

July 29, 2011

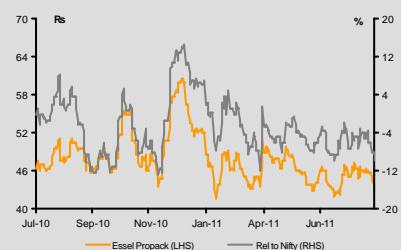
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs43	Rs 63
EPS change FY12E/13E (%)	-24.6/-16.5
Target Price change (%)	-12.5
Nifty	5,482
Sensex	18,197

Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	(12)	(12)	(11)
Rel. to Nifty	(7)	(7)	(11)	(12)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Packaging
Bloomberg	ESEL@IN
Equity Capital (Rs mn)	313
Face Value(Rs)	2
No of shares o/s (mn)	157
52 Week H/L	65/40
Market Cap (Rs bn/USD mn)	7/158
Daily Avg Volume (No of sh)	196408
Daily Avg Turnover (US\$m)	0.2

Shareholding Pattern (%)

	Jun'10	Mar'10	Dec'10
Promoters	59.1	59.1	59.1
FII/NRI	5.7	4.5	4.3
Institutions	9.1	9.7	8.4
Private Corp	9.6	10.0	10.7
Public	16.5	16.6	17.5

Source: Capitaline

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- Essel Propack (EPL) Q1 FY12 was below expectations - Revenues up 8.4% yoy at Rs 3.6bn, EBIDTA up 2.3% at Rs 576mn and APAT up 9% at Rs 94mn.
- Ebidta margins decline 90 bps yoy to 16% - being impacted by reduction in gross margins - our prognosis for Ebidta margin expansion has not played out.
- Europe continues to report Ebit loss at Rs50 mn and Americas fails to report improvement in capacity utilization, thereby impacting overall performance.
- Revise Ebidta margins assumptions and thereby revise earnings downwards by -24.6% and -16.5% for FY12E and FY13E - Retain BUY with revised target price of Rs63/Share.

EPL's Q1FY12 performance below expectations

Q1FY12 reported disappointing performance by missing our revenue and PAT estimates. EPL reported 8.4% yoy growth in revenue to Rs3.6 bn and APAT grew 8.8% yoy to Rs94 mn. Ebidta for the quarter grew 2.3% to Rs 576mn. EBIDTA margins fell 90 bps yoy to 16% in Q1FY12 vs 16.9% in Q1 FY11.

Growth was primarily volume; AMESA and Americas report lower growth

EPL reported 8.4% revenue growth, primarily led by volume growth. Laminated tubes grew by 9.3% yoy both in value and volume terms. Plastic tubes grew 23% yoy, out of which, volume growth was 11% yoy and rest was price growth. Flexible packaging business de-grew by 5% yoy. AMESA grew 9.6% yoy to Rs 1719mn, wherein India reported healthy growth of 19% yoy, but growth in flexible packaging was affected. Americas declined by 1.9% yoy to Rs 792mn owing to muted performance in Mexico operations. Europe grew by 10.7% yoy to Rs 375mn, albeit growth impacted by lower volumes in Germany operations. EAP region reported strong growth at 17.6% yoy.

Higher input cost and time lag in pass through tapered EBIDTA margins

EBIDTA grew by a mere 2.3% yoy to Rs 594mn with EBIDTA margins falling by 90 bps yoy to 16.0% in Q1FY12 vs 16.9% in Q1 FY11. Margins reduction led by decline in gross margins - led by higher input prices and time lag in price increases. EBIT margins of AMESA decline 200 bps yoy due to input cost pressure and delayed pass through. Europe continued to report EBIT loss of Rs 50mn in Q1 FY12. Though, loss in Poland operations reduced and is targeted to achieve cash break even by Q2 FY12. Americas reported EBIT of Rs 3mn, as plastic tubes continues to face low capacity utilization.

Earnings revised downwards by 24.6% to Rs 4.2 per share for FY12E and by 16.5% to Rs 6.2 per share in FY13E

We have revised assumptions on Ebidta margin and tax outgo, considering the performance in last 2 quarters. Further, our prognosis on Ebidta margins might take longer time than earlier expected. We have revised EBIDTA margins downwards for FY12E by 40 bps (17.6%) and FY13E by 20 bps (18.6%). We have revised FY12E earnings by -24.6% (Rs 4.2/Share) and FY13E earnings by -16.5% (Rs 6.2/Share).

Financial Snapshot

	Rs Mn									
YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	16,822	2,965	17.6	255	1.6	-128.3%	4.6	26.2	4.8	0.9
FY11P	14,083	2,402	17.1	461	2.9	80.6%	6.4	14.5	5.8	0.9
FY12E	15,784	2,778	17.6	653	4.2	41.6%	8.5	10.2	5.0	0.8
FY13E	17,423	3,233	18.6	978	6.2	49.8%	11.8	6.8	4.1	0.7

Retain 'BUY' rating with revised target price of Rs63/Share

Though, EPL reported disappointing performance in Q1FY12 accompanied by earnings downgrade, the valuations at EV/Ebitda of 4.1X FY13E, PER of 6.8X FY13E and P/BV of 0.7X FY13E are not demanding. Further, dividend yield at 3.0% on FY13E earnings gives downside protection. Erstwhile catalysts of improvement in profitability to CY06 levels still holds true, but gets postponed by few quarters. We retain BUY rating with revised target price of Rs63/Share.

Earnings Change

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	%Change	Earlier	Revised	%Change
Revenues	15916	15784	-0.8	17515	17423	-0.5
EBITDA	2863	2778	-3.0	3289	3233	-1.7
EBITDA Margin (%)	18.0	17.6	(40 bps)	18.8	18.6	(20 bps)
APAT	866	653	-24.6	1172	978	-16.5
EPS	5.5	4.2	-24.6	7.5	6.2	-16.5

Quarterly Results

YE-Mar (Rs mn)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Net Sales	3323	3687	3649	3497	3601	8.4%	3.0%
Expenditure	2760	3004	3048	2934	3024	9.6%	3.1%
Material Cost	1574	1746	1764	1688	1719	9.3%	1.9%
% of Sales	47.4%	47.4%	48.3%	48.3%	47.8%	40 bps	-50 bps
Employee Expenses	542	544	549	526	569	4.8%	8.0%
% of Sales	16.3%	14.7%	15.0%	15.0%	15.8%	-50 bps	70 bps
Other Expenses	644	714	735	720	737	14.4%	2.4%
% of Sales	19.4%	19.4%	20.2%	20.6%	20.5%	110 bps	-10 bps
EBIDTA	563	683	601	563	576	2.3%	2.4%
Depreciation	267	269	267	260	270	1.2%	3.8%
EBIT	296	415	334	303	306	3.4%	1.1%
Other Income	-8	-10	67	8	2	-126.0%	-75.6%
Interest	140	155	144	145	145	3.0%	-0.4%
PBT	148	250	257	166	163	10.5%	-1.4%
Tax	59	116	95	62	68	15.6%	10.4%
Adjusted PAT	89	134	162	104	95	7.1%	-8.4%
(Profit/Loss) from JV's/Ass/MI	3	8	6	7	1	-50.0%	-81.9%
APAT After MI	86	126	156	97	94	8.8%	-2.9%
Extra-Ordinary Items	0	0	0	-13	0	-	-
Reported PAT	86	126	156	84	94	8.8%	12.2%
Reported EPS	0.6	0.8	1.0	0.5	0.6	8.8%	12.2%

Margins (%)						(bps)	(bps)
EBIDTA	16.9%	18.5%	16.5%	16.1%	16.0%	-90	-10
EBIT	8.7%	11.0%	11.0%	8.9%	8.6%	-10	-30
EBT	4.5%	6.8%	7.0%	4.7%	4.5%	10	-20
PAT	2.6%	3.4%	4.3%	2.8%	2.6%	0	-20
Effective Tax rate	39.9%	46.5%	37.0%	37.3%	41.7%	180	440

Segmental Performance

Geographical Segment Performance	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Segment Revenue							
AMESA	1,569	1,660	1,775	1,727	1,719	9.6%	-0.4%
EAP	607	827	757	601	714	17.6%	18.9%
AMERICAS	808	855	826	824	792	-1.9%	-3.9%
EUROPE	339	337	298	346	375	10.7%	8.7%
Revenue from Operations	3,323	3,679	3,657	3,497	3,601	8.4%	3.0%
Less: Intersegmental Revenues	0	0	0	0	0		
Add: Unallocable Income	0	-8	8	0	0		
Total Segment Revenues	3,323	3,687	3,649	3,497	3,601	8.4%	3.0%

Segment PBIT

AMESA	218	210	281	238	205	-6.1%	-14.1%
EAP	149	251	173	103	161	7.9%	55.4%
AMERICAS	-7	-3	10	22	3	-136.5%	-87.8%
EUROPE	-40	-40	-107	-34	-50	26.4%	47.5%
Total PBIT	319	418	357	329	317	-0.6%	-3.6%
Less : Interest	194	155	144	196	145	-25.5%	-26.2%
Other Un-allocable Expenditure	14	-4	15	19	11	-16.8%	-38.4%
Add : Other Income	54	-17	60	51	7	-86.9%	-86.2%
Extra-Ordinary Income/Expense	-17	0	0	-13	-5	-71.3%	-61.5%
Net Profit/Loss Before Tax	148	250	257	153	163	10.5%	7.0%

PBIT margin%

AMESA	13.9%	12.6%	15.8%	13.8%	11.9%	-200	-190
EAP	24.5%	30.4%	22.9%	17.2%	22.5%	-200	530
AMERICAS	-0.9%	-0.4%	1.2%	2.7%	0.3%	130	-230
EUROPE	-11.7%	-11.7%	-35.9%	-9.9%	-13.4%	-170	-350
Total PBIT	9.6%	11.4%	9.8%	9.4%	8.8%	-80	-60

Segment Capital Employed

AMESA	6079	6173	6702	5960	5792	-4.7%	-2.8%
EAP	2400	2353	3051	2138	2507	4.4%	17.2%
AMERICAS	1757	1608	1714	1816	1556	-11.4%	-14.3%
EUROPE	1362	1551	1757	1685	1580	16.0%	-6.3%
Unallocated	-3904	-3877	-5246	-3530	-3381	-13.4%	-4.2%
Total Capital Employed	7694	7809	7977	8069	8053	4.7%	-0.2%

Financials

Income Statement

Y/E, Dec (Rs. Mn)	FY10	FY11P	FY12E	FY13E
Net Sales	16,822	14,083	15,784	17,423
Growth (%)	30.3	-16.3	12.1	10.4
Expenses	13,857	11,681	13,006	14,190
Growth (%)	24.7	-15.7	11.3	9.1
Raw Materials	7,377	6,702	7,614	8,449
% Of Sales	43.9	47.6	48.2	48.5
Employee Cost	3,158	2,144	2,316	2,431
% Of Sales	18.8	15.2	14.7	14.0
Manufacturing Exps	1,764	1,534	1,686	1,829
% Of Sales	10.5	10.9	10.7	10.5
Admin Expenses	1,149	957	1,005	1,055
% Of Sales	6.8	6.8	6.4	6.1
Selling & Distribn Exp	409	344	386	426
% Of Sales	2.4	2.4	2.4	2.4
Ebidta	2,965	2,402	2,778	3,233
Growth (%)	64.6	-19.0	15.6	16.4
Ebidta%	17.6	17.1	17.6	18.6
Other Income	62	54	54	54
Interest	947	557	547	513
Depreciation	1,329	1,070	1,155	1,204
PBT	717	829	1,129	1,569
Tax	386	338	435	529
PAT (Before EO Item)	331	491	694	1,040
Growth (%)	-139.3	48.1	41.4	49.8
Net Margin%	2.0	3.5	4.4	6.0
E/O Item	344	11	0	0
Minority Interest	76	30	41	61
PAT (Bef. EO-after MI)	255	461	653	978
Reported PAT	599	473	653	978

Cash Flow

Y/E, Dec (Rs. Mn)	FY10	FY11P	FY12E	FY13E
Pre-Tax Profit	732	829	1,129	1,569
Depreciation	1,329	1,070	1,155	1,204
Non Cash	-6	11	0	0
Chg in Working Cap	64	-495	-589	-586
Tax Paid	-534	-338	-435	-529
Operating Cash Flow	1,585	1,076	1,260	1,657
Capex	-847	-850	-950	-950
Free Cash Flow	738	226	310	707
Investments	1,292	0	0	0
Equity Capital	0	0	0	0
Loans	-1,796	-300	0	-500
Dividend	-108	-94	-141	-197
Others	0	0	0	0
Net Change in Cash	126	-167	169	10
Opening Cash Position	817	944	776	946
Closing Cash Position	944	776	946	956

Balance Sheet

Y/E, Dec (Rs. Mn)	FY10	FY11P	FY12E	FY13E
Equity Share Capital	313	313	313	313
Reserves	7,215	7,594	8,106	8,887
Networth	7,528	7,907	8,419	9,200
Secured Loans	5,151	4,851	4,851	4,351
Unsecured Loans	3,247	3,247	3,247	3,247
Loan Funds	8,398	8,098	8,098	7,598
Net Deferred Tax	37	37	37	37
Minority interest	83	113	154	215
Capital Employed	16,046	16,154	16,707	17,050
Gross Block	18,473	19,323	20,273	21,223
Less: Depreciation	8,742	9,812	10,967	12,171
Net Block	9,730	9,511	9,306	9,051
Capital Work In Progress	580	580	580	580
Goodwill	0	0	0	0
Investments	477	477	477	477
Current Assets	7,153	7,908	8,939	9,778
Inventories	1,643	2,098	2,352	2,596
Debtors	2,021	2,193	2,458	2,713
Cash & Bank	944	776	946	956
Loans & Advances	2,545	2,840	3,183	3,513
Current Liab & Prov	1,974	2,401	2,673	2,917
Net Current Assets	5,179	5,507	6,265	6,861
Miscellaneous Expenditure	80	80	80	80
Capital Deployed	16,046	16,154	16,707	17,050

Key Ratios

Y/E, Dec	FY10	FY11P	FY12E	FY13E
Profitability %				
Ebidta Mgn	17.6	17.1	17.6	18.6
PAT Mgn	2.0	3.5	4.4	6.0
ROCE	9.9	8.6	10.2	12.3
ROE	4.6	6.4	8.5	11.8
Per Share Data				
EPS	1.6	2.9	4.2	6.2
BVPS	46.8	49.3	52.5	57.5
DPS	0.4	0.6	0.9	1.3
Valuations (X)				
PER	26.2	14.5	10.2	6.8
P/BV	0.9	0.9	0.8	0.7
Ev/Sales	0.8	1.0	0.9	0.8
Ev/Ebidta	4.8	5.8	5.0	4.1
Dividend Yield (%)	0.8	1.4	2.1	3.0
Turnover (X Days)				
Debtor TO Days	43.8	56.8	56.8	56.8
Inventory TO Days	40.4	54.4	54.4	54.4
Gearing Ratio				
Net Debt/Equity (X)	1.0	0.9	0.8	0.7
Total D/E (X)	1.1	1.0	1.0	0.8

Recommendation History: Essel Propack – ESEL IN

Date	Reports	Reco	CMP	Target
05/05/2011	Essel Propack Q4FY11 Result Update	Buy	46	72
27/01/2011	Essel Propack Q3FY11 Result Update	Buy	56	72
03/11/2010	Essel Propack Q2FY11 Result Update	Buy	56	76
30/07/2010	Essel Propack Q1FY11 Result Update	Buy	48	76

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