

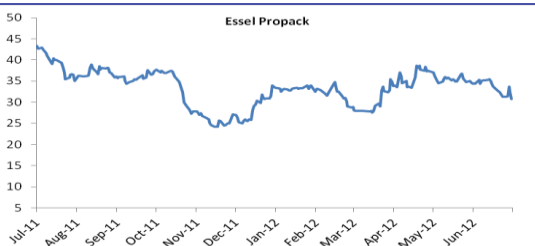
Essel Propack Ltd.

Recommendation	HOLD
CMP	Rs. 32
Target Price	Rs.41
Sector	Packaging

Stock Details

BSE Code	500135
NSE Code	ESSELPACK
Bloomberg Code	ESEL IN
Market Cap (Rs cr)	603
Free Float (%)	40.9%
52- wk HI/Lo (Rs)	44/24
Avg. volume BSE (Quarterly)	35014
Face Value (Rs)	2.0
Dividend (FY 11)	0.6 per share
Shares o/s (Cr)	15.7

Relative Performance	1Mth	3Mth	1Yr
Essel Propack	-10.5%	-8.9%	-28.9%
Sensex	-0.8%	-1.7%	-7.5%



Shareholding Pattern	30 th June 2012
Foreign Promoter Holding	0.1%
Indian Promoters Holding	59.1%
Institutional (Incl. FII)	10.6%
Corporate Bodies	7.9%
Public & others	22.5%

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Quarterly Analysis

Essel Propack Global operations reported a jump in net sales 19.8% YoY and marginally up by 4.3% QoQ to Rs. 429.9 crs. The revenue was up on account of growth in all four regions comprising AMESA (17.9% YoY), Europe (59.8% YoY), EAP (10.5% YoY) and America (20.5% YoY), in Q1FY13.

The company reported a 20.1% YoY jump in EBITDA to the tune of Rs. 69.2 crs in Q1FY13 and by 6.5% QoQ. The margin was 16.1% in Q1FY13 as compared to 16.1% in Q1FY12 and 15.8% in Q4FY12.

The Adj Net profit decreased by 6% YoY to Rs. 8.8 cr and was significantly down by 65.4% QoQ. The PAT margin was 2% in Q1FY13 as compared to 2.6% in Q1FY12 and 6.2% in Q4FY12. This was on account of jump in depreciation (new capacities have been added in Indian operation) and interest cost (jump in cost of interest and debt restructuring) by 16.6% and 73.6% respectively YoY.

The company had reported a forex gain of Rs. 1.7 crores in Q1FY13 as against forex loss of Rs. 0.5 crores in Q1FY12 and forex gain of Rs. 3.54 crores in Q4FY12. The PAT was also down due to the increase in tax rate to 51.6% (taxes in certain geographies has gone up) in Q1FY13 as against 41.8% in Q1FY12 and write back of income tax on account of merger of Ras Propack and Ras Extrusion in Q4FY12.

The company had closed down the UK manufacturing facility and consolidated the laminated tube operations at the Poland unit.

Guidance for FY13E: Management has maintained its guidance of 12% growth in FY13E led by two new large contracts each in Europe and AMESA. Management has further given a guidance of operating margin improvement by 200bps in FY13E led by reduction in scraps, rising average selling prices and stabilization in raw-material prices. Tax rate is expected to remain 35-37% in FY13E. The PAT margin is expected to be around 4%.

Valuation & Recommendation

Essel Propack posted good revenue increase across different region led by judicious mix of volume growth, price increase and favorable exchange rate. We feel that the company will maintain its revenue growth momentum in all the four geographies going forward led by richer product mix and addition of new customers. We expect margin to improve from hereon led by reduction in losses in Europe, broke-even at EBITDA level in Poland and stabilization of raw-material prices. We have marginally tweaked our EBITDA numbers down by 1.2% in FY13E and by 2.4% in FY14E to incorporate the uncertainties looming over the China (volume growth under pressure) in EAP region. At CMP of Rs. 32, the stock is trading at a PE of 10.6x in FY13E and 8.5x in FY14E. We have revised our target price of Rs. 41 per share (Rs. 46 per share) with a “**HOLD**” rating.

Year	Net Sales	Growth %	EBIDTA	EBIDTAM (%)	PAT	PATM (%)	EPS (Rs.)	P/E(x)	P/BV(x)	ROE
FY11	1408.3	-16%	248.6	17.7%	47.3	3.4%	3.0	12.7	0.6	6.3%
FY12	1583.7	12%	257.3	16.2%	57.4	3.6%	3.7	10.5	0.6	7.1%
FY13E	1763.6	11%	291.0	16.5%	57.7	3.3%	3.7	10.6	0.6	6.7%
FY14E	1940.3	10%	320.1	16.5%	72.4	3.7%	4.6	8.5	0.5	7.9%

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International Business: The Europe grew by 59.8% YoY to Rs. 60.1 crores led by 44% volume growth. The Europe has broken – even at operational level. The management has completed the shifting of laminated tube manufacturing facility from UK to Poland. Poland is witnessing a broken-even at EBITDA level. The management is confident of achieving break-even at PAT level by the end of FY13E in Poland and Russia. Europe reported loss of Rs. 3.7 crores in Q1FY13 as against Rs. 5 crores in Q1FY12 and Rs. 7.7 crores in Q4FY12 as

AMESA grew by 17.9% YoY to Rs 208.2 crores led by 11% volume growth. EBIT margins contracted by 10bps YoY and was down by 110bps QoQ. Americas reported a growth of 20.5% YoY to Rs 95.4 crores. Americas has reported a profit of Rs. 3.8 crores in Q1FY13 as against Rs. 0.5 crores in Q1FY12. Management has maintained the guidance for Mexico unit which was supposed to report EBIT profit by Q4FY12 is now expected to report EBIT profit in Q2FY13.

EAP region grew by 10.5% YoY to Rs. 94 crores in Q1FY13. However, EAP faces volume growth concerns due to shift by MNC's to local players in China region. China has faced a market slow down and problem with a big customer in oral care segment lead to fall in volume growth. To overcome the problem in China, the management has taken some corrective actions: a) downsized the capacity, b) expanded the market beyond oral care segment like pharma and high-end cosmetic tubes. Company has acquired necessary license by government and c) upgraded its manufacturing facility to the integrated state – of – art manufacturing facility. As per management, this going forward will improve the volume growth in China. EAP reported a fall in EBIT margins by 450bps YoY to 14.5% and by 110bps QoQ.

Q1FY13: Consolidated Result

Particulars	Q1FY13	Q1FY12	YoY%	Q4FY12	QoQ%
Net Sales	429.9	358.9	19.8%	412.0	4.3%
Other Operating Income	0.8	1.1	-27.9%	0.6	33.3%
Total Income	430.7	360.1	19.6%	412.6	4.4%
Increase / Decrease in Stock	2.4	8.2	-70.8%	10.9	-78.0%
Consumption of raw material	204.3	163.7	24.8%	192.2	6.3%
Employees Cost	70.8	56.9	24.5%	64.0	10.6%
Other Expenditure	84.0	73.7	14.1%	80.5	4.3%
Total Expenditure	361.5	302.4	19.5%	347.6	4.0%
PBIDT	69.2	57.6	20.1%	65.0	6.5%
Interest	25.1	14.5	73.6%	24.0	4.6%
Other Income	3.9	0.7	457.1%	3.8	2.6%
PBDT	48.0	43.9	9.5%	44.8	7.1%
Depreciation	31.5	27.0	16.6%	26.8	17.5%
Exceptional	0.0	0.0		1.3	-100.0%
Gain / Loss on Foreign Exchange Fluctuation (Net)	1.7	-0.5		3.5	
Tax	9.4	6.8	37.8%	-5.7	-264.9%
Reported Profit After Tax	8.8	9.5	-7.3%	25.9	-66.0%
Share of profit of associate cos.	0.7	0.5	37.3%	1.0	-30.0%
Minority Interest	-0.7	-0.6		-1.5	
Adjusted Profit After Extra-ordinary item	8.8	9.4	-6.0%	25.4	-65.4%
EPS (Unit Curr.)	0.6	0.6		1.6	
Equity	31.3	31.3		31.4	
Face Value	2.0	2.0		2.0	
PBIDTM(%)	16.1%	16.1%		15.8%	
PBDTM(%)	11.2%	12.2%		10.9%	
PATM(%)	2.0%	2.6%		6.2%	

Source: Company & Nirmal Bang Research

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Segment Analysis

Particulars	Q1FY13	Q1FY12	YoY%	Q4FY12	QoQ%
Net Segment Revenue					
AMESA	208.2	176.6	17.9%	198.1	5.1%
EAP	94.0	85.1	10.5%	88.7	6.0%
AMERICAS	95.4	79.2	20.5%	98.0	-2.7%
EUROPE	60.1	37.6	59.8%	51.6	16.5%
Unallocated	0.0	0.0		0.0	
Inter segmental elimination	-27.0	-18.5		-23.8	
Net Sales from Operations	430.7	360.0	19.6%	412.6	4.4%
Segment Results					
AMESA	24.6	21.1	16.6%	25.5	-3.5%
EAP	13.6	16.2	-16.0%	13.8	-1.4%
AMERICAS	3.8	0.5	660.0%	5.9	-35.6%
EUROPE	-3.7	-5.0	-26.0%	-7.7	-51.9%
Unallocated	-0.6	-0.9	-33.3%	-0.2	200.0%
Inter segmental elimination	0.0	-0.2		0.9	
Total	37.7	31.7	18.9%	38.2	-1.3%
Add: Other Income	3.9	4.1		3.8	
Add: Gain/(Loss) on Foreign Exchange Fluctuation	1.7	-0.5		3.5	
Segment Result	43.3	35.3		45.5	
Add: Interest Income	0.0	0.0		0.0	
Less: Interest Expense	-25.1	-19.1		24.0	
Add/(Less) Exceptional Item	0.0	0.0		1.3	
PBT	18.2	16.2		20.2	
EBIT Margins					
			BPS		BPS
AMESA	11.8%	11.9%	-10	12.9%	-110
EAP	14.5%	19.0%	-450	15.6%	-110
AMERICAS	4.0%	0.6%	340	6.0%	-200
EUROPE	-6.2%	-13.3%	710	-14.9%	870
Total	8.8%	8.8%	0	9.3%	-50

Source: Company & Nirmal Bang Research

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Consolidated Financials

Profitability (Rs. Cr)	FY11	FY12	FY13E	FY14E
Y/E - March				
Revenues - Net	1408.3	1583.7	1763.6	1940.3
% change	4.6%	12.5%	11.4%	10.0%
EBITDA	248.6	257.3	291.0	320.1
% change	7.6%	3.5%	13.1%	10.0%
Interest	85.1	84.2	92.9	93.5
Other Income	24.40	16.70	17.46	18.46
EBDT	187.9	189.8	215.6	245.1
Depreciation	107.0	110.0	122.4	128.6
Forex Gain / Loss	2.0	-0.8	0.0	0.0
PBT	82.9	79.0	93.1	116.5
Extraordinary	1.4	1.3	0.0	0.0
Tax	33.8	19.7	34.5	43.1
PAT	47.7	58.0	58.7	73.4
Share of Profit & loss	2.5	2.5	3.0	3.5
Minority Interest	3.0	3.1	4.0	4.5
PAT after MI	47.3	57.4	57.7	72.4
Loss from discontinuing opera	0.0	9.5	0.0	0.0
PAT	47.3	47.9	57.7	72.4
Adj.PAT	48.1	58.4	57.7	72.4
EPS	3.0	3.7	3.7	4.6
Adj EPS*	3.1	3.7	3.7	4.6
Cash EPS	9.9	10.7	11.5	12.9
DPS (Rs.)	0.6	0.7	0.8	0.7
Quarterly (Rs. Cr)	Sep.11	Dec.11	Mar.12	Jun.12
Net Revenue including OI	396.3	414.8	412.6	430.7
EBITDA	63.1	67.0	65.0	69.2
Interest	14.0	15.9	24.0	25.1
EBDT	49.1	51.1	41.0	44.1
Dep	27.3	28.9	26.8	31.5
Other Inc.	0.3	0.7	3.8	3.9
Forex Gain / Loss	-3.3	-0.5	3.5	1.7
Exceptional Items	0.0	0.0	1.3	0.0
PBT	18.8	22.4	20.2	18.2
Tax	9.9	8.7	-5.7	9.4
PAT	8.9	13.7	25.9	8.8
Share of Profit of Associates	0.6	0.4	1.0	0.7
Minority Interest	-0.4	-0.6	-1.5	-0.7
PAT after MI	9.1	13.6	25.4	8.8
EPS (Rs.)	0.6	0.9	1.6	0.6
Operational Ratio	FY11	FY12	FY13E	FY14E
EBITDA margin (%)	17.7%	16.2%	16.5%	16.5%
Adj.PAT margin (%)	3.4%	3.7%	3.3%	3.7%
Adj.PAT Growth (%)	46.5%	21.4%	-1.2%	25.6%
Price Earnings (x)	12.7	10.5	10.6	8.5
Book Value (Rs.)	50.8	53.6	56.5	59.6
ROCE (%)	10.3%	9.7%	10.2%	11.1%
RONW (%)	6.3%	7.1%	6.7%	7.9%
Debt Equity Ratio	1.0	1.1	1.1	1.0
Price / Book Value (x)	0.8	0.7	0.7	0.7
EV / Sales	0.8	0.8	0.7	0.8
EV / EBIDTA	4.4	4.7	4.1	3.6

Balance Sheet (Rs. Cr)	FY11	FY12	FY13E	FY14E
Share Capital	31.3	31.4	31.4	31.4
Equity/Warrant	0.0	0.0	0.0	0.0
Reserves & Surplus	764.4	810.8	855.9	903.6
Net Worth	795.7	842.2	887.3	935.0
Minority Interest	6.7	9.8	13.8	18.3
Total Loans	813.2	936.0	999.0	949.0
Net Deferred Tax Assets	-8.3	-8.3	-8.3	-8.3
Total Liabilities	1607.3	1779.7	1891.8	1894.0
Net Fixed Assets	610.5	638.7	616.3	562.7
Investments	49.9	49.9	49.9	49.9
Goodwill	360.7	360.7	360.7	360.7
CWIP	38.2	0.0	0.0	0.0
Forex Diff	0.7	0.0	0.0	0.0
Inventories	211.1	282.0	314.1	345.5
Sundry Debtors	218.2	303.7	323.7	356.2
Cash & Bank	64.4	88.2	171.5	169.5
Loans & Advances	284.6	311.4	347.9	372.1
C A L&A	778.2	985.4	1157.2	1243.3
CL & P	241.3	265.3	302.6	332.9
Working Capital	536.9	720.1	854.6	910.4
Misc Exp	10.3	10.3	10.3	10.3
Total Assets	1607.3	1779.7	1891.8	1894.0
Cash Flow (Rs. Cr)	FY11	FY12	FY13E	FY14E
Operating				
Profit Before Tax	82.9	79.0	93.1	116.5
Direct Taxes paid	-41.7	-19.7	-34.5	-43.1
Depreciation	107.0	110.0	122.4	128.6
Change in WC	-52.9	-156.0	-48.3	-64.9
Interest Expenses	76.7	84.2	92.9	93.5
Other Non cash items	-16.1	-1.3	0.0	0.0
CF from Operation	155.9	96.2	225.7	230.6
Investment				
Capex	-61.3	-100.0	-100.0	-75.0
Other Investment	0.0	0.0	0.0	0.0
Total Investment	-61.3	-100.0	-100.0	-75.0
Free Cash Flow	94.6	-3.8	125.7	155.6
Financing				
Equity raised/(repaid)	0.0	0.0	0.0	0.0
Inc/Dec in Reserves	0.0	0.0	0.0	0.0
Debt raised/(repaid)	-26.6	122.8	63.0	-50.0
Dividend (incl. tax) paid	-13.3	-11.0	-12.6	-14.1
Deferred Revenue Exp.	-7.0	0.0	0.0	0.0
Interest Expenses	-77.7	-84.2	-92.9	-93.5
Cash Flow from Fin Acti	-124.6	27.6	-42.4	-157.6
Net Cash Flow	-30.0	23.9	83.3	-2.0
Beginning Cash Flow	94.4	64.4	88.2	171.5
Cash as in Bal Sheet	64.4	88.2	171.5	169.5

Source: Company & Nirmal Bang Research

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