMATIX INSTITUTIONAL EQUITIES™

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Institutional Equities

EPL Limited

30 June 2024

Ready to ride the sustainability wave

PLANT VISIT UPDATE

Sector: Packaging	**Rating: BUY**
CMP: Rs 198	**Target Price: Rs 264**

Stock Info

Sensex/Nifty	79,033 /24,011
Bloomberg	EPLL IN
Equity shares (mn)	318
52-wk High/Low	Rs 236/169
Face value	Rs 2
M-Cap	Rs 63bn/ USD 0.7bn
3-m Avg volume	USD 2mn

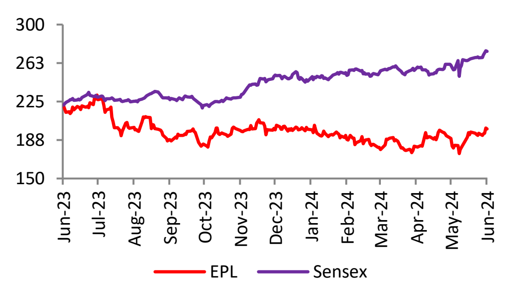
Financial Snapshot (Rs mn)

Y/E Mar	FY24	FY25E	FY26E
Net sales	39,161	43,946	49,034
EBITDA	7,076	8,789	9,807
PAT	2,101	3,636	4,210
EPS (Rs)	6.6	11.4	13.2
PE (x)	23.0	17.4	15.0
P/B (x)	3.0	2.8	2.6
EV/EBITDA (x)	9.4	7.6	6.7
RoE (%)	10	17	18
RoCE (%)	13	17	18
D/E (x)	0.4	0.4	0.3
OPM (%)	18.1	20.0	20.0
Dividend yield (%)	2.0	3.4	4.0
Dividend payout (%)	60	60	60

Shareholding Pattern (%)

	Mar'24	Dec'23	Sep'23
Promoter	51.5	51.5	51.5
–Pledged			
FII	10.9	9.9	10.4
DII	13.4	14.5	15.5
Others	24.2	24.1	22.5

Stock Performance (1-year)



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EPL Limited (EPLL IN) management reiterated its vision of becoming the "most sustainable packaging company in the world" at its recent plant visit. It leads the conversion of sustainable tube supplies, having sold 25-30mn PCR (post-consumer recycled material) tubes last year. Management expects 75-80% of the industry to move to PCR tubes over the next 1-2 years, except in pharma, where regulations are stringent. EPLL surpassed its target of doubling sustainable tubes volumes in FY24 (up 21% YoY) and expects to triple volumes in the next 3 years. EPLL's strategy is to accelerate the conversion process and gain wallet share. Its long-term focus is to deliver profitable growth through a 4-point strategy (i) accelerate growth in beauty & cosmetics and pharma, (ii) Build wallet share in all key markets, (iii) lead sustainability and inspire customers to turn sustainable, and (iv) drive multi-year projects to harness 'fuel for growth'. For FY25, management expects to achieve healthy volume growth and improve margins across geographies. Management reiterated its double-digit revenue growth guidance and is confident of clocking 20% EBITDA margin in FY25. Reiterating BUY with a target price of Rs 264 (unchanged), based on 20x FY26E P/E (unchanged). Key risks: Global recession could keep demand subdued, spike in commodity prices.

Targeting 1.4x revenue growth and 1.7x EBITDA growth over FY24-27E

Management expects to scale up revenue by 1.4x over FY24-27E by (i) aggressively targeting the personal care category segment by onboarding new customers and increasing the wallet share from existing customers. Personal care category is also growing faster than the oral care category, (ii) scaling up Brazil operations, (iii) launching innovative products such as Neo Seam, Applicators, and high-quality printing solutions, and (iv) launching a solid portfolio of sustainable tubes to meet the sustainability targets of its customers. The company envisages to meet 1.7x EBITDA growth over FY24-27 by (i) increasing the contribution of non-oral category, (ii) passing on inflation in non-commodity raw material prices, (iii) increasing insourcing of laminates, caps etc., and (iv) increasing automation and realigning the manufacturing process.

EPLL - Largest player in the 42bn global tubes market holding 20% market share

The global tubes market is pegged at 42bn in 2023 as per the management. Of this, EPLL is the largest tube manufacturer commanding 20% market share, producing ~8+bn tubes annually. The company enjoys a) 10% share in the global beauty, cosmetics and pharma market of 22bn tubes, b) 35% share in the oral care category, which is a 17bn tubes market globally, and c) 8% market share of the global food, home and industrial category, which is a 3bn tubes market globally. EPLL's large customers include Colgate, P&G, L'Oreal, Unilever, etc.

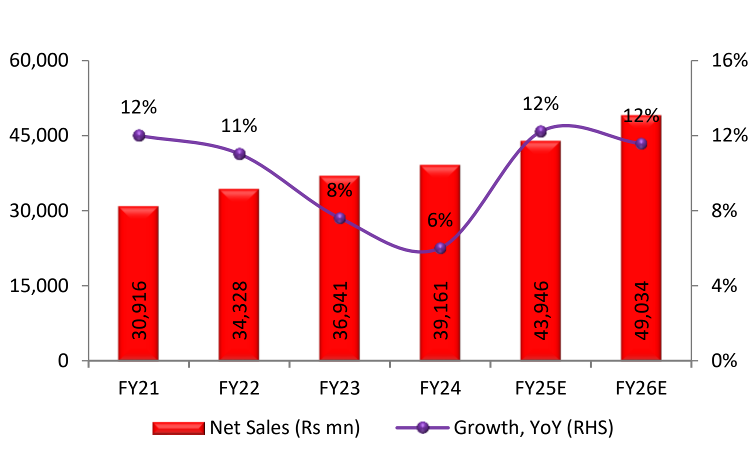
Valuation and View

While management is confident of achieving double-digit growth, softening commodity prices could continue to impede revenue growth in the near term. However, we see the negative pricing environment receding and expect prices to stabilize 2QFY25 onwards. Initiatives taken by the company such as, Europe restructuring, mix improvement, strategic pricing management and cost optimization, to improve margins seem to be bearing fruit and instilling confidence in its ability to deliver 20% EBITDA margin it has targeted for FY25. We estimate revenue/EBITDA/PAT CAGR of 12%/18%/42% over FY24-26E, respectively; BUY with a target price of Rs 264, based on 20x FY26E P/E (both unchanged).

Investors are advised to refer disclosures made at the end of the research report.

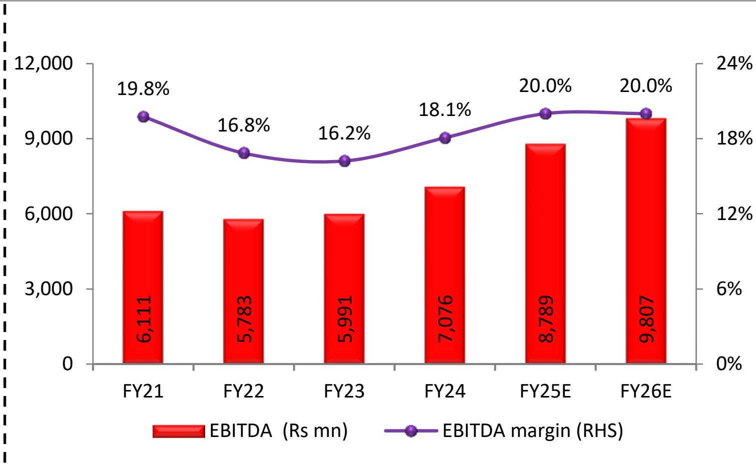
Story in Charts

Exhibit 1: Revenue - 12% CAGR over FY24-26E



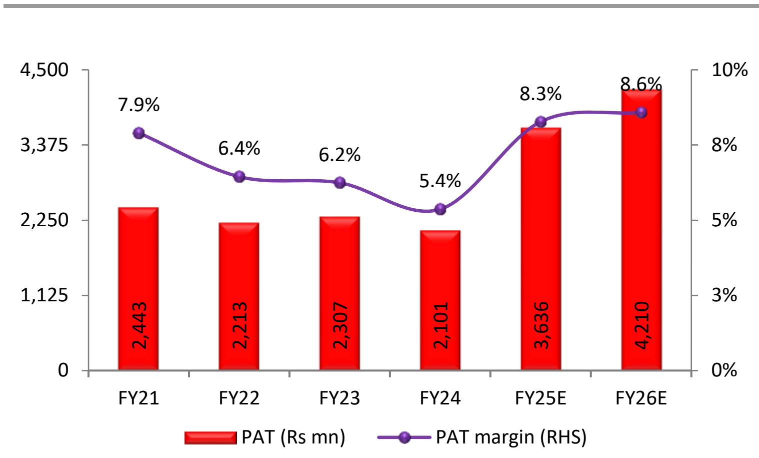
Source: Company, Systematix Institutional Research

Exhibit 2: 18% EBITDA CAGR, 200bps margin expansion



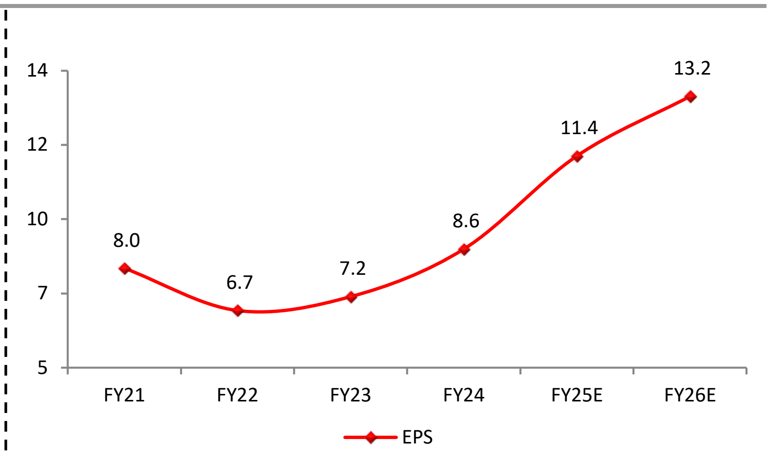
Source: Company, Systematix Institutional Research

Exhibit 3: Higher margin to drive profitability



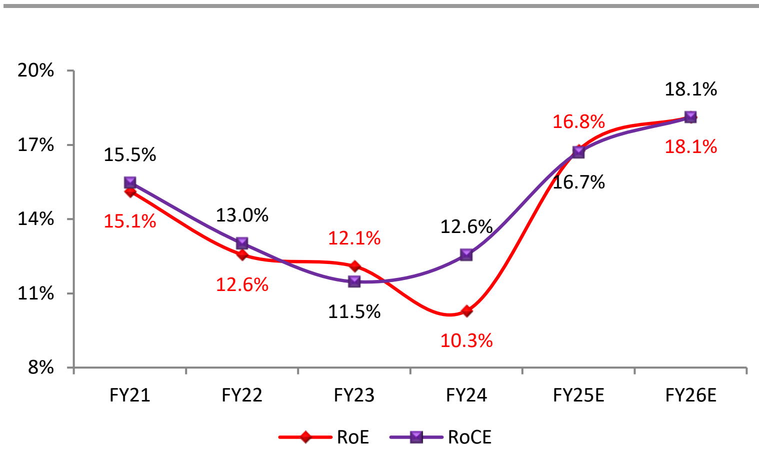
Source: Company, Systematix Institutional Research

Exhibit 4: EPS (Adj) CAGR of 24% over FY24-26E



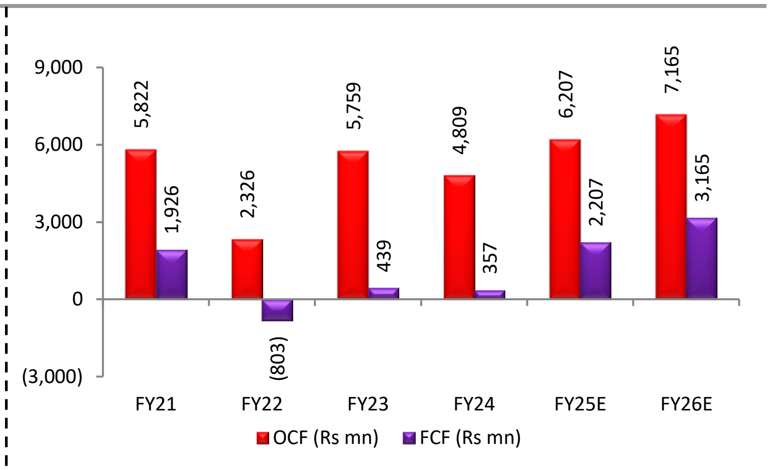
Source: Company, Systematix Institutional Research

Exhibit 5: Return ratios to improve significantly



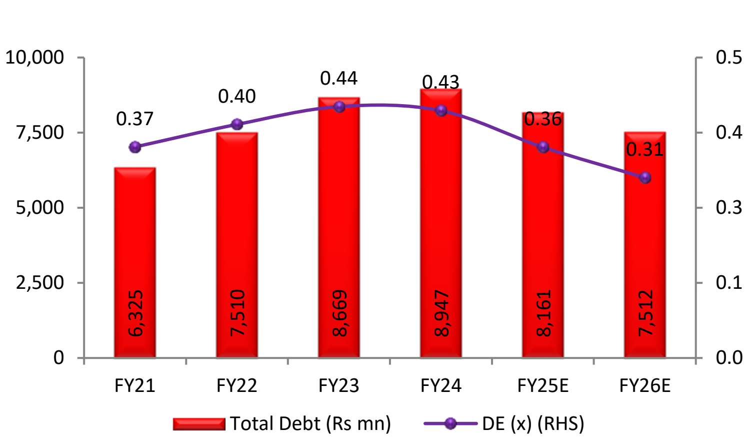
Source: Company, Systematix Institutional Research

Exhibit 6: Cash flows improve on superior profitability



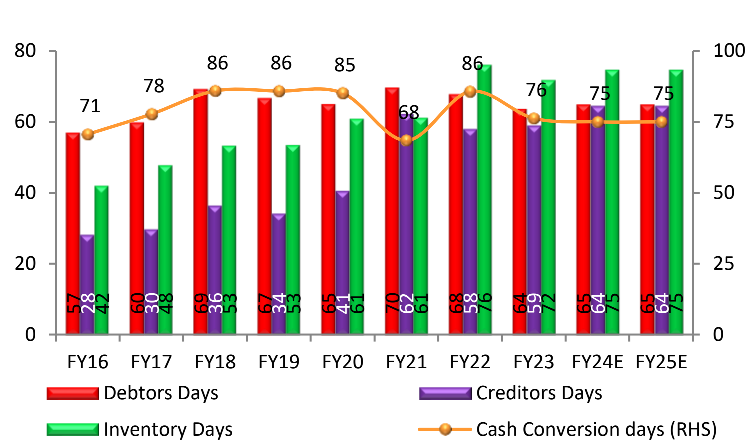
Source: Company, Systematix Institutional Research

Exhibit 7: Healthy cash flows to ensure reduction in net debt



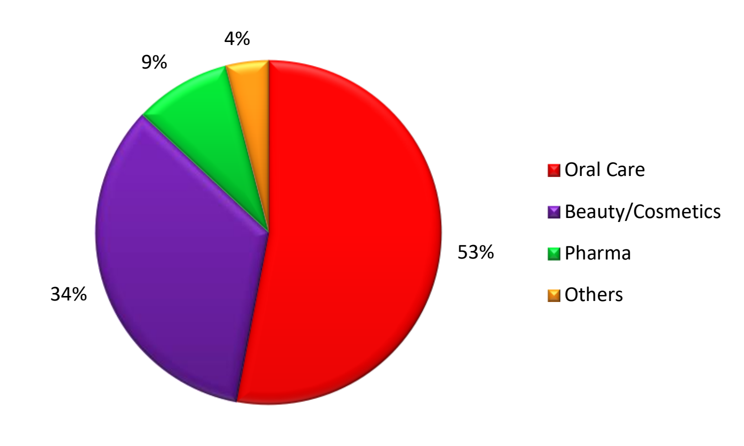
Source: Company, Systematix Institutional Research

Exhibit 8: Working capital expected to remain stable



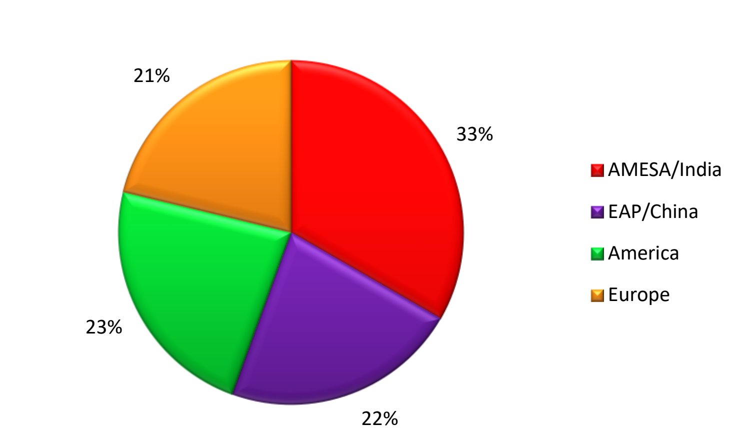
Source: Company, Systematix Institutional Research

Exhibit 9: Revenue breakup - category-wise (FY24)



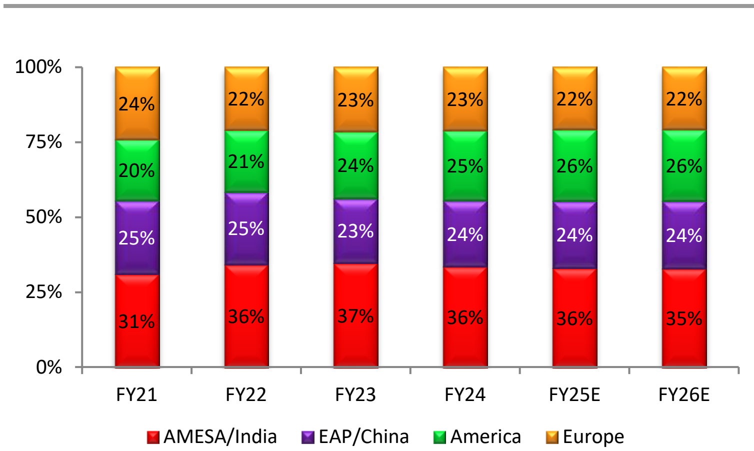
Source: Company, Systematix Institutional Research

Exhibit 10: Revenue breakup - region-wise (FY24)



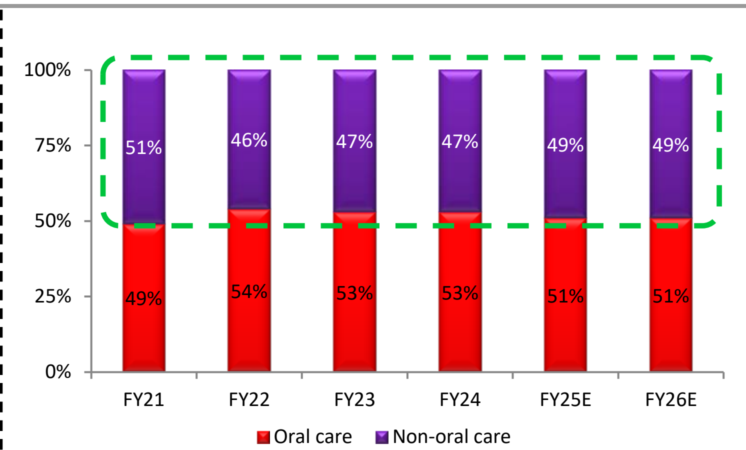
Source: Company, Systematix Institutional Research

Exhibit 11: Revenue: Well-diversified across major regions



Source: Company, Systematix Institutional Research

Exhibit 12: Share of non-oral poised to increase over FY24-26E

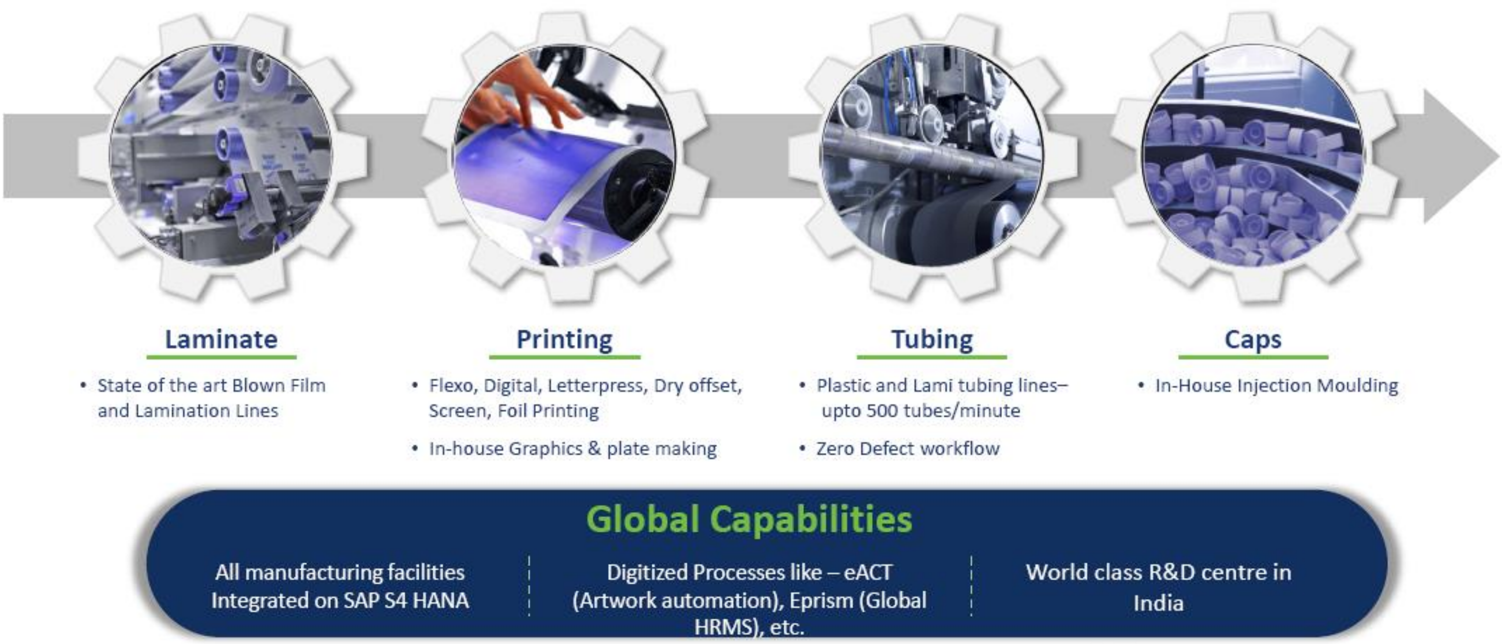


Source: Company, Systematix Institutional Research

Enjoys healthy margins due to end-to-end integrated manufacturing process

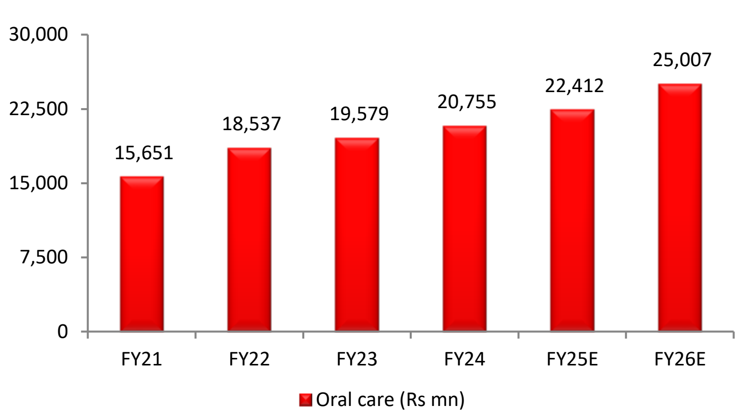
EPLL has been reporting healthy 17-19% margins barring in the last two years (FY22 and FY23), which were impacted by lockdown and raw material inflation. As against this, competition reported margins in mid to low teens. We attribute EPLL's superior margins to higher innovation at the company, mainly at the lamination level. Backward integration (produces laminates in-house) is the reason why the company records superior margins.

Exhibit 13: Business moat - End-to-end integrated manufacturing process



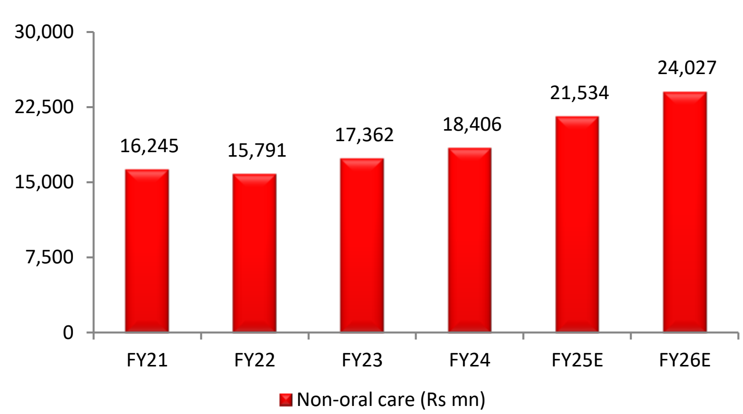
Source: Company, Systematix Institutional Research

Exhibit 14: Oral care revenue – 10% CAGR over FY24-26E



Source: Company, Systematix Institutional Research

Exhibit 15: Non-oral care revenue – 14% CAGR over FY24-26E



Source: Company, Systematix Institutional Research

Brazil offers opportunities beyond its anchor customer

With Brazil operations consolidated with the overall business, Brazil is reporting strong EBITDA margins. EPLL only strategic global tube supplier in Brazil which is a large consumer market with presence of global customers. With customers wanting tube suppliers to be closer to their own manufacturing locations EPLL's Brazil facility stands to gain immensely. The company is witnessing strong interest from various customers and has started receiving orders from both, large multinationals and local customers. Management is optimistic of maintaining solid margins, as it believes Brazil would continue to be EBITDA margin accretive to the overall business. It sees enormous potential in Brazil, expecting exhilarating opportunities each passing month.

Sustainability - Scaling up recyclable volumes through continuous improvement

- EPLL leads the conversion of sustainable tube supplies numerically. The company's strategy is to accelerate the conversion process and gain wallet share.
- **Sustainable sales:** Surpassed its target of doubling volume growth in FY24 and achieved growth at 21% YoY.
- **Scaling up recyclable volumes through increased wallet share**: Management anticipates meaningful gains in wallet share and market share, having witnessed promising traction and increased orderbook from certain customers for supplying recyclable tubes.
- **Margins:** Margins in recyclable tubes are expected to be higher or at similar levels to those of non-recyclable tubes.

Exhibit 16: Solid portfolio of sustainable solutions

Source: Company, Systematix Institutional Research

Key takeaways from the plant visit

Vapi unit – a highly integrated plant

EPLL's Vapi unit is one of its highly integrated packaging plants, in which the company produces all varieties of tubes and makes caps and shoulders. This unit is spread across 65,000 sq. meters, of which, it uses 15,000 sq. meters. Key raw materials used are laminates, polypropylene, low density polyethylene (LDPE) and master batches. It sources laminates from its unit in Vashind (Maharashtra). While it sources some grades of polymers from Reliance Industries, the company imports LDPE from Exxon and Dow Chemicals. The company's state-of-the-art machinery and highly skilled workforce offer near zero-defect products to clients, which ensures stickiness of clients.

Share of laminates used: White laminate 70-75%, transparent 10-15%, metallic 5-8% and coloured 2%.

Capacity utilization: Capacity utilization at the India plant is typically higher (~80% with headroom for improvement) compared to other plants, due to the large set up in the country.

Cap manufacturing through injection moulding

EPLL manufactures caps at 2 locations - Vapi (Gujarat) and Danville Virginia (US). Both plants cumulatively cater ~50% of EPLL's demand for caps, while it imports the remaining. At the Vapi unit, it has 24 machine lines for caps. The company uses injection moulding technology to make caps and compression moulding for shoulders. It uses hot runner moulds to avoid wastage, as this process uses only key main raw materials such as PP granules and masterbatch. Other companies use cold runner moulds which is faster but results in more wastages.

e-ACT - EPL Artwork Collaboration Tool

This is a proprietary software developed by EPLL to receive the artwork from clients. It is the only company in the world that uses this software, which ensures complete safety and security of the artwork. The client shares the artwork using this software.

Printing section

Ink stations: The printing process requires multiple colour shades. Even though the quantity required for each shade varies, only standard sizes are available in the market, because of which, wastage is high. To reduce wastage, EPLL has set up is own ink station, where it produces more than 2000 different colour shades of desired quantity.

The company has three different types of printing machines: a) digital printing, b) flexo printing, and c) letterpress. Flexo printing uses 12 colours and is capable of handling complex jobs such as raised effects, textures and foils compared to letterpress. However, the wastage is higher in flexo at 8-10% vs. 4-5% in letterpress. Flexo is designed to print 200 meters per minute but operates at only 80 meters per minute due to thickness of laminates, which are 300 microns, whereas machines are designed for labels of 60 microns.

For digital printing, it has the most advanced technology and uses HP Indigo machines imported from Israel.

EPLL has standardised its manufacturing processes and machines across all its Indian and overseas plants. This helps it in reducing the downtime in case of any sudden shutdown, so that it can receive quick assistance from other plants.

Tubing section

The printed laminate is sent to the tubing section to be converted into tubes. The machines can operate at a max speed of 300 tubes per minute, depending on sizes ranging from 13 to 60 diameters. The sizes of pharma tubes are smaller and range from 15-30 diameters, wherein the machines operate at 120 tubes per minute.

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net revenues	**34,328**	**36,941**	**39,161**	**43,946**	**49,034**
Revenue growth (%)	11.0	7.6	6.0	12.2	11.6
- Op. expenses	28,545	30,950	32,085	35,157	39,227
EBITDA	**5,783**	**5,991**	**7,076**	**8,789**	**9,807**
EBITDA margins (%)	16.8	16.2	18.1	20.0	20.0
- Interest expenses	403	674	1,156	1,027	940
- Depreciation	2,514	2,805	3,328	3,638	4,063
+ Other income	120	421	594	659	736
+ Forex (loss)/gain	-22	-213	67	-	-
- Tax	675	373	582	1,148	1,329
Effective tax rate (%)	23	14	18	24	24
Adjusted PAT	2,144	2,278	2,737	3,636	4,210
+/- Extraordinary items	-	11	605	-	-
Profit of share of associate	-76	-29	35	-	-
+/- Minority interest	69	40	-31	-	-
Reported PAT	**2,213**	**2,307**	**2,101**	**3,636**	**4,210**
EPS	7.0	7.2	6.6	11.4	13.2

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	632	636	637	637	637
Reserves & Surplus	17,613	19,256	20,278	21,740	23,433
Networth	18,245	19,892	20,915	22,377	24,070
Minority interest	336	36	-9	-9	-9
Total Debt	7,510	8,669	8,947	8,161	7,512
Def. tax liab. (net)	619	632	634	634	634
Capital employed	**26,710**	**29,229**	**30,487**	**31,163**	**32,207**
Net Fixed assets	16,200	18,715	19,839	20,201	20,138
Investments	72	193	76	76	76
Net Working capital	8,511	7,877	8,499	9,566	10,673
Cash and bank balance	1,927	2,444	2,073	1,321	1,320
Capital deployed	**26,710**	**29,229**	**30,487**	**31,163**	**32,207**
Net debt	5,583	6,225	6,874	6,841	6,193
WC (days)	86	76	75	75	75
DE (x)	0.40	0.44	0.43	0.36	0.31

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PAT	2,213	2,307	2,101	3,636	4,210
+ Non cash items	2,590	2,818	3,330	3,638	4,063
Cash profit	4,803	5,125	5,431	7,274	8,272
- Incr/(Decr) in WC	2,477	-634	622	1,067	1,107
Operating cash flow	**2,326**	**5,759**	**4,809**	**6,207**	**7,165**
- Capex	3,129	5,320	4,452	4,000	4,000
Free cash flow	**-803**	**439**	**357**	**2,207**	**3,165**
- Dividend	1,325	1,362	1,256	2,174	2,517
+ Equity raised	1	5	1	-	-
+ Debt raised	1,185	1,159	278	-786	-649
- Investments	-77	121	-117	-	-
- Misc. items	-378	-398	-132	-	-
Net cash flow	**-487**	**518**	**-371**	**-752**	**-1**
+ Opening cash	2,414	1,927	2,444	2,073	1,321
Closing cash	1,927	2,444	2,073	1,321	1,320

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	28.8	22.6	23.0	17.4	15.0
P/BV (x)	3.4	2.6	3.0	2.8	2.6
EV/EBITDA (x)	9.5	9.6	9.4	7.6	6.7
RoE (%)	12.6	12.1	10.3	16.8	18.1
RoCE (%)	13.0	11.5	12.6	16.7	18.1
Fixed Asset turnover (x)	1.2	1.1	1.0	1.1	1.1
Dividend (%)	215	215	197	341	395
Dividend yield (%)	2.2	2.7	2.0	3.4	4.0
Dividend payout (%)	62	60	60	60	60
Debtor days	68	64	65	65	65
Creditor days	58	59	64	64	64
Inventory days	76	72	75	75	75
Revenue growth (%)	11	8	6	12	12
EBITDA growth (%)	-5	4	18	24	12
PAT growth (%)	-9	4	-9	73	16

Source: Company, Systematix Institutional Research

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