

**The Issue**

Type of Issue	Rs. Mn
Fresh Issue	4,000
Offer for Sale	2,401
<b>Total</b>	<b>6,401</b>
<b>Post issue mkt cap (Rs in Bn) *</b>	<b>22.03</b>
Lot size	65 shares

\*At Upper Price Band

**Issue Break-Up**

Reservation for	% of Issue
QIB	50%
NII	35%
Retail	15%
<b>Total</b>	<b>100%</b>

**Indicative Offer Timeline**
**Indicative Date**

Bid/Offer Opening Date	19 Jan, 2024
Bid/Offer Closing Date	23 Jan, 2024
Finalization of the Basis of Allotment	24 Jan, 2024
Credit of shares	25 Jan, 2024
Listing Date	29 Jan, 2024

**Use of Proceeds**
**Rs in Mn**

Funding Capex	<b>2,300</b>
Repayment/Prepayment of Debt	<b>800</b>
General Corporate Purpose	<b>900</b>

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## **Play on RAC and SDA demand potential...**

### **Company Overview:**

- ⇒ EPACK Durable Limited is the second largest Room Air Conditioner (RAC) original designer manufacturer (ODM) in India in terms of numbers of units manufactured in FY23.
- ⇒ The company initially started operations as an Original Equipment Manufacturer (OEM) for RAC and gradually evolved into an ODM partner for RACs.
- ⇒ Apart from the manufacturing of units for RAC, the company also indulges in the production of various components pertaining to RAC like sheet metal, injection moulded, cross flow fans and Printed Circuit Board Assembly (PCBA).
- ⇒ The RAC manufacturing business is seasonal in nature wherein, the units are running on maximum capacity during Jan-May (peak production) period and lower capacity in remaining months. To capitalize on the idle capacity during off season, EPACK Durable has forayed in manufacturing of Small Domestic Appliances particularly in induction cooktops, mixer grinders and water dispensers.
- ⇒ Being an ODM partner to RAC, R&D activities becomes an integral part of the business. They have a dedicated R&D centres in Greater Noida, Bhiwadi and Dehradun comprising 57 personnel equipped with endurance test labs for RACs and SDAs, induction coil - automatic voltage tester, induction coil – breakdown tester, needle flame tester, customized glow wire tester.
- ⇒ As on FY23, the company has aggregate installed capacity of 0.90 million IDUs, 0.66 million ODUs, 0.36 million ODU Kits and 0.42 million WACs, 0.11 million water dispensers, 1.2 million induction cooktops and 0.30 million mixer grinders, and components.

**Valuation and Outlook:** At the upper price band, the IPO is priced at an **P/E of 65.7x** on FY23 EPS (post-issue), which is at premium of 32% to its peers average valuation (PE) of 49.8x on FY23 basis. Over FY21-23, the company's Revenue/Ebitda/Pat have grown at a CAGR of 44.6%/56.2%/107.3% respectively. As per F&S report, EPACK Durable holds a market share of 24% (vs 46% of Amber) in the ODM space for RAC. The company will be investing the IPO proceeds in expanding its manufacturing capabilities to be in position to meet the future anticipated demand. At this valuation we see limited potential for upside, hence we assign a **“Subscribe for Long Term”** rating on the company.

## EPACK Durable Limited

### EPACK Durable Limited

Financial summary (Rs. Mn)	FY21	FY22	FY23	H1FY24
Revenue	7,362	9,242	15,388	6,148
EBITDA	420	688	1,025	370
EBITDA margin (%)	5.7%	7.4%	6.7%	6.0%
Adj. PAT	78	174	335	27
Adj. PAT margin (%)	1.1%	1.9%	2.2%	0.4%
PE (Post issue) - FY23	65.7x			

### Pre-issue and post-issue holding structure

Shareholding pattern	Pre-issue	Post-issue*
	Holding (%)	Holding (%)
Promoter & Promoter Group	65.4%	48.1%
Public	34.6%	51.9%
Total	100.0%	100.0%

\* At upper price band

### Peer Comparison

Particulars	FY21-23			FY23				
	Revenue CAGR	EBITDA CAGR	PAT CAGR	ROE	ROCE	ROA	EV/ EBITDA	PE (x)
EPACK Durables*	44.6%	56.2%	107.3%	10.5%	9.5%	2.3%	24.5	65.7
Listed Peers								
Amber	51.2%	36.6%	40.6%	8.8%	10.7%	3.0%	26.0	55.3
PG Electroplast	75.3%	88.1%	153.3%	22.0%	17.3%	6.0%	24.3	44.3
Average							25.2	49.8

### Selling Shareholders

Selling Shareholders	Type	No of Shares	% of OFS	% of Pre-issue Size
Bajrang Bothra	Promoter	11,72,976	11.2%	1.5%
Laxmi Pat Bothra	Promoter	6,66,798	6.4%	0.9%
Sanjay Singhania	Promoter	7,48,721	7.2%	1.0%
Ajay DD Singhania	Promoter	7,48,721	7.2%	1.0%
Pinky Ajay Singhania	Promoter Group	2,86,351	2.7%	0.4%
Preity Singhania	Promoter Group	2,86,351	2.7%	0.4%
Nikhil Bothra	Promoter Group	4,42,905	4.2%	0.6%
Nitin Bothra	Promoter Group	4,42,905	4.2%	0.6%
Rajjat Kumar Bothra	Promoter Group	3,79,633	3.6%	0.5%
India Advantage Fund	Other	46,30,284	44.4%	5.9%
Dynamics India Fund	Other	6,31,402	6.0%	0.8%
Total		1,04,37,047	100%	-

## EPACK Durable Limited

### Competitive Strengths:

**Long Standing relationship with existing clients:** The company's average length of relationship with RAC and SDA clients is 8.7 and 6.3 years, respectively. Many of their customers typically implement approval processes and quality audits checks in the selection of their suppliers which entails a switching cost. EPACK Durables price competitive products, integrated manufacturing capabilities and higher switching cost to customers enables the company to maintain long term relationship with clients as well as expand its products offerings to newer clients.

**Among the key manufacturer in RAC and SDA category:** The company is the second largest RAC ODM manufacturer in India in terms of number of units (indoor units + outdoor units) manufactured in Fiscal 2023 through the ODM route. They hold 24% market share in the ODM for RAC space. As per F&S report, the Indian RAC market is forecasted to grow by 12.1% & 15.1% CAGR in volume and value terms. This coupled with the import ban of completely built air conditioners augurs well for the company to tap in the above stated growth potential.

Even the SDA market is expected to grow at a considerable pace driven by growth in mixer grinders (+6.9% CAGR, FY23-FY28P), Induction cooktop (+4.9% CAGR, FY23-FY28P) and water dispensers (+4.8% CAGR, FY23-FY28P). Further, high entry barriers in the industry also highlights the tailwind growth ODM/OEM manufacturers are going to gain.

**Advanced vertically integrated manufacturing operations:** They have the highest amount of backward integration for RACs at a single location. This enables the company to eliminate costs typically incurred in transportation of parts between facilities. Also, apart from the manufacturing of RAC and SDAs, the company produces critical components such as heat exchangers, copper tubing, PCBAs, cross flow fans, axial fans and other components such as sheet metal press parts and injection moulded components. They also offer customized manufacturing solutions like completely built-up units or IDUs or ODUs separately. This has labeled the company as one of the integrated solutions provider catering to all aspects of RAC and SDA manufacturing value chain.

**Robust product development and design optimization capabilities:** They have dedicated R&D centres in Greater Noida, Uttar Pradesh, Bhiwadi, Rajasthan and Dehradun, Uttarakhand, which are equipped with modern infrastructure such as endurance test labs for RACs and SDAs. The company also utilise various advanced software programs such as CoilDesigner® and Siemens NX, which has helped enhance their design capabilities. They are one of the initial Indian RAC ODM companies to manufacture 5 mm copper tubing for the heat exchangers, which has now become industry norm.

## EPACK Durable Limited

### Business Strategies:

**Expanding existing product portfolio:** EPACK Durable intends to expand product portfolio beyond room air conditioner products to semi commercial air conditioner products and domestic air coolers. In addition, they intend to expand their SDA product portfolio with products such as hair dryers, induction water heaters and nutriblenders, tower fans, kitchen chimneys and dual ICTs. As per F&S report, the components outsourcing market in FY23 was Rs. 30–32bn and is expected to grow at a CAGR of 15%-16% to reach Rs. 63–65bn by FY28. Thereby the company is also aiming to cater to these sizable business opportunity.

**Expanding integrated manufacturing capabilities and R&D investments:** One of the strategy of the company is to continue its investments in manufacturing infrastructure and improve operational efficiencies. The expansions are required to meet the anticipated increase in demand for its product. Further they also intend to keep up with their investments in R&D required to improve product quality and development at optimized cost.

**Increase wallet share from existing customers coupled with new customer acquisition:** The company intends to increase wallet share from existing customer by way of innovation and cross-selling additional products. Further they intend to continue to leverage their sales and marketing network, diversified product portfolio and market positioning to establish relationships with new multinational, regional and local customers and expand their customer base.

**Further explore initiatives to strengthen control over supply chain:** Long lead time for the import of raw materials and higher dependence on third party supplier could delay production as well as impair relationship with clients for newer orders. To mitigate this, the company intends to increase focus on backward integration of various components required for manufacture of its product. This is expected to improve inventory management and reduce manufacturing cost.

### Key Risks:

**Customer Concentration:** Top 5 customer contributes 83% and 80% of FY23 & H1FY24 company's revenue. The deterioration of their financial condition or prospects, or a reduction in their requirement for company's products could adversely affect business, results of operations, financial condition and cash flows.

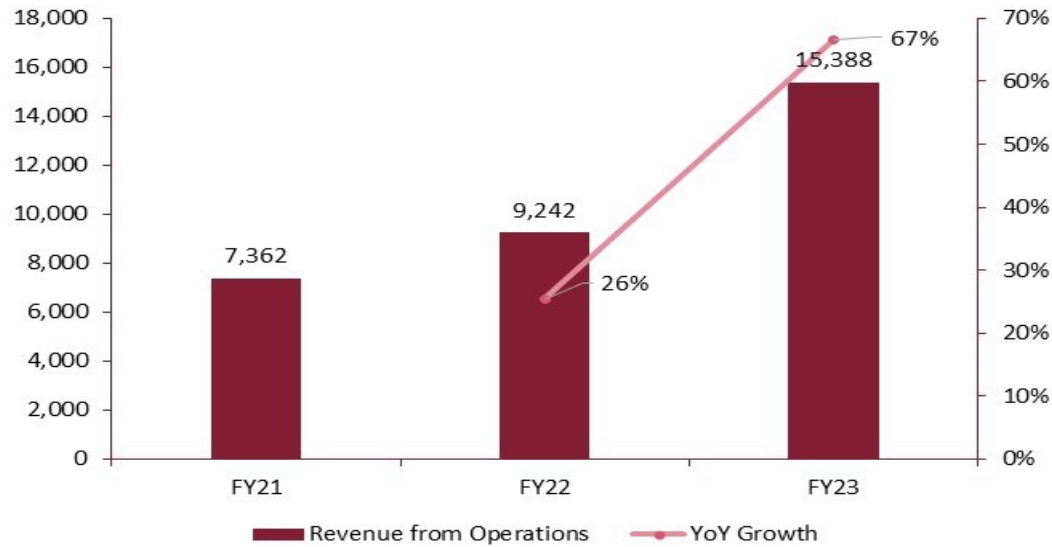
**Long term contract:** The customers do not make long-term commitments and may cancel or change their sourcing requirements. Such cancellations or changes may adversely affect the financial condition, cash flows and results of operations.

**Manufacturing risk:** The company's business is dependent on the three manufacturing facilities and are subject to certain risks in the manufacturing process. Any slowdown or shutdown in the manufacturing operations could have an adverse effect on the business, financial condition and results of operations.

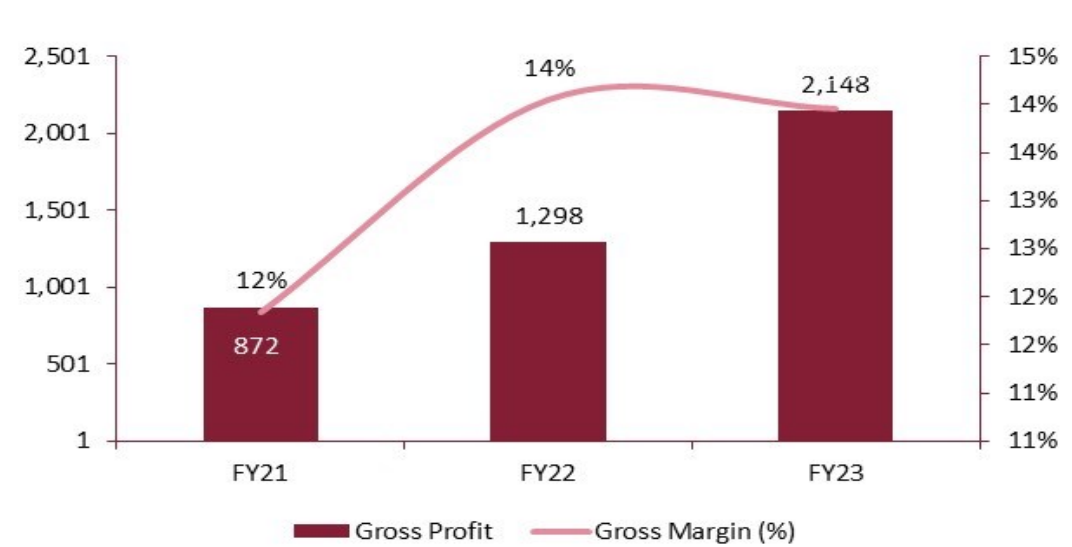
**New product:** If the company is unable to introduce new products and respond to changing customer requirements, including due to changing customer preferences and regulatory requirements in a timely and effective manner, the demand for the products may decline which may have an adverse effect on the business, results of operations and financial condition.

## EPACK Durable Limited

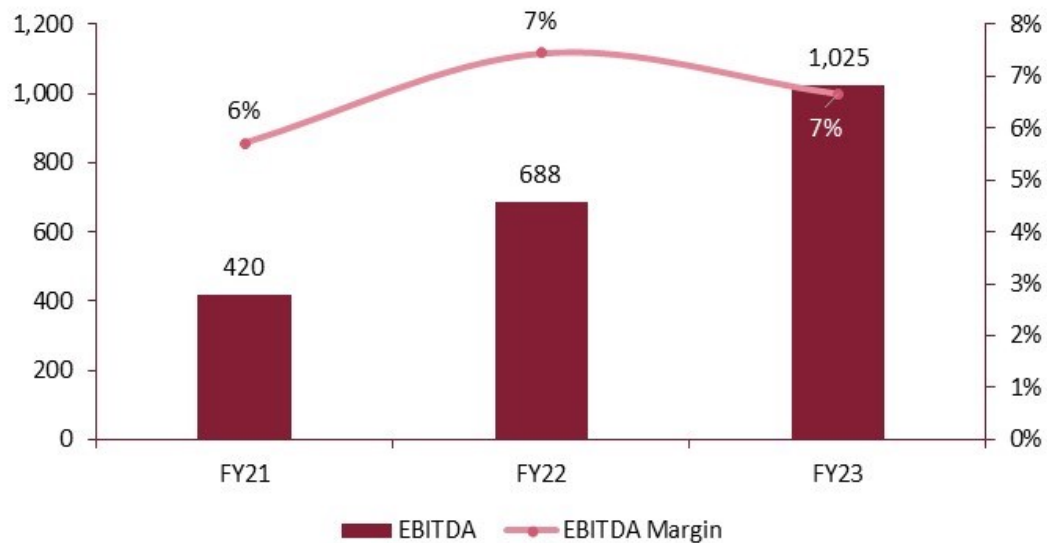
Revenue from operations (Rs. Mn)



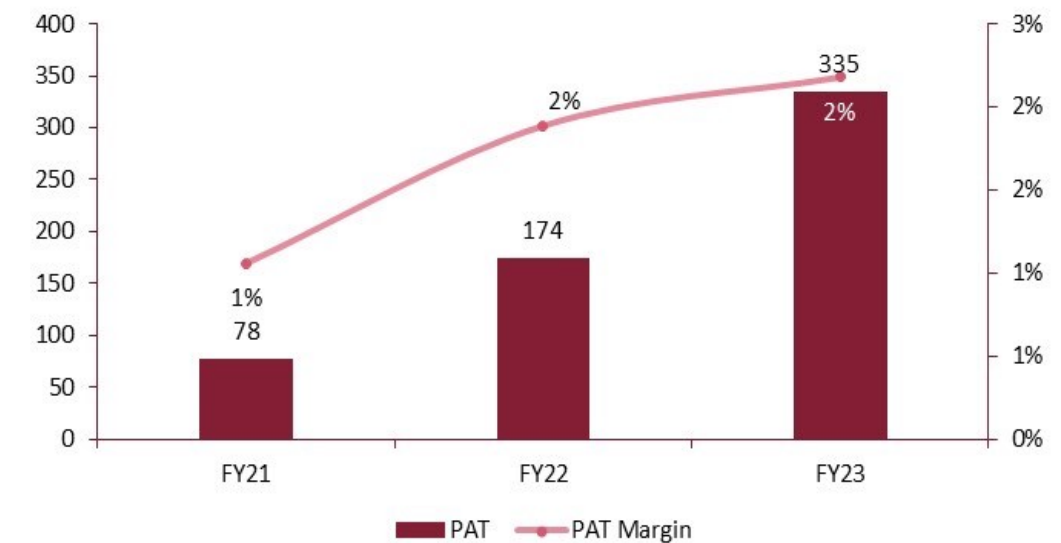
Gross Profit (Rs. Mn) and GM (%)



EBITDA (Rs. Mn) and OPM (%)

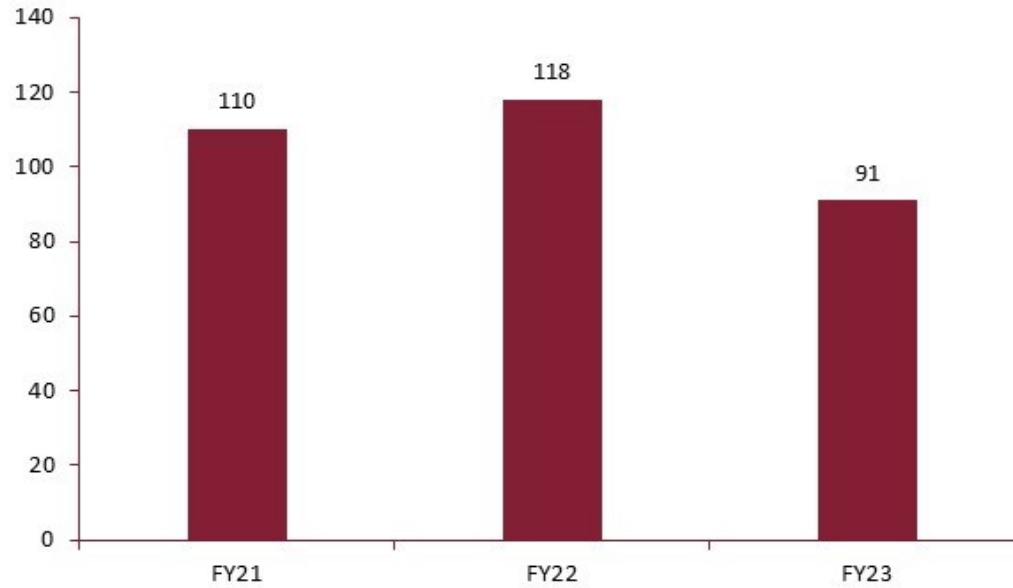


PAT (Rs. Mn) and PAT Margin (%)

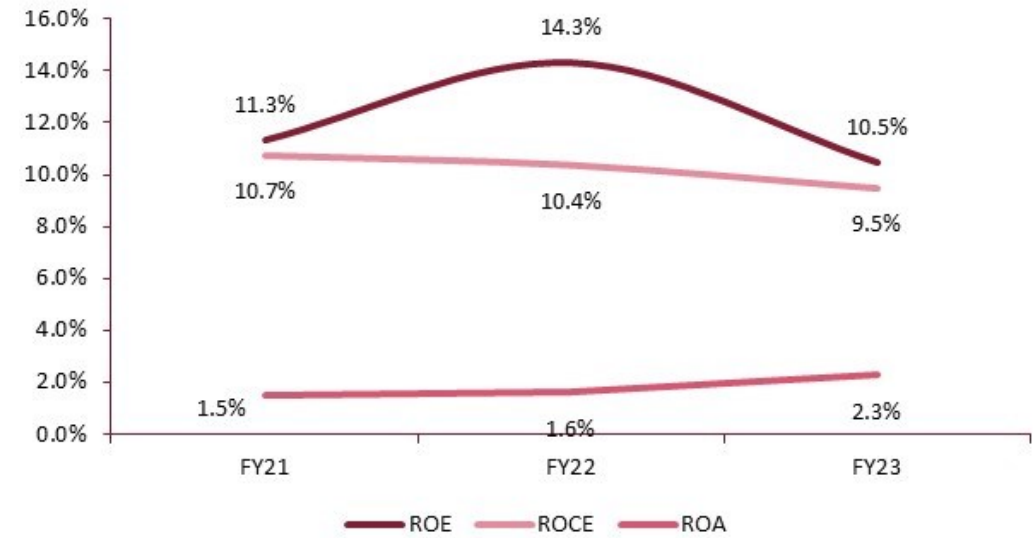


## EPACK Durable Limited

**Working capital Cycle (days)**



**Return Ratios**



## EPACK Durable Limited

### Installed capacities and Utilization

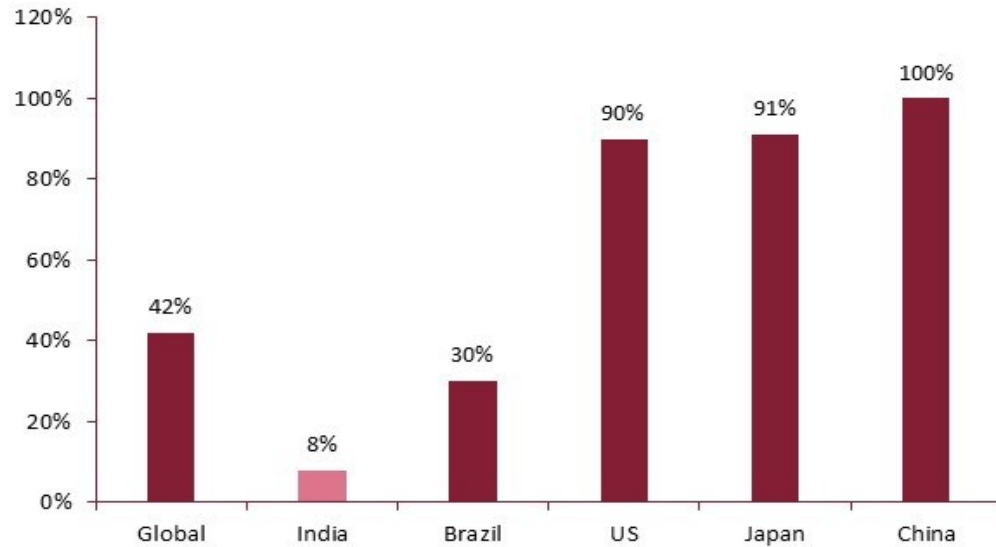
Manufacturing Capacities	FY21		FY22		FY23	
	Installed Capacity (in Mn units)	Capacity Utilization	Installed Capacity (in Mn units)	Capacity Utilization	Installed Capacity (in Mn units)	Capacity Utilization
<b>RACs</b>						
Indoor Units (IDUs)	0.7	26.1%	0.5	27.7%	0.9	42.3%
Outdoor Units (ODUs)	0.5	31.3%	0.5	21.5%	0.7	34.6%
ODU Kits	0.4	60.3%	0.4	76.2%	0.4	90.3%
Window Air Conditioners (WACs)	0.3	57.2%	0.4	51.2%	0.4	63.5%
<b>SDAs</b>						
Mixer Grinders	0.2	40.2%	0.3	76.7%	0.3	55.4%
Induction Cooktops	0.7	77.8%	0.8	78.6%	1.2	79.7%
Water Dispensers	0.1	5.9%	0.1	40.5%	0.1	61.7%
<b>Components</b>						
Injection Moulded	17.9	53.6%	25.9	60.2%	61.8	50.2%
Sheet Metal Press Parts (Strokes)	59.7	45.8%	61.2	53.4%	83.7	52.8%
Copper Tubing	43.5	32.6%	43.5	32.4%	44.0	41.5%
Heat Exchanger	2.1	42.5%	2.8	49.1%	3.5	42.4%
CFFs - IDUs	0.0	0.0%	0.0	0.0%	3.0	10.4%

### New Manufacturing Unit at Sri City

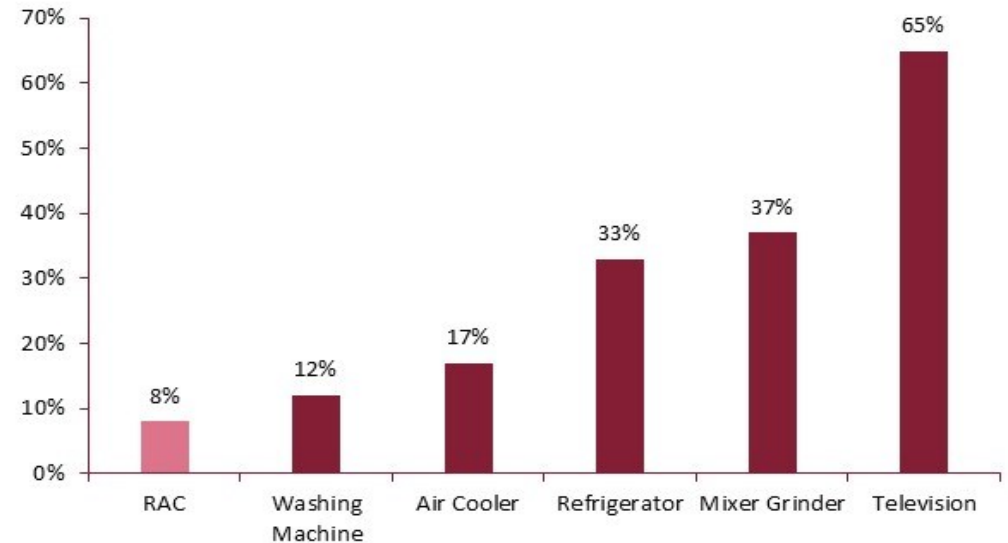
Name of the Product	Installed Capacity as on Dec 15 2023
<b>RACs</b>	
Indoor Units (IDUs)	0.66
Outdoor Units (ODUs)	0.66
<b>SDAs</b>	
Induction Cooktops	0.65
<b>Components</b>	
Injection moulded components	16.36
Sheet metal press parts (Strokes)	40.89
Copper tubing	16.32
Heat exchanger	1.24
Powder coating	1.99
CFFs – IDU units	3.12

## Industry Outlook

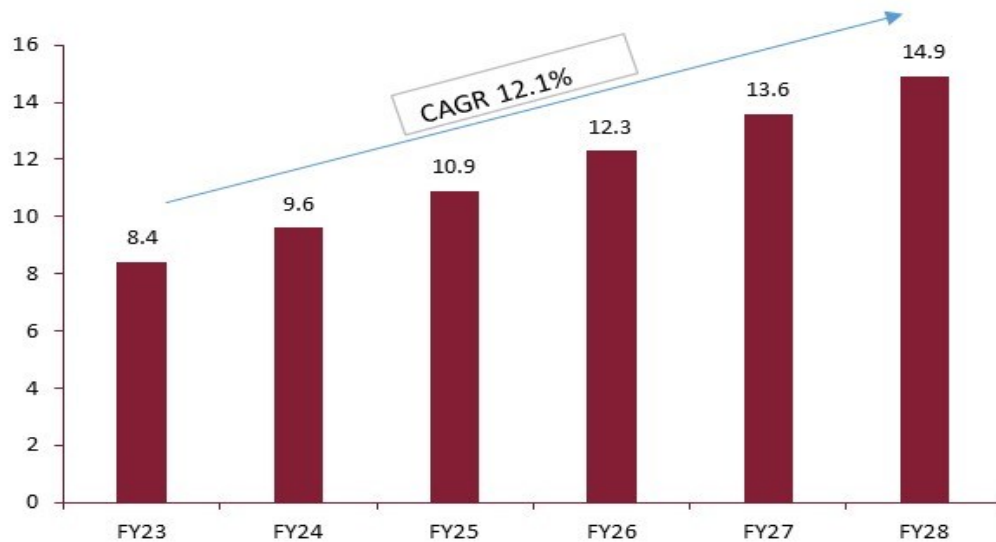
Comparison of RAC penetration in India vs other countries, CY2022



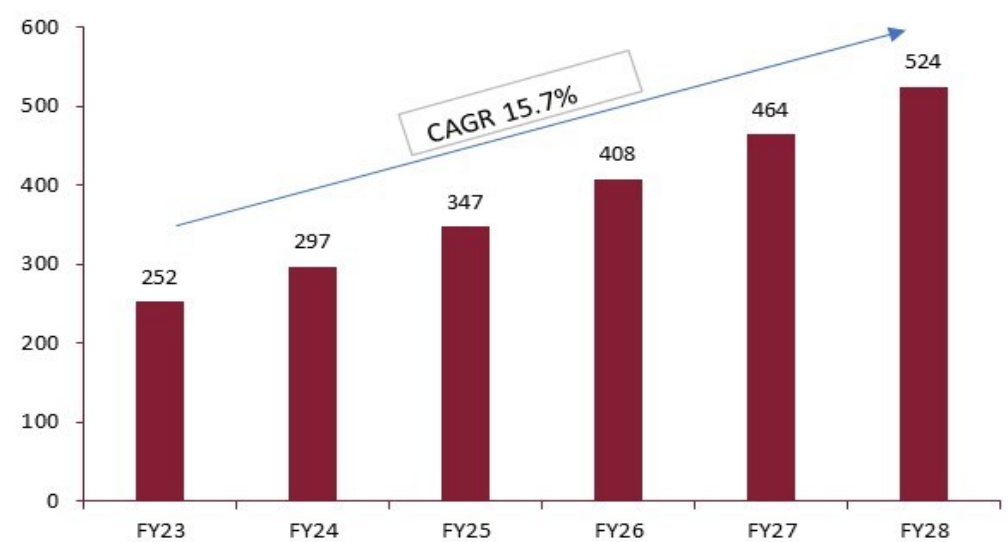
Comparison of penetration of RAC vs other consumer durables in India



India RAC domestic volumes sales (units)



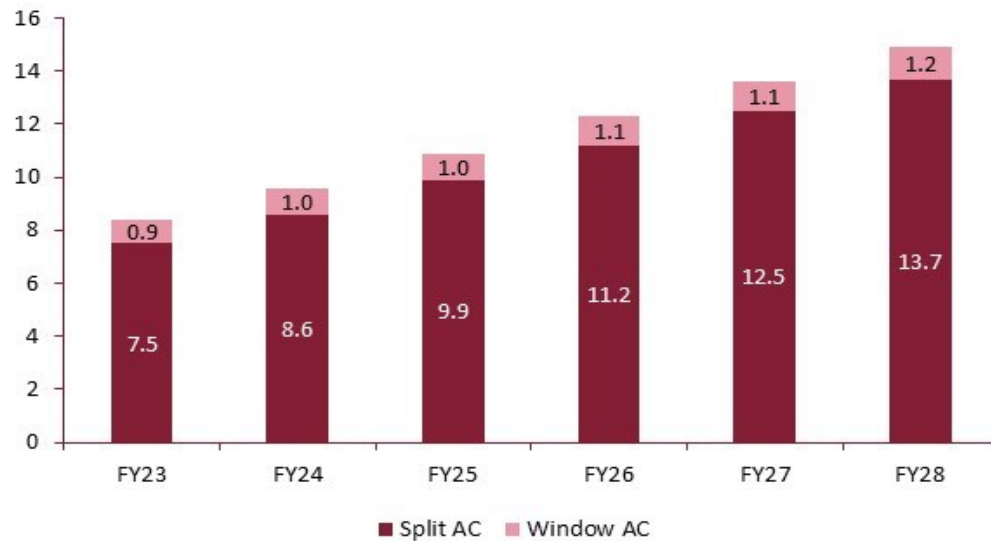
India RAC domestic value sales (Rs in Bn)



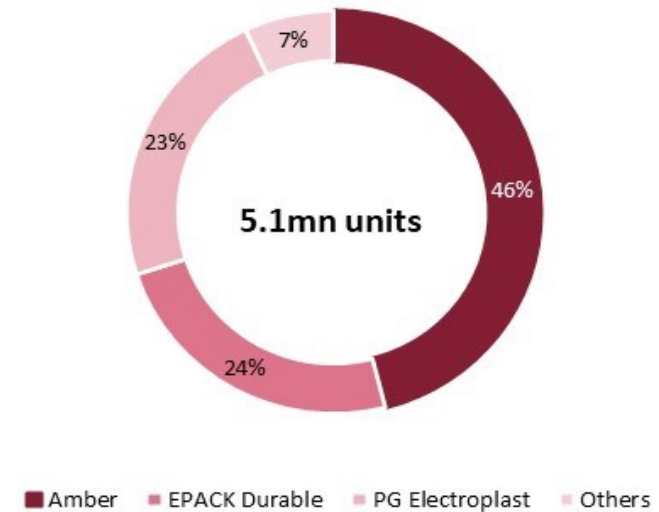


## Industry Outlook

Split AC & Window AC sales mix trend



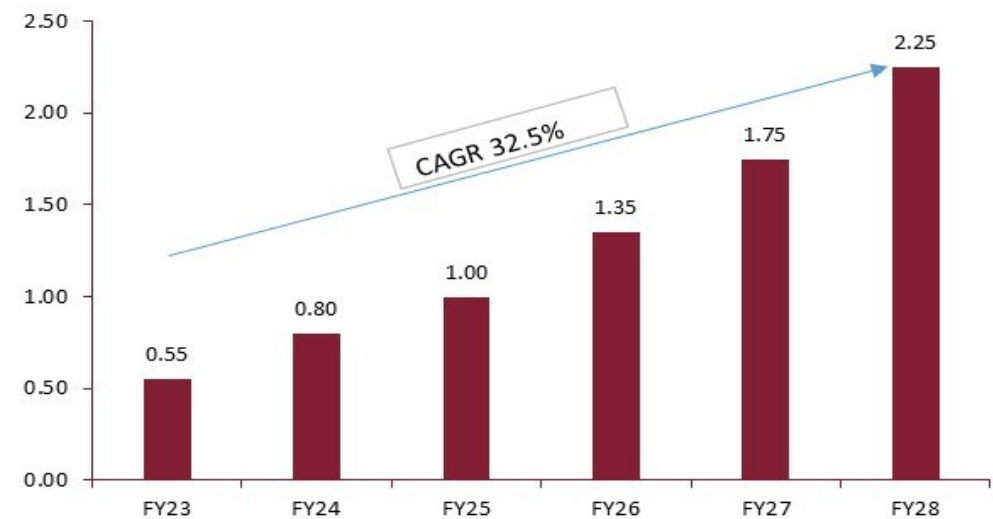
Indian RAC ODM/OEM Market share, FY23



Indian Split RAC components business growth forecast

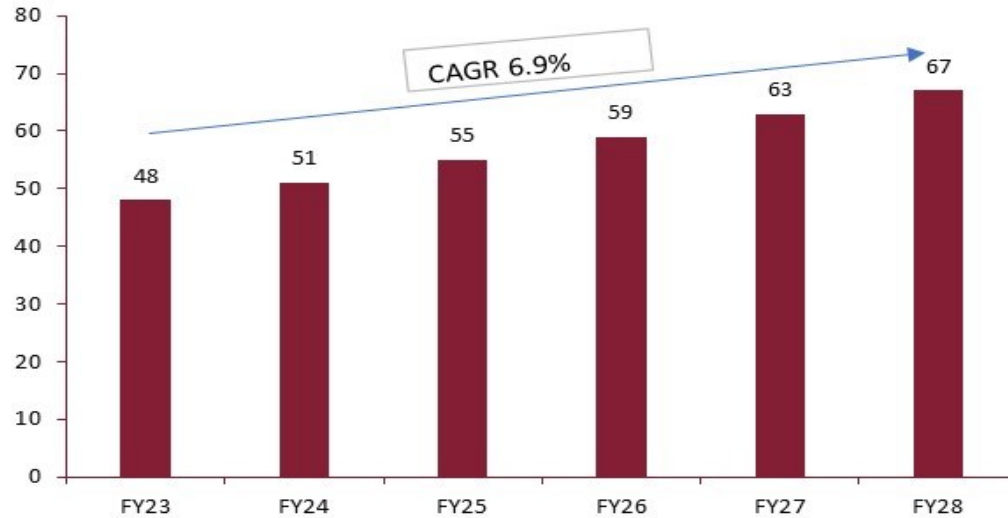
Particulars	FY23	FY28E
Split RAC Sales	7.5mn ACs	13.7mn ACs
ODM/OEM Sales	2.8mn ACs	5.3mn ACs
Component Sales	4.7mn ACs	8.4mn ACs
Component price*/SAC (exluding compressor)	Rs. 12-12.5K	Rs. 13.8-14.3K
Overall Component Market size (excluding compressor)	Rs. 56-60bn	Rs. 115-120bn
Outsourcing opportunities available to ODMs and standalone suppliers	55-60%	
Split RAC Component outsourcing market	Rs. 30-32bn	Rs. 63-65bn
CAGR	-	15-16%

Indian Split RAC components business growth forecast

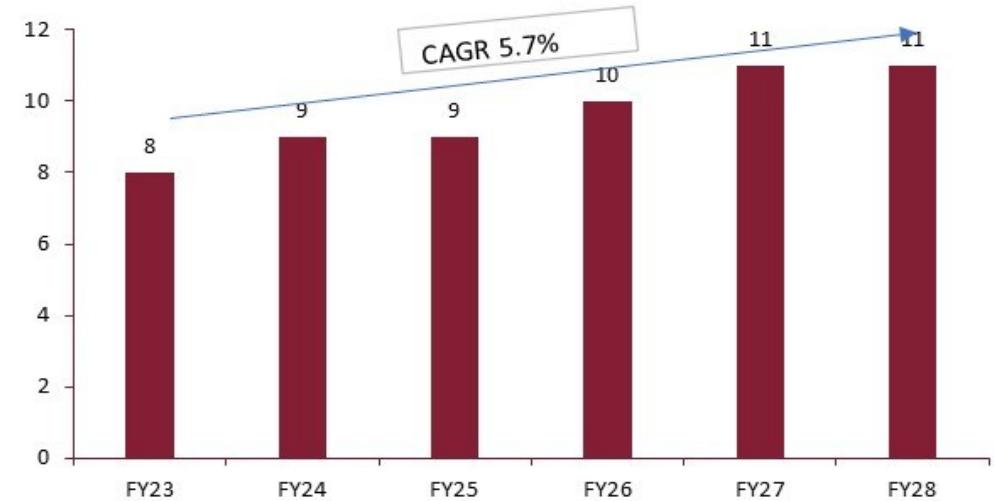


## Industry Outlook

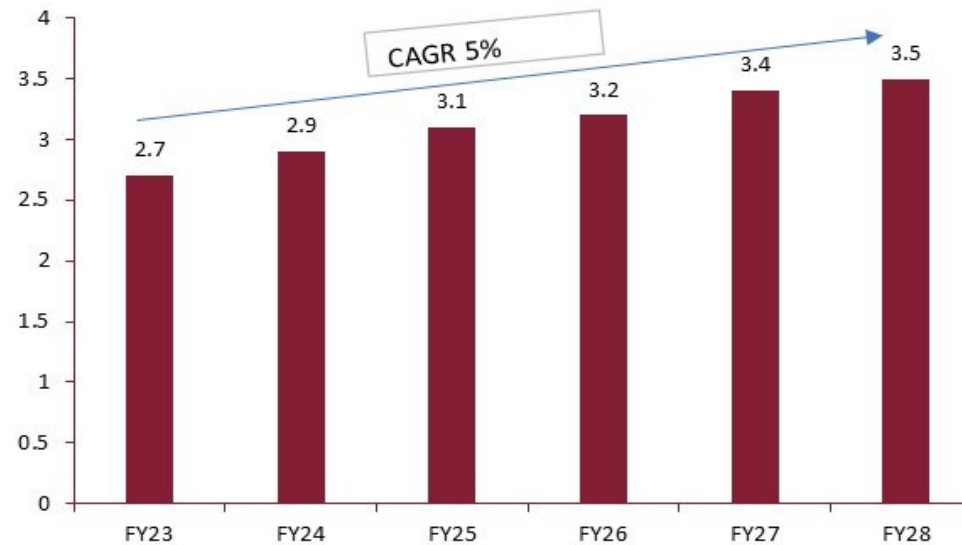
**Indian Mixer-Grinder market (Rs in Bn)**



**Indian Induction Cooktops market (Rs in Bn)**



**Indian Water Dispenser market (Rs in Bn)**



## INDSEC Rating Distribution

**BUY :** Expected total return of over 15% within the next 12-18 months.

**HOLD :** Expected total return between 0% to 15% within the next 12-18 months.

**SELL :** Expected total return is negative within the next 12-18 months.

**NEUTRAL:** No investment opinion, stock under review.

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### DISCLOSURE

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