Essel Propack

Performance Highlights

Essel Propack (EPP) 4QCY2009 results were ahead of our expectation primarily due to the lower Tax rate. EPP continued to be Profitable on the back of its stringent cost cutting initiatives, increasing contribution from high-Margin products and better production mix in its various geographies. During 3QFY2010, EPP sold its Medical Division for approximately Rs110cr, proceeds of which it proposes to utilise to reduce its debt burden. Thus, owing to higher-than-expected 4QFY2010 performance and change in year end, we have revised our estimates as well as Target Price to Rs58 (Rs53 earlier). **We maintain a Buy on the stock.**

Sales and Production rationalisation improves EBITDA Margin: EPP's 4QFY2010 Sales fell by 2%, as it is consolidating its operations and increasingly shifting focus to high-Margin Segments, while reducing its exposure to the low-Margin businesses. Hence, though the quarter Sales came in muted, it was compensated by better Profitability and Earnings. In line with this, while the East Asia-Pacific region registered strong 25.5% yoy growth, the Americas and Europe de-grew by 18.1% and 8.7%, respectively. EBITDA Margins for the quarter improved from 3.5% in 4QCY2008 to 16.6% in 4QCY2009.

Reduction in loss in Europe region

The company's EU operations have been a major drag on its overall Profitability as the new plant in Poland has not been doing well. Hence, the company had been working towards turning around the unit. In 4QCY2009, the company managed to cut Losses of this unit to Rs10cr from an all-time high of Rs35cr in 4QCY2008.

Outlook and Valuation:

EPP is turning around as per our expectation. Its European operations pruned losses to a great extent in 4QFY2010. Consequently, we expect EU to break-even on the EBITDA front by end of March 2010E. Pertinently, overall management targets to achieve 22% OPM by FY2012. Nonetheless, on conservative basis, we expect EPP to clock OPM of 20% in FY2012E. With the company continuing to progress at a good pace and revision in estimates due to the higher-than-expected 4QFY2010 performance and change in year end, we maintain a Buy on the stock, with a revised Target Price of Rs58 (Rs53), implying annualised returns of 19%.

Key Financials

Y/E March (Rs cr)	CY2008	FY2010E*	FY2011E	FY2012E
Net Sales	1,291	1,692	1,350	1,471
% chg	8.2	31.0	(20.2)	8.9
Net Profit	(88.3)	76.1	79.7	126.3
% chg	(245.2)	-	4.7	58.5
EBITDA Margin (%)	13.9	18.2	19.5	20.3
EPS (Rs)	-	4.9	5.1	8.1
P/E (x)	-	9.7	9.2	5.8
P/BV (x)	1.1	1.0	0.9	0.8
RoE (%)	-	10.7	10.4	14.8
RoACE (%)	4.1	10.4	10.6	14.4
EV/Sales (x)	1.3	0.9	0.9	0.7
EV/EBITDA (x)	9.1	4.8	4.4	3.2

Source: Company, Angel Research; Note: FY2010E numbers are for 15 months*

BUY

CMP	Rs47
Target Price	Rs58
Investment Period	15 Months

Stock Info	
Sector	Packaging
Market Cap (Rs cr)	735
Beta	0.8
52 WK High / Low	59/10
Avg Daily Valume	160,036
Face Value (Rs)	2
BSE Sensex	16,496
Nifty	4,932
Reuters Code	ESSL.BO
Bloomberg Code	ESEL@IN

Shareholding Pattern (%)	
Promoters	58.9
MF/Banks/Indian FLs	18.7
FII/NRIs/OCBs	5.0
Indian Public	17.4

Ab	**3m**	**1yr**	**3yr**
Sensex	7.1	80.3	14.5
Essel	17.7	248.6	(40.0)

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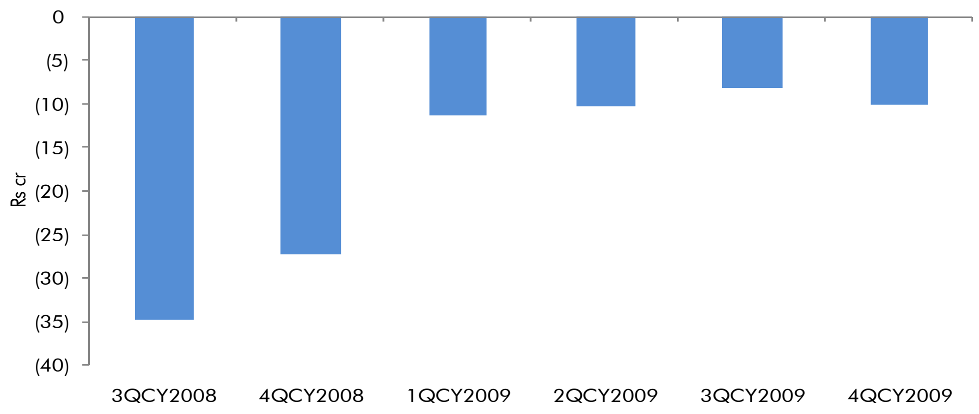
Sales in consolidation phase: EPP's Net Sales fell by 2% by to Rs350.2cr (Rs358cr) in 4QCY2009, as against our estimate of a 5% increase to Rs375cr. The company is currently in the midst of consolidating its operations wherein it is increasing focus on its high-Margin businesses, while reducing exposure to the low-Margin businesses. Hence, although the company registered muted Sales growth for the quarter, it was compensated by better Profitability and Earnings.

Mixed Segmental growth: Europe de-grew by 8.7%, as it restructured its production to register Profitability. EAP maintained its growth momentum and increased its Revenue by 25.5% yoy during the quarter. The Americas posted a decline in Revenue of 18% due to down stocking by customers. AMESA remained almost flat at Rs144cr due the slowdown in off take following inventory build at the customers' end.

EBITDA Margin in line; targets to reach CY2006 levels: EPP posted EBITDA Margin of 17% (3.5%) in 4QCY2009 on the back of the cost cutting initiatives undertaken at its various manufacturing units. Europe, which managed to reduce its Losses by a substantial 63% yoy, was the biggest contributor to this improvement in Margins.

Exhibit 1: Reducing losses in Europe division

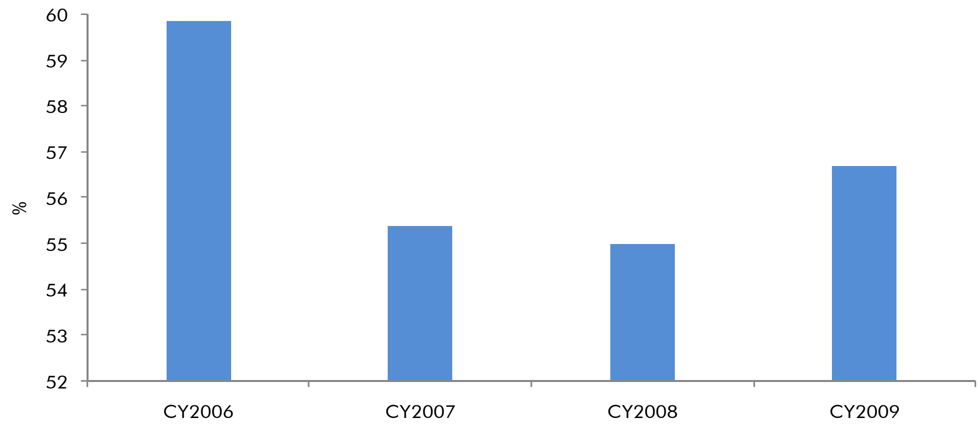


Source: Company, Angel Research

Key Highlights for CY2009

- Total Sales for CY2009 stood at Rs1,358cr (Rs1,291cr), a growth of 5.2% yoy. Impact of the various cost cutting imitatives are visible from the improvement in Gross Margins from 55% in CY2008 to 57% in CY2009.

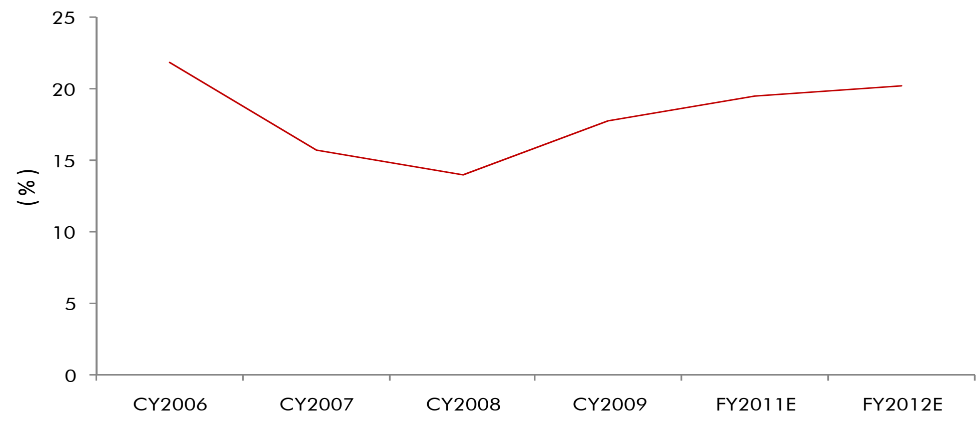
Exhibit 2 : Gross Margin inching towards historic level



Source: Company, Angel Research

- OPM for the year stood at 18% (14%). EPP is targeting to achieve CY2006 OPM levels of 22% in FY2012E. We have however, conservatively estimated EPP to clock OPM of 20% in FY2012E.

Exhibit 3: Company target EBITDA level of CY2006



Source: Company, Angel Research

- PAT came in higher than estimated primarily on account of lower Tax rate and Profit from sale of the Medical Device Division. Adj PAT for CY2009 stood at Rs42cr as against a Loss of Rs64cr in CY2008.

Exhibit 4: 4QFY2009 Performance

Y/E March (Rs cr)	CY09 4Q	CY08 4Q	% chg (yoy)	CY09	CY08	% chg (yoy)
Net Revenues	**350.2**	**357.7**	*(2.1)*	**1,358.1**	**1,291.1**	*5.2*
Raw material cost	155.8	132.5	*17.6*	588.1	581.0	*1.2*
Gross Profit	**194.4**	**225.2**	*(13.7)*	**770.0**	**710.1**	*8.4*
Other expenditure	136.4	212.7	*(35.8)*	534.6	530.0	*0.9*
Operating Profit (EBITDA)	**58.0**	**12.5**	*362.9*	**241.3**	**180.1**	*34.0*
Other Income	0.3	(1.1)	-	9.2	3.8	*138.7*
Depreciation	26.5	35.3	*(25.0)*	111.9	112.0	*(0.1)*
Interest	16.2	3.4	*374.3*	71.5	69.9	*2.4*
Income before Income Taxes	**18.2**	**(36.8)**	*(149.5)*	**67.1**	**2.8**	*2,265.0*
Tax	6.2	21.6	*(71.3)*	37.0	34.6	*6.9*
Minority Interest	1.1	6.0	*(81.6)*	(0.2)	(56.6)	-
Extraordinary Items	(30.8)	0.0	-	(27.7)		-
Net Income	**41.7**	**(64.4)**	-	**58.0**	**(88.3)**	-
Diluted EPS (Rs)	**2.7**	**(4.1)**	-	**3.7**	**(5.6)**	-
Gross Profit Margin (%)	55.5	63.0	*(744)bp*	56.7	55.0	*170bp*
EBITDA Margin (%)	16.6	3.5	*1305bp*	17.8	13.9	*382bp*
Net Profit Margin (%)	11.9	-		4.3	-	

Source: Company, Angel Research

Exhibit 5: 4QFY2009 segmental revenue break up

Y/E March (Rs cr)	CY09 4Q	CY08 4Q	% chg (yoy)	CY09	CY08	% chg (yoy)
Revenues						
AMESA	144.1	142.0	*1.5*	540.7	500.5	*8.0*
EAP	70.9	56.5	*25.5*	299.7	248.3	*20.7*
Americas	106.3	129.9	*(18.1)*	417.3	386.2	*8.1*
Europe	28.8	31.6	*(8.7)*	110.5	155.7	*(29.0)*
Total	**350.2**	**360.4**	***(2.8)***	**1,368.1**	**1,291.1**	***6.0***
PBIT						
AMESA	24.8	28.1	*(11.9)*	103.1	66.3	*55.5*
EAP	22.3	19.0	*17.8*	78.6	63.1	*24.5*
Americas	(1.4)	(0.6)	-	22.5	17.0	*32.3*
Europe	(10.1)	(27.4)	-	(40.0)	(91.7)	-
Other	3.4	8.2	-	20.4	61.6	-
Total	**39.0**	**27.2**	***43.2***	**184.5**	**116.3**	***58.6***
PBIT margins						
AMESA	17.2	19.8	(261)bp	19.1	13.2	582bp
EAP	31.5	33.5	(207)bp	26.2	25.4	80bp
Americas	-	-	-	5.4	4.4	99bp
Europe	-	-	-	-	-	-
Total	11.1	7.6	358bp	13.5	9.0	448bp

Source: Company, Angel Research

Outlook and Valuation

EPP's Europe operations managed to reduce Losses to Rs10cr in 4QCY2009 from Rs35cr in 3QCY2008, a decline of 70%. Currently, operations are almost EBITDA neutral and we expect it to turn Profitable by 1QCY2010. The company has aggressively been adding new customers, which is likely to continue going ahead too and provide Volume-driven growth once the targeted Profitability is achieved. Moreover, due to the overall restructuring of operations, EPP's Gross Margin is moving towards its historic levels of 60%, while it achieved EBITDA Margin of 17% in 4QCY2009 (3.5% in 4QCY2008) and we estimate it to touch 20.3% levels in FY2012E.

On the valuation front, at the CMP of Rs47, the stock is trading at 0.7x FY2012E EV/Sales and 0.8x CY2012E P/BV. We maintain a Buy on the stock, with a revised Target Price of Rs58 (Rs53 earlier), implying annualised returns of 19%.

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DISCLAIMER

Note: Please refer important `Stock Holding Disclosure' report on Angel web-site (Research Section).

Disclosure of Interest Statement	Essel Propack
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 5 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :			
	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to -15%)	Sell (< -15%)	

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