

## Hard times to continue

We recently attended the 2QFY2011 Earnings call of Essel Propack, following are the key takeaways

### Financial performance

Rs mn	2QFY12	1QFY12	2QFY11	QoQ Growth %	YoY growth %
Sales	3,963	3,601	3,687	10.1%	7.5%
EBITDA	631	576	683	9.5%	-7.6%
EBITDA %	15.9%	16%	18.5%		
PAT	92	94	135	-2.6%	-32%

Essel Propack's (EPP) 2QFU2011 results were not satisfactory. EPP has reported only 7.5% increase in sales to Rs3,687mn, with EBITDA margin of 15.9% to Rs631mn, which is 7.6% decline on yoy basis. Total PAT for the quarter declined by 32% to Rs92mn against Rs135mn in 2QFY11

### Key takeaways

Why low EBITDA margins?

- Increase in raw material cost
- Rupee depreciation vs. most currencies
- Slowdown in European region

### Underperformance in one region

Three regions AMESA, Americas and Europe reported revenue growth by 12.8%, 7.6% and 8.4% respectively. Except EAP, posting negative growth of -9.2%. Growth in AMESA was led by steady growth in laminate tube volumes. Growth from Americas came by growth in plastic tubes and increased volumes from Mexico. Despite volume loss in Germany due to economic slowdown and shifting capacities from UK to Poland, company posted growth of 8.4%. Lower off-take in EAP region was a result of lower off-takes from client in China due to branding issue for one the product variant which company believes will keep on affecting growth in EAP region till 3QFY12.

### **Reasons for limited growth in three regions**

At AMESA, growth was limited due to increase in power cost by 11.2%, wage hike by 15% and higher outsourcing cost. EAP margins impacted due to revenue fallout from a large client in China. And volume loss in Germany and slow growth in Russia, limited the growth to 8.4%.

### **Raw material cost and rupee depreciation led fall in EBITDA margins**

Rising input cost coupled with rupee depreciation against leading currencies were the primary reasons for decline in EBITDA margins by 15.9%. Though, company has no control over rupee depreciation but as far as raw material cost is concerned, company actually started passing the cost to consumers, later that process slowed down and at present it is lagging to pass it by 2.5%.

### **Some positives**

- Despite the general slowdown in Europe, company attained 8.4% growth.
- Inventory reduction plan of US\$10mn to be rolled out in second half to get least impact of increase raw material cost.
- Raw material cost is not fully passed to consumers and lags by 2.5%. EPP plans to pass on the same by beginning of 3QFY2011.
- Company aims to generate power by alternative source in AMESA region as current rise in power cost is proving expensive.
- It aims to increase Plastic tube capacity utilisation by 30%

## Valuations

Parameter	Current	Historic average	Highest	Lowest
P/BV	0.7	1.4	2.2	1.1
P/E	12.2	15.4	32.4	10.0
EV/EBITDA	5.3	3.2	5.7	1.2

*Historic period Mar 2000- Mar 2010*

As we can observe EPL's current valuation prevailing lower than its historic valuations because of recent poor performance by company. It is making all efforts it can to come back in good financials. Though, it is assumed that it will have some tough time as increased power and wage cost in AMESA region. As well as, issue with client in China can continue to impact results till 3QFY12 or 4QFY12. Keeping this view in mind it is advisable to not to touch this stock and wait till next quarter as stocks can further shift downwards and can gain value after 3Q or 4Q as it is this period during which company will resolve issues it is facing now and recover itself in expected growth phase.

**Pratik Gohil**  
**pratikg77@yahoo.com**

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