

UFLEX Ltd

BSE: 500148 | Sector: Packaging

16 December 2016

vScore : 60 | **Gain%**: **22.26%**

Buy Date: 16-Dec-2016 | **Buy Price** : Rs. 265.00

Exit Date: 25-Apr-2017 | **Exit Price** : 324.00

BUSINESS BACKGROUND

UFLEX Limited is an India-based holding company engaged in the manufacture and sale of flexible packaging products and flexible packaging solutions. The Company's products include printed, laminated, metalized, co-extruded, coated, embossed, plain plastic films and hologrammed sticker sheets. Its plastic film products include oriented polypropylene (OPP) films, polyester films, metalized and specialty films, and polyester chips. The Company's flexible packaging products include laminates, rotogravure cylinders, anilox/coating rollers, shims, holograms, and printing ink and adhesives, among others. The Company offers finished packaging of a range of products, including snack foods, candy and confectionery, sugar, beverages, desert mixes and noodles, among others. Its subsidiaries include Uflex Europe Limited, Uflex Packaging Inc., Flex Middle East FZE, UTech Developers Limited and UPET Holdings Limited.

INVESTMENT HIGHLIGHTS

Q1FY17 results: It recorded sales of INR 1,506 Cr, compared to INR 1,581 in Q1FY16, EBITDA of INR 227 Cr (4% YoY up) EBITDA margin of 15% . Net profit of INR 85 Cr compared to 76 Cr in Q1FY15. Adj. EPS: INR 11.93/share compared to INR 10.69/share last year same quarter. (All figures are on consolidated basis.)

Segment Highlights:

The company as operations operates in only one segment i.e packaging solution but based on geography there are several possible regions such as Domestic and export revenue in standalone numbers. Under its standalone business, domestic business contributes most with around 84% of total revenue and rest 15-16% comes from exports.

KEY DATA

FACE VALUE	Rs	10
DIVD YIELD %		1.3
52 WK HI/LOW		132/271
NSE CODE		UFLEX
MARKET CAP	Rs.	1,839 Cr

SHAREHOLDING PATTERN

PROMOTERS	-	44.02%
BANKS, MFs & DII's	-	4.18%
FII's	-	5.86%
Others	-	45.94%

KEY FUNDAMENTALS

Year Ending	FY16A	FY17E	FY18E
Rev Gr%	-1	7	8
Net Profit Gr%	22	10	9
ROE%	9	10	10
RoCE %	13	12	12
EPS (Rs)	43	47	52
P/E (x)	6	5	4

Consistent steady business over the years :

For year FY 2011, the company posted revenues of INR 3,496 Cr and since then it has given steady growth and revenue size in FY16 became INR 6,105 Cr. The EBITDA of the company in FY 2012 was INR 636 Cr which has increased to INR 790 Cr in FY 2016. The net profit has grown from INR 252 Cr in FY12 to INR 312 Cr in FY 16. The EBITDA margins have improved from 10-11% to close to 12% in FY16. On all parameters the company has posted steady growth over the years.

Presence across verticals of value chain of Packaging with strong distribution and clients makes it attractive:

The company is engaged in providing end to end flexible packaging solutions to customers viz. Packaging design & colour scheme, packaging structure, packaging products, and filling machines. It is one of the most integrated player to have presence in all verticals of packaging in its value chain.

It is largest flexible packaging company in India and one of the emerging player in the world. The company has its world class manufacturing facilities for packaging films in India, Dubai, Mexico, Egypt, Poland and USA. The current capacity of the company is 337,000 TPA and for packaging products at multiple locations in India with current capacity of 90,000 TPA.

The company offers technologically superior packaging solutions for variety of products such as snack foods, candy & confectionery, sugar, rice and other cereals, beverages, tea & coffee, noodles, wheat flour, soaps and detergents, shampoos, veg oils, spices, dairy products, frozen food and also to pharmaceuticals, garden fertilizers, motor oil and lubricants, other auto components etc. The company enjoys strong distribution network globally and its clients include names such as Nestle, P&G Britannia, Tata, Cadbury etc. The company is technology oriented and believes in R&D at various levels to improve the efficiency in the organization.

Domestic packaging industry is expected to do well going ahead with global demand being stable:

Indian flexible packaging industry is growing at around 15-17% annually. The increasing demand flexible packaging domain gives advantage to organized players such as Uflex. Overall industry structure is changing due to rising income levels and consumption patterns in FMCG and other related industries. The company being a major player and supplier to FMCG holds certain advantage due to it. Consumption of branded products and increase in demand of quality products in increasing. All other developments such as pay hikes in India, GST boost to economy will further improve the demand for FMCG and other industries which will be very positive for the Uflex.

Looking at globally, the industry is growing at 5-6% rate annually and is expected to grow at similar rate in future as well. The company due to its global outreach and continuous efforts to reach different markets can outperform this growth rate in coming few years.

Business Outlook and Valuation :

At the moment at current price of 265 the stock is trading at (TTM) P/E of 6. Going ahead we expect revenue growth of 7-8% for FY17 and FY18. Hence our expectations for revenue for FY17 and FY18 are INR 6,533 Cr and INR 7,055 Cr respectively.

We expect company to maintain EBITDA margin around 12-13% for next two years. Going ahead we expect PAT margins of 5% for next two years. Our PAT expectations for FY17 and FY18 are INR 346 Cr, INR 377 Cr respectively. Our EPS expectations for FY17 and 18 are INR 47.5, INR 51.8 respectively.

We believe Uflex Ltd at PE of 6 with ROCE above 12% is attractively valued. For FY 18 EPS expectations of 51.8, we expect target price of 320 with a stop loss at 180.

FINANCIALS:

For the Year Ended March (INR)	FY15A	FY16A	FY17E	FY18E
Net Sales (Cr)	6,180	6,105	6,533	7,055
EBIDTA (Cr)	745	790	842	878
EBIDTA %	12	12.9	12.9	12.5
Profit Before Tax (Cr)	282	375	417	454
Interest (Cr)	186	177	156	137
Depreciation (Cr)	279	285	302	321
Tax (Cr)	31	63	71	77
Profit After Tax (Cr)	251	312	346	377
PAT%	4.1	5	5.2	5.3
Diluted EPS (INR)	35.3	43.3	47.5	51.8
Shareholder's Funds (Cr)	3,007	3,343	3,661	4,008
Borrowings (Cr)	1,812	1,772	1,642	1,532
Gross Block (Cr)	4,978	5,268	5,594	5,848

Key Risks and Concerns:

- Any downturn in the global demand for packaging materials can impact company's financials.
- Competitor's product can create margin and sales pressure and hence impact company negatively.
- Domestic demand is crucial for growth and can affect the growth rate of the business and create problems for revenue growth if slowdown happens in the industry.
- Any adverse policies introduced by government can affect the overall sector and hence a company.

vScore: Value Score is our proprietary company rating system based on last 5 years of historical data and value investing philosophy at its core. v360 combined with Macroeconomic indicators, projections, fundamental and technical trigger makes it a 360 degree view.

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Source: Niveza Research Desk