

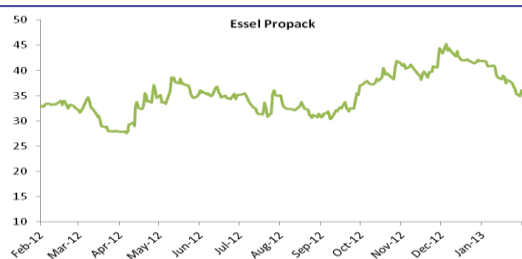
Essel Propack Ltd.

Recommendation	BUY
CMP	Rs. 38
Target Price	Rs. 54
Sector	Packaging

Stock Details

BSE Code	500135
NSE Code	ESSELPACK
Bloomberg Code	ESEL IN
Market Cap (Rs cr)	590
Free Float (%)	40.9%
52- wk HI/Lo (Rs)	47/27
Avg. volume BSE (Quarterly)	41298
Face Value (Rs)	2.0
Dividend (FY 12)	0.65 per share
Shares o/s (Cr)	15.7

Relative Performance	1Mth	3Mth	1Yr
Essel Propack	-13.8%	-13.2%	9.1%
Sensex	-0.6%	4.8%	11.0%

Shareholding Pattern 31st Dec 2012

Foreign Promoter Holding	0.1%
Indian Promoters Holding	58.9%
Institutional (Incl. FII)	16.9%
Corporate Bodies	8.3%
Public & others	15.9%

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Growth momentum to continue

Essel Propack Global operations reported a steady growth in net sales 7.9% YoY and down by 5.9% QoQ to Rs. 444.3 crore. The revenue was up on account of growth in all four regions comprising AMESA (7.6% YoY), Europe (22.8% YoY), EAP (6.2% YoY) and America (4.6% YoY), in Q3FY13. The revenue witnessed a steady growth on the account of judicious product mix and price hike to the tune of ~2% during the quarter.

The company reported a 17.5% YoY jump in EBITDA to the tune of Rs. 81.1 crore in Q3FY13 and down by 7.1% QoQ. The margin stood 18.2% in Q3FY13 as compared to 16.8% in Q3FY12 and 18.5% in Q2FY13. Gross margin expand by 140bps YoY to 52% in Q3FY13 and by 160bps QoQ due to the lower input cost.

The operating margin has jumped YoY as the contribution of non-oral care has improved by 4.8% to 39.9% in value terms. Management has guided to increase the contribution from non-oral care segment to 50% by FY15E. **The management has guided EBIDTA margin for FY13E to be ~18% driven mainly by healthy product mix (higher contribution from non-oral care) and continuous cost control.**

The reported PAT increased by 62.4% YoY to Rs. 22.3 crore and down by 3.3% QoQ. The PAT margin was 5% in Q3FY13 as compared to 3.3% in Q3FY12 and 4.9% in Q2FY13. This was mainly on account of reduction in tax rate to 30.1% in Q3FY13 as against 38.8% in Q3FY12 and 35.1% in Q2FY13. The reason for the decline in tax rate attributed to the few non-performing geographies has started showing improvement.

The company had reported a forex gain of Rs. 0.14 crore in Q3FY13 as against forex loss of Rs. 0.52 crore in Q3FY12 and forex gain of Rs. 0.25 crore in Q2FY13.

India Standalone Operations also posted a steady performance. Net profit for Q3FY13 is Rs. 11.5 crore up by 11.8% over Q3FY12. Net Sales was up by 13% YoY to Rs. 144.9 crore and marginally down by 1.1% QoQ. Operating profit for the quarter stood at Rs. 30.7 crore, grew by 14.2% compared to previous year.

Valuation & Recommendation

Essel Propack posted steady revenue increase across different region led by judicious mix of increase in the contribution by non-oral care, price increase and favorable exchange rate. The management has guided to close FY13E with a revenue growth by ~12% on constant basis (no currency gain) and the operating margin to be ~18%. The Q4 which is seasonally a weak quarter as per the guidance by the management will report muted result; in our view. The outlook for the company looks favorable in terms of steady revenue growth 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 emphasis over higher contribution from the non-oral care segment which is gaining traction, though losses in Europe is a matter of concern. **At CMP of Rs. 38, the stock is trading at a PE of 8.3x in FY13E and 7.2x in FY14E. We have maintained our target price of Rs. 54 per share with a "BUY" rating.**

Year	Net Sales	Growth %	EBIDTA	EBIDTAM (%)	PAT	PATM (%)	EPS (Rs.)	P/E(x)	P/BV(x)	ROE
FY11	1408.3	-16%	248.6	17.6%	44.1	3.1%	2.8	13.1	0.7	6.2%
FY12	1583.7	12%	266.7	16.8%	61.5	3.9%	3.9	9.8	0.7	7.4%
FY13E	1774.1	12%	313.1	17.7%	72.4	4.1%	4.6	8.3	0.6	8.1%
FY14E	1974.2	11%	346.5	17.6%	85.4	4.3%	5.4	7.2	0.6	8.7%

Essel Propack Ltd.

International Business: The Europe grew by 22.8% YoY to Rs. 53.2 crore and down by 11% QoQ. The company has planning to shift plastic tube unit to India by May 2013 due to the continued pressure on the Europe business. Europe reported loss of Rs. 11.9 crore in Q3FY13 as against Rs. 13 crore in Q3FY12 and Rs. 7.7 crore in Q2FY13.

AMESA grew by 7.6% YoY to Rs 214.9 crore and down by 2.4% QoQ. An EBIT margin was up by 10bps YoY and by 140bps QoQ to 20.7% in Q3FY13.

EAP region grew by 6.2% YoY to Rs. 106.3 crore in Q3FY13 and down by 6.5% QoQ. The Company is implementing a project in the EAP region for supply of cosmetic tubes under a long term supply agreement. The management expects to kick-off the project in September 2013.

The AMERICAS reported an upside of 4.6% YoY to Rs. 96.1 crore and down by 13.9% QoQ. The region has achieved a break-even due to the acquisition of new customers and improved operating efficiencies.

Q3FY13: Consolidated Result

Particulars	Q3FY13	Q3FY12	YoY%	Q2FY13	QoQ%
Net Sales	444.3	411.7	7.9%	472.6	-6.0%
Other Operating Income	3.6	3.1	18.0%	4.1	-11.1%
Total Income	447.9	414.8	8.0%	476.6	-6.0%
Increase / Decrease in Stock	2.0	7.8	-74.7%	9.0	-77.9%
Consumption of raw material	211.3	195.5	8.1%	225.2	-6.2%
Employees Cost	71.0	62.0	14.5%	70.8	0.3%
Other Expenditure	82.6	80.5	2.7%	84.5	-2.1%
Total Expenditure	366.9	345.8	6.1%	389.4	-5.8%
EBITDA	81.1	69.0	17.5%	87.2	-7.1%
Interest	21.0	21.4	-1.6%	23.8	-11.8%
Other Income	4.9	4.2	15.4%	4.5	9.4%
EBDT	64.9	51.8	25.2%	67.8	-4.3%
Depreciation	33.2	28.9	14.8%	32.6	1.9%
Exceptional	0.0	0.0		0.0	
Gain / Loss on Foreign Exchange Fluctuation (Net)	0.1	-0.5	-126.9%	0.3	-44.0%
Tax	9.6	8.7	10.3%	12.5	-23.1%
Reported Profit After Tax	22.3	13.7	62.4%	23.0	-3.3%
Share of profit of associate cos.	0.5	0.4		0.7	
Minority Interest	-0.7	-0.6		-0.5	
Adjusted Profit After Extra-ordinary item	22.1	13.6	62.4%	23.2	-5.0%
EPS (Unit Curr.)	1.4	0.9		1.5	
Equity	31.4	31.4		31.4	
Face Value	2.0	2.0		2.0	
			BPS		BPS
EBITDA(%)	18.2%	16.8%	240	18.5%	230
EBDT(%)	14.6%	12.6%	180	14.4%	310
PAT(%)	5.0%	3.3%	260	4.9%	290

Source: Company & Nirmal Bang Research

Essel Propack Ltd.

Segment Analysis Q3FY13

Particulars	Q3FY13	Q3FY12	YoY%	Q2FY13	QoQ%
Net Segment Revenue					
AMESA	215.0	199.8	7.6%	220.2	-2.4%
EAP	106.3	100.1	6.2%	113.6	-6.5%
AMERICAS	96.1	91.8	4.6%	111.6	-13.9%
EUROPE	53.2	43.3	22.8%	59.8	-11.0%
Unallocated	0.0	0.0		0.0	
Inter segmental elimination	-22.6	-20.3		-28.6	
Net Sales from Operations	447.9	414.8	8.0%	476.6	-6.0%
Segment Results					
AMESA	29.1	24.3	19.7%	30.5	-4.5%
EAP	22.0	20.6	7.1%	21.9	0.6%
AMERICAS	4.1	-0.8		7.9	-48.0%
EUROPE	-6.3	-5.7		-4.6	
Unallocated	-1.1	-0.8		-0.9	
Inter segmental elimination	0.0	0.4		-0.1	
Total	47.9	38.1	25.7%	54.7	-12.5%
Add: Other Income	4.9	0.7		4.4	
Add: Gain/(Loss) on Foreign Exchange Fluctuation	0.1	-0.5		0.3	
Segment Result	52.9	38.3		59.4	
Add: Interest Income	0.0	3.5		0.0	
Less: Interest Expense	-21.0	-19.4		-23.9	
Add/(Less) Exceptional Item	0.0	0.0		0.0	
PBT	31.8	22.4	42.2%	35.5	-10.3%
EBIT Margins					
			BPS		BPS
AMESA	13.6%	12.2%	140	13.9%	-30
EAP	20.7%	20.6%	10	19.3%	140
AMERICAS	4.3%	-0.8%	510	7.1%	-280
EUROPE	-11.9%	-13.0%	110	-7.7%	-420
Total	10.7%	9.2%	150	11.5%	-80

Source: Company & Nirmal Bang Research

Essel Propack Ltd.

Consolidated Financials

Profitability (Rs. Cr)	FY11	FY12	FY13E	FY14E
Y/E - March				
Revenues - Net	1408.3	1583.7	1774.1	1974.2
% change	4.6%	12.5%	12.0%	11.3%
EBITDA	248.6	266.7	313.1	346.5
% change	7.6%	7.3%	17.4%	10.6%
Interest	85.1	84.1	93.8	96.0
Other Income	26.4	19.7	19.3	19.5
EBDT	189.9	202.3	238.6	270.0
Depreciation	107.0	117.0	128.9	137.7
Forex Gain / Loss	0.0	0.0	0.0	0.0
PBT	82.9	85.3	109.7	132.2
Extraordinary	4.5	1.3	2.1	0.0
Tax	33.8	22.3	39.1	46.3
PAT	44.6	61.6	72.7	85.9
Share of Profit & loss	2.5	2.4	2.5	3.0
Minority Interest	-3.0	-2.5	-2.8	-3.5
PAT after MI	44.1	61.5	72.4	85.4
Loss from discontinuing opera	-3.1	10.2	0.0	0.0
PAT	47.3	51.3	72.4	85.4
Adj.PAT	46.7	62.5	73.8	85.4
EPS	2.8	3.9	4.6	5.4
Adj EPS*	3.0	4.0	4.7	5.4
Cash EPS	9.7	11.4	12.8	14.2
DPS (Rs.)	0.6	0.7	0.8	0.7
Quarterly (Rs. Cr)	Mar.12	Jun.12	Sep.12	Dec.12
Net Revenue including OI	412.6	430.7	476.6	447.9
EBITDA	54.2	69.2	87.3	81.1
Interest	24.0	25.1	23.9	21.0
EBDT	30.2	44.1	63.4	60.0
Dep	26.8	31.5	32.6	33.2
Other Inc.	7.3	5.6	4.4	4.9
Forex Gain / Loss	0.0	0.0	0.3	0.1
Exceptional Items	0.0	0.0	0.0	0.0
PBT	10.7	18.2	35.5	31.8
Tax	-5.7	9.4	12.5	9.6
PAT	16.4	8.8	23.0	22.3
Share of Profit of Associates	1.0	0.7	0.7	0.5
Minority Interest	-1.5	-0.7	-0.5	-0.7
Extraordinary items	-1.3	0.0	0.0	0.0
PAT after MI	17.2	8.8	23.2	22.1
EPS (Rs.)	1.1	0.6	1.5	1.4
Operational Ratio	FY11	FY12	FY13E	FY14E
EBITDA margin (%)	17.6%	16.8%	17.7%	17.6%
Adj.PAT margin (%)	3.3%	3.9%	4.2%	4.3%
Adj.PAT Growth (%)	42.4%	33.8%	18.1%	15.8%
Price Earnings (x)	13.1	9.8	8.3	7.2
Book Value (Rs.)	52.2	56.1	60.0	64.5
ROCE (%)	10.4%	9.8%	10.8%	11.6%
RONW (%)	6.2%	7.4%	8.1%	8.7%
Debt Equity Ratio	1.0	1.1	1.1	1.0
Price / Book Value (x)	0.7	0.7	0.7	0.6
EV / Sales	0.9	0.9	0.8	0.9
EV / EBITDA	4.7	4.8	4.4	4.0

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	786.6	850.3	910.2	981.5
Net Worth	817.9	881.7	941.6	1012.9
Minority Interest	6.5	7.5	10.3	13.8
Total Loans	810.7	935.2	999.2	979.2
Net Deferred Tax Assets	-8.8	-8.5	-8.5	-8.5
Total Liabilities	1626.3	1815.9	1942.6	1997.4
Net Fixed Assets	993.2	1123.9	1133.5	1085.8
Investments	49.9	44.6	47.1	50.1
Goodwill	0.0	0.0	0.0	0.0
CWIP	27.8	38.5	0.0	0.0
Forex Diff	0.7	-1.9	0.2	0.2
Inventories	211.1	198.0	291.6	351.6
Sundry Debtors	218.2	250.1	330.5	367.8
Cash & Bank	64.1	90.7	80.6	61.9
Loans & Advances	317.4	348.0	420.4	481.4
C A L&A	810.7	886.7	1123.2	1262.6
CL & P	256.1	275.9	361.5	401.3
Working Capital	554.7	610.8	761.7	861.3
Misc Exp	0.0	0.0	0.0	0.0
Total Assets	1626.3	1815.9	1942.6	1997.4
Cash Flow (Rs. Cr)	FY11	FY12	FY13E	FY14E
Operating				
Profit Before Tax	82.9	85.3	109.7	132.2
Direct Taxes paid	-40.5	-33.7	-39.1	-46.3
Depreciation	107.0	117.0	128.9	137.7
Change in WC	-36.9	-18.1	-160.9	-118.3
Interest Expenses	76.7	76.8	93.8	96.0
Other Non cash items	-16.1	-32.1	0.0	0.0
CF from Operation	173.1	195.1	132.3	201.4
Investment				
Capex	-62.4	-159.0	-100.0	-90.0
Other Investment	0.0	0.0	0.0	0.0
Total Investment	-62.4	-159.0	-100.0	-90.0
Free Cash Flow	110.7	36.0	32.3	111.4
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)	-29.1	86.3	64.0	-20.0
Dividend (incl. tax) paid	-13.3	-16.2	-12.6	-14.1
Deferred Revenue Exp.	-7.0	0.0	0.0	0.0
Ancillary borrowing cost incurred	0.0	-1.7	0.0	0.0
Interest Expenses	-77.7	-77.5	-93.8	-96.0
Cash Flow from Fin Acti	-127.1	-9.0	-42.4	-130.1
Net Cash Flow	-16.3	27.0	-10.1	-18.7
Beginning Cash Flow	77.0	60.7	90.7	80.6
Cash & Cash Equivalents acquired on merger	0.0	0.0	0.0	0.0
Net Cash & cash equivalents	60.7	87.7	80.6	61.9
Add: Earmarked balances with banks	3.4	2.9	0.0	0.0
Cash as in Bal Sheet	64.1	90.7	80.6	61.9

Source: Company & Nirmal Bang Research



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