

# EPACK Durable | BUY



## Marching towards longer-term aspirations; upgrade to BUY

EPACK's 3Q results were impacted due to higher expenses attributable to the newly commissioned Sri City facility not yet operating at optimal utilisation levels. Besides this, the broader story is intact. Key growth drivers for EPACK are expected to be (1) its partnership with Hisense fructifying into stronger volumes, and (2) its efforts to deepen its product portfolio into domestic appliances and components improving its overall margin profile. Key risk, however, is Hisense being unable to gain share in the Indian market. While our EPS estimates are unchanged, we cut our target multiple to 40x (from 55x earlier) considering the broader derating in the Indian EMS space. However, the 33% correction in the stock over the past month implies an upside of ~29% from CMP, hence, we upgrade to BUY. Our revised target price stands at INR 540 at 40x Mar'27E EPS.

- Impact of new Sri City facility impacts profit growth:** 3QFY25 consolidated revenue at INR 3.7bn (+35% YoY, flat QoQ) missed JMFL estimate by 6%. EBITDA at INR 241mn was a ~17% beat on our estimate, driven primarily by stronger gross margin and lower-than-expected other expenses, while EBITDA margin at 6.4% was ~130bps higher than estimate (5.1%). On a YoY basis, EBITDA growth was only 2% given the base quarter did not include operating expenses from the newly commissioned Sri City facility (commissioned in 4QFY24). EBITDA margin declined ~210bps YoY (6.4% vs. 8.5% YoY), on this account. 3Q PAT was INR 25mn vs. INR 49mn YoY. Besides, weak EBITDA growth, higher depreciation expenses and finance costs contributed to this PAT decline.
- Diversification strategy in place:** EPACK is strategically ramping up its presence in small domestic appliances (SDA) and large domestic appliances (LDA), which are complimentary to its existing RAC business. This serves two fold benefits to EPACK: (1) utilisation of idle capacity during off-season, and (2) expansion of margins as domestic appliances are inherently higher margin than EPACK's core RAC business. EPACK's focus on ramping up its RAC component portfolio further supports its margin expansion endeavours and also acts as a hedge to the RAC business as brands look to backward integrate into manufacturing. Over the long term, the management aspires to bring down AC revenue share to ~65% from ~80% today.
- Partnership with Hisense to be a key driver of growth:** EPACK's strategic alliance with Hisense for RACs and washing machines gives visibility on its volume growth journey. EPACK will invest a total of INR 2.4bn over the next 3 years and will create a new manufacturing facility in Sri City with a capacity of 1.5mn RACs by FY28; initial production is set to begin in 2Q/3QFY26. This agreement with Hisense is likely to garner additional total revenue of ~USD 1bn over the next 5 years for EPACK. Key risk here, however, is Hisense's ability to gain market share in India's consumer electronics market.

Shalin Choksy  
shalin.choksy@jmfl.com | Tel: (91 22) 66303380

Nikhil Kandoi  
nikhil.kandoi@jmfl.com | Tel: (91 22) 69703622

### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	HOLD
Current Price Target (12M)	540
Upside/(Downside)	29.1%
Previous Price Target	610
Change	-11.5%

### Key Data – EPACK IN

Current Market Price	INR418
Market cap (bn)	INR40.1/US\$0.5
Free Float	41%
Shares in issue (mn)	95.8
Diluted share (mn)	95.8
3-mon avg daily val (mn)	INR403.6/US\$4.6
52-week range	674/151
Sensex/Nifty	77,187/23,361
INR/US\$	87.2

### Price Performance

%	1M	6M	12M
Absolute	-33.1	64.9	104.8
Relative*	-31.3	73.0	91.3

\* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	15,388	14,196	21,167	29,237	39,950
Sales Growth (%)	66.5	-7.7	49.1	38.1	36.6
EBITDA	1,025	1,162	1,406	2,130	2,936
EBITDA Margin (%)	6.7	8.2	6.6	7.3	7.3
Adjusted Net Profit	320	354	415	802	1,290
Diluted EPS (INR)	6.1	3.7	4.3	8.4	13.5
Diluted EPS Growth (%)	83.4	-39.8	17.4	93.1	60.9
ROIC (%)	7.6	5.9	5.7	8.9	12.5
ROE (%)	14.7	5.9	4.5	8.2	12.0
P/E (x)	68.1	113.2	96.4	49.9	31.0
P/B (x)	6.9	4.5	4.3	3.9	3.5
EV/EBITDA (x)	44.8	36.5	31.3	20.1	14.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 03/Feb/2025

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

## Key highlights from results concall

### Guidance and financials

- FY25E revenue guidance of INR 21.5bn revenue with 7.2-7.5% EBITDA margin.
- In 3Q, gross margin improvement is due to revenue mix. RAC revenue down from 77% to 66% of total revenue sequentially, while component revenue has gone up 4x QoQ.
- Over the long term, aspire to bring down AC revenue from ~80% today to ~65%. For 9MFY25, component sales stood at 6-7% and for 3Q it stood at 14%.
- Total debt is INR 4.9bn (of which INR 600mn is term loan, rest is short-term debt), and cash and cash equivalents is INR 1.3bn. For capex requirements, intend to fund through IPO proceeds and a small portion through internal accruals.
- INR 3.5bn of working capital required. Management has not resorted to bill discounting in 3Q as well, similar to 2Q. However, it will resort to this in 4Q since it is a heavy quarter and will be in need of liquidity to fund operations.
- Gross block is ~INR 8.2bn, and peak asset turns are around 4x, hence INR 32bn revenue doable from current gross block.

### Sri City facility

Capacity utilisation at Sri City facility is ramping up well. Going forward, this plant will be a key contributor of margins. As the new Sri City facility is getting stabilised, expect this facility to reach normalised capacity utilisation (50%) by end-FY25. Out of the ~4.2mn units of capacity in the RAC segment, ~1.2mn (~30%) is in Sri City.

### Hisense partnership

- Laid the foundation of the RAC facility for Hisense. Will complete construction by July end and start AC production for Hisense by 3QFY26. Washing machine facility is also being set up in Sri City and that is expected to commence mass production by 2QFY26.
- Over time, will foray into refrigerators for Hisense as well. Potential for opportunities in the exports market also exist.
- Maximum of 26% equity stake being taken up by Hisense in the new subsidiary being considered.

### Comments on industry growth and supply chain constraints

- In terms of RAC, strong demand continues. Channel inventory levels are below normalised levels. Further, expect Budget announcements to fuel spending on durables. Order book for the upcoming summer season is strong. Expect industry growth of 18-20% over the medium term. And management expects the company to outgrow the industry.
- **Supply chain issues:** Limited supply of copper impacted industry in 3Q. Currently, BIS approval has been given to certain international players for copper, hence that issue has been taken care of for the time being.
- **Compressors:** For compressors, current BIS certificates are valid until Jun/July 2025, post which, if not renewed, a constraint cannot be ruled out. However, two large Chinese compressor manufacturers are ramping up capacities in India. Daikin along with its JV partner has also started work on setting up compressors in India. Compressors constitute 25% of the BoM of an AC. Currently, 40% of India's compressor requirement is met locally, while the rest is met through imports.

### Small domestic appliances

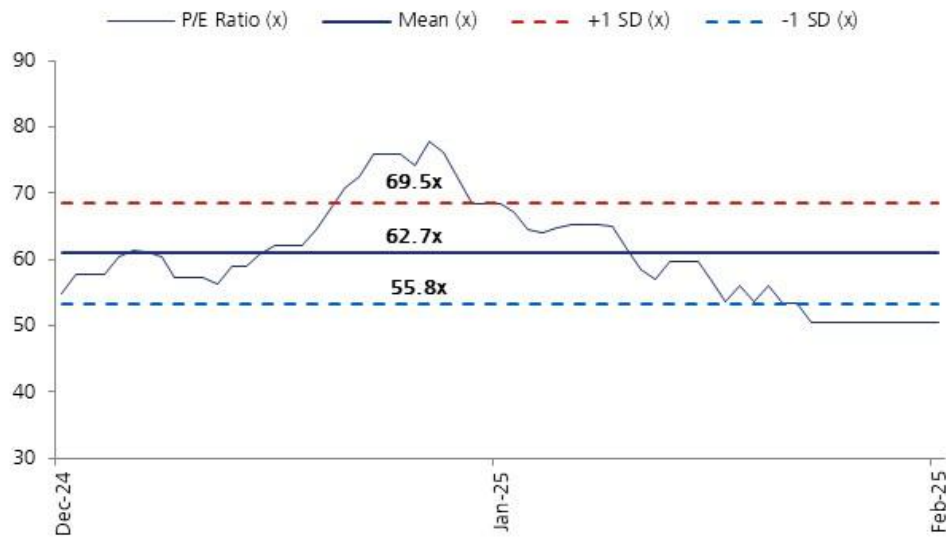
- Will commence manufacturing of air fryers starting 4QFY25. Will add more appliances from 2QFY26. Washing machine facility for Hisense is also being set up in Sri City and that is expected to commence mass production by 2QFY26.

## Exhibit 1. EPACK – 3QFY25 results review

(INR mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	FY24	Q1FY25	Q2FY25	Q3FY25	Q3FY25E
<b>Total Revenue</b>	<b>4,367</b>	<b>1,781</b>	<b>2,791</b>	<b>5,257</b>	<b>14,196</b>	<b>7,737</b>	<b>3,771</b>	<b>3,768</b>	<b>4,000</b>
<b>YoY</b>	<b>nm</b>	<b>nm</b>	<b>1%</b>	<b>-18%</b>	<b>-8%</b>	<b>77%</b>	<b>112%</b>	<b>35%</b>	<b>43%</b>
Raw Material Costs	(3,770)	(1,505)	(2,312)	(4,312)	(11,899)	(6,656)	(3,220)	(3,096)	(3,320)
<b>Gross Profit</b>	<b>596</b>	<b>276</b>	<b>478</b>	<b>945</b>	<b>2,296</b>	<b>1,081</b>	<b>551</b>	<b>673</b>	<b>680</b>
<b>Gross Profit margin %</b>	<b>13.7%</b>	<b>15.5%</b>	<b>17.1%</b>	<b>18.0%</b>	<b>16.2%</b>	<b>14.0%</b>	<b>14.6%</b>	<b>17.9%</b>	<b>17.0%</b>
Employee Cost	(106)	(104)	(120)	(152)	(482)	(177)	(168)	(169)	(175)
% of sales	2.4%	5.8%	4.3%	2.9%	3.4%	2.3%	4.4%	4.5%	4.4%
Other expenses	(198)	(95)	(121)	(239)	(653)	(387)	(287)	(262)	(300)
% of sales	4.5%	5.3%	4.3%	4.5%	4.6%	5.0%	7.6%	7.0%	7.5%
<b>EBITDA</b>	<b>292</b>	<b>77</b>	<b>237</b>	<b>554</b>	<b>1,162</b>	<b>517</b>	<b>96</b>	<b>241</b>	<b>205</b>
<b>YoY</b>	<b>nm</b>	<b>nm</b>	<b>453%</b>	<b>-10%</b>	<b>13%</b>	<b>77%</b>	<b>24%</b>	<b>2%</b>	<b>-14%</b>
<b>EBITDA margin%</b>	<b>6.7%</b>	<b>4.3%</b>	<b>8.5%</b>	<b>10.5%</b>	<b>8.2%</b>	<b>6.7%</b>	<b>2.5%</b>	<b>6.4%</b>	<b>5.1%</b>
Total D&A Expense	(77)	(83)	(89)	(106)	(355)	(113)	(116)	(121)	(116)
<b>EBIT</b>	<b>215</b>	<b>(6)</b>	<b>149</b>	<b>449</b>	<b>807</b>	<b>404</b>	<b>(20)</b>	<b>120</b>	<b>89</b>
<b>YoY</b>	<b>nm</b>	<b>nm</b>	<b>-852%</b>	<b>-18%</b>	<b>6%</b>	<b>88%</b>	<b>243%</b>	<b>-19%</b>	<b>-40%</b>
<b>EBIT margin%</b>	<b>4.9%</b>	<b>-0.3%</b>	<b>5.3%</b>	<b>8.5%</b>	<b>5.7%</b>	<b>5.2%</b>	<b>-0.5%</b>	<b>3.2%</b>	<b>2.2%</b>
Other Income	8	7	19	55	89	61	47	49	45
Finance Costs	(98)	(81)	(97)	(113)	(389)	(140)	(137)	(124)	(137)
<b>PBT</b>	<b>125</b>	<b>(79)</b>	<b>70</b>	<b>391</b>	<b>507</b>	<b>325</b>	<b>(110)</b>	<b>44</b>	<b>(3)</b>
<b>YoY</b>	<b>nm</b>	<b>nm</b>	<b>-184%</b>	<b>-14%</b>	<b>9%</b>	<b>160%</b>	<b>38%</b>	<b>-37%</b>	<b>-104%</b>
Income Tax Expense	(35)	22	(18)	(107)	(138)	(89)	32	(10)	-
Rate %	28.0%	27.5%	25.4%	27.4%	27.3%	27.4%	29.2%	22.3%	nm
Share of JCEs and Associates	(3)	(3)	(3)	(6)	(15)	(2)	(7)	(9)	(5)
<b>Net Profit</b>	<b>87</b>	<b>(61)</b>	<b>49</b>	<b>278</b>	<b>354</b>	<b>234</b>	<b>(85)</b>	<b>25</b>	<b>(8)</b>
<b>Margins</b>	<b>2.0%</b>	<b>-3.4%</b>	<b>1.8%</b>	<b>5.3%</b>	<b>2.5%</b>	<b>3.0%</b>	<b>-2.2%</b>	<b>0.7%</b>	<b>-0.2%</b>
<b>YoY</b>	<b>nm</b>	<b>nm</b>	<b>-177.6%</b>	<b>-10.8%</b>	<b>20%</b>	<b>168.5%</b>	<b>39.5%</b>	<b>-48.9%</b>	<b>-116.4%</b>

Source: Company, JM Financial

Exhibit 2. EPACK – 1-yr forward P/E band chart (since listing)



Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	15,388	14,196	21,167	29,237	39,950	
Sales Growth	66.5%	-7.7%	49.1%	38.1%	36.6%	
Other Operating Income	0	0	0	0	0	
<b>Total Revenue</b>	<b>15,388</b>	<b>14,196</b>	<b>21,167</b>	<b>29,237</b>	<b>39,950</b>	
Cost of Goods Sold/Op. Exp	13,241	11,899	17,844	24,559	33,558	
Personnel Cost	0	0	0	0	0	
Other Expenses	1,122	1,135	1,917	2,548	3,456	
<b>EBITDA</b>	<b>1,025</b>	<b>1,162</b>	<b>1,406</b>	<b>2,130</b>	<b>2,936</b>	
EBITDA Margin	6.7%	8.2%	6.6%	7.3%	7.3%	
EBITDA Growth	49.0%	13.3%	21.1%	51.5%	37.8%	
Depn. & Amort.	261	355	482	565	649	
EBIT	764	807	925	1,565	2,286	
Other Income	14	89	186	131	94	
Finance Cost	315	389	537	625	670	
PBT before Excep. & Forex	464	507	574	1,070	1,710	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	464	507	574	1,070	1,710	
Taxes	121	138	144	278	445	
Extraordinary Inc./Loss(-)	-15	0	0	0	0	
Assoc. Profit/Min. Int.(-)	-8	-15	-15	10	25	
Reported Net Profit	320	354	415	802	1,290	
<b>Adjusted Net Profit</b>	<b>320</b>	<b>354</b>	<b>415</b>	<b>802</b>	<b>1,290</b>	
Net Margin	2.1%	2.5%	2.0%	2.7%	3.2%	
Diluted Share Cap. (mn)	52.1	95.8	95.8	95.8	95.8	
<b>Diluted EPS (INR)</b>	<b>6.1</b>	<b>3.7</b>	<b>4.3</b>	<b>8.4</b>	<b>13.5</b>	
Diluted EPS Growth	83.4%	-39.8%	17.4%	93.1%	60.9%	
Total Dividend + Tax	0	0	0	0	0	
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	441	492	560	1,080	1,735	
Depn. & Amort.	261	355	482	565	649	
Net Interest Exp. / Inc. (-)	0	0	0	0	0	
Inc (-) / Dec in WCap.	-440	-777	-1,442	1,386	-1,039	
Others	15	49	12	0	0	
Taxes Paid	-121	-138	-144	-278	-445	
<b>Operating Cash Flow</b>	<b>155</b>	<b>-19</b>	<b>-533</b>	<b>2,753</b>	<b>901</b>	
Capex	-2,016	-2,294	-1,250	-1,455	-1,230	
Free Cash Flow	-1,861	-2,314	-1,782	1,299	-329	
Inc (-) / Dec in Investments	-18	0	-24	0	0	
Others	-665	201	100	0	0	
<b>Investing Cash Flow</b>	<b>-2,698</b>	<b>-2,093</b>	<b>-1,174</b>	<b>-1,455</b>	<b>-1,230</b>	
Inc / Dec (-) in Capital	16	-1,178	2	0	0	
Dividend + Tax thereon	1,598	4,995	0	0	0	
Inc / Dec (-) in Loans	1,095	-1,388	1,226	250	500	
Others	0	0	0	0	0	
<b>Financing Cash Flow</b>	<b>2,708</b>	<b>2,429</b>	<b>1,227</b>	<b>250</b>	<b>500</b>	
<b>Inc / Dec (-) in Cash</b>	<b>165</b>	<b>316</b>	<b>-480</b>	<b>1,549</b>	<b>171</b>	
Opening Cash Balance	590	754	1,071	591	2,140	
Closing Cash Balance	754	1,071	591	2,140	2,311	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	3,136	8,922	9,339	10,141	11,431	
Share Capital	709	958	960	960	960	
Reserves & Surplus	2,427	7,964	8,379	9,181	10,472	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	6,540	3,314	4,500	4,750	5,250	
Def. Tax Liab. / Assets (-)	0	0	0	0	0	
<b>Total - Equity &amp; Liab.</b>	<b>9,676</b>	<b>12,236</b>	<b>13,839</b>	<b>14,891</b>	<b>16,681</b>	
Net Fixed Assets	5,103	7,043	7,811	8,700	9,280	
Gross Fixed Assets	4,726	7,604	8,788	10,223	11,407	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	538	827	1,243	1,743	2,326	
Capital WIP	915	266	266	220	200	
Investments	31	31	55	55	55	
Current Assets	9,508	10,604	13,945	17,551	22,729	
Inventories	2,937	3,782	5,808	8,182	11,404	
Sundry Debtors	4,791	2,124	4,117	5,801	8,085	
Cash & Bank Balances	754	1,071	591	2,140	2,311	
Loans & Advances	0	0	0	0	0	
Other Current Assets	1,026	3,628	3,428	1,428	928	
Current Liab. & Prov.	4,965	5,442	7,972	11,415	15,383	
Current Liabilities	4,318	4,769	7,256	10,700	14,667	
Provisions & Others	648	673	716	716	716	
Net Current Assets	4,542	5,163	5,973	6,136	7,346	
<b>Total - Assets</b>	<b>9,676</b>	<b>12,236</b>	<b>13,839</b>	<b>14,891</b>	<b>16,681</b>	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Margin	2.1%	2.5%	2.0%	2.7%	3.2%	
Asset Turnover (x)	1.8	1.2	1.6	2.0	2.4	
Leverage Factor (x)	3.9	1.9	1.5	1.5	1.5	
RoE	14.7%	5.9%	4.5%	8.2%	12.0%	

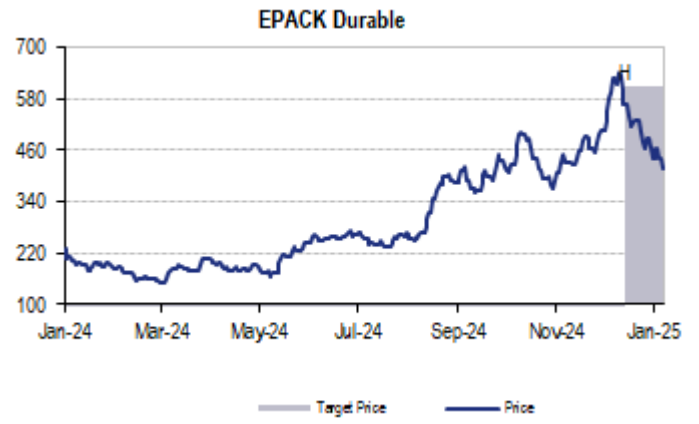
Key Ratios						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
BV/Share (INR)	60.2	93.1	97.5	105.9	119.3	
ROIC	7.6%	5.9%	5.7%	8.9%	12.5%	
ROE	14.7%	5.9%	4.5%	8.2%	12.0%	
Net Debt/Equity (x)	1.8	0.3	0.4	0.3	0.3	
P/E (x)	68.1	113.2	96.4	49.9	31.0	
P/B (x)	6.9	4.5	4.3	3.9	3.5	
EV/EBITDA (x)	44.8	36.5	31.3	20.1	14.7	
EV/Sales (x)	3.0	3.0	2.1	1.5	1.1	
Debtor days	114	55	71	72	74	
Inventory days	70	97	100	102	104	
Creditor days	99	116	122	136	138	

Source: Company, JM Financial

**History of Recommendation and Target Price**

Date	Recommendation	Target Price	% Chg.
11-Jan-25	Hold	610	

**Recommendation History**



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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