

Align Earnings, Maintain 'BUY'

April 30, 2010

BUY

Price	Target Price
Rs48	Rs76

Sensex	17,380
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Price Performance

(%)	1M	3M	6M	12M
Absolute	9	(4)	16	203
Rel. to Sensex	11	(7)	8	92

Source: Capitaline

Stock Details

Sector	Packaging
Reuters	ESSL.BO
Bloomberg	ESEL@IN
Equity Capital (Rs mn)	313
Face Value(Rs)	2
No of shares o/s (mn)	157
52 Week H/L	59/15
Market Cap (Rs bn/USD mn)	8/179
Daily Avg Volume (No of sh)	297828
Daily Avg Turnover (US\$m)	0.3

Shareholding Pattern (%)

	D'09	S'09	J'08
Promoters	58.9	58.9	58.9
FII/NRI	5.0	5.0	4.7
Institutions	9.0	9.0	8.5
Private Corp	10.1	9.7	8.4
Public	17.0	17.5	19.5

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Upfront, Q5FY10 results seem below estimates – there is no like-to-like comparison owing to sale of Medical Devices business in Q4FY10. On like to like basis – (1) net revenues in packaging business grew by 9.5% yoy to Rs3.0 bn (2) operating profit grew by 4.5% yoy to Rs482 mn and (3) net profit of Rs83 mn compare to a loss of Rs93 mn in Q1FY10 – performance was in line with estimates. Moreover, the direction of performance was appropriate – setting stage for QoQ improvement in performance for ensuing quarters. All geographies barring Americas reported strong performance. Europe region- the focal point for our positive bias – reported reduction in Ebit loss on the expected lines.

We are introducing FY11E and FY12E estimates, post the sale of Medical devices business and change of accounting year from December-Ending to March Ending. Consequently, we have introduced FY11E earnings of Rs3.9/Share against CY10E earnings of Rs4.3/Share and introduced FY12E earnings of Rs6.3/Share against CY11E earnings of Rs6.7/Share. Alongside, strong earnings performance – we expect the valuations to retrace to CY06 levels- fill up the gap created during the turmoil of CY06-08 period. We maintain positive bias with BUY rating and price target of Rs76/Share.

On like-to-like basis - packaging business recorded 9.5% yoy growth in revenues to Rs3.0 bn

Upfront, Q5FY10 results seem below estimates – there is no like-to-like comparison owing to sale of Medical Devices business in Q4FY10. The flash results are as under (1) 6.8% yoy decline in revenues to Rs3.0 bn (2) 10.4% yoy decline in operating profit to Rs486 mn and (3) net profit of Rs87 mn compare to a loss of Rs51 mn in Q1FY10. But like to like basis – (1) net revenues in packaging business grew by 9.5% yoy to Rs3.0 bn (2) operating profit grew by 4.5% yoy to Rs482 mn and (3) net profit of Rs83 mn compare to a loss of Rs93 mn in Q1FY10 – performance was in line with estimates. Moreover, the direction of performance was appropriate – setting stage for QoQ improvement in performance for ensuing quarters.

Baring America's - all geographies' reported impressive performance – setting for big innings

The revenue growth of 9.5% yoy in packaging business is driven by – (1) AMESA grew by 9.6% yoy to Rs1.4 bn (2) EAP grew by 32.4% yoy to Rs619 mn and (3) Europe grew by 33.6% yoy to Rs328 mn. Only Americas disappointed with 11.7% yoy decline in revenues to Rs619 mn - due to lower off take by key clients and no launch of new designs. At the EBIT level - performance was satisfactory– (1) 8.4% yoy growth in AMESA to Rs176 mn (2) 10.0% yoy growth in EAP to Rs181 mn and (3) reduction in Ebit loss in Europe from Rs113 mn in Q1FY10 to Rs55 mn in Q5FY10. Only Americas region reported disappointing performance with Ebit loss of Rs68 mn compared to Ebit of Rs17 mn in Q1FY10.

Key Financial

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	AEPS (Rs)	EV/ EBITDA	P/BV	Div Yld (%)	RoE (%)	P/E (x)
CY2008	12,911	1,801	13.9	-903	-5.8	9.5	1.1	3.0	-11.1	-8.5
FY2010	16,594	2,840	0.3	295	1.2	7.1	1.1	3.0	3.6	39.5
FY2011E	13,866	2,614	18.8	617	3.9	5.8	1.1	3.0	9.4	12.4
FY2012E	15,464	3,253	21.0	992	6.3	4.4	1.0	3.0	13.5	7.7

Europe business continues to see reduction of Ebit loss; confirms our core investment argument

Europe operations are focal point for our positive bias on the company- reduction in Ebit loss for Europe operations is the way forward. In Q5FY10, Europe region reported 51.9% yoy reduction in Ebit loss from Rs115 mn in Q1FY10 to Rs55 mn in Q5FY10. This confirms our core investment argument – mentioned in our report 'Revisit CY06'. However, Americas recorded an Ebit loss of Rs68 mn compared to an Ebit of Rs17 mn in Q1FY10 – should not be considered as trend for ensuing quarters. The bad performance is attributed to lower volumes offtake and one-off adjustments in Mexico.

Introducing FY11E and FY12E estimates- post sale of Medical Device business and change of accounting year

Q5FY10 performance was operationally in the correct direction – is setting the stage for the QoQ improvement in ensuing quarters. We are introducing FY11E and FY12E estimates, post the sale of Medical devices business and change of accounting year from December-Ending to March Ending. Consequently, we have introduced FY11E earnings of Rs3.9/Share against CY10E earnings of Rs4.3/Share and introduced FY12E earnings of Rs6.3/Share against CY11E earnings of Rs6.7/Share.

Maintain our 'BUY' rating with price target of Rs76/Share

We maintain our valuation methodology - value EPL on average of PER, P/BV and EV/EBITDA methodology. At the current price of Rs48/Share, EPL is trading at a PER of 12.4X FY11E and 7.7X FY12E, P/BV of 1.1X FY11E and 1.0X FY12E and EV/EBITDA of 5.8X FY11E and 4.4X FY12E – significantly below CY06 levels. Alongside, strong earnings performance – we expect the valuations to retrace to CY06 levels- fill up the gap created during the turmoil of CY06-08 period. We maintain positive bias with BUY rating and price target of Rs76/Share.

Consolidated Quarterly Financials

(Rs Million)	Q5FY10	Q5FY10	YoY Gr(%)	Q4FY10	QoQ Gr(%)
Net Sales	3012.5	3233.8	-6.8%	3501.5	-14.0%
Expenditure	2526.9	2691.6	-6.1%	2922.0	-13.5%
Material Cost	1407.8	1395.4	0.9%	1557.6	-9.6%
% of Sales	46.7%	43.2%	360 bps	44.5%	220 bps
Employee Expenses	491.6	646.0	-23.9%	661.6	-25.7%
% of Sales	16.3%	20.0%	-370 bps	18.9%	-260 bps
Other Expenses	627.5	650.2	-3.5%	702.8	-10.7%
% of Sales	20.8%	20.1%	70 bps	20.1%	80 bps
Operating Profit	485.6	542.2	-10.4%	579.5	-16.2%
EBIDTA (%)	16.1%	16.8%	-60 bps	16.6%	-40 bps
Other Income	22.3	20.4	9.3%	29.4	-24.1%
Interest	131.8	180.1	-26.8%	162.2	-18.7%
Depreciation	255.6	292.9	-12.7%	264.5	-3.4%
PBT	122.4	91.5	33.8%	182.2	-32.8%
Tax	49.3	72.8	-32.3%	61.9	-20.4%
PAT (Before Extraordinary Items)	73.1	18.7	290.9%	120.3	-39.2%
PAT (%)	2.4%	0.6%	180 bps	3.4%	-100 bps
Minority Interest	8.4	16.1	-47.8%	11.1	-24.3%
PAT (Before Extraordinary Items after Minority)	64.7	2.6	2388.5%	109.2	-40.8%
PAT (%)	2.1%	0.1%	210 bps	3.1%	-100 bps
PAT (After Extraordinary Items after Minority)	87.0	-51.0	-270.6%	416.9	-79.1%
PAT (%)	2.9%	-1.6%	450 bps	11.9%	-900 bps
Adjusted EPS	0.4	0.0	2388.5%	0.7	-40.8%
Reported EPS	0.6	-0.3	-270.6%	2.7	-79.1%

Segmental Performance

Segmental Results (Revenues)

(Rs Mn)	Q5FY10	Q5FY10	YoY Gr(%)	Q4FY10	QoQ Gr(%)
Segment Revenue					
AMESA	1,392	1,270	9.6%	1441.2	-3.4%
EAP	617	468	32.0%	709.1	-12.9%
AMERICAS	676	1,251	-46.0%	1063.1	-36.5%
EUROPE	328	245	33.6%	288.2	13.7%
Total	3,013	3,234	-6.8%	3,502	-14.0%

Segmental Results (PBIT)

(Rs Mn)	Q5FY10	Q5FY10	YoY Gr(%)	Q4FY10	QoQ Gr(%)
Segment PBIT					
AMESA	176	241	-27.2%	248	-29.1%
EAP	180	165	9.3%	223	-19.4%
AMERICAS	-64	95	-166.9%	-14	356.8%
EUROPE	-55	-113	-51.9%	-101	-46.0%
Total	238	388	-38.7%	356	-33.3%

Segmental Results (PBIT Margins)

(Rs Mn)	Q5FY10	Q5FY10	YoY Gr(%)	Q4FY10	QoQ Gr(%)
Segment PBIT Margin					
AMESA	12.6%	19.0%	-640 bps	17.2%	-460 bps
EAP	29.1%	35.2%	-600 bps	31.5%	-240 bps
AMERICAS	-9.4%	7.6%	-1700 bps	-1.3%	-810 bps
EUROPE	-16.6%	-46.2%	2960 bps	-35.0%	1840 bps
Total	12.6%	19.0%	-640 bps	17.2%	-460 bps

Income Statement

Y/E, Dec (Rs. Mn)	CY07	CY08	FY10P	FY11E	FY12E
Net Sales	11,938	12,911	16,594	13,866	15,464
Growth (%)	18.3	8.2	28.5	1.1	11.5
Expenses	10,139	11,110	13,754	11,269	12,211
Growth (%)	28.6	9.6	23.8	-1.8	8.4
Raw Materials	5,324	5,810	7,289	5,947	6,632
% Of Sales	44.6	45.0	43.9	42.9	42.9
Employee Cost	2,271	2,536	3,098	2,283	2,397
% Of Sales	19.0	19.6	18.7	16.5	15.5
Manufacturing Exps	1,321	1,361	1,657	1,613	1,699
% Of Sales	11.1	10.5	10.0	11.6	11.0
Admin Expenses	1,208	1,375	1,675	1,397	1,453
% Of Sales	10.1	10.6	10.1	10.1	9.4
Selling & Distribn	15	29	35	29	30
% Of Sales	0.1	0.2	0.2	0.2	0.2
Ebidta	1,798	1,801	2,840	2,614	3,253
Growth (%)	-18.5	0.1	57.7	16.7	24.5
Ebidta%	15.1	13.9	0.3	18.8	21.0
Other Income	159	-479	114	192	192
Interest	531	699	847	676	649
Depreciation	667	1,120	1,374	1,203	1,245
PBT	759	-497	733	926	1,550
Tax	205	346	371	255	504
PAT (Before EO)	554	-842	362	672	1,047
Growth (%)	-43.7	-252.1	-143.0	170.3	55.9
Net Margin%	4.6	-6.5	-0.9	4.8	6.8
E/O Item	98	20	305	0	0
Minority Interest	44	60	68	54	54
Reported PAT	510	-903	599	617	992

Balance Sheet

Y/E, Dec (Rs. Mn)	CY07	CY08	FY10P	FY11E	FY12E
Equity Capital	313	313	313	313	313
Reserves	7,849	6,679	6,644	7,032	7,795
Networth	8,162	6,992	6,957	7,345	8,108
Secured Loans	4,062	4,997	4,997	3,997	3,997
Unsecured Loans	3,015	5,317	5,317	4,417	4,417
Loan Funds	7,077	10,314	10,314	8,414	8,414
Net Deferred Tax	56	61	61	61	61
Minority interest	118	166	220	274	328
Capital Employed	15,413	17,533	17,552	16,094	16,912
Gross Block	17,585	18,925	19,597	20,297	20,997
Less: Depreciation	6,642	7,704	8,866	10,069	11,313
Net Block	10,944	11,221	10,732	10,228	9,684
CWIP	794	423	0	0	0
Goodwill	0	0	0	0	0
Investments	448	453	453	453	453
Current Assets	5,754	7,590	8,849	7,688	9,245
Inventories	1,890	2,079	2,192	2,160	2,409
Debtors	1,550	2,020	1,991	2,028	2,262
Cash & Bank	551	817	2,106	854	1,624
Loans & Advances	1,763	2,673	2,560	2,646	2,951
Cur Liab & Prov	2,551	2,205	2,533	2,327	2,521
Net Current Assets	3,203	5,385	6,316	5,361	6,723
Misc Expenditure	24	52	52	52	52
Capital Deployed	15,413	17,533	17,552	16,094	16,912

CashFlow

Y/E, Dec (Rs. Mn)	CY07	CY08	FY10P	FY11E	FY12E
Pre-Tax Profit	928	-497	397	926	1,550
Depreciation	667	1,120	1,162	1,203	1,245
Non Cash	-203	-641	0	0	0
Chg in Working Cap	-777	-1,191	358	-297	-593
Tax Paid	-277	-242	-149	-255	-504
Operating Cash Flow	338	-1,450	1,768	1,578	1,698
Capex	-1,907	-841	-250	-700	-700
Free Cash Flow	-1,568	-2,291	1,518	878	998
Investments	0	-383	0	0	0
Equity Capital	0	0	0	0	0
Loans	2,046	3,215	0	-1,900	0
Dividend	-376	-275	-229	-229	-229
Others	0	1	2	3	4
Change in Cash	101	266	1,288	-1,251	769
Opening Cash	447	551	817	2,106	854
Closing Cash	549	817	2,106	854	1,624

Key Ratios

Y/E, Dec	CY07	CY08	FY10P	FY11E	FY12E
Profitability %					
Ebidta Mgn	15.1	13.9	16.3	18.8	21.0
PAT Mgn	4.6	-6.5	1.8	4.8	6.8
ROCE	9.0	1.2	6.7	9.5	13.3
ROE	7.0	-11.1	3.6	9.4	13.5
Per Share Data					
EPS	3.3	-5.8	1.2	3.9	6.3
BVPS	50.6	43.1	42.9	45.4	50.2
DPS	2.3	1.5	1.5	1.5	1.5
Valuations (X)					
PER	15.0	-8.5	39.5	12.4	7.7
P/BV	1.0	1.1	1.1	1.1	1.0
Ev/Sales	1.2	1.3	1.2	1.1	0.9
Ev/Ebidta	7.9	9.5	7.1	5.8	4.4
Dividend Yield (%)	4.6	3.0	3.0	3.0	3.0
Turnover (X Days)					
Debtor TO Days	47.1	50.5	53.4	53.4	53.4
Inventory TO Days	53.6	56.1	56.9	56.9	56.9
Gearing Ratio					
Net Debt/Equity (X)	0.8	1.4	1.2	1.0	0.8
Total D/E (X)	0.9	1.5	1.5	1.1	1.0

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