



The Trick Is To
Spot Them At The
Larval Stage

BSE Code	: 530589
Time Duration	: 1 year
CMP	: ₹272 (as on 27 April, 2017)
Target Price	: ₹360

Prima Plastics

CAPACITY EXPANSION & BETTER PRODUCT LINE BOOSTS PRIMA'S GROWTH

The Tiny Treasure for the month of April is Prima Plastics Ltd. The company designs, manufactures and exports plastic moulded furniture such as chairs, baby chairs, dining tables, stools and tea-pops. It is the fourth largest plastic furniture company in the organised segment in India. The company derives 73% of its revenue from India and the rest from its African subsidiary. It operates in a B2C model and has ~400 dealers in India. The company's profit has grown at a rate of 32% CAGR over the last three years and its ROE is ~20%. We see that the positive shift towards premium products (~60% of sales) has lifted company's margins by ~200bps and we expect it to benefit further from growth in central Africa. Hence, we recommend BUY on this stock on the basis of its strong financial performance, capacity expansion and improving product mix. We expect the stock to continue with its strong growth with upside in price to reach a target of Rs.360 over a period of one year.

Capacity expansion to aid growth

Prima Plastics Ltd (PPL) currently has plants with combined capacity of 10,000 MTPA in Daman and Kerala running at capacity utilisation levels of 70%-75%. The company is expanding its footprint and streamlining facilities to improve efficiency.

- 1) Andhra Pradesh** - It invested ~Rs7.5 crores on greenfield expansion at its plant in Ongole, Andhra Pradesh. This plant has 1,500 MTPA capacity and will serve the eastern region of the country. The company derives 33% of revenue from south India and wants to increase its presence in eastern India.
- 2) Central America** - PPL has formed a 90:10 JV in central America to serve the markets of Guatemala and Mexico with the setting up of plant with a capacity of 4,000 MTPA in Guatemala incurring an expenditure of Rs.18 crores. By setting up this plant, the company will save the shipping and logistics costs which it incurred earlier on its exports. The company management expects ~Rs20-Rs25 cr revenue to flow from this region in FY19.
- 3) Central Africa** - It also plans to expand its capacity in Cameroon from 400 MTPA to 7,500 MTPA with an investment of Rs.12 crores. The revenues from these plants would start coming in from the beginning of FY18.

The company has been continuously improving its operating margins. It has shut down its loss-making aluminium composite panel (ACP) business and has been improving its product mix and incorporating more cost-efficient manufacturing methods. This has led to an expansion in its operating margins by nearly 500 basis points.

Central Africa business strengthened

The company formed a 50% JV - Prima Deelite Plastics Pvt Ltd in Cameroon, which is performing extremely well and registered healthy financial performance (Revenue and PAT CAGR of 51% & 39% in FY12-15) in the business of plastic articles.

Prima is a dominant player in central African moulded plastic furniture industry. The industry is growing at a rate of 15% p.a. The demand for furniture in Africa is rising due to increasing population, urbanization and purchasing power of Africans. Africa accounts for about 2.2% of the global consumption of furniture and about 2.8% of the global furniture trade. These factors are proving beneficial for the company.

The ongoing expansion in African JV would now contribute in the overall growth of the company in the upcoming years. Over the years, it has created strong brand image, improved product-mix and expanded the reach through wide distribution network, which gives it a competitive edge over local players to sustain the market share. It sources the raw material from the Middle East and European countries.

Raw material procurement

The company's main raw material is polypropylene (PP), the prices of which are highly correlated to the crude oil prices. The company has been sourcing this from Saudi Arabia. However, it has now established suppliers like Reliance Industries. This has reduced its dependency on one player and it has benefited from lower crude oil prices. We see that oil prices will remain range-bound as the supply of shale oil will keep the oil prices subdued. Hence, we expect margins to remain in the range of ~15-17% going forward.

Financial Performance

The company's revenue and net profit have grown at a CAGR of 9.8% and 50%, respectively, over the last three years. Its net profit margin ballooned to 17.10% in Q3FY17 as compared to the

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corresponding quarter of last year. The declining crude oil prices have improved the EBITDA margins over the last three years. The company is virtually debt-free with D/E ratio of 0.01x. It has also been maintaining a healthy dividend payout ratio of 30.4%, which shows that the company is investor-friendly. As compared to its peers, it reflects high returns on equity and capital employed. The TTM ROE and TTM ROCE is 20.97% and 25.54%, respectively. Its higher asset turnover ratio reflects its efficiency in utilising its assets.

Valuation

The stock is currently trading at TTM P/E of 28.2x with TTM EPS of Rs 9.80, whereas its peers like Wimplast and Supreme Industries are trading at P/E at 35.6x and 34.8x, respectively. As against its peers, Prima Plastics is earning high margins with relatively cheaper valuations. We see a substantial upside in its price due to the prevailing favourable market conditions. We recommend our investors to **BUY** this scrip. We expect the share price to reach the target price of Rs.360 over a period of one year.

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

Description	201603	201503	201403	201303	201203
Net Sales	94.03	86.32	78.83	71.08	60.14
Total Income	97.85	88.73	79.66	76.36	61.10
Total Expenditure	83.78	82.21	72.82	70.39	55.90
PBIDT	14.07	6.52	6.85	5.97	5.20
PAT	9.63	3.44	3.19	2.63	2.19
Dividend %	20.00	15.00	10.00	10.00	10.00
Adj. EPS(Rs)	8.75	3.13	2.90	2.39	1.99

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201612	201609	Q on Q Var%	201512	Y on Y Var%
Net Sales	22.18	20.18	9.89	28.88	-23.21
Total Expenditure	20.34	18.58	9.48	25.23	-19.37
PBIDT (Excl OI)	1.92	1.85	3.62	3.71	-48.38
PAT	3.81	1.40	172.19	3.04	25.47
PBIDTM% (Excl OI)	7.78	9.05	-14.03	11.69	-33.45
PBIDTM%	22.57	11.92	89.35	13.45	67.81
PATM%	15.46	6.85	125.69	9.56	61.72
Adj. EPS(Rs)	3.46	1.27	172.44	2.76	25.36

