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SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

29 May 2024

## EPL Limited

## Brazil drives Americas' growth; underlying demand strong

## RESULT UPDATE

Sector: Packaging Rating: BUY

CMP: Rs 182 Target Price: Rs 264

## Stock Info

Sensex/Nifty	75,170 /22,888
Bloomberg	EPLL IN
Equity shares (mn)	318
52-wk High/Low	Rs 236/175
Face value	Rs 2
M-Cap	Rs 60bn/ USD 0.7bn
3-m Avg volume	USD 2mn

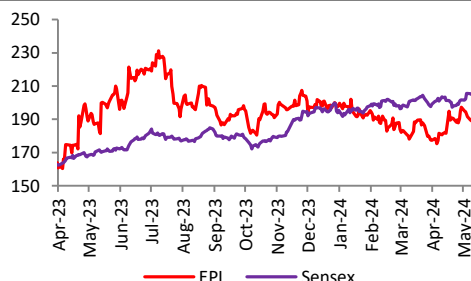
## Financial Snapshot (Rs mn)

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)	21.1	15.9	13.7
P/B (x)	2.8	2.6	2.4
EV/EBITDA (x)	8.7	7.0	6.2
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 (%)	2.2	3.8	4.4
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	22.6

## Stock Performance (1-year)



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EPL Limited (EPLL) reported consolidated 4QFY24 revenue of ~Rs 10.3bn, up ~6% YoY (in line), driven by healthy growth in Americas, with other regions registering low single-digit growth. AMESA/India and EAP/China grew at 5% YoY and 4% YoY, respectively, while both Europe and India standalone grew at 6% YoY each. Americas reported robust 16% YoY revenue growth as Brazil operations commercialised and order inflows were healthy. The company reported highest-ever quarterly EBITDA of Rs 1.9bn (in line), up ~24% YoY. For FY25, management expects healthy volume growth and margin improvement in the Americas business. Robust growth in the underlying consolidated business was partly offset by negative pricing pressures. On the sustainability front, EPLL is focused on scaling up recyclable volumes and has surpassed its target of doubling volume growth in FY24, up 21% YoY. Management reiterated its double-digit revenue growth guidance and is confident of clocking 20% EBITDA margin in FY25. While we leave our FY25E/FY26E revenue estimate unchanged, we have raised EBITDA margin by 100bps/50bps for the period. Higher EBITDA estimates factor in softening raw material (RM) prices, higher Beauty & Cosmetics (B&C) contribution, where margins are accretive, and strategic price pass-through initiatives. We raise EPS for FY25/FY26E by 9%/7%. Reiterating BUY with a revised target price of Rs 264 (Rs 248 earlier), based on 20x FY26E P/E (unchanged). Key risks: Global recession could keep demand subdued, spike in commodity prices.

**Geographical performance: 1) AMESA:** Sales grew 5% YoY and 1% QoQ to Rs 3.5bn, India standalone grew at 6%, and Egypt was impacted due to currency devaluation. EBIT fell by 2% YoY but grew 6% QoQ to Rs 414mn. EBIT margin contracted 80bps YoY and expanded 50bps QoQ to 11.7%; **2) EAP:** Sales grew at 4% YoY and fell 12% QoQ to Rs 2.2bn. EBIT increased 9% YoY but fell by 34% QoQ to Rs 271mn; EBIT margin expanded 57bps YoY and contracted 417bps QoQ to 12.2%; **3) Americas:** Sales was up 16% YoY and 5.4% QoQ at Rs 2.7bn. EBIT expanded 307% YoY and 37% QoQ to Rs 240mn. EBIT margin expanded 644bps YoY and 209bps QoQ to 9%; **4) Europe:** Sales grew at 2% YoY and 23% QoQ to Rs 2.5bn. EBIT fell 26% YoY but grew 330% QoQ to Rs 99mn. Margin fell 149bps YoY but expanded 275bps QoQ to 3.9%.

## Valuation and View

EPLL is optimistic of achieving double-digit revenue growth marked by several key initiatives such as i) Steadfast emphasis on B&C by actively pursuing smaller customers across 3 regions - EAP (ready), AMESA and Europe (in process), supported by higher headcount, ii) EPLL continues to leverage its competitive advantage in sustainable products to seize greater wallet share, strengthening its position, and iii) Brazil greenfield project has fulfilled 100% demand of anchor customers and is additionally securing orders from multinationals and local customers. However, management believes softening commodity prices could continue to impede revenue growth in the near term. EBITDA margin has consistently improved over the last six quarters. This margin growth trajectory instils confidence in the company's ability to deliver 20% EBITDA margin target supported by key initiatives like Europe restructuring, mix improvement, strategic pricing management and cost optimization. We estimate revenue/EBITDA/PAT CAGR of 12%/18%/42% over FY24-26E, respectively, and maintain BUY with a revised TP of Rs 264 (Rs 248 earlier), based on 20x FY26E P/E (unchanged).

#### 4QFY24 result highlights: Highest-ever quarterly EBITDA; YoY margin growth trajectory continues

Gross margin expanded 344bps YoY and contracted 81bs QoQ to 57.5% (our estimate 58%). The company reported highest-ever quarterly EBITDA of Rs 1.9bn (in line with our estimate), up ~24% YoY. EBITDA margin growth trajectory continued, with margin expanding 260bps YoY to 18.5% (our estimate 19.5%). Finance cost jumped 56% YoY and 9% QoQ to Rs 321mn; depreciation increased 8% YoY and 1% QoQ to Rs 850mn. Other income decreased 40% YoY and 32% QoQ to Rs 161mn. The company reported exceptional loss of Rs 605mn during the quarter, including i) Rs 465mn of forex loss arising from the devaluation of Egyptian currency, and ii) Rs 140mn owing to restructuring of operations in Europe. Consequently, PBT took a hit and nosedived significantly by 64% YoY and 69% QoQ to Rs 294mn (71% below our estimate of Rs 1bn). Effective tax rate was higher at 52%. PAT tumbled 82% YoY and 83% QoQ to Rs 151mn (83% below our estimate of Rs 906mn).

#### Other takeaways from the earnings call

**Personal Care & Beyond (PCB) category:** The category witnessed 8% YoY growth compared with 5% YoY in Oral Care; PCG contributed 47% to overall revenue in FY24.

**Continued focus on PCB:** In the recent quarters, EPLL has been strategically allocating additional resources, signalling a proactive approach to growth. Introduction of neo-seam technology is expected to act as a catalyst for further expansion. With ample funding in place, the company is poised to accelerate growth within this category, supported by a well-defined strategy aimed at enhancing product mix and in driving volume growth.

**India standalone:** Management is upbeat on the healthy business prospects of its India standalone business. EPLL has not only secured healthy orders from customers with whom it had limited business earlier, but it also continues to receive orders from large customers. There are no apprehensions regarding the risk of EPLL losing market share, which further bolsters confidence in the company's position in the Indian market.

**EAP/China:** Management indicated that 4Q in China tends to be typically subdued due to the Chinese New Year when most factories are shut. Management foresees robust performance in Asia Pacific, particularly in China, as the market is increasingly shifting towards the B&C category.

#### Americas:

- **Brazil:** With Brazil operations consolidated with the overall business, Brazil is reporting strong EBITDA margins. The company 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.
- **Margins:** Management believes FY25 margins in Americas business would be driven by i) EBITDA margin accretive Brazil operations, and ii) strategic initiatives taken to improve US margins.
- **Capacity:** EPLL aligns its capacity installation with customer orders, which is presently fully utilised owing to huge order influx. Going ahead, demand is expected to drive capacity expansion.

**Europe restructuring plan:** To address the challenge of lower margins in Europe, primarily due to high fixed costs, EPLL is implementing a strategic restructuring plan.

This initiative focuses on optimizing headcount at both management and operational levels and includes initiatives such as realigning manufacturing capacity from a high-cost Germany plant to low-cost Poland plant, creating central excellence in printing and creating shared services wherever possible. The total investment for this restructuring amounts to Rs 140mn, which the company expensed in 4QFY24. These efforts are aimed at achieving margins in mid-teen in the near future, with benefits expected to accrue in FY25.

**AMESA:** Due to negative pricing and the impact of mix on revenues, AMESA region witnessed YoY decline in EBITDA for the second consecutive quarter. India is a producer of laminates, and when these are sold to intercompany units, gross contributions are comparatively lower than tubes. Additionally, the absence of a one-time benefit in the current quarter that was factored in last year also added to the EBITDA decline. However, management remains confident of underlying robust performance of the business, going ahead.

**Exceptional loss in Egypt:** Last year, Egypt encountered multiple headwinds that resulted in foreign exchange (forex) shortages. The Egyptian government attracted USD inflows through investments and aids, resulting in the Egyptian pound becoming a free-float currency causing a 60% devaluation of the Egyptian currency against the USD; this led to a one-off loss of Rs 465mn. However, management expects the underlying Egypt business to stay strong with decent profitability and does not foresee this one-time loss to impact long-term prospects of the country.

#### **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 to achieve 21% YoY growth.
- **Scaling up recyclable volumes through increased wallet share:** Management anticipates sustainable gains in wallet share and market share, having observed promising traction and increased wallet share with certain customers in supplying recyclable tubes.
- **Margins:** Margins in recyclable tubes are expected to be higher or at similar levels to those of non-recyclable tubes.

**Capex:** To support growth and margins, EPLL believes FY25 capex (excluding M&A and greenfield expansion) would be in line with amortization costs. It incurred a capex of Rs 3.74bn in FY24, slightly higher than the amortization level, as it included Rs 700-750mn capex for Brazil operations.

**Increased interest costs:** Interest cost was up 71% YoY in FY24 to Rs 1.16bn, primarily due to Brazil operations. Management expects interest cost to stay stable at Rs 300-340mn on a quarterly basis in FY25.

**Debt:** Consolidated debt as on 31<sup>st</sup> March 2024 was Rs 8.9bn vs Rs 8.7bn as of 31<sup>st</sup> March 2023. The company plans to reduce debt through healthy cash outflows.

**Red Sea issue:** The ongoing Red Sea issue led to increased lead time impacting inventories and higher freight costs, which got factored into pricing.

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

**RoCE:** RoCE improved 148bps to 14.7%.

**Dividend:** The board has recommended a dividend of Rs 2.30/equity share on face value of Rs2/share

**Exhibit 1: Quarterly financial statement**

YE March (Rs mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	FY24	FY23	YoY (%)
<b>Net Sales</b>	<b>10,292</b>	<b>9,693</b>	<b>6.2</b>	<b>9,751</b>	<b>5.5</b>	<b>39,161</b>	<b>36,941</b>	<b>6.0</b>
RM cost	4,379	4,458	(1.8)	4,070	7.6	16,570	16,738	(1.0)
Staff cost	1,990	1,776	12.0	1,942	2.5	7,725	6,895	12.0
Other Expenses	2,014	1,913	5.3	1,905	5.7	7,723	7,530	2.6
<b>Operating Expenses</b>	<b>8,383</b>	<b>8,147</b>	<b>2.9</b>	<b>7,917</b>	<b>5.9</b>	<b>32,018</b>	<b>31,163</b>	<b>2.7</b>
% of Sales	81	84		81		82	84	
<b>EBITDA</b>	<b>1,909</b>	<b>1,546</b>	<b>23.5</b>	<b>1,834</b>	<b>4.1</b>	<b>7,143</b>	<b>5,778</b>	<b>23.6</b>
EBITDA Margins (%)	18.5	15.9	259.9	18.8	-26bp	18.2	15.6	260bp
Other Income (OI)	161	268	(39.9)	237	(32.1)	594	421	41.1
Finance Cost	321	206	55.8	294	9.2	1,156	674	71.5
Depreciation	850	790	7.6	842	1.0	3,328	2,805	18.6
Add: Profit/Loss of Associate Company	9	6	50.0	8		35	(29)	
<b>PBT</b>	<b>908</b>	<b>824</b>	<b>10.2</b>	<b>943</b>	<b>(3.7)</b>	<b>3,288</b>	<b>2,691</b>	<b>22.2</b>
Tax	152	(27)	(663.0)	70	117.1	582	373	56.0
Effective Tax Rate (%)	17	(3)	2,002bp	7	932bp	18	14	384bp
Add:Exceptional items	(605)	-		-		(605)	(11)	5,400.0
<b>Reported PAT</b>	<b>151</b>	<b>851</b>	<b>(82.3)</b>	<b>873</b>	<b>(82.7)</b>	<b>2,101</b>	<b>2,307</b>	<b>(8.9)</b>
NPM (%)	1.5	8.8	-731bp	9.0	-749bp	5.4	6.2	-88bp
Less: Minority Interest After NP	(72)	8	(1,000.0)	12		(31)	40	
Add/less Exceptional items	605	-		-		605	11	5,400.0
<b>Adjusted PAT</b>	<b>828</b>	<b>843</b>	<b>(1.8)</b>	<b>861</b>	<b>(3.8)</b>	<b>2,737</b>	<b>2,278</b>	<b>20.1</b>
Adj. EPS (Rs)	3	3	(2.5)	3	(3.8)	9	7	20.1

Source: Company, Systematix Institutional Research

**Exhibit 2: Key ratios (% of revenue)**

	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	FY24	FY23	YoY (%)
Raw Material Cost	43	46	-344bp	42	81bp	42	45	-300bp
Staff Costs	19	18	101bp	20	-58bp	20	19	106bp
Other Expenses	20	20	-17bp	20	3bp	20	20	-66bp
Effective Tax rate	17	(3)	2,002bp	7	932bp	18	14	384bp
Gross Margin	57.5	54.0	344bp	58.3	-81bp	57.7	54.7	300bp
OPM	18.5	15.9	260bp	18.8	-26bp	18.2	15.6	260bp
NPM	1.5	8.8	-731bp	9.0	-749bp	5.4	6.2	-88bp

Source: Company, Systematix Institutional Research

## Exhibit 3: Quarterly segmental break up

YE March (Rs mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	FY24	FY23	YoY (%)
<b>REVENUE</b>	<b>10,996</b>	<b>10,325</b>	6%	<b>10,631</b>	3%	<b>42,357</b>	<b>39,383</b>	8%
AMESA/India	3,536	3,379	5%	3,500	1%	14,185	13,692	4%
EAP/China	2,229	2,141	4%	2,524	-12%	9,356	8,498	10%
Americas	2,664	2,299	16%	2,528	5%	9,889	8,758	13%
Europe	2,563	2,502	2%	2,076	23%	8,927	8,435	6%
Unallocated	4	4	0%	3	33%			
Inter segmental elimination	(704)	(632)		(880)		(3,196)	(2,442)	31%
<b>Net Revenues</b>	<b>10,292</b>	<b>9,693</b>	<b>6%</b>	<b>9,751</b>	<b>6%</b>	<b>39,161</b>	<b>36,941</b>	<b>6%</b>
<b>Sales mix:</b>								
AMESA/India	32%	33%	-57bp	33%	-77bp	33%	35%	-128bp
EAP/China	20%	21%	-47bp	24%	-347bp	22%	22%	51bp
Americas	24%	22%	196bp	24%	45bp	23%	22%	111bp
Europe	23%	24%	-92bp	20%	378bp	21%	21%	-34bp
<b>EBIT</b>								
India/AMESA	414	423	-2%	392	6%	1,617	1,469	10%
China/EAP	271	248	9%	412	-34%	1,462	1,237	18%
Americas	240	59	307%	175	37%	530	379	40%
Europe	99	134	-26%	23	330%	247	202	22%
Unallocated	(4)	(11)		(4)		(15)	(36)	
<b>EBIT (%)</b>								
India/AMESA	11.7%	12.5%	-81bp	11.2%	51bp	11.4%	10.7%	67bp
China/EAP	12.2%	11.6%	57bp	16.3%	-417bp	15.6%	14.6%	107bp
Americas	9.0%	2.6%	644bp	6.9%	209bp	5.4%	4.3%	103bp
Europe	3.9%	5.4%	-149bp	1.1%	275bp	2.8%	2.4%	37bp

Source: Company, Systematix Institutional Research

## Exhibit 4: Change in estimates

(Rs mn)	Old Estimates		New Estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Sales	44,065	49,032	43,946	49,034	(0)	0
EBITDA	8,372	9,561	8,789	9,807	5	3
EBITDA Margin (%)	19.0%	19.5%	20.0%	20.0%	100bp	50bp
Adjusted PAT	3,324	3,948	3,636	4,210	9	7
EPS (Rs)	10.4	12.4	11.4	13.2	9	7
<b>Target Price</b>		<b>248</b>		<b>264</b>		<b>7</b>

Source: Company, Systematix Institutional Research

# FINANCIALS (CONSOLIDATED)

## Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
<b>Net revenues</b>	<b>34,328</b>	<b>36,941</b>	<b>39,161</b>	<b>43,946</b>	<b>49,034</b>
Revenue growth (%)	11.0	7.6	6.0	12.2	11.6
- Op. expenses	28,545	30,950	32,085	35,157	39,227
<b>EBITDA</b>	<b>5,783</b>	<b>5,991</b>	<b>7,076</b>	<b>8,789</b>	<b>9,807</b>
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	-	-
<b>Reported PAT</b>	<b>2,213</b>	<b>2,307</b>	<b>2,101</b>	<b>3,636</b>	<b>4,210</b>
EPS	7.0	7.2	6.6	11.4	13.2

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
<b>Operating cash flow</b>	<b>2,326</b>	<b>5,759</b>	<b>4,809</b>	<b>6,207</b>	<b>7,165</b>
- Capex	3,129	5,320	4,452	4,000	4,000
<b>Free cash flow</b>	<b>-803</b>	<b>439</b>	<b>357</b>	<b>2,207</b>	<b>3,165</b>
- 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	-	-
<b>Net cash flow</b>	<b>-487</b>	<b>518</b>	<b>-371</b>	<b>-752</b>	<b>-1</b>
+ 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

## 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
<b>Capital employed</b>	<b>26,710</b>	<b>29,229</b>	<b>30,487</b>	<b>31,163</b>	<b>32,207</b>
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
<b>Capital deployed</b>	<b>26,710</b>	<b>29,229</b>	<b>30,487</b>	<b>31,163</b>	<b>32,207</b>
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

## Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	28.8	22.6	21.1	15.9	13.7
P/BV (x)	3.4	2.6	2.8	2.6	2.4
EV/EBITDA (x)	9.5	9.6	8.7	7.0	6.2
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	2.2	3.8	4.4
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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