

UFLEX LTD.

SECTOR: PLASTIC PACKAGING GOODS

Equity Research Report

26 September 2020

CMP: ₹ 308.04
(25/09/2020)

TARGET PRICE: ₹ 379
Months: 5-6 Months

RATING:
BUY

Upside:
23%

Company details

| | |
|-------------------|--------------------|
| Market Cap | ₹ 2224 Cr |
| 52 Weeks High/Low | ₹376.80 / ₹ 118.25 |
| Stock P/E | 4.67 |
| EPS | 65.87 |
| Dividend Yield | 0.65% |



Price Performance (%)

| | 1m | 3m | YTD | 12m |
|----------|-------|-------|-------|-------|
| Absolute | 12.35 | 48.49 | 52.46 | 38.95 |

ShareHolding Pattern (%)

| | |
|----------|-------|
| Promoter | 44.02 |
| DII | 1.67 |
| FII | 5.51 |
| Others | 48.81 |

About the Company:

Headquartered in Noida, Uflex was incorporated in 1988. It manufactures flexible packaging solutions and is currently the largest flexible packaging company in India. The company is present in two verticals – Films and packaging.

Under films, Uflex has vast production capacities majorly of BOPET (Biaxially-oriented polyethylene terephthalate) films and has capacities in BOPP (biaxially-oriented polyethylene terephthalate) and CPP (cast polypropylene) Films as well across various countries like the US, Mexico, Dubai, Poland, Egypt and India.

Under packaging, Uflex is present across the value chain and offers services like holographs, pouches etc. It also has a small engineering division, which manufactures converting and packaging machines. In addition to this, the company has a facility for ink, adhesives etc.

Uflex has grown from strength to strength on the back of large manufacturing capacities of Films and packaging providing solutions to clients across over 140 countries, enjoying a formidable market presence, thereby becoming India's largest flexible packaging company. Uflex enjoys a wide global client base comprising of elite customers like Perfetti, Nestle, P&G, Britannia, Fritolay, Tata, and Cadbury among several others.

Uflex is the world's third largest supplier of BOPET films for flexible packaging applications. It also offers CPP films and BOPP films.

Flexible Packaging Business Uflex is India's Largest Flexible Packaging Company with its three manufacturing facilities supplying to all Major Multi National and Indian Customers. The company operates its packaging business only from India. The company has presence across all verticals of the value chain as it is fully backward integrated into Films (BOPET, BOPP, CPP, Metalized Films), and forward integrated into Chemicals (Inks, Coatings, Adhesives), Engineering (Converting & Packing Equipment), Holography (Films, Labels) and Cylinders (Electronic, Laser and Flexographic Plates), giving the company an upper hand over its competitors.

Liquid Packaging Business - Asepto™ Asepto is the Liquid Packaging facility, which primarily aims to optimize the shelf life of the liquid products such as Juices, Non-aerated Alcoholic Beverages and highly perishable consumables like Milk and other Dairy products. Uflex is the first Indian manufacturer of aseptic liquid packaging material.

Quarterly Financials (Figures in Rs. Crores)

| Report Date | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 |
|--------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Sales | 1812.97 | 1904.85 | 2015.8 | 1979.26 | 2057.31 | 1978.27 | 1872.15 | 1793.38 | 1761.04 | 1992.68 |
| Expenses | 1589.51 | 1657.16 | 1756.19 | 1755.42 | 1803.9 | 1705.43 | 1597.74 | 1526.75 | 1496.63 | 1576.43 |
| Other Income | 5.81 | 7.47 | 4.99 | 3.84 | 6.68 | 4.45 | 4.38 | 9.77 | 11.96 | 4.86 |
| Depreciation | 92.6 | 92.07 | 95.66 | 97.17 | 95.95 | 101.67 | 98.56 | 100.85 | 102.12 | 104.49 |
| Interest | 51.26 | 53.4 | 53.55 | 56.56 | 54.42 | 57.94 | 56.92 | 56.74 | 53.19 | 53.95 |
| Profit before tax | 85.41 | 109.69 | 115.39 | 73.95 | 109.72 | 117.68 | 123.31 | 118.81 | 121.06 | 262.67 |
| Tax | 13.92 | 15.33 | 19.29 | 19.61 | 39.31 | 26.77 | 29.05 | 34 | 20.16 | 66.13 |
| Net profit | 71.13 | 94.09 | 95.69 | 53.98 | 70.07 | 90.68 | 93.99 | 84.57 | 100.58 | 196.45 |
| Operating Profit | 223.46 | 247.69 | 259.61 | 223.84 | 253.41 | 272.84 | 274.41 | 266.63 | 264.41 | 416.25 |

Net sales of the firm is increasing at a constant pace. The company has shown positive signs in controlling the operating expenses due to which the profit of the company has increased over last couple of quarters. I expect the numbers to increase in second quarter for current financial year.

Cash Flows Annual (Figures in Rs. Crores)

| Report Date | Mar-11 | Mar-12 | Mar-13 | Mar-14 | Mar-15 | Mar-16 | Mar-17 | Mar-18 | Mar-19 | Mar-20 |
|-------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| Cash from Operating Activity | 669.49 | 753.4 | 541.42 | 330.67 | 501.35 | 874.81 | 779.21 | 651.04 | 553.41 | 818.12 |
| Cash from Investing Activity | -555.41 | -997.44 | -530.75 | -142.93 | -197.31 | -436.74 | -669.1 | -426.7 | -344.02 | -2031.61 |
| Cash from Financing Activity | -27.51 | 133.84 | -16.53 | -142.54 | -319.28 | -241.92 | -201.73 | -205.14 | -236.76 | 1368.89 |
| Net Cash Flow | 86.57 | -110.2 | -5.86 | 45.2 | -15.24 | 196.15 | -91.62 | 19.2 | -27.37 | 155.4 |

Company have made large investments last year. But net cash of the company have increased due high sales and reduced operating expenses.

Balance Sheet (Figures in Rs. Crores)

| Report Date | Mar-11 | Mar-12 | Mar-13 | Mar-14 | Mar-15 | Mar-16 | Mar-17 | Mar-18 | Mar-19 | Mar-20 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| Equity Share Capital | 72.18 | 72.21 | 72.21 | 72.21 | 72.21 | 72.21 | 72.21 | 72.21 | 72.21 | 72.21 |
| Reserves | 1741.33 | 2116.51 | 2426.39 | 2750.69 | 2935.48 | 3375.62 | 3571.86 | 3907.4 | 4232.12 | 4624.9 |
| Borrowings | 1411.24 | 1935.24 | 2249.35 | 2416.16 | 2209.98 | 2139.49 | 2102.13 | 2079.4 | 2105.08 | 3626.07 |
| Other Liabilities | 938.79 | 1164.66 | 1216.26 | 1355.54 | 1250.27 | 1216.76 | 1402.23 | 1629.2 | 1550.23 | 1683.34 |
| Total | 4163.54 | 5288.62 | 5964.21 | 6594.6 | 6467.94 | 6804.08 | 7148.43 | 7688.21 | 7959.64 | 10006.52 |
| Net Block Capital Work in Progress | 1752.54 | 2676.89 | 3339.16 | 3378.13 | 3239.85 | 3254.86 | 3394.37 | 3765.74 | 3759.05 | 3807.66 |
| Investments | 309.95 | 291.28 | 38.34 | 74.06 | 32.42 | 228.73 | 498.08 | 195.82 | 260.84 | 2007.49 |
| Other Assets | 108.66 | 96.46 | 101.88 | 125.86 | 138.03 | 110.85 | 76.04 | 85.35 | 41.65 | 188.86 |
| Total | 1992.39 | 2223.99 | 2484.83 | 3016.55 | 3057.64 | 3209.64 | 3179.94 | 3641.3 | 3898.1 | 4002.51 |
| Receivables | 4163.54 | 5288.62 | 5964.21 | 6594.6 | 6467.94 | 6804.08 | 7148.43 | 7688.21 | 7959.64 | 10006.52 |
| Inventory | 763.69 | 995.57 | 1276.02 | 1505.18 | 1508.71 | 1480.19 | 1659.05 | 1932.59 | 2045.52 | 1947.36 |
| Cash & Bank | 365.06 | 433.63 | 470.2 | 610.74 | 660.97 | 620.83 | 678.62 | 796.84 | 843.54 | 854.95 |
| | 278.28 | 168.08 | 162.22 | 207.42 | 192.19 | 387.92 | 296.3 | 315.51 | 288.14 | 443.53 |

SALES GROWTH (in Cr)

1 YEAR -3.58%
3 YEAR 4.74%
5 YEAR 4.11%

**PROFIT GROWTH (in Cr)**

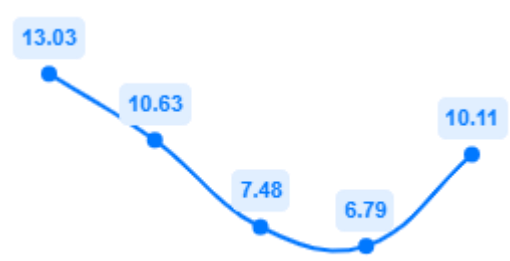
1 YEAR 177.32%
3 YEAR -9.54%
5 YEAR 0.18%

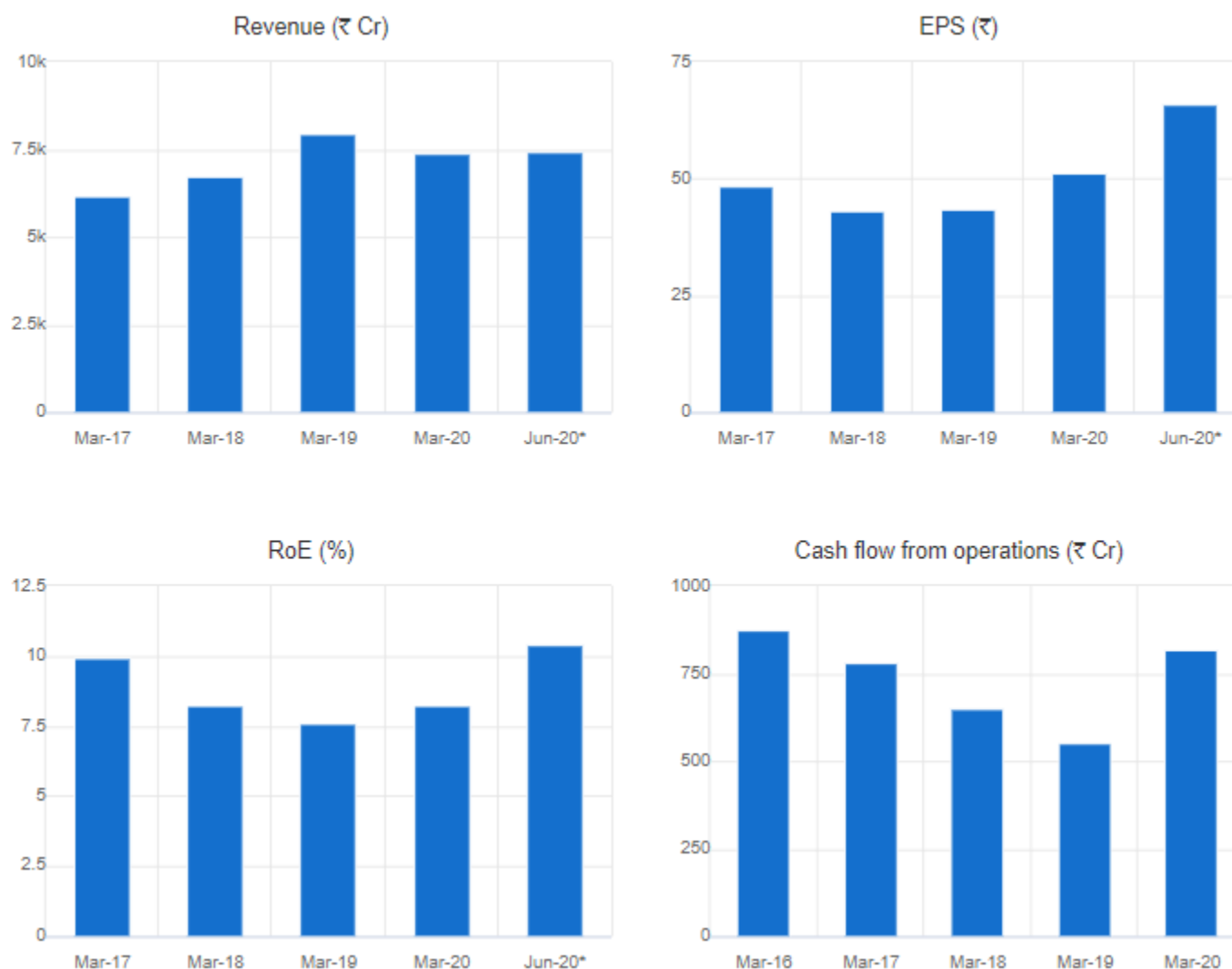
**ROE%**

1 YEAR 6.51%
3 YEAR 4.59%
5 YEAR 7.01%

**ROCE%**

1 YEAR 10.11%
3 YEAR 8.13%
5 YEAR 9.61%





COVID-19 impacts performance:

Uflex business is manufacturing of Flexible Packaging Films and Flexible Packaging, which is predominantly used in food and Pharma packaging, all out efforts were being made by all countries to ensure the adequate supply of food and medicines to the public, which was made possible only due to seamless continued operations of packaging industry. While Uflex did face initial administrative and supply chain challenges in some countries during initial lockdown period but there was no impact on its overall production and sales volumes during the quarter, which grew in Quarter 4 and Quarter 1 over the sequential quarters. While Uflex believes that its business will continue to remain unscathed by the pandemic as it continues to witness higher demand for its products globally so far in FY 2021, there could be uncertainties in the future due to underlying developments w.r.t COVID 19, which are difficult to predict.

Outlook

Management have decided to scale up its operations internationally by setting up greenfield projects for packaging films in Hungary, Nigeria and Russia and brownfield expansion in Poland. Shifting demographics and consumer preferences are driving the demand for more sustainable solutions, in flexible packaging. Advancements in packaging technology and global demand of flexible packaging material are exhibiting a strong growth of the Sector. As per “Flexible Packaging Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast 2020-2025”, the global flexible packaging market was worth US\$ 112.8 Billion in 2019. The market is growing rapidly with flexible packaging ensuring food safety, enhanced value of food products, extended shelf-life, heating and moisture barrier, effective permeability, and ease of use.

| Positives | Negative |
|---|---|
| <ul style="list-style-type: none"> • Stock is trading at 0.47 times its book value • Company's PEG ratio is 0.07. • The company has an efficient Cash Conversion Cycle of 66.19 days. • The company has a good cash flow management; CFO/PAT stands at 3.69. • not a lot of promoter holding is pledged • Over the last 5 years, revenue has grown at a yearly rate of 3.69%, vs industry avg of -1.91% • Over the last 5 years, market share increased from 22.97% to 32% • Over the last 5 years, net income has grown at a yearly rate of 7.74%, vs industry avg of 7.4% | <ul style="list-style-type: none"> • The company has delivered a poor growth of 9.54% over past five years. • Company has a low return on equity of 4.59% for last 3 years. • Dividend payout has been low at 4.39% of profits over last 3 years • Company has contingent liabilities of 1,240.79 Cr. |

My Call:

I keep up Positive view and expects an upside of 20-23% over next 5-6 months. The market value is projected to reach US\$ 144.3 Billion by 2025, exhibiting a CAGR of 4.2% during 2020-2025. The Q2-Q3 numbers are showing signs for the positive growth and will drag the prices to 380 levels.

Key positive for UFLEX Ltd.

The Indian packaging market was valued at USD 50.5 billion in 2019, and it is expected to reach USD 204.81 billion by 2025, registering a CAGR of 26.7% during the period of 2020-2025.

- Demand for packaging is rising due to the increasing population, increasing income levels, evolving habits, expanded media consumption across the internet, television, and growing economy. In addition, it is one of the fastest growing sectors in the world.
- The strong demand growth is mainly led by the pharmaceutical and food and beverage sectors. Huge investments in the end-user sectors of food manufacturing, personal care, and pharmaceuticals are building space for the packaging industry to grow which is the big advantage for Uflex as it is main focused area of company.
- The Development is further facilitated by the emergence of the Indian middle class, the rapid expansion of organised retail, export growth and India's growing e-commerce market. Packaging use in India has risen by 200 percent in the past decade, according to the Indian Institute of Packaging (IIP), increasing from 4.3 kg per person per annum (pppa) to 8.6 kg pppa.

Food Industry is Expected to Hold Largest Share in the Market

- The food packaging industry in India witnessed major innovations, in terms of branding and packaging
- In the Indian packaging market, packaged food is the fastest-growing category. As it ensures nutritional consistency, protection, and long shelf life, it is expected to drive the market for plastic packaging. According to the Federation of Indian Chambers of Commerce & Industry (FICCI), spending on packaged food is rising (at the point of inflexion) due to higher per capita revenue, higher urbanisation and higher numbers of working women. According to Agriculture and Agri-food Canada, the sales of packaged food in India amounted to USD 76,284.2 million in 2018, and it is expected to register a CAGR of 18% during the forecast period.

- The grocery market in India is a conventional retail industry and, thus, online shopping penetration is much lower which is shifting its focus to online. Health and grocery spending accounts for 60 percent of overall retail spending in India. The demand for food distribution and services, however, is fostering more growth in the country, with players such as Bigbasket, Grofers, Zomato, Swiggy, Scootsy, recording a rapid sales rise. In FY 2018, the revenue produced by Swiggy and Zomato in India was INR 4.42 billion and INR 4.66 billion, respectively, according to a report conducted by the Ministry of Corporate Affairs (India).

Plastic Packaging to Have Significant Market Share

- Food and drinks, cosmetics and personal care, and the pharmacy industry are the industry where plastic bottles and jars are often used throughout the world. The chosen products for producing bottles and jars in India are polyethylene terephthalate (PET) and HDPE. There are several applications where tubes, jars, and vials are still being made using PVC. However, producers are seeking to turn to PET and HDPE due to growing environmental issues.
- Two of the most common types of pouches used in the country include stand-up pouches and pillow pouches. The increasing dairy consumption (especially milk, yoghurt, and cream products) and the growing export of dairy products are driving the demand for pillow pouches.
- Plastic bags are among the most commonly used alternatives in India for plastic packaging. Some significant factors driving the growth of plastic bags in the country are the growing grocery chains and Kirana stores.
- Because of the various players battling to increase their market share, the packaging industry in India is competitive in nature. Many businesses are growing their market reach by extending their company footprint through different end-user markets with the rising demand for packaging products, along with technical advancements in the Indian economy.