GOOD Q3FY16 & 9MFY16 RESULTS

Maintain BUY

UFLEX LTD

FLEXING MUSCLES

Sunidhi "In your prosperity lies our success"

Retail Desk

04 February 2016

Rating	Buy
CMP (₹)	158
Target Price (₹)	229
Upside (%)	45
Key Data	
BSE Code	500148
NSE Code	UFLEX
Reuters code	UFLX.BO
Bloomberg Code	UFLX IN
Sensex	24338
Face Value (₹)	10
Mcap (₹ Cr.)	1141
52 week H/L (₹)	202/110
2 Wk Avg Qty	60000
Share holding, December'15	**Holding %**
Promoters	44.0
Foreign	9.4
DIs	6.9
Public	39.7

Performance (%)	3M	6M	12M
Stock-Uflex	-13.2	-11.2	1.9
BSE 200	-8.2	-13.4	-13.5
BSE 500	-8.3	-13.4	-13.2

Price Chart: (One-Year)



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Q3FY16, 9MFY16 & FY15 Results:

During Q3FY16, Uflex clocked 2.1% lower sales of ₹1498.1 crore. Net profit, however rose 37.8% to ₹78.7 crore. PBIDTM and PATM stood at 13.2% and 5.3% Vs 12.4% and 3.7% in Q3FY15. Q3FY16 EPS is ₹10.9 against ₹7.9 in Q3FY15.

During 9MFY16, Uflex recorded 2.0% lower sales of ₹4623.6 crore. Net profit, rose 24.9% to ₹232.6 crore. PBIDTM and PATM stood at 13.2% and 5.3% Vs 12.4% and 3.7% in 9MFY15. 9MFY16 EPS is ₹32.2 against ₹25.8 in 9MFY15.

During FY15, net profit rose 26.4% to ₹254.8 crore on 5.4% higher sales of ₹6180.3 crore. OPM and NPM stood at 12.2% and 4.1% Vs 12.1% and 3.4% in FY14. FY15 consolidated EPS stood at ₹35.3 against ₹25.8 in FY14. The blended tax for the consolidated entity is lower because of lower tax regime in overseas locations-Dubai: zero tax rate; Egypt: 20% and Mexico: 30%.

Company Description:

Founded in 1983, as Flex Industries by the Flex Group to manufacture multilayer laminated rolls of plastics, paper, cloth or metal foils that are used separately or in combination for various packaging applications, Uflex is India's largest flexible packaging major with manufacturing capacities of plastic film and packaging products for end-to-end solutions to clients across more than 140 countries.

Uflex has vast capacities for production of Polyester Chips, Biaxially Oriented Polyethylene Teraphthalate (BOPET) and Biaxially Oriented Poly Propylene (BOPP), Cast Polypropylene films, Printing & Coating Inks, adhesives, facilities for Holography, Metallization & PVDC coating, Gravure Printing Cylinders, Gravure Printing, Lamination and Pouch formation. Uflex today has state of the art packaging facilities in India with installed capacity of 90,000 TPA. The total film capacity in India, Dubai, Mexico, Egypt, Poland and USA is 3, 37, 000 tpa.

Uflex set up its first overseas operation in 2005 at Dubai, UAE. This was followed by expansion there and new facilities at Mexico, Egypt and Poland that were commissioned in 2009, 2010 and 2012 respectively. Today, Uflex has 18 state-of-the-art film lines located in 6 countries that run 24x7.

Key Financial: (Consolidated) (₹ crore)

Year-March	9MFY16A	9MFY15A	FY14A	FY15A	FY16E	FY17E
Sales/OP Inc	4623.6	4719.2	5863.3	6180.3	6050.0	6230.0
PBIDT	637.1	587.7	712.3	752.0	834.9	859.7
Interest	138.5	147.6	233.3	186.9	190.0	190.0
PBDT	498.6	440.1	479.0	565.1	644.9	669.7
Depreciation	213.9	212.7	267.1	279.4	285.3	285.0
PBT	284.7	227.4	211.9	285.7	359.6	384.7
Tax	52.1	41.2	15.1	30.9	50.5	54.0
PAT	232.6	186.2	201.6	254.8	309.1	330.7
Equity			72.2	72.2	72.2	72.2
Reserves			2750.7	2935.5	3244.6	3575.3
Book Value (₹)			391.0	416.6	459.4	505.2
CPS (₹)	61.8	55.2	64.9	74.0	82.3	85.3
EPS (₹)	32.2	25.8	27.9	35.3	42.8	45.8
PBIDT Margin (%)	13.8	12.4	12.1	12.2	13.8	13.8
NP Margin (%)	4.7	3.9	3.4	4.1	5.1	5.3
P/E					3.7	3.5

Note: Projection for FY17 does not include impending expansion effects.

Promoters	Ashok Chaturvedi is a visionary first generation entrepreneur and founder of Flex group of companies. The group has interests in flexible packaging solutions, biaxially oriented plastic films, chemicals, engineering, cylinders, holography & Foods. He is the chief architect of group's vision and value-driven business strategy. Under his dynamic leadership, the group has become a globally recognized player in the flexible packaging industry.
Subsidiaries	Flex Middle East FZE, UAE; UFlex Europe Ltd, UK; UFlex Packaging Inc., USA; Flex P. Films (Brasil) Comercio De Films Plasticos Ltd; UPET Holdings Ltd; Mauritius, UTech Developers Ltd; India and USC Holograms Pvt. Ltd. India; are subsidiaries. Further, UPET (Singapore) Pte. Ltd. Singapore; Flex Americas, S.A. de C.V., Mexico; Flex P. Films (Egypt) S.A.E, Egypt; Flex Films Europa Sp z o.o., Poland; Flex Films (USA) Inc., SD Buildwell Pvt. Ltd., India and Flex Industries Private Ltd, India are stepdown subsidiaries.
Other Products	Printing Cylinders, Flexographic plates, Flexo Proof Press (Wet Proof), Digital Plate Cutting Table, Solvent Recovery Plant, Laser Engraving System, Hologram, Ink & Adhesives, Customized need-based Packaging and Processing Machines.
Indian Plant	Three state-of-the-art BOPET film lines manufacturing 66,000 tpa (132 million lbs)/year. Two BOPP lines manufacture 36,000 tpa (80 million lbs.) of film per year. Five high-barrier plasma enhanced metallisers with a capacity to metallise 30,000 tpa (over 66 million lbs.) of film per year. One CPP film line manufactures over 6,000 tpa (13 million lbs)/year.
UAE Capacity	Flex Middle East's ultra-modern Polyester film lines operate at 500 m/sec to produce over 60,000 tpa (132 Million Lbs) of Polyester film. Two state-of-the-art plasma enhanced high-barrier metallisers offer 12,000 tpa (over 26 million lbs.) of high quality metallised films per annum.
Mexico Plant	Flex Americas S.A. de C.V.'s state-of-the-art manufacturing plant is in Mexico at Altamira in the State of Tamaulipas. The two BOPET film lines at this facility can turn out 72,000 tpa (about 160 million lbs.) of film per year. These film lines are some of the largest of their kind anywhere in the world. The film lines are complemented by two 2.5 meter wide plasma enhanced metallisers that can produce over 12,000 MT (26 million lbs.) of High Barrier Metallised Films per year.
Egypt Project	During FY13, Uflex commissioned an AL-OX coater for packaging films at its Egypt plant Uflex's Egypt project are located at near Cairo. At this site, Uflex has three film lines in operation – two(one BOPP and One BOPET) that produces 36, 000 and 36,000 tpa (80 million lbs) each and a CPP Film line that produces 12,000 tpa (above 26 million lbs.) of film per annum. The films lines are supplemented by three state-of-the-art plasma enhanced high-barrier metallisers that turn out 22,800 tpa (over 50 million lbs.) high quality metallised films per year. This facility also houses an AlOx coating line that produces 2,400 tpa (over 5 million lbs.) of high-barrier transparent films per year. Setting up of the AL-OX coater for packaging films at the Egypt plant is in sync with its plans to add manufacturing lines for new product categories at the existing facilities.
Poland Project	Uflex's Poland project is located at Wrzesnia near Poznan in Poland. This is its first manufacturing facility in Europe and is a significant milestone in its master-plan to set up strategically located global scale production lines as close as possible to major Packaging Film markets.

The site houses a state-of-the-art Biaxially Oriented Polyester (BOPET) Film line that runs at 500 meters/minute and can turn out 36,000 tpa of film per year supplemented by plasma enhanced high-barrier metalliser that can convert 6,000 tpa of film per year.

User Industries

Uflex offers finished packaging of a wide variety of products such as snack foods, candy and confectionery, sugar, rice & other cereals, beverages, tea & coffee, desert mixes, noodles, wheat flour, soaps and detergents, shampoos & conditioners, vegetable oil, spices, marinates & pastes, cheese

& dairy products, frozen food, sea food, meat, anti-fog, pet food, pharmaceuticals, contraceptives, garden fertilizers and plant nutrients, motor oil and lubricants, automotive and engineering components etc.

Clients

Uflex offers its flexible packaging products and solutions globally to blue chip clients including Unilever, Pepsi, Wrigley, Procter & Gamble, Colgate, Palmolive, Nestle, Gillette, Ranbaxy, PerFetti, Joyco, Monsanto, ITC, Godrej Pillsbury, Tata Tea, Hindustan Petroleum, Indian Oil, Britannia, Dabur, Haldiram, Wockhardt, HUL, Parle Biscuit, 3M, among others.

Financial

Equity capital is ₹72.2 crore. With reserves of ₹2935.5 crore, the book value of the share works out to ₹417 as at FY15. The debts of ₹1812 crore give DER at 0.6:1 as at 31 March 2015. RONW was 8.5%.

In the last in 4 years, UL's gross block increased from ₹3075 crore as on 31 March 2011 to ₹4701 crore. Cash on hand & short/long term loans & current assets are ₹1024 crore. Uflex maintained a dividend of 27% for FY15. RONW would work out to 9.4% in FY16 and 9.2% for FY17.

Expansion

Uflex's agenda of consistent global expansion and consolidation of its position as a truly Indian MNC is reinforced by its strategy of capacity expansion and adding manufacturing lines for various product categories across existing and newer locations.

By doing this Uflex increases proximity to the markets and brings broad portfolio of value added products for its clients at the most competitive price points. Uflex has been on a drive to set-up new plants for developing and manufacturing many new and innovative packaging products.

Uflex is setting up an Asceptic Packaging Material Project for packing liquids at Sanand Industrial Area in state of Gujarat. The Board of Directors at their meeting held on May 28, 2015 has approved for the same with an investment of approximately ₹550 crore.

The facility is expected to be operational by early 2017 and will employ 800 people. The Gujarat factory will produce seven billion packs per year for liquid products such as energy drinks, milk and juices, and about 90% of the output will be used for the domestic market.

Prospects

Packaging is one of the fastest growing industries and stands at US$700 billion globally. In developing country like India, it grew at a CAGR of 16% in the last five years and touched US$32 billion in FY15.

The Indian packaging industry constitutes ~4.6% of the global packaging industry. The per capita packaging consumption in India is low at 4.3 kgs, compared to developed countries like Germany and Taiwan where it is 42 kgs and 19 kgs respectively.

In the coming years Indian packaging industry is expected to grow at 18% p.a. wherein, the flexible packaging is expected to grow at 25% p.a. and rigid packaging to grow at 15% p.a. The overall packaging industry in India has a huge growth potential and is expected to reach US$73 billion in FY20.

Flexible packaging industry is likely to cross the $47 billion in 2020 from $23.3 billion in FY15. Rigid packaging industry is expected to touch $26 billion in 2020 from $8 billion in FY15.

The global market for flexible packaging is forecast to grow at an average rate of ~3.4% annually over the next five years and reach $248 billion by 2020, according to a new report from Smithers Pira, The Future of Global Flexible Packaging to 2020.

This impressive rate of expansion is higher than the gross domestic product (GDP), suggests that the flexible packaging market is growing more quickly than well-developed and traditional rigid packaging markets. Rising need for durable, light weight and compact products among consumers is expected to be a key driver for market growth over the forecast period.

Polyethylene dominates this global market by materials accounting nearly 32% of the total market share and is projected to grow at a CAGR of 5.1% during the above said period.

Polypropylene accounts for the second largest share in the segment growing at a CAGR of 4.9% during the period under review. The BOPP segment of polypropylene holds a significant share of around 80% growing at a CAGR of 5.2% during this period.

Paper and Aluminum are growing at a CAGR of 5.5% and 5.4% respectively. Cellulosic is one of the materials which show potential growth in the future. It is projected to grow at a CAGR of 8.2% through to 2018. (Sources: Markets & Markets).

Opportunity

Approaching half of India's population is under the age of 25 compared with only around one third in China where the one-child family planning policy is resulting in a increasingly ageing population. India's much larger youthful population is increasingly receptive to buying and consuming pre-packaged products.
Also, India's fast growing and increasingly sophisticated middle class is driving demand for an ever growing range of higher value processed food products which utilize flexible packaging. Currently barely 5% of food in India reaches the consumer in pre-packaged form.

As a result of poor distribution infrastructure nearly 40% of fresh food in India is estimated to perish before reaching the consumer, resulting in lost income for small farmers and higher prices for consumers. This presents huge opportunities for rapid flexible packaging growth.

The growth is projected to continue because flexible packaging, particularly pouch packaging, uses less energy and materials and has lower transport costs, environmental impact and carbon footprint than its rigid counterparts.

Valuation & Recommendation

Today, Uflex has 18 state-of-the-art film lines located in 6 countries that run 24x7. Uflex's strong manufacturing base in India, Mexico, Dubai, Egypt, Poland and US caters to global markets spanning US, Canada, South America, UK, Europe, Russia, CIS countries, South Africa and other African countries, the Middle East and the South Asian countries.

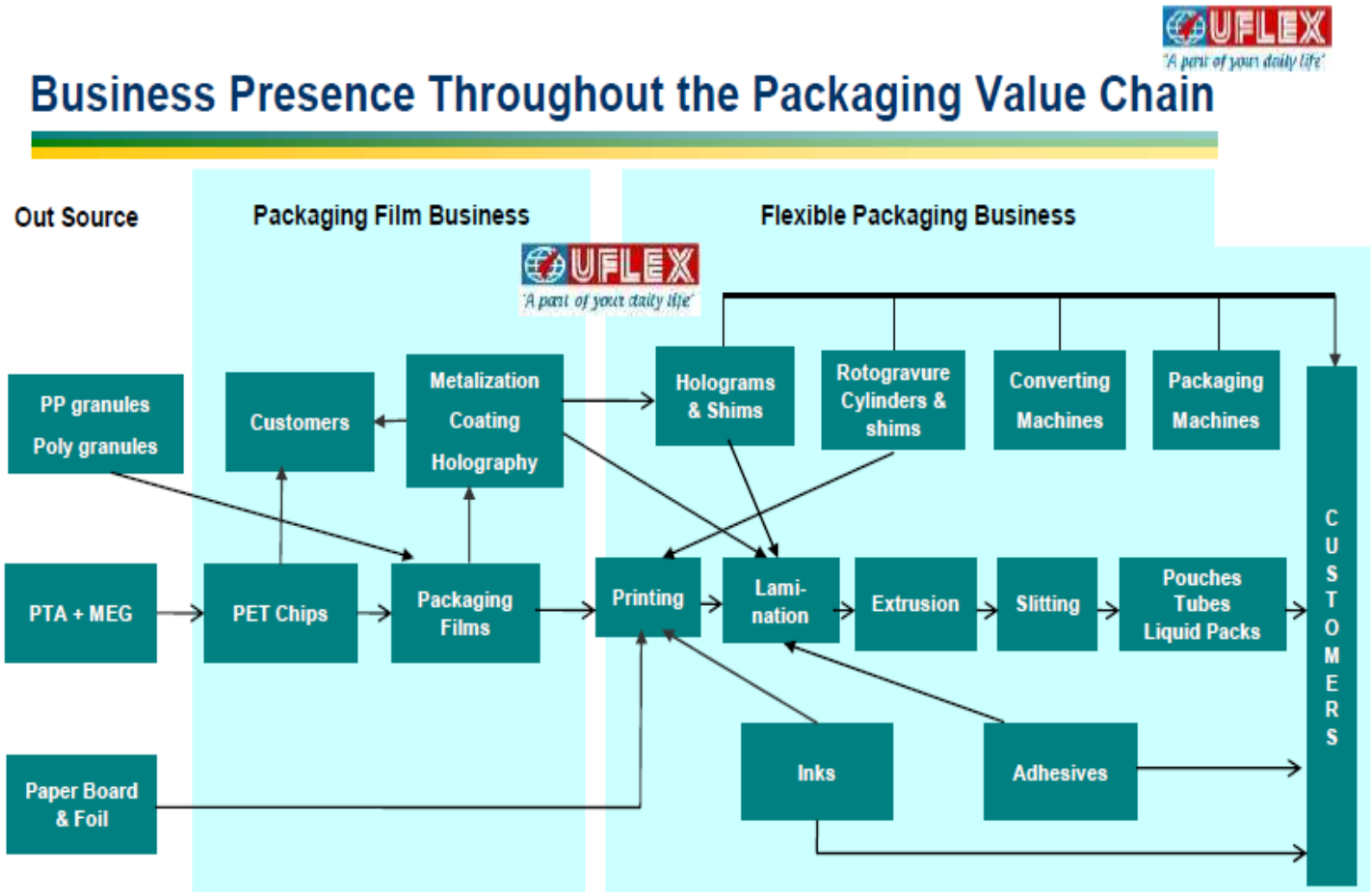
The demand for flexible packaging is mainly derived from the demand of the user industries like processed food, personal products, beverages, lubricants, pesticides and pharmaceuticals etc. Approximately 80% of Uflex's production is consumed by Food & FMCG industry, which gives strong business visibility.

At the CMP of ₹158, the share is trading at a P/E of 3.7x on FY16E & 3.5x on FY17E. We maintain BUY with an increased target price of ₹229 at which, the share will trade at a P/E of 5.0x on FY17E.

Key Risk

Plastic Film business is highly competitive. Uflex faces stiff competition both from international as well as domestic manufacturers.

Packaging Value Chain



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