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IPO Note
17th Jan 2024

EPACK Durable Ltd

Subscribe for Long Term

Rating: Subscribe for Long Term

Issue Offer

Fresh Issue of 17,391,304 equity shares up to INR 4,000mn and OFS of 10,437,047 shares by Promoters group taking the total issue size at INR 6,400.5 Mn

Issue Summary	
Price Band (INR)	218-230
Face Value (INR)	10
Implied Market Cap (INR Mn)	22,034
Market Lot	65
Issue Opens on	Jan, 19, 2024
Issue Close on	Jan, 23, 2024
No. of share pre-issue	78,407,387
No. of share post issue	95,798,691
Listing	NSE / BSE

Issue Break-up (%)	
QIB Portion	≤50
NIB Portion	≥35
Retail Portion	≥15

Book Running Lead Managers
ICICI Securities Ltd
Axis Capital Ltd
DAM Capital Advisors Ltd

Registrar
KFin Technologies Ltd

Shareholding Pattern		
	Pre-Issue	Post-Issue
Promoters	85.49%	59.08%
Public & Others	14.51%	40.92%

Objects of the issue

- Funding of capital expenditure and setting up of manufacturing facilities.
- Repayment of outstanding loans.
- General corporate purposes.

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EPACK Durable Ltd is the 2nd largest room air conditioner Original Design Manufacturer (ODM) in India in terms of number of units, specializing in room air conditioners (RAC) and related components. The company has 3 manufacturing facilities in Dehradun (Uttarakhand), Bhiwadi (Rajasthan), and Sricity (Andhra Pradesh). The company has installed capacity of 1.56mn for Indoor Units (IDU), 1.68mn units for Outdoor units (ODU), 0.42mn units for Window Air Conditioners (WAC), 1.85mn units for Cooktops, 0.3mn units for Mixer grinders and 0.11mn units for water dispensers. The company is focused on expanding product portfolios like Hair Dryer, Kitchen Chimney, Domestic Air Coolers, Tower Fans, etc. The company is among the first to make special copper tubing and design air conditioners with a new refrigerant.

Investment Rationale

Advanced vertically Integrated manufacturing facilities led to cater RAC and SDA Value chain: The plants are vertically integrated which helps to improve the quality and minimize dependence on 3rd party suppliers. Integrated manufacturing helps to cater to all aspects of the RAC & SDA manufacturing value chain. The company is focused on investing in manufacturing infrastructure and intends to enhance its R&D facilities. The company has recently commenced operations at the Sri City manufacturing facility and intends to set up new facilities in Bhiwadi & Sri City.

Focused on expanding product portfolio: The company focused on diversifying its product portfolio, expanding beyond RAC to include semi-commercial air conditioners, air coolers, hair dryers, induction water heaters, Nutri blenders, tower fans, kitchen chimneys, and dual ICTs. This strategy aims to reduce reliance on seasonal RAC demand by tapping into the consistent demand for SDAs. The new plant commencement and product portfolio expansion will provide opportunities to ODM/OEM due to lower penetration in RAC manufacturing in south India.

Building strong relationships with established customers: The company has built long-lasting relationships with their key customers averaging 8.7 years for RAC products and 6.3 years for SDA products. The customer includes four of the top six RAC brands in India. The customer stickiness of brands due to switching costs as the ODM manufactures the products & controls the designs. The company is focused on increasing wallet share and cross-selling additional products to existing customers and expanding its customer base going forward.

Backward integration and strategic collaborations would lead to cost efficiencies: The company is focused on backward integration, automation, and in-house manufacturing would lead to time & cost efficiencies and reduce dependency on third-party vendors & suppliers. The company is reducing import dependence would lead to reducing exposure to foreign currency translations. The company is also improving inventory management and cost efficiencies to reduce manufacturing costs. The company collaborates with Epavo Electricals for BLDC motor development to improve cost efficiencies.

Valuation & Outlook: EPACK Durables has a 24% market share in terms of domestically manufactured units by ODM in FY23. The plants are vertically integrated and automated would improve the margins going forward. The IPO proceeds of INR 2,300mn would be used for capacity expansion would lead to incremental business going forward. The increase in wallet share from existing customers through cross-selling and expanding the customer base will increase the business going forward. The new product launches in the appliances portfolio would reduce the business fluctuation due to seasonality going forward. At the upper band of INR 230, the issue is valued at an EV/EBITDA of 20.2x based on FY23 EBITDA and PE of 51.4x based on FY23 EPS of INR 4.5. We are recommending "Subscribe for Long Term" for this issue.

Financial Statements

Income statement summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Revenue	7,362	9,242	15,388
Operating expenses	6,491	7,943	13,241
Gross Profit	**872**	**1,298**	**2,148**
Gross Margin (%)	**11.8%**	**14.0%**	**14.0%**
Employee Cost	170	233	334
Other Expenses	281	378	788
EBITDA	**420**	**688**	**1,025**
EBITDA Margin (%)	**5.7%**	**7.4%**	**6.7%**
Depreciation	(90)	(163)	(261)
Interest expense	(256)	(294)	(315)
Other income	34	32	14
Share of profits associate & JV	-	0.1	(8.1)
Profit before tax	**109**	**263**	**440**
Taxes	(31)	(89)	(121)
PAT	**78**	**174**	**320**
PAT Margin (%)	**1.1%**	**1.9%**	**2.1%**
EPS (INR)	1.6	3.3	4.5

Source: Company Reports, Arihant Capital Research

Cashflow summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Profit before tax	109	263	440
Depreciation	90	163	261
Tax paid	(31)	(89)	(121)
Working capital Δ	(2,080)	666	(442)
Change in Goodwill	(0)	(5)	-
Operating cashflow	**(1,912)**	**998**	**139**
Capital expenditure	(900)	(1,817)	(1,947)
Free cash flow	**(2,812)**	**(818)**	**(1,809)**
Equity raised	611	355	1,598
Investments	(15)	(38)	(60)
Others	(385)	(616)	(677)
Debt financing/disposal	2,623	1,532	1,095
Dividends paid	-	-	-
Other items	95	60	19
Net Δ in cash	**115**	**474**	**165**
Opening Cash Flow	**-**	**115**	**590**
Closing Cash Flow	**115**	**590**	**755**

Source: Company Reports, Arihant Capital Research

Balance sheet summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Equity capital	482	521	521
Reserves	207	698	2,615
Net worth	**689**	**1,219**	**3,136**
Minority Interest	-	-	-
Provisions	26	30	34
Debt	2,623	4,154	5,249
Other non-current liabilities	69	124	139
Total Liabilities	**3,407**	**5,528**	**8,559**
Fixed assets	810	2,379	3,235
Capital Work In Progress	-	85	915
Other Intangible assets	349	884	953
Goodwill	0	5	5
Investments	15	54	114
Other non current assets	14	91	713
Net working capital	**2,080**	**1,414**	**1,856**
Inventories	1,405	2,773	2,937
Sundry debtors	2,342	3,562	4,791
Loans & Advances	-	-	-
Other current assets	130	319	212
Sundry creditors	(1,519)	(3,339)	(3,891)
Other current liabilities & Prov	(278)	(1,900)	(2,192)
Cash	115	590	755
Other Financial Assets	22	26	13
Total Assets	**3,407**	**5,528**	**8,559**

Source: Company Reports, Arihant Capital Research

Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23
Growth matrix (%)			
Revenue growth		25.5%	66.5%
Op profit growth		63.7%	49.0%
Profitability ratios (%)			
OPM	5.7%	7.4%	6.7%
Net profit margin	1.1%	1.9%	2.1%
RoCE	7.8%	8.4%	8.2%
RoNW	11.3%	18.3%	14.7%
RoA	2.3%	3.2%	3.7%
Per share ratios (INR)			
EPS	1.6	3.3	4.5
Cash EPS	3.5	6.5	8.2
Book value per share	14.3	23.4	44.2
Valuation ratios (x)			
P/E	141.8	69.0	51.4
P/CEPS	66.0	35.5	28.1
P/B	16.1	9.8	5.2
EV/EBITDA	32.3	22.5	20.2
Payout (%)			
Dividend payout	0.0%	0.0%	0.0%
Tax payout	28.3%	33.7%	27.4%
Liquidity ratios			
Debtor days	116	117	99
Inventory days	79	96	79
Creditor days	80	104	92
WC Days	115	109	86

Source: Company Reports, Arihant Capital Research

Story in Charts

Exhibit 1: EPACK durables revenue grew at a CAGR of 44.6% over the period of FY21-FY23. The increase in capacity and new product launches would drive the business growth going forward.

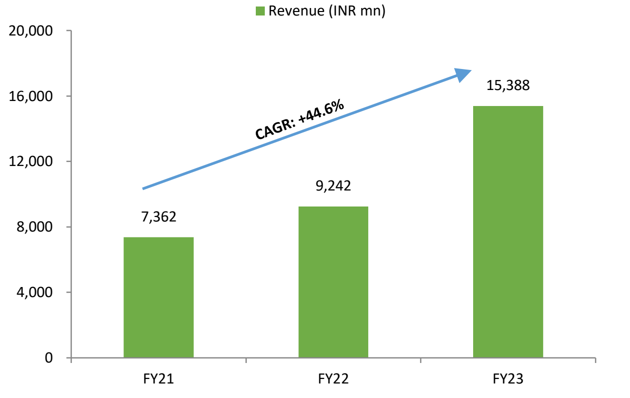


Exhibit 2: Gross margins were improved due to vertical integration. The backward integration for RAC and components would improve the margin going forward.

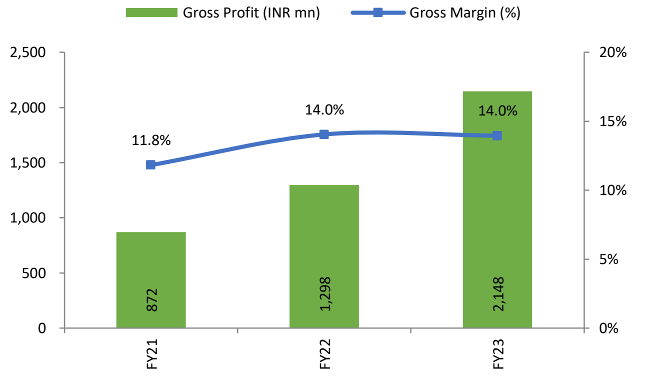


Exhibit 3: EBITDA margin is maintained above 5% and PAT margins were reached to 2.1% in FY23.

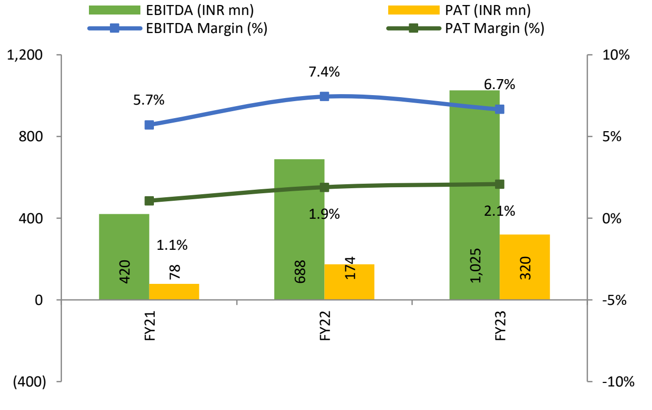


Exhibit 4: Working capital has reduced in terms of sales.

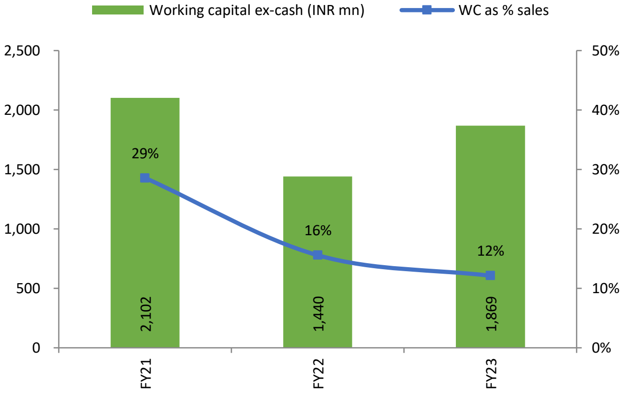


Exhibit 5: Return ratios were improved over past 3 years and prudent capital allocation and profitability would improve further going forward.

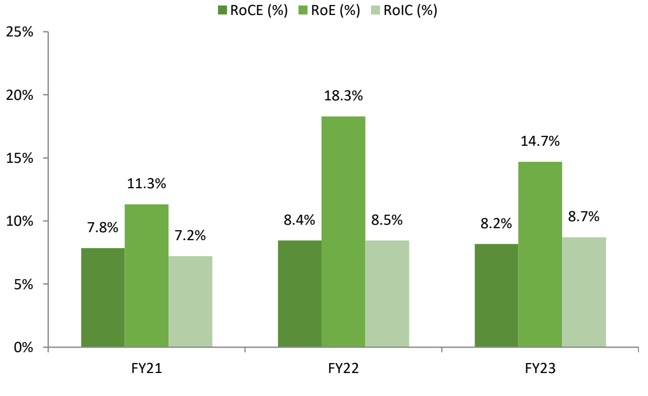
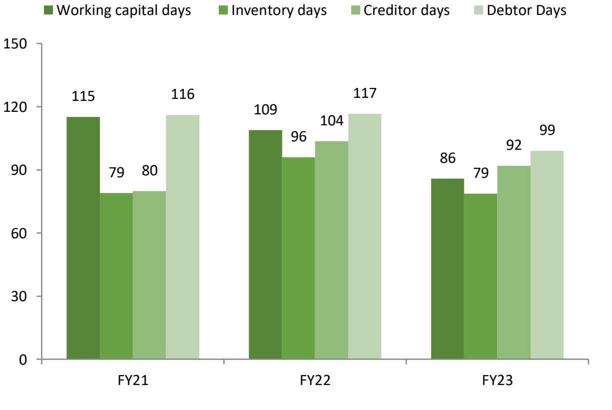


Exhibit 6: Working capital days were reduced.



Source: RHP, Company Reports, Arihant Capital Research

Story in Charts

Exhibit 7: India's RAC penetration is around 8% which is lower than other countries.

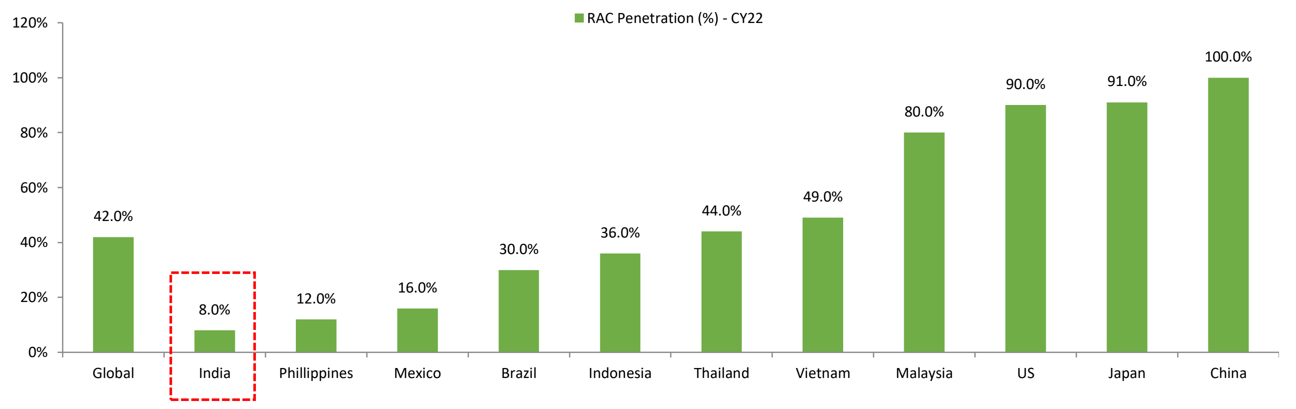


Exhibit 8: RAC penetration are lower compared to other consumer durables in FY23.

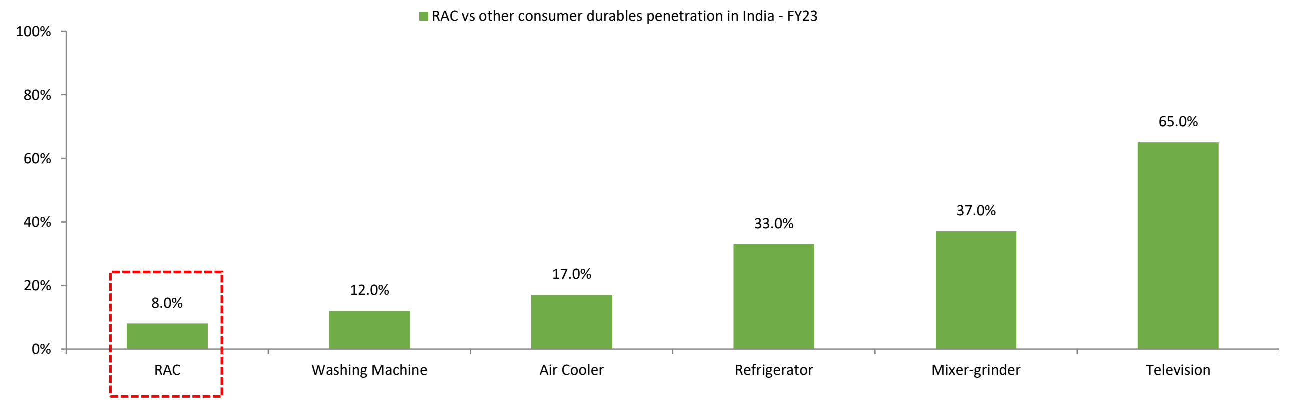
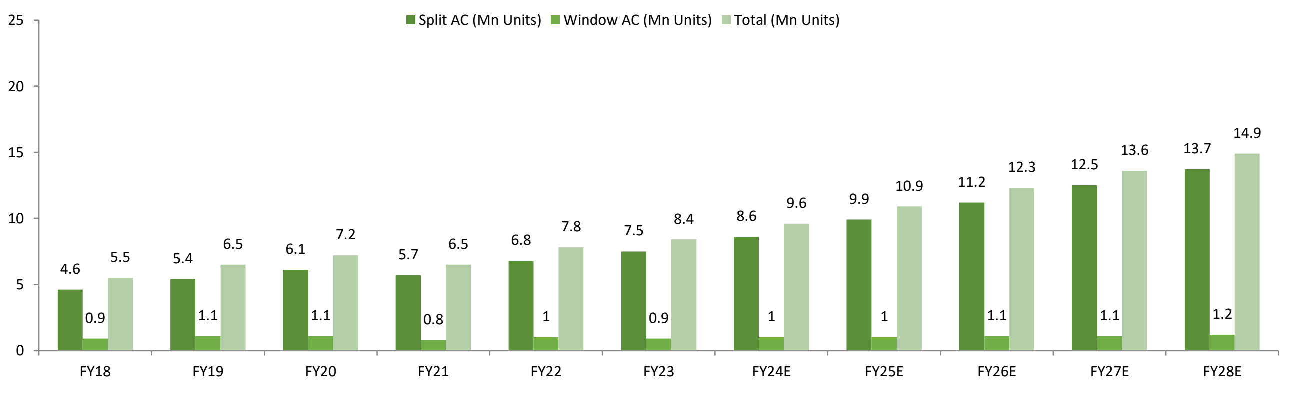


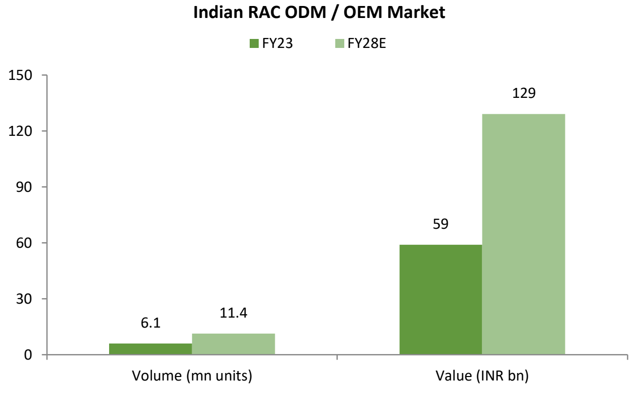
Exhibit 9: AC units are expected to grow at a CAGR of 12.1% to 14.9Mn over the period of FY23-28E.



Source: RHP, Company Reports, Arihant Capital Research

Story in Charts

Exhibit 10: India's RAC ODM/OEM market volume and value is expected to grow at a CAGR 13.3% and 16.9% respectively over the period of FY23-28E. EPACK Durable has 24% market share and well placed to take advantage of industry growth.



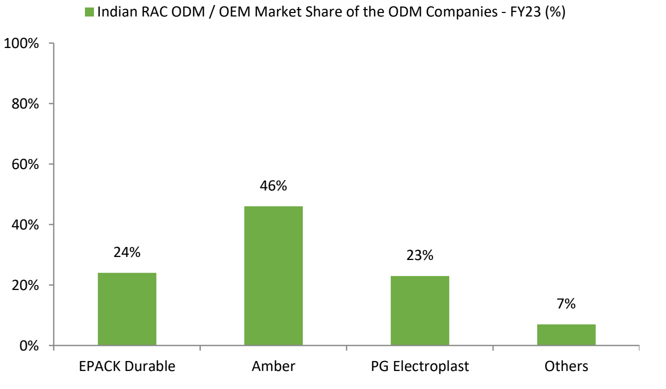
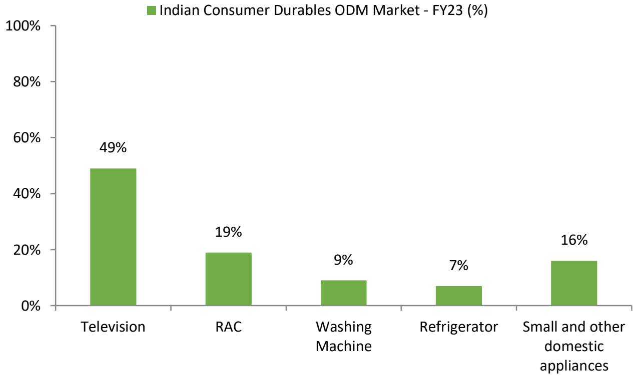


Exhibit 11: Indian Consumer durable ODM market is stood at INR 300bn as of FY23 and expected to grow at CAGR 20.9% to INR 775bn over the period of FY23-28E. EPACK durable is well placed in RAC and small & other appliances.



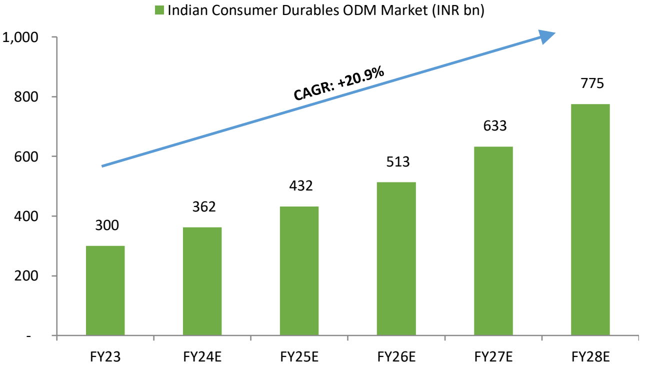


Exhibit 12: Comparison of Presence of Key Competitors across Product Segments

EPACK Durable	Dixon Technologies	Amber Enterprises	PG Electroplast	Elin Electronics	Veeline Industries	Vending Updates India
Windows AC	AC Components	Windows AC	Windows AC	Kitchen Appliances	Water Dispenser	Water Dispenser
Split AC	Sheet Metal	Split AC	Split AC	Sheet Metal	Kitchen Appliances	Kitchen Appliances
AC Components	Plastic Components	AC Components	AC Components	Plastic Components		
Water Dispenser		Sheet Metal	Sheet Metal			
Kitchen Appliances		Plastic Components	Plastic Components			
Sheet Metal						
Plastic Components						

Source: RHP, Company reports, Arihant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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