

17<sup>th</sup> September, 2010.

SENSEX: 19595  
NIFTY : 5885

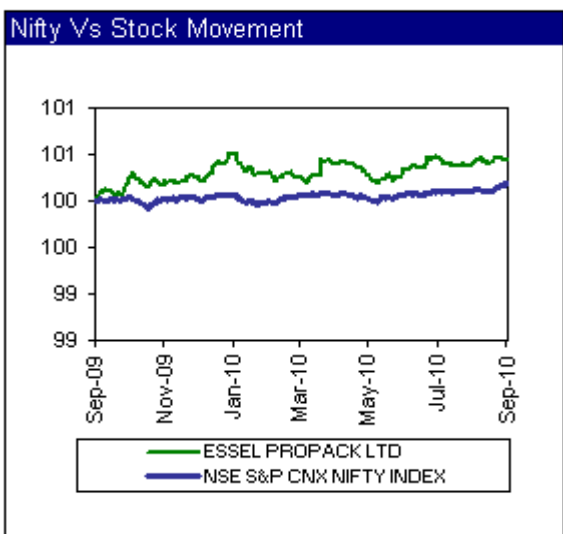
Recommendation: BUY  
Target Price : Rs 60

Key Statistics	
Latest Price	49.2
52 Week High	58.3
52 Week Low	34.0
Traded on	BSE,NSE

Share Holding Pattern	
Promoters	58.92. %
FII's	3.4%
DII's	8.7%
Others	29.0%

Market Data	
PE Ratio	17.0
EPS	2.9
Market Cap (Cr)	770.5
Outstanding Shares(Cr)	15.7
Book Value/Share(Rs)	48.6
Beta	1.1
Face Value	2.0

Technical Indicators	
100 day MA	46.4
50 day MA	48.7
20 day MA	49.4

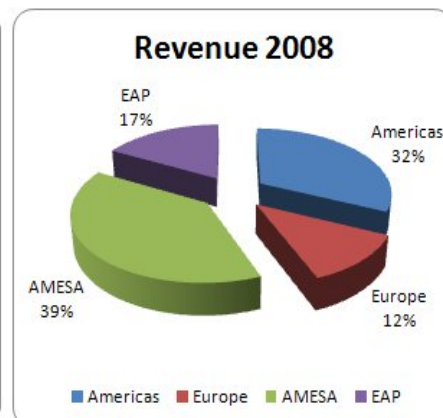
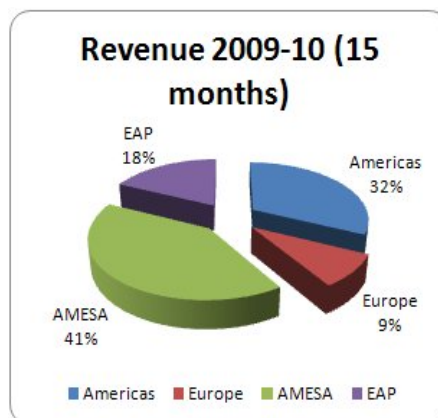


### Company Overview:

Essel Propack Ltd, a part of the USD 2.4 bn Essel Group is engaged in manufacturing laminated and seamless or extruded plastic tubes. The Essel group is among India's leading business houses, with presence in technology, media, entertainment, social services and packaging sector. The Group's renowned brands include Essel Propack, Essel World and Water Kingdom (Amusement parks), Dish TV, Zee Entertainment Enterprise Ltd, DNA – daily newspaper and Asian Sky Shop – a tele shopping network.

The Company holds a 33% market share in the laminated tubes domain. Essel Propack is the world's largest manufacturer in its segment with units operating across 12 countries. The Company's key business of manufacturing plastic packaging materials is managed by four geographical segments:

1. America (with operations in the USA, Mexico and Columbia)
2. Europe (with operations in UK, Poland, Germany and Russia)
3. AMESA: Africa, Middle East and South Asia (with operations in Egypt and India)
4. EAP: East Asia Pacific (with operations in China, Philippines and Indonesia)



## Industry Overview:

The packaging industry continues to play an important role in delivering fast moving consumer goods in an efficient and attractive manner to the ultimate consumer. The current wave of economic development in India has also injected life in the packaging industry. India's packaging industry is likely to achieve an annual turnover as high as US\$ 5 billion in the current financial year with a growth rate nearly 25% in significant segments.

The expansion of the Indian packaging market has accelerated due to:

- A growing middle class of over 300 million.
- The conversion of the more traditional rigid packaging into flexible forms.
- A favorable government tax structure. Excise duty that was once 24% has been reduced to 16%.
- Globalization and the influx of multinational companies.
- Modern plants and equipment available to the packaging industry.

Considering these factors it is obvious that the packaging has a very bright future in India and is here to stay and grow in a big way.

## Product Basket:

- 1. Laminated Tubes:** Laminated Tubes are used for packaging by various sectors like oral care, food, cosmetics, Pharma and industrial applications. The oral care industry contributes to 70% of production of laminated tubes. Essel Propack offers a range of customized laminated tubes like:  
Aluminium Barrier Laminates → Used for pastes, ointments and over the counter pharmaceutical products.  
Plastic Barrier Laminates → Used for packaging products that needs to maintain their form and shape.  
Specialty and Custom Materials → Used to provide more value or unique look to the customer's brand.
- 2. Plastic Tubes:** Plastic tubes are used to enhance the shelf-life of packaged goods and create a unique product identity. Essel Propack offers high-end decoration techniques and custom colored materials to fit the needs of the brand/product of each client.
- 3. Caps & Closures:** Essel Propack manufactures caps and specialty closures for products other than tubes, such as closures for hair care and personal care product bottles.
- 4. New Products:** The Company has introduced two new products namely: Etain and Egnite. Etain is a fully recyclable plastic packaging tube made from a combination of virgin and recycled plastic materials. Such plastic packaging tubes are used by FMCG companies for packaging various types of hair care and skin care products, pharmaceuticals and food products besides cosmetics. On the other hand, Egnite is a high luster laminate and is used for complex printing and novel color effects.

## Investment Rationale:

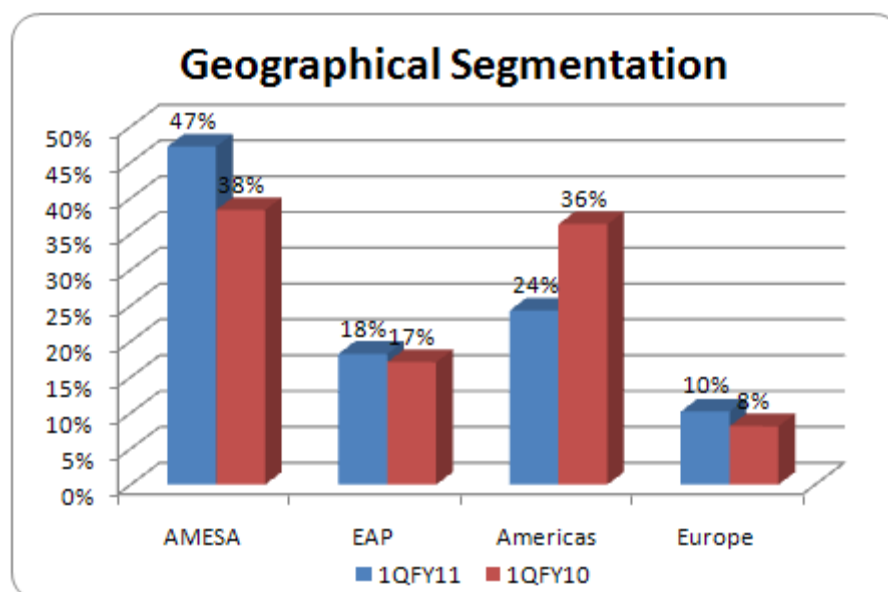
### 1. Financial Performance:

- **Standalone - 1st Quarter ended June 2010:**

For the 1<sup>st</sup> Quarter ended FY11, the Company reported an increase of 19.5% on YoY basis to Rs. 93.22 cr from Rs 78.04 cr. On the EBITDA front, Essel Propack witnessed a robust 29% growth YoY to Rs. 23.55 cr from Rs 18.27 cr in the year ago period. The Company also managed to reduce its interest expense by 38% YoY to Rs 4.82 crs from Rs 7.72 crs. This gave a boost to PAT, which increased by 30% YoY to Rs 12.24 crs from Rs 9.40 crs over the period of a year. The EPS also witnessed a corresponding 30% YoY growth to Rs 0.78 from Rs 0.60.

- **Consolidated - 1st Quarter ended June 2010:**

For the 1<sup>st</sup> Quarter ended FY11, the Company reported a marginal decrease of 0.5% on YoY basis to Rs. 331.48 cr from Rs 333.10 cr. On the EBITDA front, Essel Propack witnessed a 5.75% decline YoY to Rs. 56.29 cr from Rs 59.73 cr in the year ago period. The Company also managed to reduce its interest expense by 30% YoY to Rs 14 crs from Rs 20 crs. Interest cost reduction along with favorable exchange rate, gave a boost to PAT, which increased by 65% YoY to Rs 8.63 crs from Rs 5.24 crs over the period of a year. The EPS also witnessed a corresponding 66.67% growth to Rs 0.55 from Rs 0.33 over the year.



- **Consolidated Annual Performance:**

In 2009-2010, company turned around and reported a Net Profit of Rs. 59.9 crore for the fifteen months period ending 31st March, 2010 against a loss of Rs. 88.3 crore in the year 2008. The Company divested its medical devices business in 2009 to focus on growing its core tubing business globally. The Company is aggressively driving growth in Asia to significantly add volumes and build scale. It has cut its Europe losses substantially and is expanding its packaging solutions to pharmaceuticals and cosmetics, with innovative and new products. The Company is working to improve its cost competitiveness and shrink the debt on its Balance Sheet.

## 2. Planned Expansion:

Essel Propack has plans to begin construction on a \$10 million consolidation project, which will result in the expansion of their existing buildings in Airside Industrial Park. The Company will consolidate production with Arista Tubes to reach optimum manufacturing efficiency and capacity in anticipation of future business contracts.

### Key Concern:

**Single Product Dependency:** Oral Care accounts for a large part of the Company's business. Being an essential consumer product and an item of daily use, it tends to have a stable demand even in an adverse economic environment. Essel Propack boasts of a client base of all global majors in this category. However, in order to strengthen competitiveness, the Company is actively developing products/customers in cosmetics, food, pharmaceuticals etc. to diversify its portfolio and hedge risks.

**Currency Fluctuation Risk:** The global nature of operations exposes the Company to multiple currencies. Thus, adverse fluctuations in currencies could affect the Company's performance.

### Peer Comparison:

Company	Latest Price	Equity Base (Cr)	FY 2010 (Rs in Cr)		PAT Margins	EPS	PE Ratio
			Sales	PAT			
ESSEL PROPACK LTD	49.2	31.3	1,679.0	37.4	2.2%	2.9	17.0
UFLEX LTD	203.3	64.9	2,290.0	190.1	8.3%	25.3	8.0

**Financial Performance:**

(Rs. In Cr.)

ANNUAL RESULTS	201003 (12)	200903 (12)	200803 (12)	200703 (12)
<b>Income Statement</b>				
Operating Income	1678.8	1288.4	1191.8	1007.7
Total Income	1754.6	1326.9	1246.5	1059.0
Operating Profit	364.3	155.5	222.7	254.9
Gross Profit	236.3	63.5	151.1	216.6
Profit Before Tax	103.4	-48.5	84.3	130.0
Net Profit	64.8	-83.1	63.9	101.9
Adjusted Net Profit	37.4	-88.7	60.0	95.9
EPS (Rs)	2.9	0.0	3.7	6.0
Book Value (Unit Curr.)	48.6	44.7	52.1	49.1
Debt equity Ratio	1.1	1.5	0.9	0.7
<b>Balance Sheet</b>				
<b>SOURCES OF FUNDS :</b>				
Share Capital	31.3	31.3	31.3	31.3
Reserves Total	729.5	667.9	784.9	737.3
Total Shareholders Funds	760.9	699.2	816.2	768.6
Minority Interest	8.3	16.6	11.8	9.8
Secured Loans	515.1	499.7	406.2	366.8
Unsecured Loans	324.7	531.7	301.5	155.6
Total Debt	839.8	1031.4	707.7	522.3
Net Deferred Tax	3.7	6.1	5.6	19.7
<b>Total Liabilities</b>	<b>1,612.6</b>	<b>1,753.3</b>	<b>1,541.3</b>	<b>1,320.4</b>
<b>APPLICATION OF FUNDS :</b>				
Net Block	973.0	1122.1	1094.4	991.7
Capital Work in Progress	58.0	42.3	79.4	29.3
Investments	47.7	45.3	44.8	42.4
Total Current Assets	723.3	759.0	575.4	492.3
Total Current Liabilities	197.4	220.5	255.1	240.9
Net Current Assets	525.9	538.5	320.3	251.5
Miscellaneous Expenditure Not w/of	8.0	5.2	2.4	5.7
<b>Total Assets</b>	<b>1,612.6</b>	<b>1,753.3</b>	<b>1,541.3</b>	<b>1,320.4</b>

\* Results for all years are on consolidated basis

\*\* Company Annual Reports

**Valuation:**

Based on fundamental analysis, at an estimated EPS of Rs. 3.5 for FY11E and PE of 17x, we recommend a 'BUY' on Essel Propack Ltd. with a target price of Rs. 60, a potential upside of 22%.

**Technical Analysis:**

Source: Bloomberg, Weekly Chart, Essel Propack

Technically, Essel Propack has formed U shape pattern and currently the stock is in consolidation phase. Essel Propack has bottomed out during mid of Feb 2010 & started surging after that. Currently, RSI is in hold zone & 50 week exponential moving average is well above 100 week exponential moving average. So, this configuration is mixed. Technically, we expect the stock to consolidate in extreme short term. Long term investors are advised to accumulate this stock around support zone of 46 for target of 64. The stock may face minor resistance around 54 levels.

Note:

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**Disclosure of Interest Statement in Essel Propack Ltd. as on 17<sup>th</sup> September 2010:**

- |  |                                       |
|--|---------------------------------------|
| 1. Name of the analyst   | : Praveen Kumar Dodda, Priyanka Damle |
| 2. Qualifications of the analysts  | : B.E., MBA; B.Com, C.A.              |
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