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NO COMPROMISE IN EXCELLENCE

**Uflex Ltd**

**-Valuations Attractive**

## Multibagger Report

<b>Recommendation</b>	:	<b>Buy</b>
<b>CMP</b>	:	Rs 182
<b>Target</b>	:	NA
<b>% Allocation</b>	:	5%

<b>Sector</b>	:	<b>Packaging</b>
<b>Sensex</b>	:	24485
<b>Bloomberg code</b>	:	UFLX. IN
<b>Reuters Code</b>	:	UFLX.NS

### AT A GLANCE

52 Week High Low	:20170/110.65
Mkt. Cap (Rs. in Crs)	:1315
Major Shareholders	
Promoters (%)	:44.02%
Free Float (%)	:55.98%

**Background:** Uflex Limited (Uflex), with a presence in more than 140 countries, is one of the largest fully integrated Indian flexible packaging solution providers. Uflex has a vast production capacity for Polyester chips, Biaxially Oriented Polyethylene Teraphthalate (BOPET) and Biaxially Oriented Polypropylene (BOPP) films, Cast Polypropylene (CPP) films, Printing and Coating Inks, adhesives, facilities for Holography, Metallization and PVDC coating, Gravure Printing Cylinders, Gravure Printing, Lamination and Pouch formation. The company has been conferred with the Global Dupont Packaging Innovation Silver Award 2015 for the 'Safe Pack Bag' for packaging building materials.

### Innovation-Growth driver

Uflex has been at the forefront of innovation and in the past has added several feathers to its cap viz 3D bags, flexi tubes, High Barrier Laminate for Packaging Snacks etc. This innovation has been the fulcrum of its growth story. Going forth game changing innovations are expected to consolidate its leadership position and create new business opportunities for the company

### Foray into Aseptic packaging to drive the next leg of growth

Uflex is setting up a Rs 550 crore Aseptic Packaging Material Project for packing liquids at Sanand, Gujarat. Global major Tetra Packaging is the only player currently operating in this space in India. We believe that Uflex's foray into this segment should be well received by the end user industry considering Uflex's reputation for offering quality products. Besides having dual vendors always works well for the end user industry.

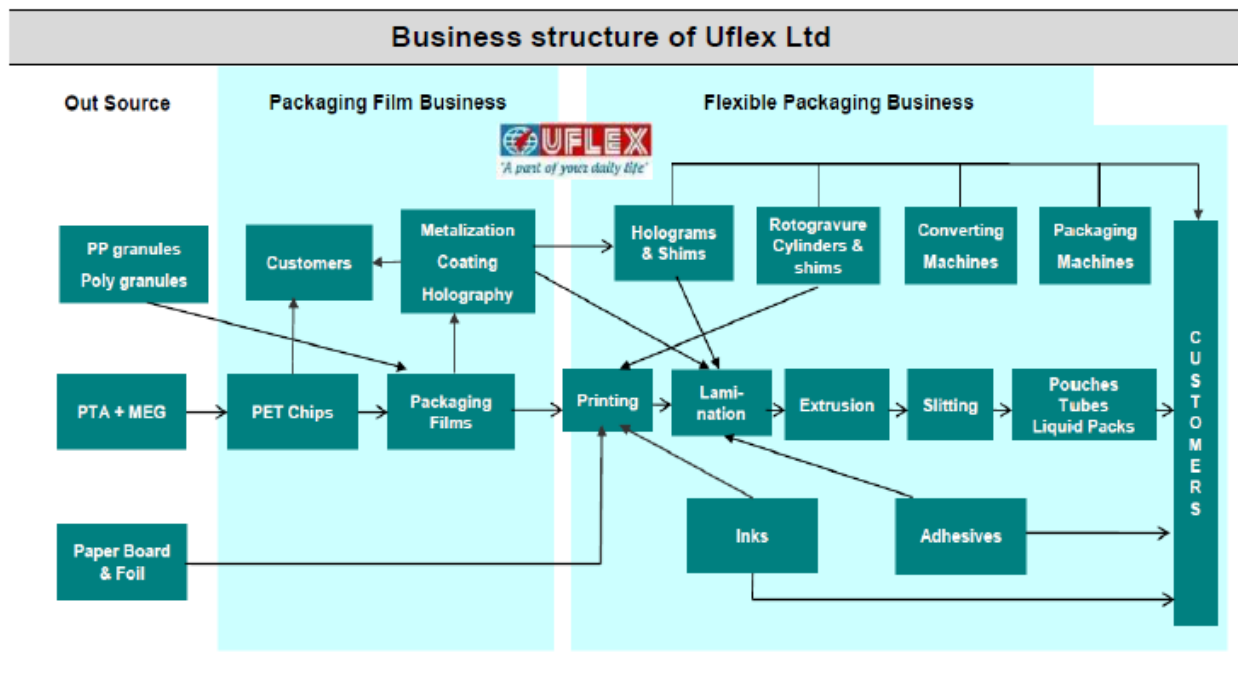
### Outlook & Valuation

We Initiate coverage of Uflex Ltd with a **BUY** rating. Given the product innovation across different packaging products and an improving product mix in favor of value added products such as proof bags & aseptic packs, the revenue growth trajectory should continue. We expect Uflex to report an EPS growth of 20% for the next 3 years. At the CMP of INR 182, the stock trades at 4.35x EPS of FY17E. **Key Risks** to our recommendation include any slow down in the economy which will lower consumer demand and lower than expected volume growth and realization.

Year(Rs.Cr)	Net Sales*	Operating Profit	Pre-tax Profit*	Net Profit*	OPM Margin	PBT Margin	PAT Margin	PE (X)
2013	5,161.08	652.97	206.37	187.74	12.65	4.00	3.64	7.00
2014	5,863.25	683.63	211.87	196.75	11.66	3.61	3.36	6.68
2015	6,180.34	731.62	281.9	251.04	11.84	4.56	4.06	5.24

## Investment Arguments

**Company Profile:** Uflex Limited (Uflex), with a presence in more than 140 countries, is one of the largest fully integrated Indian flexible packaging solution providers. Uflex has a vast production capacity for Polyester chips, Biaxially Oriented Polyethylene Teraphthalate (BOPET) and Biaxially Oriented Polypropylene (BOPP) films, Cast Polypropylene (CPP) films, Printing and Coating Inks, adhesives, facilities for Holography, Metallization and PVDC coating, Gravure Printing Cylinders, Gravure Printing, Lamination and Pouch formation. The company has been conferred with the Global Dupont Packaging Innovation Silver Award 2015 for the 'Safe Pack Bag' for packaging building materials.



### Innovation – Key Growth Driver:

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Uflex won the Global Dupont Packaging Innovation Silver Award 2015 for the 'Safe Pack Bag' for packaging building materials. This nano technology based innovation should find usage in retain packaging of cement and should help eliminate high levels of wastages and consequent pollution. This could become a potential game changer for Uflex should the industry embrace this innovative product.

Besides the shower proof bag, Uflex's flexi tubes division has several innovative products to its credit viz Innolok™ Pouches, Slider Zipper Pouches (for powder and granules), 4D Pouches, Centre sealed etc. These innovations have helped Uflex win repeat orders from marquee clients.

The recent innovations with the value added features like the holographic effect, lens on front panel, anti-counterfeiting, reverse printing, dual barrier etc are expected to propel Uflex's hold in the cosmetics and pharmaceutical markets which provide it with premium pricing power (over the traditional markets). This constant endeavor to add value has resulted in Uflex reporting higher EBITDA margins (~20%) than its peers.

#### **Foray into Aseptic packaging to drive the next leg of growth**

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The facility is expected to be operational by mid 2017 and has a capacity of seven billion packs per year (for liquid products such as energy drinks, milk and juices). We estimate that ~90% of the output will be consumed by the domestic market and should enjoy high margins (20-25%) due to sparse competition.

#### **Impressive Client List:**

Flexible packaging consists of multi-layer laminated sheets of plastics (PVC, LDPE, HDPE, BOPP, BOPET), paper cloth or metal foils, used in various packaging applications. Flexible packaging has a unique set of properties to ensure toughness, moisture, aroma retention, low odour, taste etc. Flexible packaging laminates are used for packaging of processed food (e.g. biscuits, snacks, confectionery, spices, wheat flour, rice, pulses etc.), personal products (e.g. shampoo, soaps, detergents, hair dye etc. Beverages(e.g.Tea,Coffee,Milk products,Baby Food etc).Uflex's top clients include top MNC's like Unilever, Nestle ,P&G, Gillette, Pepsico and Britannia.

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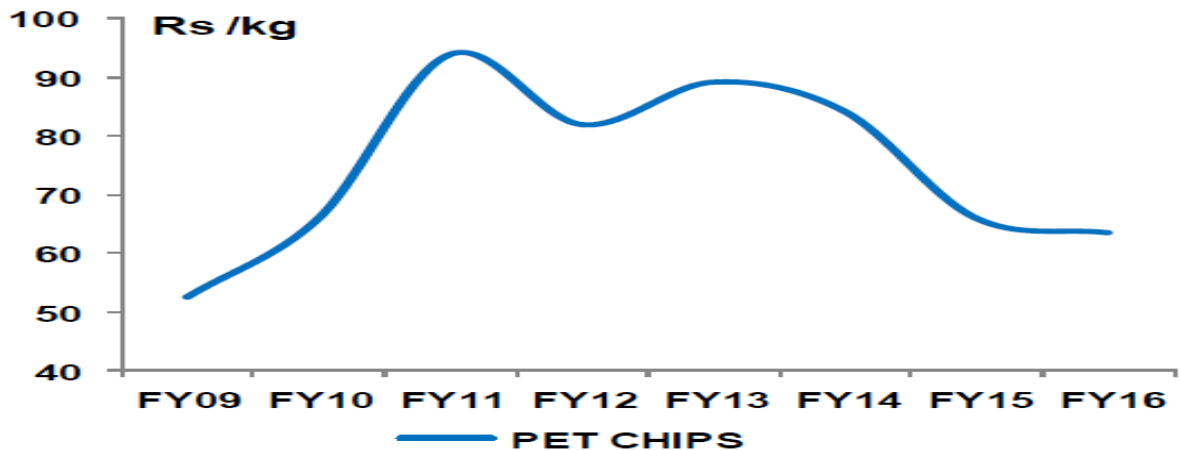


**Film Business - Steady Performer:**

Intense global competition and a marked slowdown in European demand are expected to lead to the packaging film business (contributing ~58% of the total revenues and ~79% of the total volume) reporting muted growth. However revenues are expected to grow at a dismal rate of 0.1% over the same period due to muted pricing. With a current utilization of ~72% there is adequate capacity to manage future growth and hence no major additions to its 3,37,000 tpa capacity are planned.

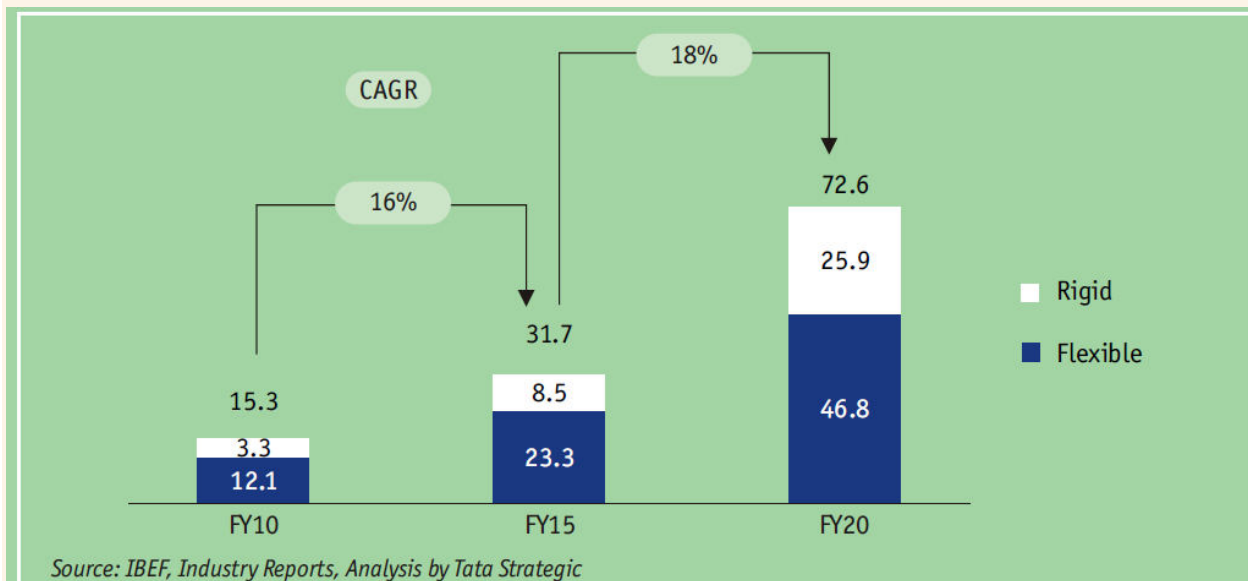
**Margin Expansion**

While revenues are expected to decline due to a fall in the unit realizations, margins are expected to improve due to a larger fall in the input crude prices and improving working capital cycle. The prices of PET chips which were highly volatile over the past few years are also expected to stabilize and as a result we expect the EBITDA margin to improve by 300bps from 10.9% in FY15 to 13.9% in FY18.



## Indian Packaging Industry Overview

The Indian Packaging industry, regarded as a commodity play in the early 2000's, has now transformed into a value add, innovation driven and technology based industry. Extensive use of plastics in packaging has contributed to the industry's success story, given its virtues of light weight, cost effectiveness and possibility of innovations. The global packaging industry is US\$700bn in size and is expected to be over US\$1tn by 2020, while that in India is at US\$32bn and is expected to reach US\$73bn by FY20 (18% CAGR). Globally, Rigid/Flexible packaging's share is 56%/44%, which in India is at 27%/73%, given high rural population, preference for smaller-sized products, cost-conscious customers and presence of unorganised food processing, F&B market in India. Indian packaging industry is highly fragmented as each process/stage is handled by a different entity (value add opportunity) resulting in scope for consolidation. In this report, we cover companies with leadership position in its segments, focus on innovation and growth rates faster than their segment peers—Huhtamaki PPL (leader in flexible packaging), Essel Propack (leader in global oral care tubes, emerging player in non-oral care, realigning businesses to improve returns), Cosmo Films (leading BOPP innovator company), Mold-Tek Packaging (IML pail innovator ready to capture mega edible oil opportunity) and Control Print (only Indian industrial printer manufacturer amongst MNCs).



### Flexible packaging (BOPP/BOPET) dominates Indian industry

For packaging process, various base materials are used like paper, board, plastics, aluminium, glass and tin, each serving a unique purpose (low cost, light weight), solving different challenges (oxygen barrier, strength) and adding value (attractive designing, higher shelf life) for customers. These base materials are divided into two major groups: (1) Rigid Packaging (US\$7bn, 27% of the industry), posted a CAGR of 21% (over FY10-15), with major players such as Mold-Tek Packaging, Hi-Tech Plast and (2) Flexible Packaging (US\$25bn, 73% of the

industry), clocked a CAGR of 14% (over FY10-15). Growth drivers for the flexible packaging industry are higher population in rural areas, increasing prominence of a nuclear family, lower per capita income (versus developed countries) and aggressive retail penetration in semi-urban and rural areas. Major players in this industry are Uflex, Huhtamaki PPL and Essel Propack.

Today plastics are the material of choice in packaging for the sectors such as FMCG, food and beverages, pharmaceuticals etc. . In India, a large chunk of products that households buy for daily use are packaged in plastics. Plastics are used heavily for packaging due to innovative visual appeal for customer attraction and convenience. Additionally, they improve the hygiene quotient and shelf-life of the products especially in food and beverages segment.

The industry is driven by key factors like rising population, increase in income levels and changing lifestyles. Growth prospects of end-user segments are leading to rise in the demand of the plastic packaging industry. Demand from rural sector for packaged products is being fuelled by the increasing media penetration through the means of internet and television. Further, India is emerging as the most favoured destination for organized retail destination in the world. And also the presence of E-commerce is expanding rapidly and is bringing around a revolution in the retail industry. Retailers are now leveraging digital retail channels thereby enabling wider reach out to customers with less amount of money spent on real estate .Therefore, organized retail and boom in e-commerce offers huge potential for future growth of retailing in India which in turn is pushing the growth of packaging sector.

Going ahead recycling & reuse of plastics will be an important step towards fostering innovation and sustainability. Also increased awareness through help of industry groups and Government could help address some of these challenges.

### **Future Opportunities**

In the way ahead, the growth in the plastic packaging industry in India will be majorly impacted by the end use industries, growing consumerism and government initiatives such as Make in India.

**End-Use Industries:** The Indian Food & Beverage industry has nearly 25% yearly growth and major application of plastics in food products is in packaging. Thus growth in food and beverage sector highlights the growth potential for plastics in packaging. Similarly, personal care sector, which is growing at nearly 15%, will also drive demand for rigid plastics, as it is the most used material for packaging of personal care products. Other industrial sectors such as, pharmaceutical that is proposed to grow at 13-15% over next five years, retail industry, that is currently witnessing the shift from unorganized to organized retail; will also stimulate the demand of plastic in packaging material.

**Consumerism:** Growing consumerism will also contribute to growing demand. Consumer's preference for the use of convenient packaging and affordable packaging is driving the market towards flexible packaging in India. Consumers today are increasingly looking to buy products which are suitable for handling, long lasting and easy to store and as plastics can be used with great versatility, they have been the preferred choice in packaging. This growth will also be pushed by the increasing size of middle class population in tier II/III cities in the country.

**Make in India:** The Government's current campaign on 'Make in India' which aims to turn the country into a global manufacturing hub will have positive impact on the growth of both plastic and packaging industry. The proposed policies of government for technology up-gradation fund

scheme, setting up of plastic parks, setting up Special Economic Zones (SEZs) to overcome bottlenecks of infrastructure and creating business friendly policies will help in exploring the underlying potential. Also the extended support from Ministry of Chemicals & Fertilizers and the Central Institute of Plastics Engineering & Technology (CIPET) will drive the growth of plastic industry in India. For example an export-oriented plastic cluster has been proposed to be set up at an investment of over INR 100 crore in Lucknow. India Industries Association (IIA) in collaboration with CIPET will set up this cluster.



## Profit & Loss (Consolidated)

Consolidated P&L(Rs.Cr)	Mar' 11	Mar' 12	Mar' 13	Mar' 14	Mar' 15
Income :					
Operating Income	3,496.45	4,515.84	5,161.08	5,863.25	6,180.34
Expenses					
Material Consumed	1,702.56	3,047.30	3,423.90	3,893.26	4,048.04
Manufacturing Expenses	227.34	296.66	374.62	406.43	399.57
Personnel Expenses	171.23	225.13	277.65	390.27	437.31
Selling Expenses	0	0	0	0	0
Administrative Expenses	265.29	291.46	431.94	489.67	563.8
Expenses Capitalised	0	0	0	0	0
Cost Of Sales	2,366.44	3,860.56	4,508.11	5,179.62	5,448.72
Operating Profit	1,130.01	655.28	652.97	683.63	731.62
Other Recurring Income	14.34	25.14	19.08	28.63	16.61
Adjusted PBDIT	1,144.36	680.42	672.05	712.27	748.22
Financial Expenses	164.32	199.25	229.69	233.31	186.93
Depreciation	136.31	178.29	235.99	267.08	279.4
Other Write offs	0	0	0	0	0
Adjusted PBT	843.73	302.88	206.37	211.87	281.9
Tax Charges	148.53	50.35	18.63	15.12	30.86
Adjusted PAT	695.2	252.53	187.74	196.75	251.04
Non Recurring Items	0	0	0	0	0
Other Non Cash adjustments	0	0	0	0	0
Reported Net Profit	697.98	255.02	190.37	201.64	254.76
Earnings Before Appropriation	1,158.70	1,317.49	1,471.10	1,628.91	1,825.44
Equity Dividend	54.16	14.44	17.33	18.05	19.5
Preference Dividend	0	0	0	0	0
Dividend Tax	8.79	2.34	2.95	3.07	3.97
Retained Earnings	1,095.76	1,300.70	1,450.83	1,607.78	1,801.98

## Balance Sheet(Consolidated)

Consolidated Balance Sheet(Rs.Cr)	Mar' 11	Mar' 12	Mar' 13	Mar' 14	Mar' 15
<b>SOURCES OF FUNDS</b>					
Owners' Fund					
Equity Share Capital	72.18	72.21	72.21	72.21	72.21
Share Application Money	75	75	0	0	0
Preference Share Capital	0	0	0	0	0
Reserves & Surplus	1,741.30	2,116.47	2,426.36	2,750.66	2,935.45
Loan Funds					
Secured Loans	1,115.38	1,467.87	1,758.70	1,862.06	1,767.14
Unsecured Loans	60.46	115.09	54.2	61.87	45.56
<b>Total</b>	<b>3,064.31</b>	<b>3,846.64</b>	<b>4,311.47</b>	<b>4,746.80</b>	<b>4,820.37</b>
<b>USES OF FUNDS</b>					
Fixed Assets					
Gross Block	2,759.45	3,745.52	4,639.47	4,863.97	4,963.69
Less: Revaluation Reserve	0.03	0.03	0.03	0.03	0.03
Less: Accumulated Depreciation	1,006.91	1,068.63	1,300.30	1,485.84	1,723.85
Net Block	1,752.50	2,676.86	3,339.13	3,378.10	3,239.82
Capital Work-in-progress	309.96	291.28	38.34	74.06	32.42
Investments	108.66	96.46	101.88	125.86	138.03
Net Current Assets					
Current Assets, Loans & Advances	1,992.39	2,224.31	2,484.83	3,016.54	3,057.65
Less : Current Liabilities & Provisions	1,098.46	1,442.26	1,652.71	1,847.75	1,646.80
<b>Total Net Current Assets</b>	<b>893.92</b>	<b>782.05</b>	<b>832.11</b>	<b>1,168.79</b>	<b>1,410.85</b>
Miscellaneous Expenses not written	0	0	0	0	0
<b>Total</b>	<b>3,065.04</b>	<b>3,846.64</b>	<b>4,311.47</b>	<b>4,746.81</b>	<b>4,821.11</b>

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