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DEMOCRATIZING WEALTH CREATION

Vriddhi Growth

June 2017

Cosmo Films

CMP : ₹422	Target price: ₹660	HP* : **Upto 3 years**

The Vriddhi pick for the month of June is Cosmo Films Ltd. It is one of the low cost manufacturer of BOPP films globally. It enjoys 20% market share in the BOPP film space and two-third market share in speciality films market. The company derives 60% of its revenue from exports and international operations and almost 80 countries are under its ambit of business operations. The top FMCG brands such as Britannia, Colgate, Cadbury, soft drink giants like Pepsi and Coke, and IT giants such as Apple, Microsoft, etc. are some of the company's customers who benefit from labels and packaging from the company. The revenue of the company has grown at a CAGR of 8.59% over a period of three years and its PAT has grown at a CAGR of 83.6% over these three years.

The continued growth in demand for BOPP and speciality films, demand for packaged food with flexible packaging and growth in retail sector are some of the drivers which are proving beneficial for the company.

KEY DRIVERS

DTP product launch to cater to high temperature difference packaging needs

Recently, the company has launched top-coated direct thermal printable print (DTP) product for temperature variable industrial products. This film would offer products with endurance level of as high as 130 degrees and as low as -20 degrees. It has also launched an anti-fog film to provide effective packaging for food items such as vegetables and fruits. In FY17, the company's plant at Vadodara commenced operations, which would increase the capacity by 40%. A new plant at Walunj, Aurangabad, is also in the pipeline, which is expected to boost volume growth by 30%.

US subsidiary's turnaround gaining pace

For the past few years, the company's subsidiary in US was incurring losses. For FY15, it had incurred loss of USD 5 mn, which got reduced to USD to 2.2 mn in FY16. This was possible due to company's efforts towards becoming cost-effective by manufacturing new value-added products in the US. Foreign exchange losses were also one of the main reasons for the losses incurred by the subsidiary. The management expects the subsidiary to break-even in two years due to focus on strong customer relationships and continuous restructuring of its business.

Packaging industry to grow at 18% CAGR

The Indian packaging industry has grown at a CAGR of 16% over the last five years and is expected now to grow at a CAGR of 18% p.a. The per capita packaging consumption in India is 4.3 kg, as against 42 kg in developed countries. This shows that India has a huge potential to grow in this segment. Shift from rigid to flexible packaging was seen over the last few years. Flexible packaging, being the new focus point, is expected to grow at 25% p.a., while rigid packaging is expected to grow at 15% p.a.

Changes in crude oil prices do not have direct correlation with the prices of the company's raw materials. Polypropylene is not a direct derivative of oil,

Company Details	
Industry	Plastic Products
Chairman	Ashok Jaipuria
Managing Director	Ashok Jaipuria
Company Secretary	Jyoti Dixit
BSE Code	508814
Key Market Indicators (Consolidated)	
Latest Date	15-Jun-2017
Latest Price (Rs)	422
Previous Close (Rs)	418.35
1 Day Price Var%	-1.40
1 Year Price Var%	21.81
52 Week High (Rs)	468.80
52 Week Low (Rs)	310.00
Beta	1.32
Face Value (Rs)	10.00
Industry PE	19.09
TTM Period	201703
TTM EPS(Rs)	45.70
TTM CEPS(Rs)	66.12
Price/TTM CEPS(x)	6.33
TTM PE (x)	9.15
Price/BV(x)	11.26
EV/TTM EBIDTA(x)	7.19
EV/TTM Sales(x)	0.76
Dividend Yield%	2.39
MCap/TTM Sales(x)	0.51
Latest Book Value (Rs)	37.13
Market Cap (Rs. In Crores)	813.08
EV (Rs. In Crores)	1203.12
Latest no. of shares (In Crores)	1.94
Share Holding Pattern as on 201703	
Promoter No of shares (In Crores)	0.85
Promoter %	43.51
FII No of Shares (In Crores)	
FII %	
Total No of Shares (In Crores)	1.94
Free Float %	56.49

as there are 2-3 stages involved in-between. So, the extent of fall in crude oil prices would not have impact on polypropylene to the same extent, but the impact would be positive as the company's operating cost will reduce. The company transfers the lower input cost benefit to its customers.

Valuation & Outlook

The company is trading at TTM P/E of 9.15x which is less than the industry P/E. Its EPS has shown growth on YoY basis and its TTM EPS is Rs 45.70. It has delivered ROE and ROCE of 123.08% and 29.68%, respectively, which is much healthier as compared to its peers. Considering its product and capacity expansion and increase in domestic and international clientele, we expect the company to achieve **target price of Rs 660** over a period of three years with an upside of 58% from the current levels.

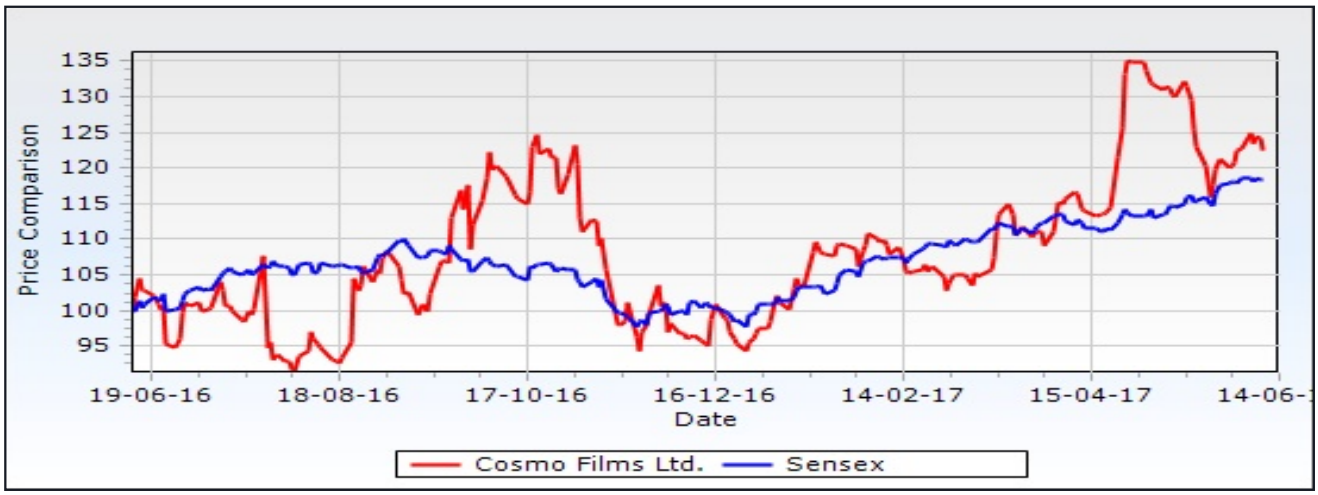
> ***Management expects the US subsidiary to breakeven in two years following turn-around***

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	1586.52	1620.62	1646.78	1468.36	1265.62
Total Income	1595.73	1626.16	1652.09	1475.13	1273.62
Total Expenditure	1428.47	1429.32	1542.78	1359.71	1166.91
PBIDT	167.26	196.84	109.31	115.42	106.71
PAT	88.85	96.24	27.66	-5.50	11.33
Dividend %	100.00	100.00	35.00	10.00	25.00
Adj. EPS(Rs)	45.70	49.51	14.23	-2.83	5.83

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201703	201612	Q on Q Var%	201603	Y on Y Var%
Net Sales	438.34	359.10	22.07	386.36	13.45
Total Expenditure	404.33	326.31	23.91	338.05	19.61
PBIDT (Excl OI)	34.01	34.35	-0.99	48.31	-29.60
PAT	28.15	20.68	36.12	24.11	16.76
PBIDTM% (Excl OI)	7.76	8.92	-13.00	12.50	-37.92
PBIDTM%	9.39	9.11	3.07	13.40	-29.93
PATM%	6.42	5.37	19.55	6.24	2.88
Adj. EPS(Rs)	14.48	10.64	36.09	12.40	16.77



ANALYSIS

Capacity expansion to fuel growth

The company's plants can be classified under BOPP, thermal, coating, metalizing and CPP. The company has 9 lines of BOPP spread over Aurangabad and Vadodara with installed capacity of 1,96,000 TPA. It has 10 lines of thermal in Aurangabad, Vadodara and one each in Korea and the US, with installed capacity of 40,000 TPA. Its five lines of coating are in Aurangabad and Vadodara with installed capacity of 10,000 TPA. The three lines of metalizing and one line of CPP are with installed capacity of 22,200 TPA and 9000 TPA, respectively. In early Feb 2017, a 10.4 meter-wide 60K MT annual capacity plant commenced at Vadodara, which is expected to boost topline and bottomline of the company from FY18. A new line will be commissioned at the Walunj plant in Aurangabad with a capacity of 36,000 MTPA. This plant is for BOPP segment with capex of Rs 250 crore. It would generate 35,000 to 50,000 extra tonnage and some part of it could be converted into speciality. The management expects 35-40% growth in volumes for FY18. Also, 7,200 TPA and 6,000 TPA capacity lines are expected to commence under metalizing and CPP segments, respectively, in FY18.

New product launches provides fodder for new markets

The company has launched a BOPP-based top coated direct thermal printable print which is water and solvent resistant and can be used for tough weather labelling such as deep freeze product labelling, industrial bar coding, track and trace and logistics. Such product has been launched keeping temperature variations in mind. Direct thermal printing has been gaining significant prominence due to its ease of use, low total applied cost and optimum image density. This product can be used for wide range of applications and is expected to boost the company's BOPP packaging segment. Also, it has come up with anti-fog film with cold and hot anti-fog properties, which is suitable for packaging of unpolished fruits in trays with high-speed HFFS machines. This would help in improving the shelf life of products like vegetables and fruits, and thereby, the company would contribute to benefit the FMCG retail sector.

Product mix and focus on R&D

Traditional and speciality are the two types of films in which the company deals with. Both the lines contribute equally to the revenue, but volume-wise, the ratio stands at 60:40. The market share of value-added films is increasing and currently it is at par with the traditional films. The company intends to focus more on the value-added films, which include thermal and coated films and change the ratio to 40:60 in the upcoming 2-3 years. With continuous efforts towards R&D, Cosmo Films was the first company to be in thermal lamination films and thermal print coatings under BOPP. Currently, it is spending 0.5% of its sales on R&D, i.e., Rs 7.9 crore approximately. It is planning to launch two new R&D labs for further innovation.

Financial Performance

The revenue of the company in FY17 fell marginally to Rs 1,587 crore YoY from Rs 1621 crore due to drop in raw material prices and in commodity margins. However, volume growth of 5% was seen in FY17. Its EBITDA fell to Rs 167 crore from Rs 197 crore. The EBITDA margin declined marginally to 11% from 12%. The net profit declined to Rs 89 crore from Rs 96 crore YoY. The company has been maintaining healthy dividend payout and the board of directors has recommended final dividend of Rs 10 per equity share for FY17.

> ***Flexible packaging expected to grow at 25% p.a. & rigid packaging at 15% p.a.***

> ***After capacity expansion 35-40% growth in volumes expected in FY18***

> ***Launch of DTP product to boost company's packaging segment***

Its inventory-turnover ratio has improved has improved to 9.84x in FY16 from 7.9x in FY11. The receivable days have been reduced to 25.27 in FY16 from 49.12 in FY11. The debt-equity ratio for FY17 is 1:1. Thus, the interest coverage ratio stood at 5.11x in FY16. Its return-on-asset ratio stood at 8.67% in FY16 versus 3.51% in FY11.

About the company

Cosmo Films was established in 1981 and is the fifth largest manufacturer of Biaxially Oriented Polypropylene (BOPP) films in the world. It is a leading exporter from India and is also the manufacturer of thermal lamination films. It product portfolio ranges from packaging films, lamination films, label films and industrial films. The revenue mix consists of 41% from packaging, labels around 9%, lamination about 29%, the remaining 21% from industrial applications. It has three plants in India, one in Korea and one in the US.

We urge our investors to make investment in three tranches and **BUY** on dips.