



COMPANY NAME	: Uflex
BSE Code	: 500148
Time Duration	: 1 year
CMP	: ₹314 (as on 20 Oct., 2016)
Target Price	: ₹490

Our Mid-Bridge for the month of October, 2016 is Uflex. Uflex is engaged in the manufacturing and sale of flexible packaging products. Flexible packaging business (75% of revenue) deals with multilayer laminated sheets of paper, cloth, plastic, paper and metal foils which are used in various packaging applications. The company also manufactures printing ink (7%), adhesives (5%) and packaging machines (7%). Uflex has 100 per cent subsidiaries in packaging film business at Dubai, Egypt, Poland, Kentucky and Mexico.

The revenue of Uflex is growing at five year CAGR of 7.4 per cent driven by packaging product segment (75% of revenue). It generates standalone revenue of 84 per cent from domestic and 16 per cent from export. Uflex plans to set up facility for manufacturing of Aseptic Packaging material for liquid products in Gujarat with capacity of 7 billion by FY17. We expect growth of 8-9 per cent CAGR in topline of the company owing to capacity expansion, new product launch and improved margin. The stock is undervalued (with TTM P/E- 6.92x, P/B of 0.65x) at CMP of 314, so we recommend to BUY with upside of 40 per cent from current level.

Liquid Packaging facility to drive growth : Uflex is going for capacity expansion of Rs 580 crore in liquid packaging business at Gujarat. With this capacity expansion, the company is foraying into liquid packaging segment. The company plans to set up manufacturing facility of Aseptic Packaging material which will be used for liquid products. The capacity of plant will be 7 billion packs. The project will get completed in two stages. First stage of 3.5 billion capacity is expected to commence and be operational by end of FY17. The company's ability to deliver quality product and decent FMCG client portfolio will aid in penetrating market with this new facility.

Introduction of PET ALOx Film to add cream on topline

Uflex has launched down-gauged transparent 9.5 micron speciality polyester film FLEXALOXPROTECT, engineered at Mexico plant. It happens to be the thinnest film which exhibits excellent barrier for oxygen & water vapour. Uflex has strongest moat to offer such a thin film with superior barrier properties and greater machine ability. The Film is used in packaging of dried meat, fresh food, snacks, confectionery, microwavable foods, cheese, baked foods, pharma products, etc. We believe growth in FMCG and Pharma sector at 15 per cent CAGR will eventually aid company's packaging product segment.

Margin Improvement : We see company is focusing on R&D activities (0.03% of turnover) that maintain its innovative product mix. We see company is focusing on improving operating expenses by introducing robotic manufacturing line, energy conservative methods and captive power plant which will enhance EBITDA margin by 150 bps.

Financial Performance : The company has recorded sales of Rs 6105 crore in FY16 with steady growth vs Rs 4515 crore in FY12. EBITDA has increased to Rs 837 crore in FY16 from Rs 680 crore in FY12. Net profit has grown from Rs 252 crore in FY12 to Rs 312 crore in FY16. We see consistent growth in earnings over last five years.

In Q1FY17, Uflex has reported net sales of Rs 1480.42 crore vs Rs 1550 crore in Q1FY16 on a YoY basis. EBITDA and PAT margin of the company have expanded by 125 and 83 bps points to 15.07 and 5.67 per cent respectively on a YoY basis. Net profit of the company has risen up by 11.59 per cent to Rs 85.40 crore in Q1FY17 on a yearly basis.

Valuation : The company looks attractive with TTM EPS of 44.70 which is trading at TTM P/E of 6.92x , P/B of 0.65x. It has healthy D/E ratio of 0.64x with interest coverage ratio of 3.14x. The company has ROE and ROCE of 11.26 per cent and 12.97 per cent, which is growing over last four years. Considering consistent growth, capex activities and undervalued status, we recommend to BUY scrip in range of 310-320 (CMP-314) with Target Price of 490.

Quarter On Quarter (Consolidated) (Rs in Crore)					
Particulars	201606	201603	Q on Q Var (%)	201506	Y on Y Var (%)
Net Sales	1480.42	1440.56	2.77	1550.43	-4.52
Total Expenditure	1287.88	1291.78	-0.30	1366.29	-5.74
PBIDT (Excl OI)	218.71	190.47	14.83	214.94	1.75
PAT	85.40	79.51	7.41	76.53	11.59
PBIDTM% (Excl OI)	14.52	12.85	13.00	13.59	6.84
PBIDTM%	15.07	13.52	11.46	13.82	9.04
PATM%	5.67	5.36	5.78	4.84	17.15
Adj. EPS(Rs)	11.93	11.11	7.38	10.69	11.60

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