

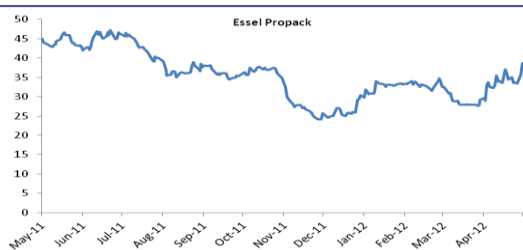
Essel Propack Ltd.

Recommendation	HOLD
CMP	Rs. 37
Target Price	Rs.46
Sector	Packaging

Stock Details

BSE Code	500135
NSE Code	ESSELPACK
Bloomberg Code	ESEL IN
Market Cap (Rs cr)	603
Free Float (%)	40.93%
52- wk HI/Lo (Rs)	48/24
Avg. volume BSE (Quarterly)	20711
Face Value (Rs)	2.0
Dividend (FY 11)	0.6 per share
Shares o/s (Cr)	15.7

Relative Performance	1Mth	3Mth	1Yr
Essel Propack	32.2%	16.1%	-14.3%
Sensex	-4.5%	-10.3%	-11.0%

Shareholding Pattern 31st March 2012

Foreign Promoter Holding	0.06%
Indian Promoters Holding	59.07%
Institutional (Incl. FII)	16.58%
Corporate Bodies	8.36%
Public & others	15.93%

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Quarterly Analysis

Essel Propack Global operations reported a jump in net sales 18.2% YoY and marginally down by 0.5% QoQ to Rs. 412 crs. The revenue was up on account of growth in all four regions comprising AMESA (12% YoY), Europe (49.1% YoY), EAP (16.9% YoY) and America (18.9% YoY), in Q4FY12.

The company reported a 12.7% YoY jump in EBITDA to the tune of Rs. 65 crs in Q4FY12 and down by 3% QoQ. The margin was 15.8% in Q4FY12 as compared to 16.5% in Q4FY11 and 16.2% in Q3FY12. The margin declined due to the jump in input cost and employee expenses.

The Net profit increased by 202.4% YoY to Rs. 25.4 cr and was up by 86.9% QoQ. The PAT margin was 6.2% in Q4FY12 as compared to 2.4% in Q4FY11 and 3.3% in Q3FY12. This was on account of forex gain of Rs. 3.54 crores in Q4FY12 as against forex loss of Rs. 0.5 crores in each of Q3FY12 and Q4FY11 and write back of income tax on account of merger of Ras Propack and Ras Extrusion.

The company had closed down the UK manufacturing facility and consolidated the laminated tube operations at the Poland unit. Relocation cost of Rs. 1.3 cr has been taken under the exceptional cost in the Q4FY12 result.

Guidance for FY13E: Management has maintained its guidance of 12% growth in FY13E led by two new large contracts each in Europe and AMESA. Management has further given a guidance of operating margin improvement by 200bps in FY13E led by reduction in scraps, rising average selling prices and stabilization in raw-material prices. Tax rate is expected to remain 35-37% in FY13E. The PAT margin is expected to be around 4%.

Valuation & Recommendation

Essel Propack posted good revenue increase across different region led by volume growth but continued to face margin pressure owing to high input cost, rupee depreciation and rising losses in Europe. We feel that the company will maintain its volume growth momentum 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 higher price realization and stabilization of raw-material prices. At CMP of Rs. 37, the stock is trading at a PE of 9.7x in FY13E and 7.3x in FY14E. We have rolled out FY14E numbers. We maintain our target price of Rs. 46 per share with a "HOLD" rating.

Year	Net Sales	Growth %	EBIDTA	EBIDTAM (%)	PAT	PATM (%)	EPS (Rs.)	P/E(x)	P/BV(x)	ROE
FY11	1408.3	-16%	248.6	17.7%	47.3	3.4%	3.0	12.7	0.7	6.3%
FY12	1583.7	12%	257.3	16.2%	57.4	3.6%	3.7	10.5	0.7	7.1%
FY13E	1763.6	11%	294.5	16.7%	63.3	3.6%	4.0	9.7	0.7	7.3%
FY14E	1940.3	10%	327.9	16.9%	84.1	4.3%	5.4	7.3	0.6	9.1%

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International Business: The Europe grew by 49.1% YoY backed by volume growth of 15% YoY in Poland and 40% YoY in Russia. Small contracts from new customers aided volumes. Europe reported loss of Rs. 7.7 crores in Q4FY12 as against Rs. 3.5 crores in Q4FY11 as Russia and Poland posted losses though Germany turned profitable.

AMESA grew by 12% YoY to Rs 198.1 crores led by 15% YoY volume growth. EBIT margins contracted by 20bps YoY though it was up by 70bps QoQ. America reported a growth of 18.9% YoY to Rs 98 crores aided by growth in plastic tubes and has reported a profit of Rs. 5.9 crores as against Rs. 2.8 crores in Q4FY11 due to product mix change. Management has revised the guidance for Mexico unit which was supposed to report EBIT profit by Q4FY12 is now expected to report EBIT profit in Q2FY13.

EAP region grew by 16.9% YoY with 10% being contributed by volumes. However, EAP faces volume growth concerns due to shift by MNC's to local players. EAP reported a jump in EBIT margins by 180bps YoY to 15.6% but fell by 500bps QoQ.

Q3FY12: Consolidated Result

Particulars	Q4FY12	Q4FY11	YoY%	Q3FY12	QoQ%
Net Sales	412.00	348.70	18.2%	414.04	-0.5%
Other Operating Income	0.60	1.00	-40.0%	0.72	-16.7%
Total Income	412.60	349.70	18.0%	414.76	-0.5%
Increase / Decrease in Stock	10.90	4.10	165.9%	7.84	39.0%
Consumption of raw material	192.20	164.70	16.7%	195.46	-1.7%
Employees Cost	64.00	52.60	21.7%	62.01	3.2%
Other Expenditure	80.50	70.60	14.0%	82.44	-2.4%
Total Expenditure	347.60	292.00	19.0%	347.75	0.0%
PBIDT	65.00	57.70	12.7%	67.01	-3.0%
Interest	24.00	21.00	14.3%	15.89	51.0%
Other Income	3.80	6.40	-40.6%	0.72	427.8%
PBDT	44.80	43.10	3.9%	51.84	-13.6%
Depreciation	26.80	26.00	3.1%	28.93	-7.4%
Exceptional	1.30	1.30	0.0%	0.0	
Gain / Loss on Foreign Exchange Fluctuation (Net)	3.50	-0.50	-800.0%	-0.52	-773.1%
Tax	-5.70	6.20	-191.9%	8.68	-165.7%
Reported Profit After Tax	25.90	9.10	184.6%	13.71	88.9%
Share of profit of associate cos.	1.00	0.40	150.0%	0.44	127.3%
Minority Interest	-1.50	-1.10	36.4%	-0.56	167.9%
Adjusted Profit After Extra-ordinary item	25.40	8.40	202.4%	13.59	86.9%
EPS (Unit Curr.)	1.65	0.58		0.88	
Equity	31.40	31.31		31.31	
Face Value	2.00	2.00		2.00	
PBIDTM(%)	15.8%	16.5%		16.2%	
PBDTM(%)	10.9%	12.4%		12.5%	
PATM(%)	6.2%	2.4%		3.3%	

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Segment Analysis

Particulars	Q4FY12	Q4FY11	YoY%	Q3FY12	QoQ%
Net Segment Revenue					
AMESA	198.10	176.80	12.0%	199.80	-0.9%
EAP	88.70	75.90	16.9%	100.07	-11.4%
AMERICAS	98.00	82.40	18.9%	91.82	6.7%
EUROPE	51.60	34.60	49.1%	43.33	19.1%
Unallocated	0.00	0.00		0.00	
Inter segmental elimination	-23.80	-20.00	19.0%	-20.26	17.5%
Net Sales from Operations	412.60	349.70	18.0%	414.76	-0.5%
Segment Results					
AMESA	25.50	23.10	10.4%	24.33	4.8%
EAP	13.80	10.50	31.4%	20.57	-32.9%
AMERICAS	5.90	2.80	110.7%	-0.76	-876.3%
EUROPE	-7.70	-3.50	120.0%	-5.65	36.3%
Unallocated	-0.20	-1.60	-87.5%	-0.76	-73.7%
Inter segmental elimination	0.90	0.40	125.0%	0.35	157.1%
Total	38.20	31.70	20.5%	38.08	0.3%
Add: Other Income	3.80	6.40		0.72	
Add: Gain/(Loss) on Foreign Exchange Fluctuation	3.50	-0.50		-0.52	
Segment Result	45.50	37.60		38.28	
Add: Interest Income	0.00	0.00		3.51	
Less: Interest Expense	24.00	21.00		-19.40	
Add/(Less) Exceptional Item	1.30	1.30		0.00	
PBT	20.20	15.30		22.39	
EBIT Margins					
			BPS		BPS
AMESA	12.9%	13.1%	-20	12.2%	70
EAP	15.6%	13.8%	180	20.6%	-500
AMERICAS	6.0%	3.4%	260	-0.8%	680
EUROPE	-14.9%	-10.1%	995	-13.0%	-190
Total	9.3%	9.1%	20	9.2%	10

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Consolidated Financials

Profitability (Rs. Cr)					Balance Sheet (Rs. Cr)				
	FY11	FY12	FY13E	FY14E		FY11	FY12E	FY13E	FY14E
Y/E - March					Share Capital	31.3	31.4	31.4	31.4
Revenues - Net	1408.3	1583.7	1763.6	1940.3	Equity/Warrant	0.0	0.0	0.0	0.0
% change	4.6%	12.5%	11.4%	10.0%	Reserves & Surplus	764.4	810.8	861.5	921.8
EBITDA	248.6	257.3	294.5	327.9	Net Worth	795.7	842.2	892.9	953.2
% change	7.6%	3.5%	14.5%	11.3%	Minority Interest	6.7	9.8	13.8	18.3
Interest	85.1	84.2	87.5	82.7	Total Loans	813.2	936.0	886.0	836.0
Other Income	24.40	16.70	17.46	18.46	Net Deferred Tax Assets	-8.3	-8.3	-8.3	-8.3
EBDT	187.9	189.8	224.5	263.7	Total Liabilities	1607.3	1779.7	1784.5	1799.3
Depreciation	107.0	110.0	122.4	128.6	Net Fixed Assets	610.5	638.7	616.3	562.7
Forex Gain / Loss	2.0	-0.8	0.0	0.0	Investments	49.9	49.9	49.9	49.9
PBT	82.9	79.0	102.1	135.1	Goodwill	360.7	360.7	360.7	360.7
Extraordinary	1.4	1.3	0.0	0.0	CWIP	38.2	0.0	0.0	0.0
Tax	33.8	19.7	37.8	50.0	Forex Diff	0.7	0.0	0.0	0.0
PAT	47.7	58.0	64.3	85.1	Inventories	211.1	282.0	314.1	345.5
Share of Profit & loss	2.5	2.5	3.0	3.5	Sundry Debtors	218.2	303.7	323.7	356.2
Minority Interest	3.0	3.1	4.0	4.5	Cash & Bank	64.4	88.2	63.5	73.2
PAT after MI	47.3	57.4	63.3	84.1	Loans & Advances	284.6	311.4	347.9	372.1
Loss from discontinuing op	0.0	9.5	0.0	0.0	C A L&A	778.2	985.4	1049.1	1147.0
PAT	47.3	47.9	63.3	84.1	CL & P	241.3	265.3	301.9	331.3
Adj.PAT	48.1	58.4	63.3	84.1	Working Capital	536.9	720.1	747.3	815.6
EPS	3.0	3.7	4.0	5.4	Misc Exp	10.3	10.3	10.3	10.3
Adj EPS*	3.1	3.7	4.0	5.4	Total Assets	1607.3	1779.7	1784.5	1799.3
Cash EPS	9.9	10.7	11.9	13.6	Cash Flow (Rs. Cr)	FY11	FY12E	FY13E	FY14E
DPS (Rs.)	0.6	0.7	0.8	0.7	Operating				
Quarterly (Rs. Cr)	June.11	Sep.11	Dec.11	Mar.12	Profit Before Tax	82.9	79.0	102.1	135.1
Net Revenue including OI	360.1	396.3	414.8	412.6	Direct Taxes paid	-41.7	-19.7	-37.8	-50.0
EBITDA	57.6	63.1	67.0	65.0	Depreciation	107.0	110.0	122.4	128.6
Interest	14.5	14.0	15.9	24.0	Change in WC	-52.9	-156.0	-49.0	-64.9
EBDT	43.2	49.1	51.1	41.0	Interest Expenses	76.7	84.2	87.5	82.7
Dep	27.0	27.3	28.9	26.8	Other Non cash items	-16.1	-1.3	0.0	0.0
Other Inc.	0.7	0.3	0.7	3.8	CF from Operation	155.9	96.2	225.2	231.5
Forex Gain / Loss	-0.5	-3.3	-0.5	3.5	Investment				
Exceptional Items	0.0	0.0	0.0	1.3	Capex	-61.3	-100.0	-100.0	-75.0
PBT	16.3	18.8	22.4	20.2	Other Investment	0.0	0.0	0.0	0.0
Tax	6.8	9.9	8.7	-5.7	Total Investment	-61.3	-100.0	-100.0	-75.0
PAT	9.5	8.9	13.7	25.9	Free Cash Flow	94.6	-3.8	125.2	156.5
associate cos.	0.5	0.6	0.4	1.0	Financing				
Minority Interest	-0.6	-0.4	-0.6	-1.5	Equity raised/(repaid)	0.0	0.0	0.0	0.0
PAT after MI	9.4	9.1	13.6	25.4	Inc/Dec in Reserves	0.0	0.0	0.0	0.0
EPS (Rs.)	0.6	0.6	0.9	1.6	Debt raised/(repaid)	-26.6	122.8	-50.0	-50.0
Operational Ratio	FY11	FY12E	FY13E	FY14E	Dividend (incl. tax) paid	-13.3	-11.0	-12.6	-14.1
EBITDA margin (%)	17.7%	16.2%	16.7%	16.9%	Deferred Revenue Exp.	-7.0	0.0	0.0	0.0
Adj.PAT margin (%)	3.4%	3.7%	3.6%	4.3%	Interest Expenses	-77.7	-84.2	-87.5	-82.7
Adj.PAT Growth (%)	46.5%	21.4%	8.5%	32.9%	Cash Flow from Fin Acti	-124.6	27.6	-150.0	-146.8
Price Earnings (x)	12.7	10.5	9.7	7.3	Net Cash Flow	-30.0	23.9	-24.8	9.7
Book Value (Rs.)	50.8	53.6	56.9	60.7	Beginning Cash Flow	94.4	64.4	88.2	63.5
ROCE (%)	10.3%	9.7%	10.7%	12.2%	Cash as in Bal Sheet	64.4	88.2	63.5	73.2
RONW (%)	6.3%	7.1%	7.3%	9.1%					
Debt Equity Ratio	1.0	1.1	1.0	0.9					
Price / Book Value (x)	0.8	0.7	0.7	0.6					
EV / Sales	0.9	0.9	0.8	0.8					
EV / EBITDA	4.7	5.1	4.4	3.8					

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