Company Name	**Essel Propack Ltd. (EPL)**	
Price / Recommendation	72/-	**BUY**

Sector	Packaging
One Year Target Price	Rs.100/-
Market Capitalisation	Rs. 1,127 crore
52–week range	Rs. 61-97
Shares in issue (mio.)	156.60
BSE Ticker	500135
NSE Ticker	ESSELPACK
BSE Sensex	12430.40

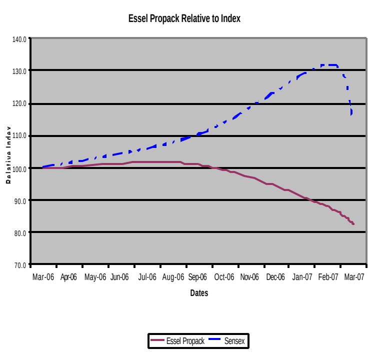
Shareholding Pattern on Dec. 2006

	%
Promoters	58.92 %
FIIs	4.75 %
MFs / UTI	10.19 %
Banks / FIs	1.81 %
Others	24.33 %

Price Performance (%)

	1M	6M	12M
Absolute	-6%	-18%	-18%
Relative to BSE Sensex	7%	-22%	-32%

Relative Performance (Chart)



Investment Rationale

- EPL is a broad play in specialty packaging with interests in laminated tubes (LT) (world leader with 32% market share and sole wholly integrated manufacturer worldwide), plastic tubes (PT), medical devices (MD) and specialty flexible packaging (SP), all revolving around polymer processing.
- It plans to further consolidate its position in LT and increase market share to 40% by CY 2009. For this it has pioneered innovative Inviseam tubes and Minitubes technologies to high end segments like hair & skin care and pharma industry.
- Going ahead, PT would be a major growth driver. Towards this end, EPL is aggressively developing capacities in US and Europe. By CY 2009, capacity would be 6 times existing capacities.
- It has ventured into fast growing niche of cardiac catheters (MD) by leveraging core competency in plastic processing.
- It has also diversified into food processing for FMCG and high margin pharma packaging (SP) to capitalise on vast opportunities from India's rising status as outsourcing destination in pharma and current retail boom.
- Thus, it has embarked on major growth phase and expects to more than double its turnover to over Rs. 2,250 crore by CY 2009 with substantial de-risking of business as chunk of revenues coming from SP & MD (contribution to revenue to rise to 35-40% from present 10%) and improved profitability.

Investment Concerns

- Ability to execute projects and carry out its inorganic growth plans on schedule.
- Management and passing on increases in costs.

Recommendation

- At CMP (face value – Rs. 2/-), share is trading at 11.8 times CY 2006 actual EPS of Rs. 6.1 and 9.4 times CY 2007 expected EPS of Rs. 7.7.
- EPL's proven capabilities, market leadership position, global visibility & scale, long standing relations with its customers and technological capability have put it in good stead to capitalise on retail boom in India and increased need for convenience packaging, and grow its other businesses as per plan. Hence, we recommend to **"BUY"** the share at CMP.

Consolidated Financial Summary **Rs. Crore**

Year ended on December	**2005 A**	**2006 A**	***% Inc.***	**2007 E**	***% Inc.***	**2008 E**	***% Inc.***
Net Sales	816.63	1,009.20	***23.6%***	1,281.68	***27.0%***	1,730.27	***35.0%***
EBITDA	210.31	232.00	***10.3%***	311.94	***34.5%***	416.12	***33.4%***
EBITDA (%)	***23.7%***	***21.9%***		***23.2%***		***23.2%***	
Interest Expenses / (Income)	13.20	23.50	***78.0%***	34.82	***48.2%***	34.22	***-1.7%***
Depreciation	76.62	86.50	***12.9%***	108.82	***25.8%***	120.56	***10.8%***
P.B.T.	120.50	122.00	***1.2%***	168.30	***38.0%***	261.35	***55.3%***
Net Profit (after minority interest)	90.15	98.88	***9.7%***	119.95	***21.3%***	183.65	***53.1%***
Annualised Consolidated EPS (Rs)	5.76	6.09	***5.7%***	7.66	***25.9%***	11.73	***53.1%***
Book Value (Rs)	44.94	48.74		53.21		59.81	
RONW (%)	12.9%	13.0%		15.0%		20.8%	
ROCE (%)	0.0%	0.0%		0.0%		15.3%	
P/E (x)	12.50	11.82		9.39		6.13	

About EPL

- EPL is leader in LT with share of 32% (global market size 13-14 billion tubes). It has 23 plants (total capacity – 4.7 billion tubes) across 12 countries catering to esteemed clients like Colgate-Palmolive, SmithKline Beecham, P&G (100% supplier to P&G US), etc. EPL also has the distinction of being the only fully integrated LT manufacturer in the world.

- Of late company has focused its energies in developing PT business (capacity of 220 million tubes) and has also recently entered in niches of MD (acquired from Tacpro, US and Avalon Medical Devices, Singapore in April '06) and SP (acquired from Packaging India Pvt. Ltd. in October '06).

Investment Rationale

- EPL plans to further augment its position as world leader in LT and increase market share from 32% to ~ 40% by end of CY 2009. Towards this end it is expanding its USA plant and is also getting aggressive in Europe. Further it has successfully developed new technologies:

  - Inviseam tubes (giving more aesthetic appeal) are a value added product that will enable company to expand its customer portfolio, which hitherto was oral care centric, to cater to higher end hair & skin care segments.

  - In Minitubes, company has developed a cost efficient proposal catering to unique requirements of pharma industry thus opening up huge conversion opportunity (from aluminium tube to LT) besides opening up new price points in FMCG sector (especially in oral care). With increasing acceptance of the product in pharma industry, company now plans to launch it in USA also.

- Company is now actively diversifying into other businesses to circumvent limited growth prospects in LT business. It has laid elaborate plans to substantially grow its PT business (which is 3/4th size of LT market but is valued @ 3 times) and increase its world market share from ~2.5% to 15%. This will enable company to substantially increase its exposure to more lucrative and high end cosmetics segment, etc. For this company has expanded its existing UK plant and has set up state of art PT plants in:

Plant	Commissioning Date	Capacity (million tubes)		Start adding to topline from
		CY 2007	CY 2009	
USA	December 2006	150	450	Q3 CY 2007
Poland	Q3 CY 2007	200	600	CY 2008

- Entry into MD business has helped company to diversify from tubes business (which contributed ~ 90% of revenues in CY 2006) into a niche fast growing segment of cardiac catheters and leverage its core competencies in plastic processing. Cardiac catheters are used in non invasive procedures that have big potential due to increasing life style diseases and preference for non invasive or minimum invasive surgery procedures. Company plans to extend product portfolio to other areas as well such as other types of catheters, orthopaedic implants, and cardiac rhythm management.

- Company has ventured into food packaging for FMCG sector thru SP business and is well placed to exploit vast export prospects in this segment and benefit from government's increasing thrust on food processing. It is entering into high margin pharma business. India's rising status as an outsourcing / manufacturing destination of choice for most pharma majors augurs extremely well for company's plans. For this it has set up required facility at Pondicherry plant. It is also setting up new facility at Uttaranchal (at cost of Rs. 40 crore) for both food packaging and pharma; it is expected to start contributing from CY 2007 end.

- Accordingly company has embarked on major growth phase and expects to more than double its turnover to over Rs. 2,250 crore by CY 2009. In process it plans to exponentially grow its SP & MD business (through inorganic route) and increase their turnover to Rs. 450 crore each (from present Rs. 71 crore and Rs. 40 crore respectively) and thus achieve substantial de-risking of business. Further as MD & SP business are less capital intensive, they will significantly improve company's asset turnover and return ratios.

- Consolidated net sales in CY 2006 increased 23.6% to Rs. 1,009.2 crore (Rs. 816.6 crore). OPM% declined to 21.86% (23.72%) due to delay in turnaround of UK & Mexico units by a quarter (Russian unit is expected to break even by Q2 CY 2007) and higher staff costs @ 19.4% (16.4%) of sales, despite reduction in costs of raw material to 40.1% (41.3%) of sales. Lower other income and near doubling of interest charge further stunted PBT (before extraordinary items) growth to 1.2% at Rs. 122 crore (Rs. 120.5 crore). Accounting for extraordinary item of Rs. 4.6 crore and lower average tax rate, PAT stood at Rs. 98.9 crore (Rs. 90.2 crore).

…3

Investment Concerns

- Management's ability to execute above projects on schedule will affect company's growth plans. In past there have been instances when there has been delay in execution of its plans such as turnaround of units in UK, Mexico & Russia.
- Location of appropriate targets at right value and their successful absorption will be vital for exponential growth envisaged for MD business.
- Company's ability to manage and pass on increases in raw material costs (40% of sales), which are polymer based.
- As company is substantially increasing its capacities in developed markets of USA and Europe, where labour is not cheap, management of staff costs will be of essence in determining OPM%.

Recommendation

- At CMP (face value – Rs. 2/-), share is trading at 11.8 times CY 2006 actual EPS of Rs. 6.1 and 9.4 times CY 2007 expected EPS of Rs. 7.7.
- EPL's proven capabilities, market leadership position, global visibility & scale, robust long standing relations with its customers and strong R&D focus leading to continuous technological innovation have put it in good stead to capitalise on retail boom in India, which has increased need for convenience packaging, as well as grow its other businesses as per plan. Hence, we recommend to **"BUY"** the share at CMP.

Disclosures