

## Company Overview

Established in 2003, EPACK Durable Ltd. is engaged in the business of design and manufacture of complete room air conditioners (RAC). It is the second largest original design manufacturer (ODM) in the room air conditioning space in terms of number of units manufactured in India. Commencing its operations as an OEM for RAC brands in 2003 with a single manufacturing unit in Dehradun, the company has evolved into number of businesses such as ODM for RACs, manufacturing of window and split ACs, manufacturing of induction cooktops, mixer grinders, heat exchangers, cross flow fans, axial fans, copper fabricated products, induction coils etc. The company is a consumer-centric business that is driven by its focus on continuous innovation and operational efficiency. Over the years, the company has identified various opportunities to improve the value addition in its offerings to its customers and commenced manufacturing of various components that are actively used in manufacturing RACs. Due to such foresightedness, the company currently has three vertically integrated manufacturing facilities at Bhiwadi, Sri City and Dehradun which enables it to maintain operational costs and manage logistics. The company's strong manufacturing capability build over the years has helped it to leverage the manufacturing prowess to venture into the manufacturing of small domestic appliances, thereby saving itself from a potentially high capex. Having over 100 years of cumulative promoter experience and a demonstrated ability to successfully create, build and grow businesses, the company has established a deep customer relationship and achieved brand value in the market.

## Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Funding capital expenditure for the expansion/setting up of manufacturing facilities;
- ⇒ Repayment and/or prepayment, in part or in full, of certain outstanding loans of the company and
- ⇒ General corporate purposes.

## Investment Rationale

### Long-standing relationships with established customers, with a potential to expand the customer base

Over the course of its business, the company has established long-standing relationships with a number of well-known Indian and global customers. The average length of relationship with its RAC customers is 8.7 years and with SDA customers is 6.3 years. Some of the prominent long-standing customers include Blue Star Ltd., Daikin Air Conditioning India Pvt. Ltd., Carrier Midea Pvt. Ltd., Voltas Ltd., Havells India Ltd., Haier Appliances (India) Pvt. Ltd., Bajaj Electricals Ltd., Usha International Ltd. among others. The growth of the company and expansion of its market share can be attributed to its relationship with customers and the company intends to leverage such relationship for future growth as well. As of Q2FY24 and FY23, the top five customers accounted for 79.62% and 82.66% of its revenue from operations, respectively, which demonstrates the trust of customers on the company over the years. The company has always focused on quality, ability to respond to any demand volatility with agility, the ability to maintain a consistent supply of products, the ability to work with customers from the product conceptualization stage, and the price competitiveness of its products in order to help it establish and maintain long term relationships with its customers. The company strives to innovate and offer value-added and technologically advanced products and solutions to its customers. By doing so, the company seeks to deepen its customer relationships with the objective of becoming their preferred supplier.

### Advanced vertically integrated manufacturing operations, with product portfolio aimed at capturing the full spectrum of RAC and SDA value chain

The company has the highest amount of backward integration for RACs at a single location that has been grown within the same company organically in India. With its manufacturing operations being concentrated within Dehradun, Uttarakhand, Bhiwadi, Rajasthan and Sri City, Andhra Pradesh, the company is in a position to regulate and monitor its operations more closely, assisting itself in its objective of lowering operational costs and maintaining efficient logistics management. The company's products and corresponding components are manufactured within the same location, which helps it eliminate costs typically incurred in the transportation of parts between facilities. In addition to the

## Issue Details

Offer Period	19 <sup>th</sup> Jan 2024 - 23 <sup>rd</sup> Jan 2024
Price Band	Rs. 218 to Rs. 230
Bid Lot	65
Listing	BSE & NSE
Issue Size (no. of shares in mn)	27.83
Issue Size (Rs. in bn)	6.40
Face Value (Rs.)	10

## Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	Axis Capital Ltd, DAM Capital Advisors Ltd, ICICI Securities Ltd.
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Registrar	KFin Technologies Ltd
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Particulars	Pre Issue %	Post Issue %
Promoter	42.90	31.63
Promoter group	22.46	16.41
Public – other selling s/h	20.13	10.98
Public-others	14.51	40.98
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

(Assuming issue subscribed at higher band)

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## EPACK Durable Ltd.

the manufacturing and assembling of RACs and SDAs, the company also manufactures various RAC and SDA components such as heat exchangers, cross flow fans, axial fans, injection moulded components, copper fabricated components, PCBA's, etc. thereby facilitating the backward integration of its manufacturing operations. In addition to diversifying the revenue streams, manufacturing of components has enabled the company to be an integrated solutions provider and accordingly, allows them to cater to all aspects of the RAC and SDA manufacturing value chain. The company offers customized manufacturing solutions that range from assembly-only to near-complete integrated manufacturing which may only involve external sourcing of compressors and RAC motors, depending on the client's requirements, with the endeavor to capture the entire product value chain. Further, the current RAC product offerings such as window air conditioners, window inverter air conditioners, and split air conditioners enable the company to offer further customization to RAC brands in terms of completely built-up units or IDUs and ODUs separately. Additionally, the vertical integration of manufacturing operations has helped it to efficiently improve the quality of products and minimize dependency on third-party suppliers, which has allowed the company to increase control over its manufacturing lead time and costs.

### Valuation

From being the world's fifth largest economy as of FY23 and having a gross domestic product of USD 3.75 trillion, India is poised to grow at a stable rate of 6% and achieve the third largest economy status in the future. The ongoing structural reforms by the Government of India such as infrastructure development, disinvestment, higher FDI limits, and projects like national infrastructure policy and national logistics policy are about to yield fruitful results in various domains in the coming period. An interesting trend has been observed in global economics that when an economy exceeds the USD 2,000 per capita mark, the country's economy is poised to grow at a faster pace than before. Also, such an event has shown a positive impact on the consumer electronics market in the past. With India reaching the inflection point of USD 2,000 per capita income in CY2020, it aims to reach the USD 10,000 per capita mark by CY2047, thereby growing at the rate of 7% yearly and achieving a USD 20 trillion economy status. As of today, such impact on the growth of consumer electronics market post the USD 2,000 per capita achievement mark is seen in the increasing government schemes for consumer electronic industries. On the industry front, the Indian consumer durables ODM market is estimated to be Rs. 300 billion in FY23 out of which Room Air Conditioning manufacturing has a 19% share which is approximately Rs. 57 billion. Nowadays, split air conditioning systems have gained popularity compared to window ACs, with split ACs forming 87% of the market share. Also, the penetration rate of room air conditioners in India is lower at 8% compared to 42% globally. Therefore, we believe that sectoral tailwinds such as increasing global temperatures, higher consumer purchasing power and spending, favorable government policies, increased urbanization, and increased domestic consumption of RACs would benefit the company in the long term. Additionally, long-standing relationships with marquee customers, diverse product portfolio, backward integrated manufacturing facilities and strong management experience in the field of component and RAC manufacturing positions the company favorably for the future. **On the financial performance front, the company's Revenue/EBITDA/PAT grew at a CAGR of 44.6%/56.2%/102.5% during the FY2021-23 period. On the upper price band, the issue is valued at a P/E of 49.6x based on FY2023 earnings which we feel is fairly valued and is lower than its comparable peers. We, therefore, recommend a "Subscribe" rating to the issue from a medium to long-term perspective.**

### Key Risks

- ⇒ The company's business is dependent on its three manufacturing facilities, and the company is subject to certain risks in its manufacturing process. Any slowdown or shutdown in its manufacturing operations could have an adverse effect on its business, financial condition, and results of operations.
- ⇒ 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 its products may decline, which may have an adverse effect on its business, results of operations and financial condition.
- ⇒ The company is subject to precise technical specifications and quality requirements. Any failure to comply with the quality standards and technical specifications prescribed by such customers may lead to loss of business from such customers or product liability claims or claims alleging deficiency in service, and could negatively impact the company's reputation, which would have an adverse impact on its business prospects and results of operations.

**EPACK Durable Ltd.****Income Statement (Rs. in millions)**

Particulars	FY21	FY22	FY23	H1FY24
<b>Revenue</b>				
Revenue from Operations	7,362	9,242	15,388	6,148
<b>Total Revenue</b>	<b>7,362</b>	<b>9,242</b>	<b>15,388</b>	<b>6,148</b>
<b>Expenses</b>				
Cost of raw material and components consumed	6,550	7,985	12,988	5,051
Purchase of Stock in trade	-	-	296	138
Changes in inventory	(59)	(41)	(44)	86
Employee benefit expenses	170	233	334	210
Other expenses	281	378	788	293
<b>Total Operating Expenses</b>	<b>6,942</b>	<b>8,554</b>	<b>14,363</b>	<b>5,778</b>
<b>EBITDA</b>	<b>420</b>	<b>688</b>	<b>1,025</b>	<b>370</b>
Depreciation and Amortization expenses	90	163	261	161
Other income	34	32	14	15
<b>EBIT</b>	<b>365</b>	<b>557</b>	<b>779</b>	<b>224</b>
Finance costs	256	294	315	179
Exceptional Item	-	-	(16)	-
Share of Profit(Loss) of associate	-	-	(8)	(6)
<b>PBT</b>	<b>109</b>	<b>263</b>	<b>440</b>	<b>40</b>
Current tax	28	77	104	7
Deferred Tax charge/ (credit)	2	11	16	4
Tax relating to previous years	2	0	1	2
<b>Total tax</b>	<b>31</b>	<b>89</b>	<b>121</b>	<b>13</b>
<b>PAT</b>	<b>78</b>	<b>174</b>	<b>320</b>	<b>27</b>
<b>Diluted EPS</b>	<b>1.6</b>	<b>3.5</b>	<b>4.6</b>	<b>0.3</b>

Source: RHP, BP Equities Research

**Cash Flow Statement (Rs. in millions)**

Particulars	FY21	FY22	FY23	H1FY24
Cash flow from operating activities	474	(289)	188	1,581
Cash flow from investing activities	(67)	(2,042)	(2,175)	(621)
Cash flow from financing activities	(425)	2,535	2,345	(1,455)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(18)</b>	<b>204</b>	<b>359</b>	<b>(495)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>55</b>	<b>36</b>	<b>241</b>	<b>600</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>36</b>	<b>241</b>	<b>600</b>	<b>105</b>

Source: RHP, BP Equities Research



## EPACK Durable Ltd.

## Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
<b>Equity and Liabilities</b>				
Equity Share Capital	482	521	521	521
Other Equity	207	698	2,427	3,964
Instruments entirely equity in nature	-	-	188	299
<b>Total Equity</b>	<b>689</b>	<b>1,219</b>	<b>3,136</b>	<b>4,783</b>
<b>Non-Current Liabilities</b>				
Financial Liabilities				
(i)Long term Borrowings	677	596	1,136	1,373
(i)Lease liabilities	185	258	260	439
Provisions	10	20	28	34
Deferred tax liabilities (net)	69	124	139	143
<b>Current Liabilities</b>				
Financial Liabilities				
(i)Short Term Borrowings	1,708	3,244	3,789	2,323
(ii)Lease liabilities	52	56	65	162
(iii)Trade Payable				
Due to micro and small enterprise	100	181	192	42
Due to other than micro and small enterprise	1,419	3,158	3,699	1,171
(iv)Other financial liabilities	123	1,746	1,917	177
Current tax liabilities (net)	-	1	-	-
Provisions	16	11	6	13
Other current liabilities	154	153	275	54
<b>Total Current Liabilities</b>	<b>3,574</b>	<b>8,550</b>	<b>9,943</b>	<b>3,943</b>
<b>Total liabilities</b>	<b>4,515</b>	<b>9,548</b>	<b>11,505</b>	<b>5,931</b>
<b>Total Equity and Liabilities</b>	<b>5,204</b>	<b>10,767</b>	<b>14,642</b>	<b>10,714</b>
<b>Assets</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	810	2,379	3,235	3,362
Capital work in Progress	-	85	915	1,441
Goodwill	-	5	5	5
Right of Use assets	349	882	951	1,394
Investment accounted for using equity method	-	-	18	12
Other Intangible Assets	0	2	2	2
<b>Financial Assets</b>				
(i)Investments	-	31	31	31
(ii)Loans	-	-	46	46
(iii)Other financial assets	15	23	20	23
Income tax assets(net)	-	14	42	93
Other non current assets	14	77	671	524
<b>Total Non current assets</b>	<b>1,189</b>	<b>3,498</b>	<b>5,935</b>	<b>6,931</b>
<b>Current Assets</b>				
Inventories	1,405	2,773	2,937	1,891
<b>Financial Assets</b>				
(i)Trade Receivables	2,342	3,562	4,791	1,378
(ii)Cash and cash equivalents	36	241	600	105
(iii)Balance other than bank	79	348	154	1
(iv)Other financial assets	22	26	13	81
Other current assets	129	312	212	314
Income tax assets(net)	1	6	-	13
<b>Total Current Assets</b>	<b>4,014</b>	<b>7,269</b>	<b>8,707</b>	<b>3,783</b>
<b>Total Assets</b>	<b>5,204</b>	<b>10,767</b>	<b>14,642</b>	<b>10,714</b>
Income tax assets(net)	1	6	-	13
<b>Total Current Assets</b>	<b>4,014</b>	<b>7,269</b>	<b>8,707</b>	<b>3,783</b>
<b>Total Assets</b>	<b>5,204</b>	<b>10,767</b>	<b>14,642</b>	<b>10,714</b>

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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