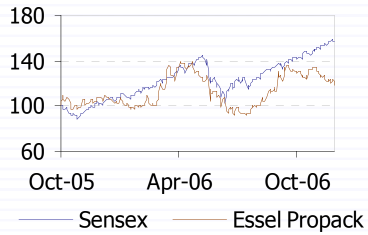
ENAM India Research

Stock Data

No. of shares	:157mn
Market cap	:Rs.12.5bn
52 week high/low	:Rs.97 / Rs.61
Avg. daily vol. (6mth)	:175,000 shares
Bloomberg code	:ESEL IN
Reuters code	:ESSL.BO

Shareholding (%)		Sep-06	QoQ chg
Promoters	:	58.9	(0.0)
FIIs	:	4.7	0.6
MFs / UTI	:	9.9	(0.5)
Banks / FIs	:	2.1	(0.5)
Others	:	24.4	0.3

Relative Performance



Source: ENAM Research, Bloomberg

Essel Propack

Relative to Sector: **Outperformer**

Rs.80

Exploring newer vistas for growth

Financial summary

Y/E Dec	Sales (Rs.mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	ChangeYoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	DPS (Rs.)
2005	8,166	902	-	5.8	11	-	12.4	13.5	-	4.4
2006E	9,844	957	6.6	6.1	6	13.1	12.0	13.0	7.2	2.4
2007E	11,831	1,136	7.8	7.3	19	11.0	14.1	15.2	5.9	3.0
2008E	13,796	1,421	N.A.	9.1	25	8.8	16.3	17.6	5.0	3.7

*Source: *Consensus broker estimates, Company, ENAM estimates*

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December 1, 2006

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Investment Summary

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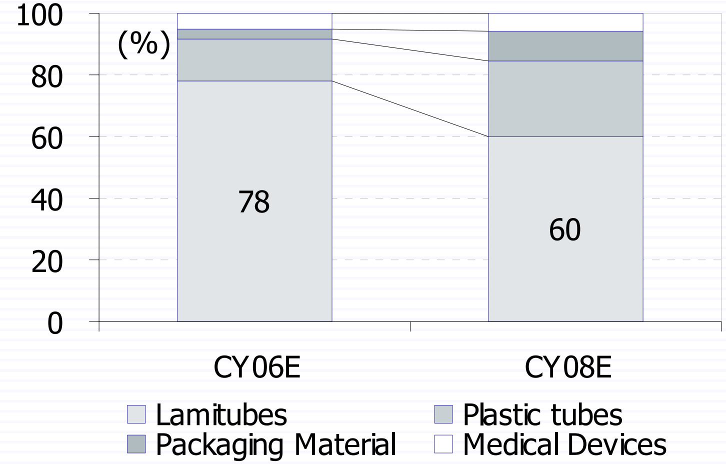
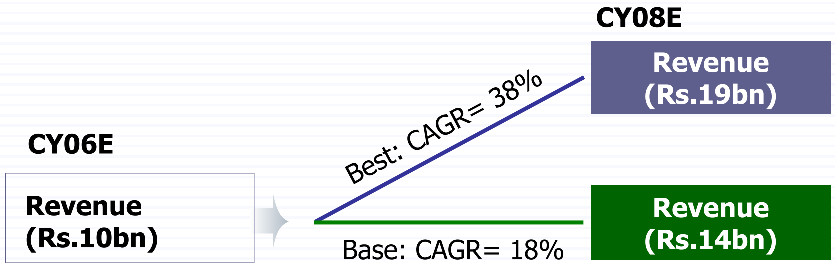
- **Essel Propack (EPL) is a world leader in the lamitubes segment with a 32% market share**
  - EPL is transforming into a multi product company
  - Future growth will be driven by four verticals:
    - (1) lamitubes, (2) plastic tubes, (3) specialty packaging, and (4) medical devices
- **Revenue mix to change over the next few years**
  - New initiatives will drive growth thereby reducing dependence on the relatively mature oral care industry
- **We expect revenues to register a CAGR of 18% over CY06E-08E**
  - Our best case scenario estimates a potential revenue CAGR of 38% over CY06E-08E
  - Best case EPS of Rs.14.3 offers ~57% upside from the base case EPS of Rs.9.1
- **EPL play on packaging sector + inorganic initiatives**
  - Base case price target: Rs100
    - 11x base case CY08E EPS of Rs 9.1 (ref exhibit)
  - Best case price target: Rs160
    - 11x best case CY08E EPS of Rs14.3 (ref exhibit)
  - Initiate coverage with sector Outperformer rating

Diversifying revenue stream – base case



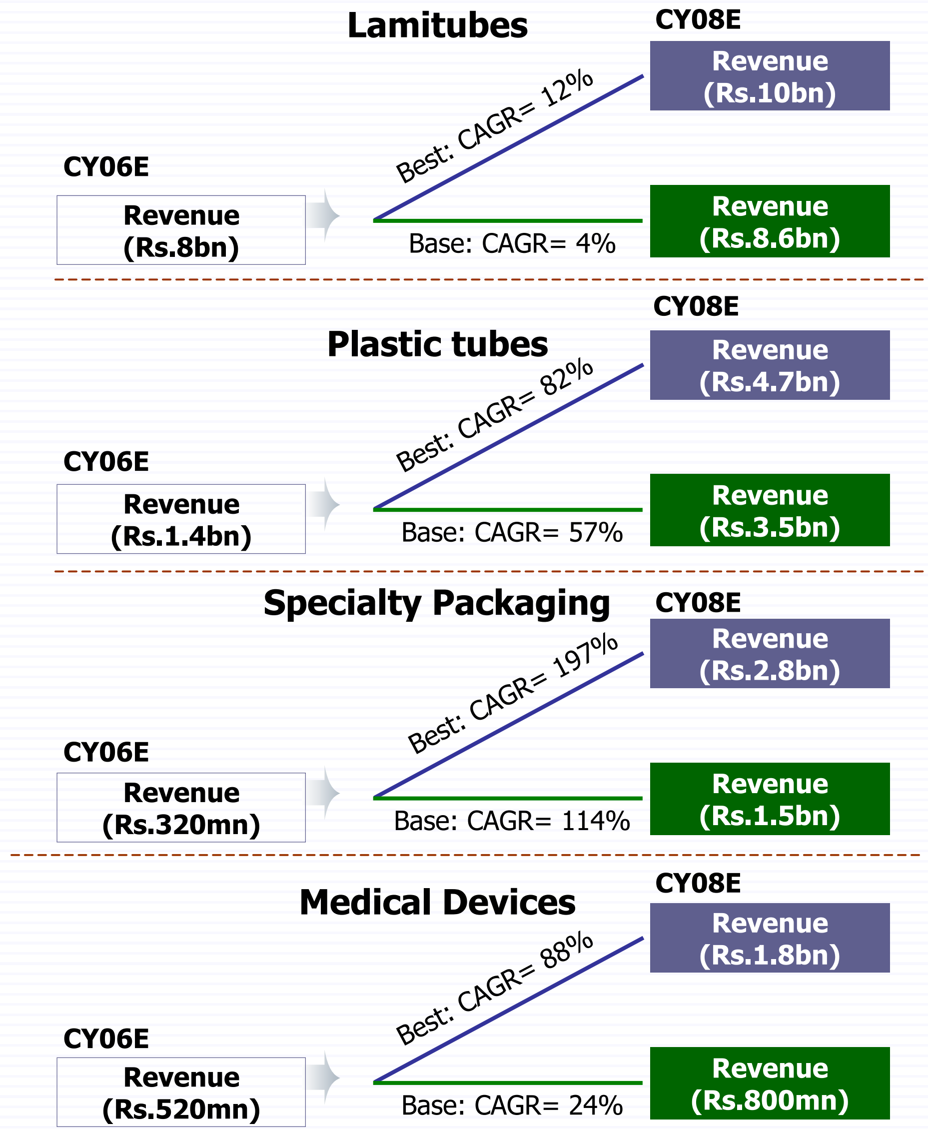
Revenue Scenario analysis



Source: Company, ENAM Research

Transformation to drive growth

- **Transforming into a multi-product company**
  - For long, EPL has been known as a single-product company
  - Future growth to accrue from :
    - (1) lamitubes, (2) plastic tubes, (3) specialty packaging, and (4) medical devices
- **Lamitubes to remain the cash cow**
  - Lamitubes business is likely to mirror the oral care industry and register single digit growth over the medium term
- **Plastic tubes to be the next growth driver**
  - EPL currently has a miniscule 2% share of the 10bn tubes opportunity
    - Offers exposure to the high growth cosmetics industry
- **Specialty packaging – a Rs.110bn opportunity**
  - EPL will target the processed food industry, and impending boom in retail segment
  - To venture into the Rs.4.6bn pharmaceutical packaging market
- **Medical devices**
  - A Rs.750bn opportunity in the offing



Best case earnings CAGR of 53%

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Earnings CAGR of 53% over CY06E-08E in the best case scenario

	CY06E	CY08E		CAGR (%)	
		Base Case	Best case	Base Case	Best case
Revenue					
Lamitubes	7,963	8,578	10,050	3.8	12.3
Plastic Tube	1,422	3,482	4,686	56.5	81.6
Packaging Material	320	1,470	2,819	114.4	196.8
Medical Devices	520	800	1,840	24.0	88.1
Total	**10,224**	**14,329**	**19,395**	**18.4**	**37.7**
EPS	**6.1**	**9.1**	**14.3**	**21.8**	**53.0**

Source:Company, ENAM Research

- **Our best case scenario presents a revenue CAGR of 38% over CY06E-08E**
  - A 35% potential upside from our base case revenue of Rs.14.33bn
- **Earnings CAGR of 53% over CY06E-08E in the best case**
  - Presents a potential 57% upside from our base case EPS of Rs.9.1
- **Price target of Rs.160, based on 11x CY08E best case EPS of 14.3**
  - Our scenario analysis gives a target price range of Rs100-160, a potential upside of 25-100% from the current levels over the next two years

Company Overview

Company background

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Pioneer of lamitubes in India

- A pioneer in the field of lamitubes in India, instrumental in driving conversion from aluminium tubes
- Incorporated in the 1980s, with an integrated facility to cater to the packaging industry

Expansion into global markets

- Set up its first overseas operation in 1993 in Egypt
- Subsequently, ventured into other territories: China (1997), Germany (1999) and Nepal (2000)
- Acquired Propack (then the fourth largest player in the world) in 2001

Global leadership position

- Post the Propack acquisition, EPL has emerged as the global leader in lamitubes (current market share of ~32%)
- Currently has presence in 14 countries through 20 manufacturing facilities including USA, China, India and UK being the major ones

Breaking ground into new territories

- Diversified and de-risked its business model by foraying into the plastic tubes business with acquisition of Arista in 2004
- Currently commands a ~2% market share of the 10bn tubes industry

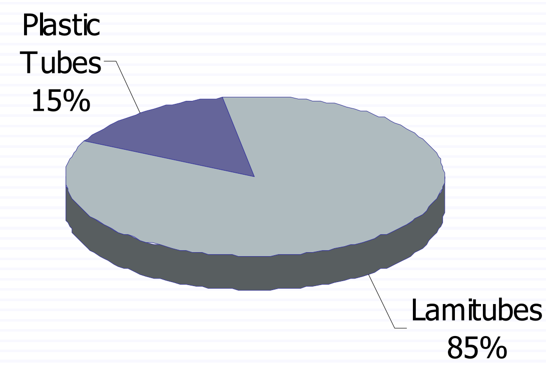
Business Overview...

- **Laminated tubes account for bulk of the revenues**
  - EPL currently has two revenue streams, i.e. lamitubes and plastic tubes
  - While lamitubes account for ~85% of the overall revenues, plastic tubes account for the rest
    - Refer exhibit

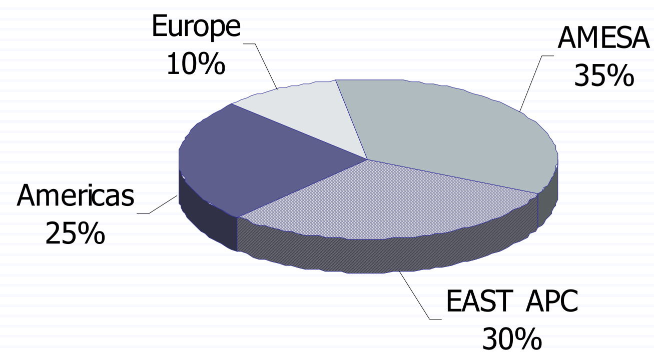
- **Leadership in lamitubes**
  - Commands a global leadership position with ~32% market share of the 14bn tubes industry
  - Presence in plastic tubes is still relatively small with a global market share of ~2%

- **Global presence**
  - Manufacturing operations spanning 14 countries structured into 4 regions:
    - Africa, Middle-East, South Asia (AMESA)
    - East Asia Pacific
    - Americas
    - Europe

Revenue : Segment wise



Revenue: Region wise

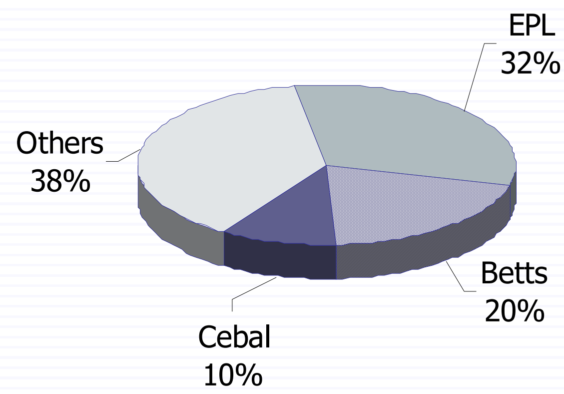


Source: Company, ENAM Research

… Overview contd.

- **Fragmented nature of lamitubes industry offers further scope for consolidation**
  - The closest competitors are Betts, UK (~15-20% share), and Cebal – a part of Alcan group (~10-15%)
  - A large part (~35-40%) of the industry is in the hands of small fragmented players
    - Smaller players have low profitability due to highly capital intensive nature of the business

Competitive scenario



Source: Company, ENAM Research

- **EPL is the preferred supplier of the oral care industry**
  - Derives a bulk of its revenues in the lamitubes segment from the oral care industry
  - Has strong global business relationships with all the major players such as P&G, Unilever, Colgate and GSK
    - Exclusive tie-up with P&G to cater to its entire requirement in North America
    - Supplying Colgate-Palmolive's entire requirements in India

Strategic growth initiatives

The four vertical revenue model

EPL is now transforming into a multi-product company

- For long, EPL has been known as a single-product company
- Future growth would be driven by its "Four Vertical Approach"
  - These verticals are: (1) lamitubes, (2) plastic tubes, (3) specialty packaging, and (4) medical devices

Lamitubes to remain the cash cow

- Lamitubes business is likely to mirror the oral care industry and register single digit growth over the medium term
- Future growth to be driven by initiatives in plastic tubes and new businesses

Plastic tubes to be the next growth driver

- EPL currently has a miniscule 2% share of the 10bn tubes opportunity
- Offers exposure to the high growth cosmetic industry

Specialty packaging – a Rs.110bn opportunity

- EPL will capitalize on the processed food industry, leveraging the impending retail boom
- To venture into the Rs.4.6bn pharmaceutical packaging market
- However, we remain concerned over the lower margins in the business

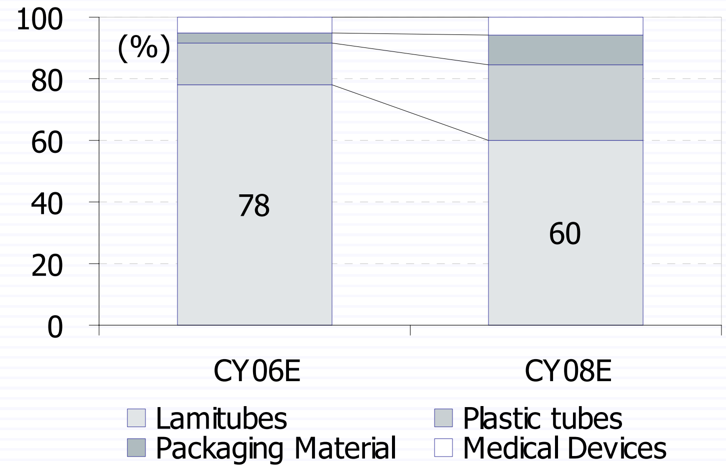
Medical devices

- A Rs.750bn opportunity in the offing
- However, we believe it's still early days and await further clarity

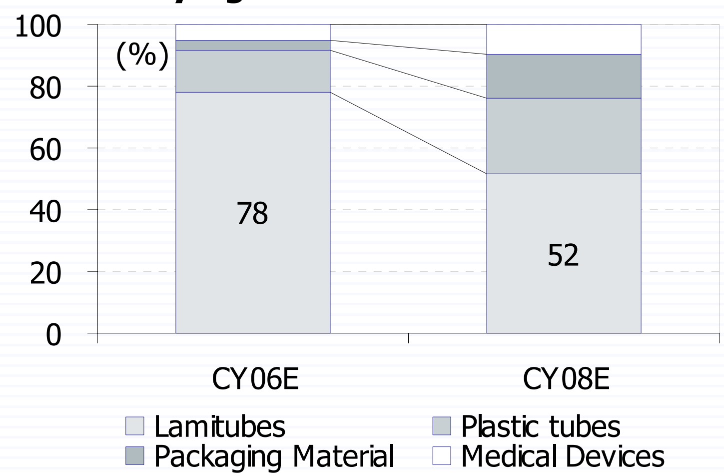
Lamitubes: The cash cow

- **Lamitubes – The mainstay…**
  - Accounts for ~85% of the revenues with the rest coming from plastic tubes
- **… would continue to be the cash cow**
  - The segment is expected to register single digit growth over the medium term, deriving its demand primarily from the oral care segment
  - While future growth would be driven by new ventures, lamitubes would continue to add to the free cash flow
- **Dependence on the segment to reduce significantly**
  - We expect share of lamitubes to come down to 60% in CY08E from 78% in CY06E

Diversifying revenue stream – base case



Diversifying revenue stream – best case



Source: Company, ENAM Research

Competition: Scope for consolidation

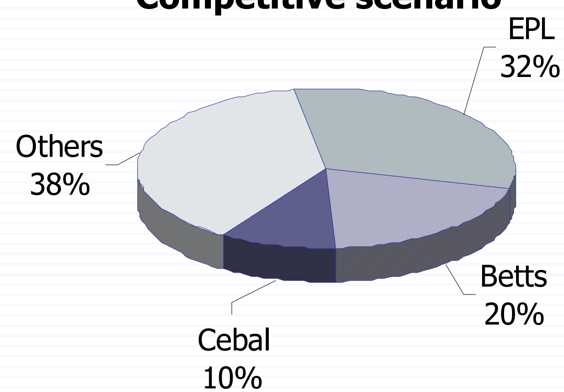
➲ Mini tubes: The next growth driver

- EPL has recently introduced "mini tubes" concept in the oral care and pharma segments
- Mini tubes account for ~3-4% of the total turnover
- EPL is present in the Indian and Chinese markets, US launch is in the offing
    - While mini tubes are priced much lower, they would account for higher volumes and also de-risk the revenue model

➲ Competitive scenario offers scope for consolidation

- EPL is the largest player in the segment with 32% market share
    - ~35-40% of the industry is in the hands of small fragmented players, thereby offering scope for further consolidation

Competitive scenario

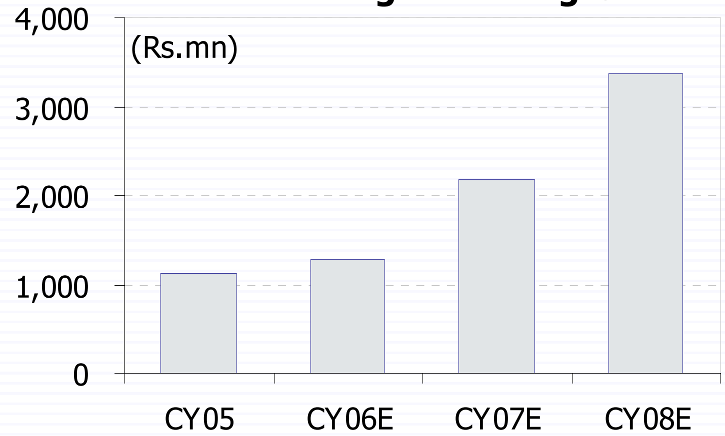


Source: Company, ENAM Research

Plastic tubes: Scaling up

- **A small presence…**
  - Currently commands a miniscule 2% global market share of the 10bn tube industry
    - TUPACK, Austria is the largest player in the segment with 15% market share
    - Small fragmented players dominate the market
- **… but significant ramp up planned ahead**
  - Acquisition of Arista has given EPL a foothold in the plastic tube industry
  - EPL is targeting a 15% global market share by 2010
- **Plastic tubes offer an exposure to the high growth cosmetics industry**
  - Plastic tubes market, though lower in volume terms, is 2-2.5x higher in value terms as compared to lamitubes
  - Plastic tubes are generally preferred by medium-to-high range cosmetic players; being high value items they don't mind paying higher for plastic tubes owing to better quality and functionality

Accelerating revenue growth



Source: Company, ENAM Research

Plastic tubes: The next growth driver

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- **Significant capacity expansion plans lined up**
  - EPL currently has plastic tubes operations in India and UK
  - The greenfield 100mn co-extruded tubes capacity at Danville, USA to come on stream by end-CY06
  - Poland facility, with a capacity of 300mn tubes to be on stream by Q1CY07
    - In the longer run, EPL plans to shift all UK plastic tubes operations to Poland to take advantage of the lower cost economics

- **The plastic tubes market is growing at ~15% per annum globally**
  - EPL to gain significant market share as the new capacities come on stream
  - To leverage existing relationship with global majors like L'Oreal and P B Beauty

- **We expect revenues to grow at 57% CAGR between CY06E-08E**
  - Plastic tubes to account for 24% (14% currently) of consolidated revenues by CY08E
  - Over the next two years, plastic tubes would be the main growth driver

Specialty packaging: The big opportunity

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- **Forayed into the specialty segment post the acquisition of Packaging India (PIL) from CevinKare**
  - PIL is a large, South India based player with revenues of Rs.989mn
  - Provides EPL access to customers like Britannia, Cadbury, ITC, Pepsi, Henkel, Reckitt Benckiser, and CevinKare, etc.

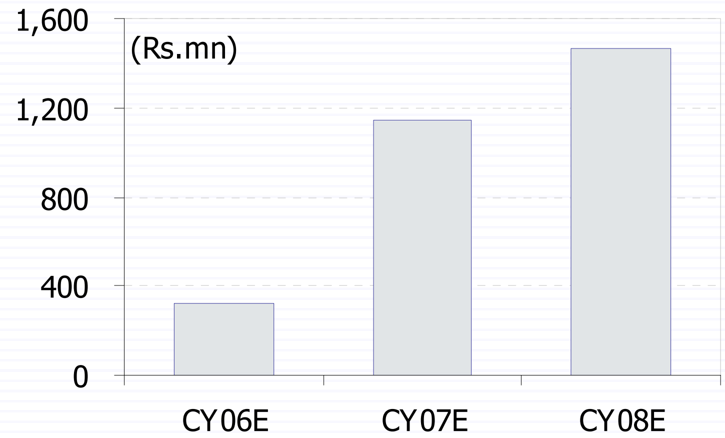
- **Specialty packaging is a Rs.110bn market**
  - The domestic industry size is estimated at Rs.25bn with a growth rate of 10-15% p.a

- **The acquisition gives access to the fast growing processed food packaging segment**
  - The global processed food packaging industry is a Rs.365bn opportunity in the offing
  - Growth in the domestic processed food industry to accelerate further due to the impending retail boom
    - Share of organized retail to substantially with the entry of large players like Reliance, TESCO, Carrefour, etc.

Specialty packaging…

- **Subsequently, the company plans to use the PIL platform to venture into pharmaceutical packaging industry**
  - Specialty pharmaceutical packaging is a Rs.4.6bn opportunity
    - Industry is estimated to grow at 12-15% CAGR over the next 3-4 years
    - EPL is looking to set up a plant at Uttaranchal to cater exclusively to the pharmaceutical industry
- **However, we remain concerned about low profitability of PIL (EBITDA margin of 14.4% as compared to EPL's 24.5%)**
  - Margin expansion to kick in only over the next couple of years, as capacity expands, export growth kicks in, and PIL ventures into new businesses
  - However, our numbers currently do not build in any margin expansion
- **We expect revenues to grow to Rs1.5bn by CY08E**
  - Specialty packaging is likely to account for 10.3% of consolidated revenues

Accelerating revenue growth



Source: Company, ENAM Research

Medical Devices: The fourth vertical?

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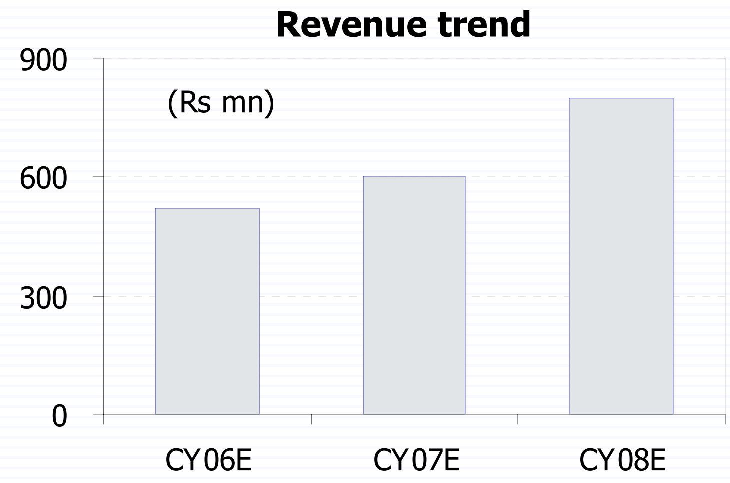
- **Forayed into the specialty medial devices business in early 2006 with the acquisition of Tacpro, USA and Avalon, Singapore**
  - Tacpro is a full service provider of medical devices specializing in OEM balloon catheters
- **The OEM medical devices business globally is a Rs.750bn opportunity**
  - The catheter market grwing at 7-10% p.a is estimated to be Rs.250bn in size
- **The foray would significantly diversify the revenue stream**
  - We are positive on the size and potential of the market
  - EPL will exploit the synergies in terms of knowledge of polymer processing and OEM business model
  - While medical devices is a completely new field, the heart of the technology remains the same, i.e. plastics and polymer processing
- **EPL is looking to ramp up this business significantly over the coming years**
  - Plans to foray into non-cardiac catheters, orthopedic and cardiac implants to accelerate growth
  - Further, plans to make Singapore as the manufacturing hub to serve the large OEM market for mature products

Medical Devices .... contd

- **However, we remain cautious as the company is still in the early stages of development in the segment**
  - The business is highly technical in nature
  - Manufacturing processes needs to be embedded into the FDA approval that the customer has to obtain
    - Hence, ramp up in the business is a long haul
- **As this is a new business for the company, a lot of uncertainty remains over the next 12-15 months**
  - We await further clarity, and would watch how growth pans out before building any upside in our numbers
- **We expect revenues to register a CAGR of 24% over CY06E-08E**
  - Medical devices would account for ~6% of the total consolidated revenues in CY08E



Source: Company, ENAM Research

Leveraging its core competency

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- **The company is using acquisition model to gain a foothold in the new business**
  - EPL recently forayed into specialty packaging and medical devices with the acquisition of PIL and Tacpro, USA respectively
  - The acquisition approach gives the company accesses to technology, trained manpower and customers
  - However, future growth to be driven by a mix of organic and inorganic initiatives
- **Foray into newer businesses is a positive…**
  - It would give EPL exposure to a wide spectrum of industries like cosmetics, processed food packaging, medical and the pharmaceutical packaging industry
    - Will reduce dependence on the relatively mature oral care industry
- **… and will leverage its expertise in polymer processing**
  - While the new businesses are diverse, the core remains the same – polymers and polymer processing
  - These businesses offer a great opportunity for growth and de-risking the business model…
  - …and would be in sync with the EPL’s core competence

Long-term upside exists

- **The company is currently in a transition phase**
  - It could take 4-5 years for the new businesses to fructify
    - Near-term upside catalysts are limited
  - The next two years would be critical owing to increased investments
- **Execution would be a key challenge**
  - Growth in the new businesses is likely to be driven by organic and inorganic initiatives
- **We expect revenue to register 18% CAGR over CY06E-08E**
  - However, we await further clarity on the expansion plans in the newer business

Key challenges

- **Execution to be a key challenge as EPL is in the transformation phase**
  - However, given the past track record of the management and leadership position of EPL, risk of execution remains low
- **Entering uncharted territories**
  - EPL is diversifying into newer businesses, however, given the pedigree of the management, risk of business integration remains low
- **Rising crude prices to pose a challenge**
  - However, specialty polymers have a low co-relation to crude prices
  - Further in the existing lamitubes business, raw material costs are a pass through

The best case scenario…

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Scenario analysis

Lamitubes

CY06E	Scenario	CY08E
Revenue (Rs.8bn)	Best: CAGR= 12%	Revenue (Rs.10bn)
	Base: CAGR= 4%	Revenue (Rs.8.6bn)

To watch out for:
- Growth of oral care market
- Growth in the FMCG markets in India
- Price increase by EPL in lamitubes

Plastic tubes

CY06E	Scenario	CY08E
Revenue (Rs.1.4bn)	Best: CAGR= 82%	Revenue (Rs.4.7bn)
	Base: CAGR= 57%	Revenue (Rs.3.5bn)

To watch out for:
- Commissioning of the Poland facility
- Commissioning of the US facility
- Turnaround in the UK facility
- Ramp up of capacity in other regions like India

Specialty Packaging

CY06E	Scenario	CY08E
Revenue (Rs.320mn)	Best: CAGR= 197%	Revenue (Rs.2.8bn)
	Base: CAGR= 114%	Revenue (Rs.1.5bn)

To watch out for:
- Ramp up in the existing India facility
- Commissioning of the second facility in India in Uttaranchal
- Foray into pharmaceutical packaging industry

Medical Devices

CY06E	Scenario	CY08E
Revenue (Rs.520mn)	Best: CAGR= 88%	Revenue (Rs.1.8bn)
	Base: CAGR= 24%	Revenue (Rs.800mn)

To watch out for:
- Ramp up of Singapore operations
- Foray into component business
- Foray into non-cardiac catheters and mass consumption medical devices
- Manufacturing transfer to Singapore

Best case earnings CAGR of 53%

Earnings CAGR of 53% over CY06E-08E in the best case scenario

	CY06E	CY08E		CAGR (%)	
		Base Case	Best case	Base Case	Best case
Revenue					
Lamitubes	7,963	8,578	10,050	3.8	12.3
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Source:Company, ENAM Research

- **Our best case scenario presents a revenue CAGR of 38% over CY06E-08E**
  - A 35% potential upside from our base case revenue of Rs.14.33bn
- **Earnings CAGR of 53% over CY06E-08E in the best case**
  - Presents a potential 57% upside from our base case EPS of Rs.9.1
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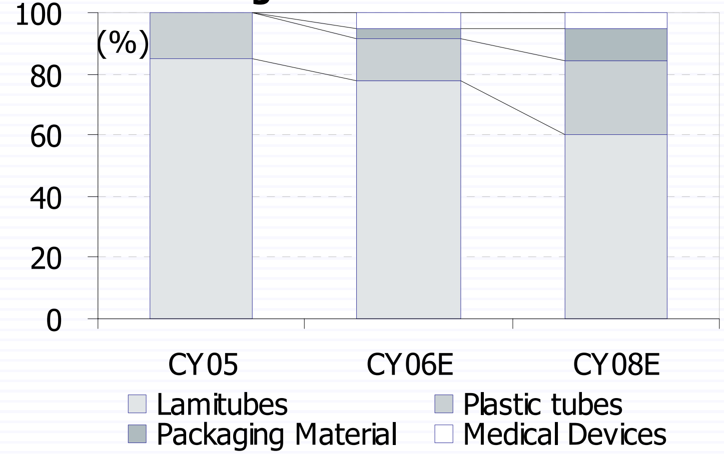
Financial Evaluation

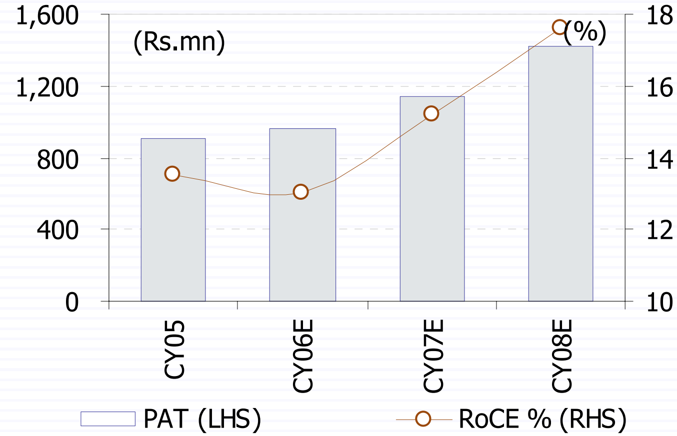
New businesses to accelerate RoCE

- **Revenue growth: 18% CAGR during CY06E-08E**
  - Ongoing diversification into newer business to enable revenues to register 18%CAGR CY06-08E
  - The share of lamitubes would come down from 78% in CY06E to 60% in CY08E
- **RoCE expansion**
  - RoCE would expand to 17.6% in CY08E from 13% in CY06E
  - The expansion would largely be on the back of new businesses that are less capital intensive
- **Expect 22% CAGR in earnings over CY06E-08E**
  - However, our estimates do not build in any upside from the planned initiatives in the new businesses like medical devices and specialty packaging due to lack of clarity.
    - These businesses are still in a nascent stage and we expect further clarity to emerge over the next 12-15 months

Segment wise revenues



PAT and RoCE trend



Source: Company, ENAM Research

Company Financials

Income statement

Y/E Dec (Rs. mn)	2005	2006E	2007E	2008E
Net sales	**8,166**	**9,844**	**11,831**	**13,796**
Other operating income	67	50	50	50
Total income	**8,233**	**9,894**	**11,881**	**13,846**
Cost of goods sold	5,599	6,785	8,125	9,440
Contribution (%)	31	31	31	32
Advt/Sales/Distrn O/H	631	788	946	1,076
Operating Profit	**2,004**	**2,322**	**2,810**	**3,330**
Other income	237	135	135	135
PBIDT	**2,241**	**2,457**	**2,945**	**3,465**
Depreciation	766	873	1,039	1,159
Interest	270	341	354	348
Pre-tax profit	**1,205**	**1,242**	**1,551**	**1,958**
Tax provision	308	335	465	587
(-) Minority Interests	(5)	(50)	(50)	(50)
Adjusted PAT	**902**	**957**	**1,136**	**1,421**
E/o income / (Expense)	0	0	0	0
Reported PAT	**902**	**957**	**1,136**	**1,421**

Key ratios

Y/E Dec (%)	2005	2006E	2007E	2008E
Sales growth	**21.9**	**20.5**	**20.2**	**16.6**
OPM	**24.5**	**23.6**	**23.7**	**24.1**
Oper. profit growth	8.2	15.8	21.0	18.5
COGS / Net sales	68.0	68.6	68.4	68.2
Overheads/Net sales	7.7	8.0	8.0	7.8
Depreciation / G. block	7.0	7.5	8.0	8.0
Effective interest rate	7.4	8.0	8.0	8.0
Net wkg.cap / Net sales	0.1	0.1	0.1	0.1
Net sales / Gr block (x)	0.8	0.9	1.0	1.0
RoCE	**13.5**	**13.0**	**15.2**	**17.6**
Debt / equity (x)	1.0	1.2	1.0	0.8
Effective tax rate	25.6	27.0	30.0	30.0
RoE	**12.4**	**12.0**	**14.1**	**16.3**
Payout ratio (Div/NP)	76.4	40.0	45.5	44.9
EPS (Rs.)	**5.8**	**6.1**	**7.3**	**9.1**
EPS Growth	10.6	6.1	18.7	25.1
CEPS (Rs.)	10.7	11.7	13.9	16.5
DPS (Rs.)	**4.4**	**2.4**	**3.0**	**3.7**

Source: Company, ENAM Research

Company Financials

ENAM

Balance sheet

Y/E Dec (Rs. mn)	2005	2006E	2007E	2008E
Total assets	**8,249**	**8,390**	**8,810**	**9,543**
Gross block	10,893	11,643	12,993	14,493
Net fixed assets	5,683	5,560	5,871	6,211
CWIP	209	250	250	250
Investments	1,020	1,020	1,020	1,020
Wkg. cap. (excl cash)	909	1,172	1,409	1,643
Cash / Bank balance	427	388	260	419
Others/Def tax assets	0	0	0	0
Capital employed	**8,249**	**8,390**	**8,810**	**9,543**
Equity capital	313	313	313	313
Reserves	3,905	3,577	4,146	4,880
Borrowings	4,030	4,500	4,350	4,350
Others	0	0	0	0

Cash flow

Y/E Dec (Rs. mn)	2005	2006E	2007E	2008E
Sources	**1,520**	**1,866**	**1,459**	**1,893**
Cash profit	1,663	1,780	2,125	2,530
(-) Dividends	689	383	517	637
Retained earnings	974	1,397	1,609	1,893
Issue of equity	7	50	50	50
Borrowings	732	470	(150)	0
Others	(193)	(50)	(50)	(50)
Applications	**1,520**	**1,866**	**1,459**	**1,893**
Capital expenditure	1,581	791	1,350	1,500
Investments	(87)	(1)	0	0
Net current assets	(35)	263	237	234
Change in cash	60	813	(128)	159

Source: Company, ENAM Research

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CONFLICT OF INTEREST DISCLOSURE

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Disclosure of interest statement (As of November 23, 2006)

1. Analyst ownership of the stock	No
2. Firm ownership of the stock	Yes
3. Directors ownership of the stock	Yes
4. Investment Banking mandate	No
5. Broking relationship	No

We are committed to providing completely independent and transparent recommendations to help our clients reach a better decision.