Investment Idea

ACCUMULATE

Key Data	
Date	6th June 2017
Reco. Price (Rs)	260
Target (Rs)	340
Upside	30%
Reuters Code	ESSL.BO
BSE Code	500135
NSE Code	ESSELPACK
Face Value (Rs)	2
Market Cap (Rs. Cr)	4086
52-week high / low	276 / 179
Source:BSE	

Shareholding	%
Promoters	57
FII	14
DII	29
Source:ACE equity	

Essel Propack Limited.

Company Background

Essel Group's flagship company, Essel Propack Ltd (Essel Propack) is one of the largest Indian specialty packaging companies based in Mumbai. Catering to industries such as FMCG, beauty and cosmetics, pharma and health, food, homecare, and industrial cleaning products, the company is the largest global manufacturer of laminated tubes. It has 21 state-of-the-art facilities operating across 11 countries that include India, USA, Mexico, Colombia, United Kingdom, Poland, Germany, Egypt, Russia, China, and Philippines. In India, Essel Propack has its manufacturing units at Vasind, Murbad, and Wada in Maharashtra, Silvassa in Dadra and Nagar Haveli, Nalgarh in Himachal Pradesh, Uttarakhand, Goa, and Pondicherry.

Essel Group, founded by Dr. Subhash Chandra is a multinational conglomerate comprising diverse global business spread. The group has an annual turnover of circa USD 2.4bn with strong presence in the technology, interactive business, media, entertainment, social services, and packaging sectors. The group's renowned brands include Essel (Propack), DishTV, Zee Entertainment Enterprise Ltd., DNA (daily newspaper), and Asian Sky Shop (tele-shopping network).

Investment Rationale

Focused on non-oral care market

Essel holds 36% of global market share in oral care and is focusing to grow its non-oral care segment. The company's non-oral care segment is gaining grip from the East Asia Pacific region, growing 24% in Q4FY17. It aims to earn 50% of total revenue from the non-oral care segment, which is currently 40% on consolidated basis. Developing consumer market has deepened the need for improved and stylish packaging of products.

Demand boost post GST

The government would rollout GST Jul 01, 2017 onwards and the consumer goods sector is one of the biggest beneficiaries since tax expenses would reduce, enhancing the product demand. Initially,the industry might face tethering problems during the transition period of 3-6 months, with good pickup expected, going forward. Essel's India volumes and turnover, which account for ~40% of total revenue is anticipated to grow manifold riding the customers demand growth. GST rate for the packaging industry will be in line with the present tax rate (18%).Thus, there would be no major direct impact on Essel.

Inorganic growth will lead to business growth in Europe and Americas

During FY17, Essel acquired full stake in its Germany based JV, Essel Deutschland Germany (EDG), making it a wholly-owned subsidiary. This has enhanced the company's production capacity as well as capacity utilization. The company would also benefit in expanding its market reach across Europe both in oral care and premium non-oral care segments. We believe revenue from Europe will ramp up led by EDG. Recently, Essel inked a JV with Canada based Gensource Potash Corporation for setting up new production facility, Vanguard Potash, which will bring together technical innovation, management expertise, international logistics, and capital. This will provide Essel with ample in-house raw material supply for its tube production facilities in the Americas since the company aims to increase its capacity by 1.75 times in the near future.

Analyst

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Plant Locations

Goa, India	Manila, Philippines
Vasind, India	Danville, USA
Vapi, India	Colombia, Americas
Murbad, India	Mexico, Americas
Wada, India	Guanzhou, China
Himachal Pradesh, India	Hefei, China
Egypt	Tianjin, China
Moscow, Russia	Changshu, China
Poznan, Poland	United Kingdom
Dresden, Germany	
Source: Company, ACMIIL Research	

Modern technology and Innovative product line

Essel is known for its intensive R&D and innovative product line. The company holds 130 global and local patents. Itaims to develop products, which modernize the packaging while maintaining the products' shelf life. The company has recently developed "SHOT" technology for tube making at its plant in Danville, Virginia, USA. High SHOT (Super High Output Tubes) technology would augment production speed with energy efficiency while optimizing space use and reducing carbon footprint. SHOT can produce 500 tubes per minute (current capacity is 250 tubes per minute), which would help meet the soaring demand from the US markets.

Innovation is Essel's forte and ~50% of revenue is generated from the products launched in the last two years. Newly launched laminated hair color tube "Mystik" is the new addition in its product basket. The global hair color market is estimated to be around Rs. 1000 Cr and presents a significant opportunity for Essel to raise traction in the non-oral care segment. Market size is about 1bn tubes per year and there is only one peer for Essel to compete.

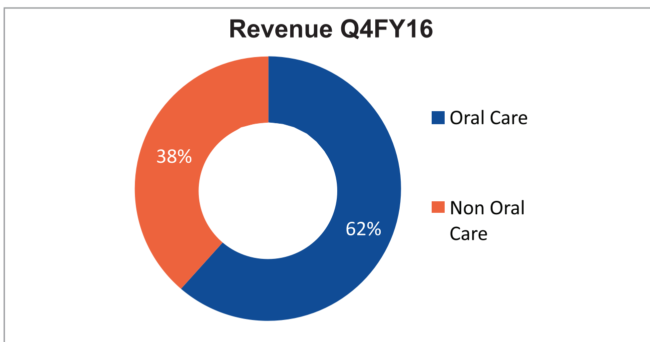
Strong Clientele

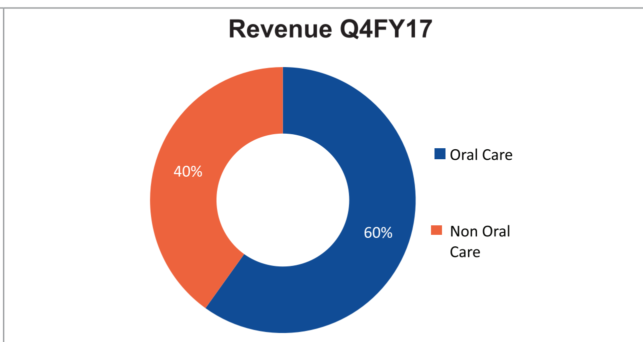
Essel Propack sells ~6bn tubes annually and is bound to grow with expanding client base. They have a strong clientele comprising leading global FMCG and Pharma brands. HUL, Dabur, L'Oréal, Emami, Garnier, Joy,Colgate Palmolive, Amway, Beardo, Faber Castle, Sprig, Hedda's, Mann & Schroder, Lotus, Saky, ADF Foods, Morinda, Ducray, Dr Greve, and Scholl are among the clientele of Essel. In the US and Mexico, new clients have been added especially in the non-oral care segment and more additions are foreseen. The company is acquiring non-oral care business from China as well.

Financials

In Q4FY17, Essel Propack earned total revenues of Rs.634Cr, 11% up YoY despite of revenue loss of around Rs.19.52Cr due to demonetization in India. EBITDA was Rs.125.43CR with 19% EBITDA margin, improving by 60 bps YoY. Net profits were at Rs. 43.97Cr with 7% profit margins.

For FY17 total revenues were Rs.2423Cr up 9.74% backed by revenue boost from Europe post EDG acquisition. Expensive raw material cost led to EBIDTA growth of mere 3.8% to Rs. 457Cr. EBITDA margin was 18.87% down by 106 bps. Net profits for the year was Rs.196Cr with 8% margins.





Source: Company, ACMIIL Research

Industry Overview

The packaging industry in India is one of the fastest growing industries with influence on all industries, directly or indirectly. Indian packaging industry has registered a CAGR of 15% in the last five years and currently values at USD 25bn and is anticipated to be USD 35bn by 2020. There are about 22,000 packaging industries who are involved in manufacturing material.

The spending on packaged foods is increasing due to increase in per capita income, urbanization and growing numbers of working women. There is great growth potential since India's per capita consumption of packaging is only 4.3 kg whereas neighboring Asian countries such as China and Taiwan is about 6 kg and 19 kg respectively. This clearly indicates that the market is under penetrated and offers a great business opportunity for the Indian plastics packaging industry. Retail growth, budding unorganized players and changing lifestyle have played a vital role in the growth of the packaging industry in India over the years.

Increased presence of global multinational companies has boosted the demand in the processed food, beverages, cosmetics, consumer products, toiletries and pharmaceutical space. The manufacturing units, especially the FMCG manufacturers are exploring new markets continuously through newer retail models. This has widened the market and also increased the demand of packaging of the products. The current middle class population in India is approximately 30 Cr. which indicate that from affordability point of view, the demand for smaller packaging is huge. This population is rapidly growing and hence this will drive the growth for packaging industry. Smaller packaging caters to even the rural population and lower income groups. Since the concept of globalization has penetrated the Indian market, significant cultural changes have been witnessed. People today are buying more of branded products and thus packaging is playing an important role in creating and sustaining the brand equity. With a higher per capita income, the demand of personal hygiene products and convenience products has increased leading to increased demand for plastics. Plastics replaced many traditionally used packaging materials thereby transforming packaging industry. Flexible packaging is a sub segment of packaging industry and it is producing revolutionary products. These products focus on enhancing the shelf life of products by keeping intact the nutritional value of the enclosed product. Modified atmospheric packaging (MAP) has also reduced the cost of old style packaging considerably. India is very strong in terms of materials used in packaging of goods.

Risk and Concerns

- **Increasing Crude prices:** Crude byproducts are the key raw material and any increase in crude prices might impact the company's margin.
- **GST Implementation:** We believe GST transition to be smooth and short termed. Any major set back might impact the domestic volume growth.

Valuation

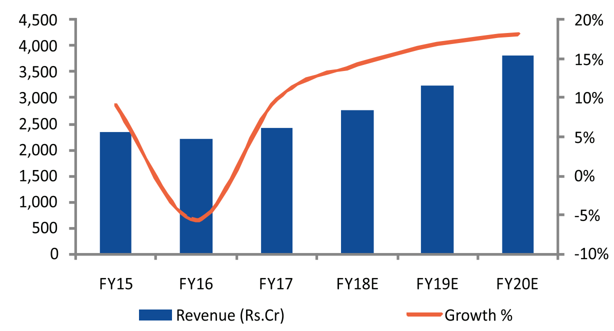
Essel Propack is a global leader in specialty packaging with forte in laminated tube packing. Their innovative products mark their presence across various industries of consumer goods. Business growth from AMESA, Americas, and Europe can lead to annual top-line growth of 20% for the next three years. Taking FY19E PE multiple of 17x on EPS of Rs.20, we arrive at atarget price of Rs 340 with 30% upside from the recommendation price of Rs 260. We recommend to "**ACCUMULATE**" the stock.

Subsidiaries

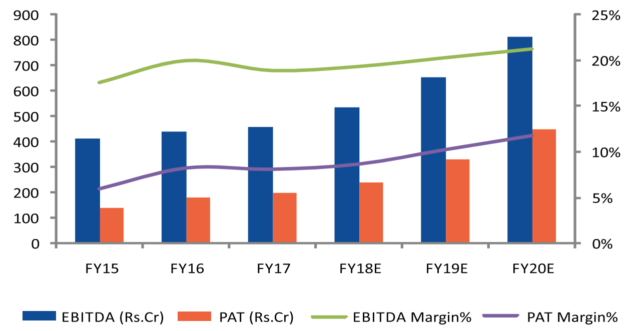
Lamitube Hong Kong Trading Company Limited	Arista Tubes Inc., USA
Lamitube Technologies Ltd., Mauritius	Lamitube Technologies (Cyprus) Ltd., Cyprus
Essel Packaging (Guangzhou) Ltd., China	Essel Propack America LLC, USA
Essel Propack Philippines, Inc., Philippines	Essel De Mexico, S.A. de C.V., Mexico
Essel Packaging (Jiangsu) Limited	Essel Colombia S.A.S.
The Egyptian Indian Company for Modern Packaging, S.A.E., Egypt	MTL de Panama S.A., Panama
Essel Propack Misr for Advanced Packaging (S.A.E.), Egypt	Arista Tubes Ltd., UK
Essel Propack LLC, Russia	Essel Propack UK Ltd., UK
Essel Propack Polska, Sp. Z.O.O, Poland	Tubopack De Colombia, S.A., Colombia

Source: Company, ACMIIL Research

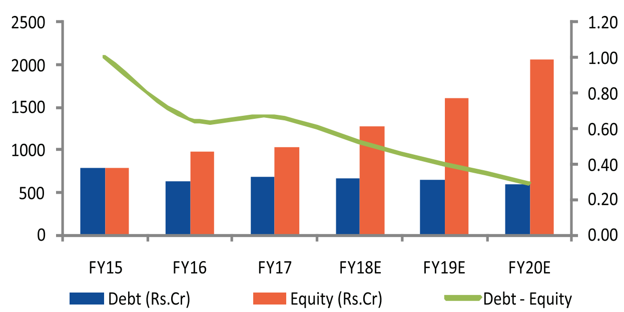
Revenue Growth



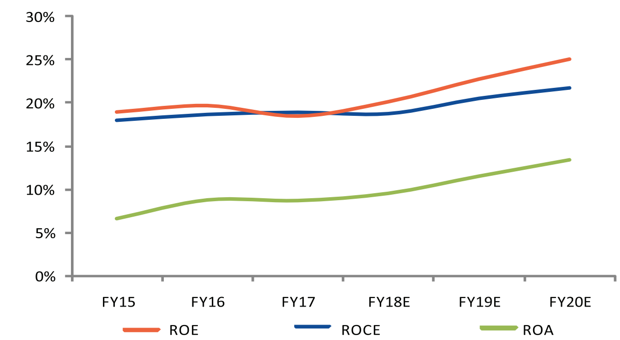
EBITDA -PAT



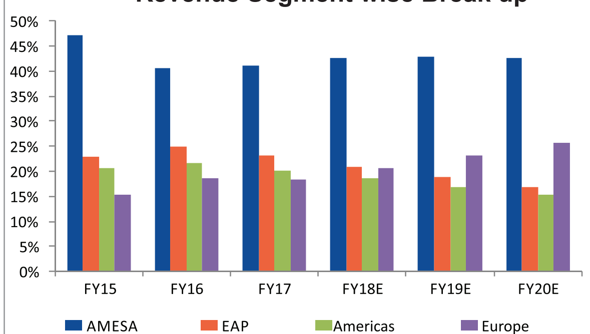
Debt Equity



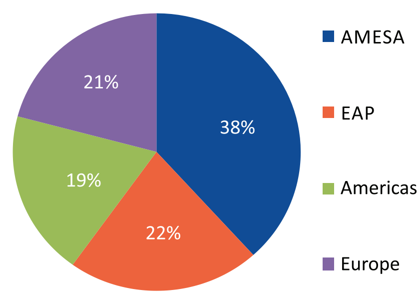
ROC-ROCE-ROA



Revenue Segment wise Break up



Revenue Q4FY15



Source: Company, ACMIIL Research

Financial Snapshot

Consolidated Profit & Loss Statement (INR Cr)

	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenues						
Revenue from operations (gross)	2,395	2,263	2,474	2,802	3,274	3,879
Less: Excise duty	-72	-78	-86	-82	-95	-113
Revenue from operations (net)	**2,323**	**2,185**	**2,388**	**2,721**	**3,179**	**3,766**
Other income	21	24	35	46.35	54.42	55.74
Total Revenue	**2,344**	**2,208**	**2,423**	**2,767**	**3,233**	**3,821**
COGS						
Cost of materials consumed	1,137	962	1,012	1142	1318	1539
Changes in inventories of FG and WIP	-1	-6	-4	-3	-2	-1
Total COGS	**1,136**	**956**	**1,008**	**1,138**	**1,316**	**1,538**
Gross Profit	**1,208**	**1,253**	**1,415**	**1,629**	**1,918**	**2,284**
Margin%	*51.52%*	*56.72%*	*58.41%*	*58.86%*	*59.31%*	*59.76%*
Selling & General Administration						
Employee benefits expense	363	379	406	463	541	640
Other expenses	433	433	552	631	721	833
Total expenses	**796**	**812**	**958**	**1,094**	**1,262**	**1,473**
EBITDA	**412**	**441**	**457**	**535**	**655**	**811**
Margin%	*17.57%*	*19.96%*	*18.87%*	*19.32%*	*20.27%*	*21.22%*
Depreciation and amortisation expense	132	127	141	143	140	135
EBIT	**280**	**314**	**316**	**391**	**515**	**676**
Margin%	*11.94%*	*14.21%*	*13.03%*	*14.15%*	*15.94%*	*17.68%*
Finance costs	79	62	58	55	52	48
Profit before exceptional item and tax	**201**	**251**	**258**	**336**	**463**	**628**
Margin%	*8.57%*	*10.73%*	*11.70%*	*13.87%*	*16.74%*	*19.41%*
Less: Exceptional items (net)	-6	-2	-16			
PBT	**207**	**253**	**274**	**336**	**463**	**628**
Margin%	8.79%	11.49%	11.31%	12.15%	14.33%	16.42%
Less: Tax expense	61	72	79	97	133	180
Profit after tax before minority interest and share of profit /(loss) of associate	145	182	195	240	330	447
Add/(Less): Share of profit/(loss) from zassociate	0	3	1			
Less: Minority interests	5	3				
Profit for the year	**140**	**182**	**196**	**240**	**330**	**447**
Margin%	***6.00%***	***8.24%***	***8.10%***	***8.66%***	***10.21%***	***11.71%***

Source: Company, ACMIIL Research

Consolidated Balance Sheet (INR Cr)

	FY15	FY16	FY17	FY18E	FY19E	FY20E
EQUITY AND LIABILITIES						
Shareholders' funds						
Share capital	31	31	31	31	31	31
Reserves and surplus	752	944	1007	1,247	1,577	2,025
	783	975	1,038	1,278	1,608	2,056
Minority interests	8	8	6	4	5	5
Non-current liabilities						
Long-term borrowings	643	567	605	594	575	547
Deferred tax liabilites (net)	31	27	41	44	48	53
Other long-term liabilities	1					
Long-term provisions	13	20	23	26	30	36
	688	613	669	664	653	636
Current liabilities						
Short-term borrowings	141	70	87	78	67	54
Trade payables	161	131	147	162	183	209
Other current liabilities	295	221	288	301	319	339
Short-term provisions	50	56	23.11	26.39	30.83	36.44
	647	477	545	566	599	639
Total Shareholder's Fund and Liabilities	**2,126**	**2,074**	**2,259**	**2,514**	**2,866**	**3,336**
ASSETS						
Non-current assets						
Fixed assets						
Tangible assets	870	928	1,117	1,177	1,201	1,211
Intangible assets	17	12	49	51	52	52
Goodwill			14			
Capital work in progress	84	51	11	13	15	18
Intangible assets under development	4	6	8	9	11	12
	976	998	1,185	1,250	1,279	1,294
Non-current investments	46	48	15	20	27	36
Deferred tax assets (net)	18	15	9	12	15	20
Long-term loans and advances	57	63	25	28	33	39
Other non-current assets	9	10	47	67	95	131
	1,104	1,133	1,280	1,378	1,449	1,520
Current assets						
Inventories	232	207	246	275	314	363
Trade receivables	376	335	377	418	475	547
Cash and bank balances	116	85	103	157	245	396
Short-term loans and advances	278	279	114	144	184	237
Other current assets	20	34	124.56	142	199	273
	1,022	941	964	1,136	1,417	1,816
Total Assets	**2,126**	**2,074**	**2,259**	**2,514**	**2,866**	**3,336**

Source: Company, ACMIIL Research

Investment Idea

ACCUMULATE

Key Data	
DATE	6th June 2017
Reco. Price (Rs)	Rs.155
Target	189
Sector	Industrial Machinery
BSE Code	501455
NSE Code	GREAVESCOT
EPS (Mar 2017) Rs	7.57
Face Value (Rs.)	2
Market Cap (Cr)	3695
52-week High/Low (Rs)	178/115
Source:BSE	

Shareholding pattern (as on March 2017)	%
Promoters	51.00
Public	49.00
Total	100
Source:ACE equity	

Analyst
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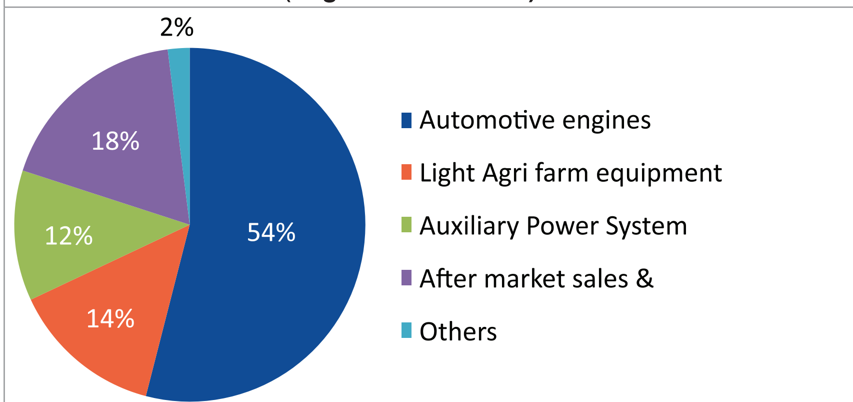
Greaves Cotton Ltd (GCL)

Company Background

Greaves Cotton Ltd is one of India's leading and well-diversified engineering companies with core competencies in diesel/petrol engines, farm equipment, and auxiliary power systems. GCL is one of the largest manufacturers of single cylinder (diesel and gasoline engines) and dual cylinder engines, which find application in three wheelers and small four-wheeler commercial vehicles. The company has six manufacturing units, which produce world-class products backed by strong sales and service network to service a diverse customer base.

Revenue Contribuiton (Segment Mix - FY17)



Source: Company, ACMIIL Research

Above chart indicates, revenue contribution from different segment mix during FY17

Investment Rationales

Market leader in last mile automotive application

Automotive engines segment contributes about 50-55% of the company's revenue. GCL is one of the leading manufacturers of diesel engines with a market share of 30% in 3Ws, since Bajaj Auto manufactures engines in-house. However, in the 3W goods segment (sub 1-tonne category), GCL commands a dominating market share of 85-90%, since market leader OEM, Piaggio, sells the highest 3W goods carrier in the local market Further, GCL has alliances with other OEMs, which include Tata Motors, Atul Auto, TVS Motors, M&M, and Eicher Polaris etc

GCL has extended its capabilities and successfully launched a multi-cylinder engine, for Small Commercial Vehicles of up to 3-3.5 tonnes. We believe this opens significant market opportunity for the company in the coming years. The company is in talks with various OEMs to partner with them for their existing and future engine requirements in the multi-cylinder engine segment. Further, GCL has developed an engine, which is capable of being transited to BSVI norms, which will be applicable in India 2020 onwards. This engine can be used for the exports market as well. Moreover, the company is already started selling BSIV engines to its OEMs clients prior to Apr 01, 2017.

During FY06-FY15, the three wheelers industry has grown at 8% CAGR driven by local and export demand. However, in the last two years, growth remained muted due to subdued economy activity, demonetization impact, poor monsoon during FY16, elevated interest rates, and currency shortages in export countries. However, we believe, with implementation of GST, revival in industrial activities and falling interest rates, three-wheeler industry is likely to see steady and gradual growth. Further, with greater proliferation of the Hub-n-Spoke logistics model and the relatively untapped potential in semi-urban and rural areas, we believe, SCVs market would grow in the coming years. Moreover, with the implementation of BS IV norms, the realization for 3W engines is set to go up by 8-10%, which is expected to impact revenue of GCL positively in FY18.

Normal Monsoon and new product development to augur well for the farm equipment business

The non-auto engine business segment includes sales from the farm equipment segment, auxiliary power segment, and aftermarket sales. This together contributes about 45% of the remaining total revenue. GCL is among the top three players in the farm equipment segment. Farm equipment segment contributes about 15% to the total revenue. Under the farm equipment segment, the company caters to a wide array of products such as portable engines, pump sets, and power tiller. In the pump sets segment, the company enjoys more than 40% market share, while in the power tillers, it is among the top 3 players with 16-17% market share. The company sees this segment as a huge opportunity in the local markets since farmers are shifting towards mechanized work owing to high labour costs. Further, GCL procures tillers from a major Chinese manufacturer and sells them under its own brand name. However, with strong R&D in place, the company has successfully launched a new range of products under its own 'Sampurna Swadeshi' program. This includes mini power tillers (8HP) and paddy weeder. Moreover, the company is keen to penetrate its presence in the agriculture segment. Thus, it will manufacture other range of products in-house that will suit various crop cycles. We believe, with a forecast of a normal monsoon by IMD, the agri-farm equipment business is expected to post a strong double-digit growth in the coming years.

Strong distributions reach and brand strength to spur aftermarket sales growth

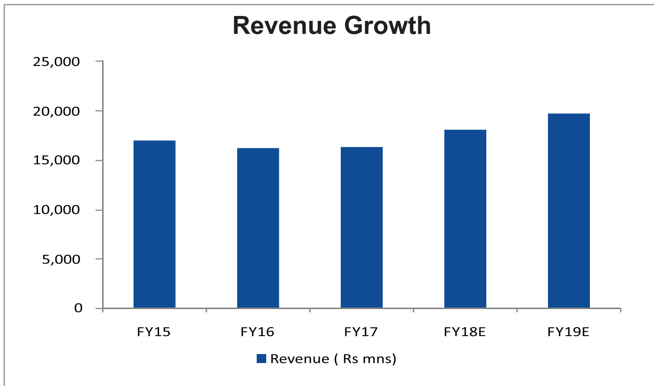
Aftermarket sales contribute about 18-20% to the total revenue. GCL has a massive network of more than 3000 service outlets along with 1200 dealers across India, servicing the needs of 50mn customers. During FY17, the company forayed into multi-brand spares business as an extension to its after-market services. With this, the company plans to provide a complete range of multi-brand spares across categories (such as engine, transmission, electrical, rubber parts, lubricants, and body parts) and OEMs. The company will initially offer fast-moving vehicle and engine spare parts through its strong retail network. This will be in addition to generic parts. In the next phase, even relatively slow-moving parts will also be offered irrespective of the brand of 3-wheeler passenger and commercial vehicles. The company will be the first to offer spares across all categories in three-wheeler (3W) segment. The company does not plan to manufacture these spares but has tied up with more than 40 vendors for the supply of various spares. Moreover, management indicated that this new venture would not be margin dilutive. The company's strength is its pan-India reach, which it aims to expand further by opening additional 1500 outlets in the coming three to five years. Currently, the addressable size of the 3W spare part markets in India is Rs. 15-16 bn. The company aims to gain a substantial market share in the next two to three years, since 35-40% of the market is unorganized. Moreover, the company is looking to expand its Greaves Auto Care business under franchisee model, which can further increase its aftermarket revenue substantially. Going ahead, we expect the company to post a strong 20% CAGR sales growth under aftermarket segment between FY17-FY19E. We believe higher contribution from high margin aftermarket business to further improve operating margin.

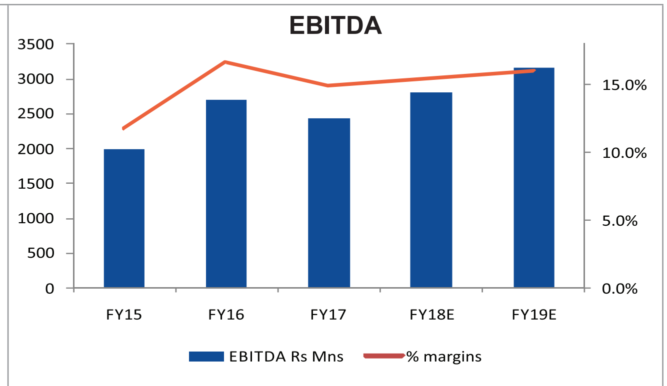
Strong return ratio and debt-free status

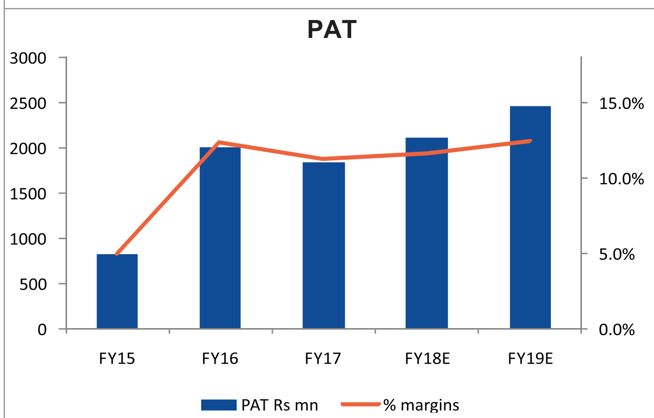
In last few years, the company's key focus has been on improving profitability by exiting loss making business and improving operational efficiency. Hence, during FY15, the company exited the loss-making construction equipment business. However, revenue during FY16 remained subdued. The company's bottom-line zoomed to Rs. 200cr against Rs 84cr in FY15 due to improvement in operational efficiency. Further, the company has been able to generate robust cash flow and a superior return ratio over FY14-FY17. In the last few years, ROE has improved from 15% in FY14 to 20% in FY17 and at the same time, ROCE improved from 16.4% in FY14 to 20.7% in FY17. Further, the company has a clean balance sheet with zero leverage position. Further, the company does not envisage major capex in capacity enhancement in the near term. Majority of the capex worth of Rs. 500-1000 mn is earmarked for R&D aimed at making engines emission compliant. We believe while the core business of automobile engines (3W and 4W) has remained subdued in the last few years, the company is expected to see good traction in the farm equipment, gensets, and aftermarket spares business. We expect company revenue and profitability to grow at a CAGR of 10% and 15.5%, respectively over FY17-FY19E.

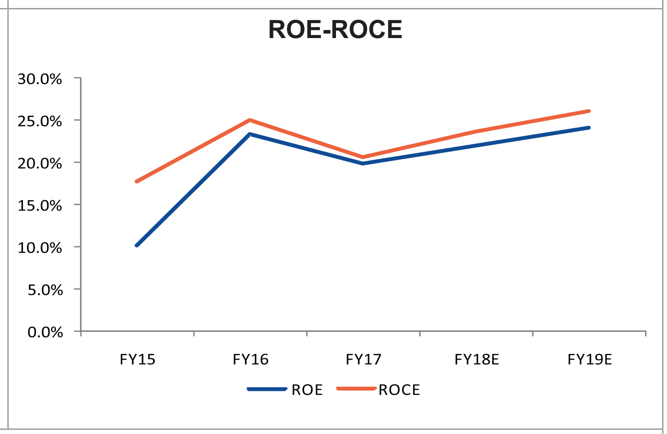
Views and valuation

At the recommended price of Rs 155/-, GCL trades at 17.7x and 15.3x its FY18E and FY19E EPS, respectively. With focus on new product development, new customers, and new geographies, we believe GCL is all set to move for higher growth levels. Further, the recent foray by Greaves Cotton in the multi-brand spares business offers an additional growth avenue for the company. We are also positive on the company due to robust cash flow generation, superior return ratio, and good dividend yield. Hence, we recommend **Accumulate** rating on the stock price with target price of Rs 189/- with 22% upside from the current level.









Source: Company, ACMIIL Research

Financial Snapshot

(Rs in mns)

Paritcular	FY15A	FY16A	FY17	FY18E	FY19E
Net Sales	16,977	16,189	16,349	18,115	19,783
Total Expenditure	14,987	13,496	13,911	15,315	16,616
EBITDA	1,990	2,693	2,438	2,800	3,167
PAT	835	2,006	1,846	2,116	2,461
EPS (Rs)	3.4	8.2	7.6	8.7	10.1
P/E (x)	42.7	14.8	23.1	17.8	15.3
ROE (%)	10.1%	23.3%	20.0%	22.0%	24.2%

Source: Company, ACMIIL Research