

Target Price ₹722
CMP ₹404
5.2x FY20EV/EBITDA

Index Details	
Sensex	31,369
Nifty	9,675
Industry	Packaging

We believe that despite a 132.2% appreciation in the stock price of Uflex Ltd (Uflex) since our IC, dated 5th April, 2016, [\(link\)](#) the growth story is far from over. We estimate that revenues will grow at a 12.4% CAGR to Rs 9,234.6 crore by FY20. The EBITDA and PAT are expected to grow at a CAGR of 16.1% to Rs 1,352.3 crore & 20.3% to Rs 611 crore, respectively, over the same period. The primary driver of this growth is the aseptic packaging business, which should commence from this year. We are pretty enthused by the strong order book of the aseptic business and initiate with a BUY.

Scrip Details	
MktCap (Cr)	2903.7
BVPS (Rs)	525
O/s Shares (Cr)	7.2
AvVol(Cr)	0.04
52 Week H/L	225/417.8
Div Yield (%)	3.5
FVPS (‘)	10.0

Key takeaways of our interaction with the management:

➤ **Value added aseptic packaging foray to be game changer**

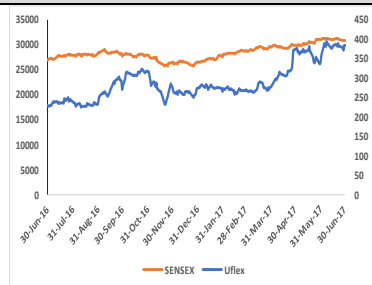
The aseptic packaging market is currently growing at a rate of 25%, in which the Asia-Pacific region (China 80 billion & Pakistan 40 billion packs) accounts for the largest share. According to MarketsandMarkets.com, aseptic packaging market size is projected to grow at a CAGR of 10.9%, from USD 39.6 billion in 2017 to reach USD 66.5 billion by 2022.

Uflex’s aseptic plant at Sanand commenced operations recently (earlier than scheduled). The company expects a topline of Rs 1200-1250 crore by FY20 with a PAT breakeven in FY18 itself. Apart from Tetra Laval, Uflex will be the second player in the segment in India. And with end user’s wanting to diversify their vendor base, Uflex is a natural beneficiary. As a result, demand will not be an issue.

Of the 7 billion pack capacity plant, 50% (3.5 billion) has already been commissioned. In FY18, the company expects to produce 1.5 billion packs, while 100% utilization (3.5 billion) is expected to be achieved next year. Also, the other half (3.5 billion) is expected to be commissioned in 2019 and the company expects to produce 7 billion packs by FY20.

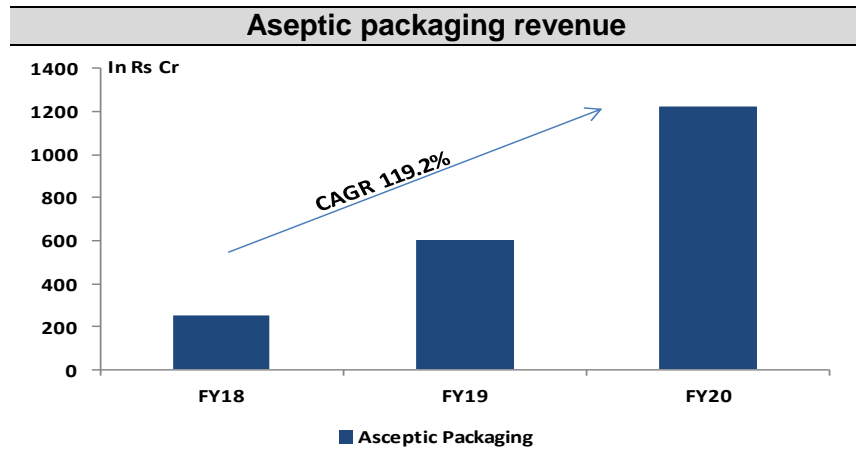
Shareholding Pattern	
Shareholders	%
Promoters	44.0
Public	56.0
Total	100.0

Uflex vs. Sensex



Key Financials (Rs in cr)

Y/E Mar	Net Revenue	EBITDA	Adj. PAT	EPS (‘)	EPS		RONW (%)	ROCE (%)	P/E (x)	EV / EBITDA (x)
					Growth (%)					
2017	6504.8	874.3	350.7	48.6	12.19		9.62	9.98	7.7	5.3
2018E	7450.1	1061.8	401.0	55.5	14.31		10.00	11.29	6.7	4.5
2019E	8195.1	1200.6	491.3	68.0	22.53		11.00	12.39	5.5	3.9
2020E	9234.6	1352.3	611.0	84.6	24.38		12.13	13.48	4.4	3.4

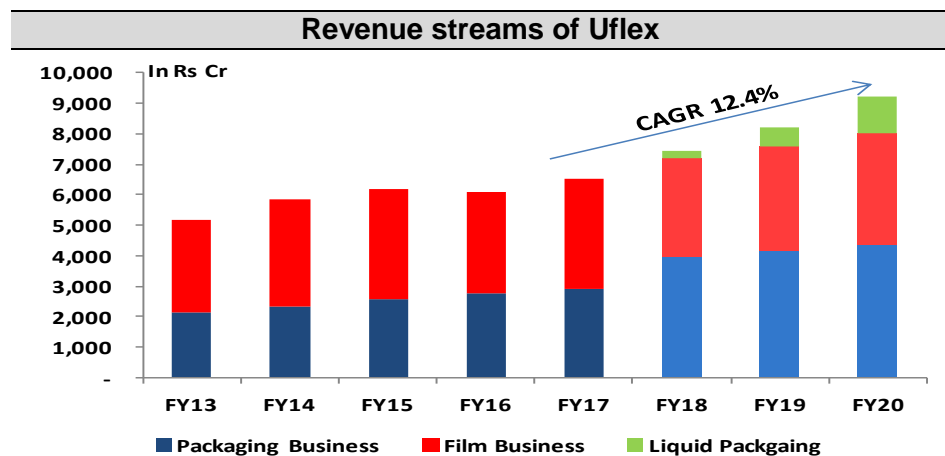


Source: Uflex, Ventura Research

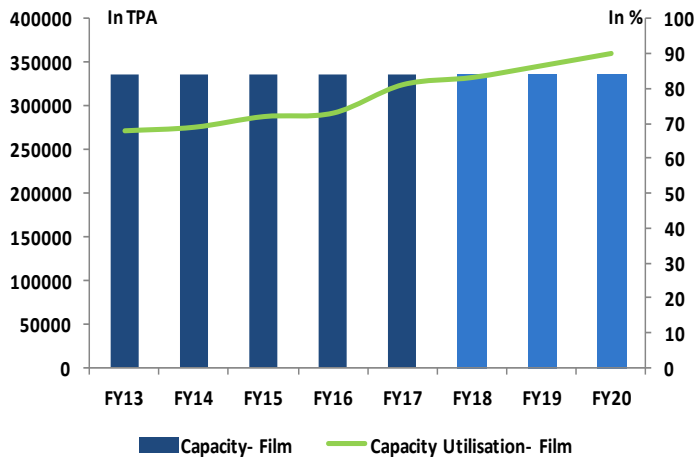
By FY20, the company expects to garner a market share of 23-24% (including packaging for liquor). As for the funds required, Rs 500 crore has already been deployed and another Rs 30 crore will be needed in the current year. An additional Rs 50 crore will be deployed at the time of commissioning the second line.

➤ **Existing operations on a firm wicket**

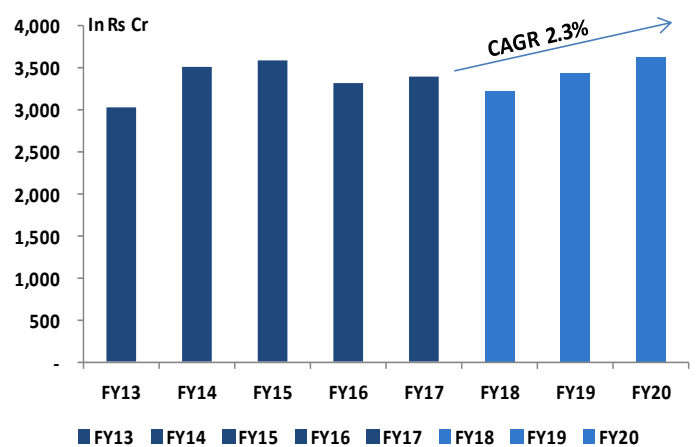
The company achieved utilization levels of 88% for the quarter (81% YTD) in its film business while the packaging business operated at 70% for the quarter (as well as for the whole year). The company was able to clock an overall revenue of Rs 6,249.9 crore (USD 964 million). The domestic turnover stood at Rs 3,024.9 crore (USD 467 million) while international revenue was Rs 3,225 crore (USD 497 million). The film business delivered a growth of 14% to Rs 3,597.1 crore while packaging grew by 15% to Rs 2,907.7 crore. Yearly blended growth stood at 9%.



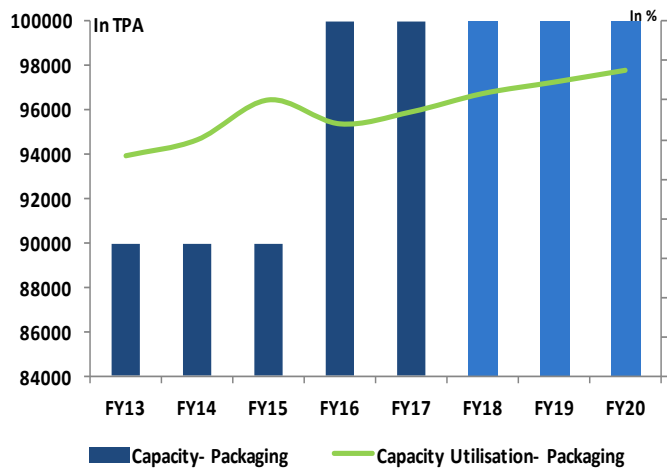
Source: Uflex, Ventura Research

Utilisation levels of Film business


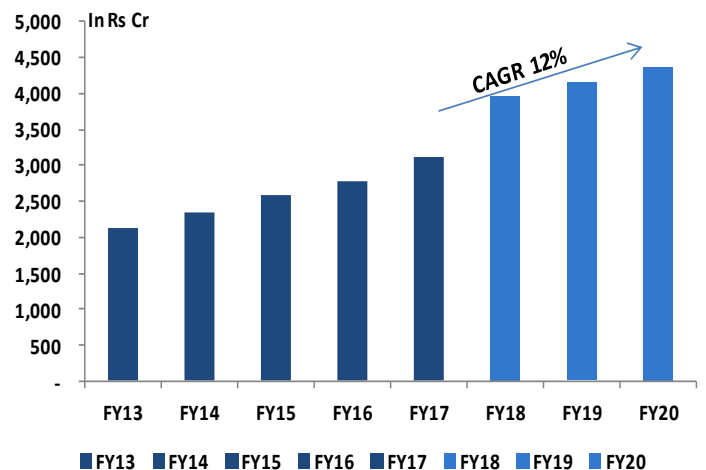
Source: Uflex, Ventura Research

Revenue- Film business


Source: Uflex, Ventura Research

Utilisation levels of Packaging business


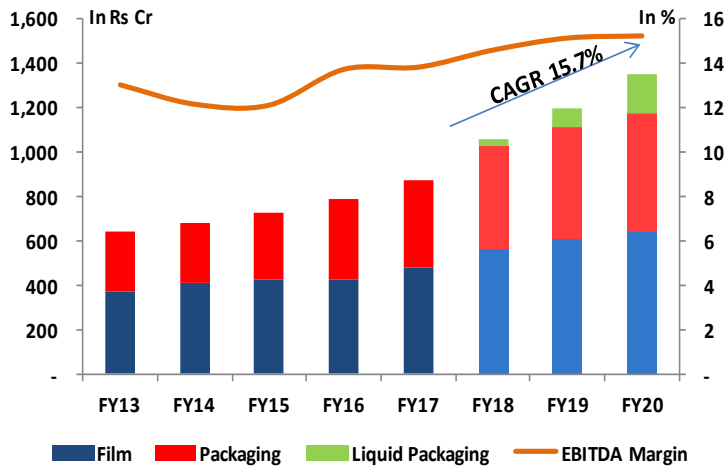
Source: Uflex, Ventura Research

Revenue- Packaging business


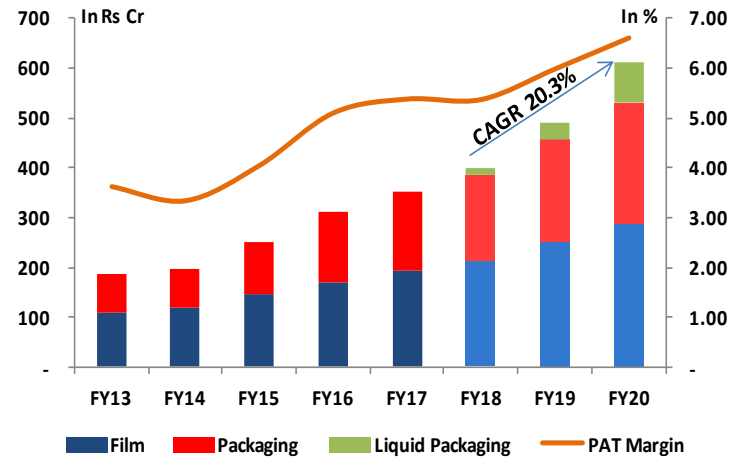
Source: Uflex, Ventura Research

 ➤ **Margins set to expand**

The EBIDTA margins stood at 13.8% (rising by 32 bps) and the PAT margins stood at 5.3% (rising by 20 bps). These have been increasing gradually over the years and the trend is set to continue on the back of value addition in the film and packaging business, through innovations and cost cutting. The company reported an EBIDTA of Rs 898.9 crore and a PAT of Rs 346.7 crore in FY17. We expect the EBITDA and PAT to grow at a CAGR of 16.1% to Rs 1,406.1 crore and 20.3% to Rs 611 crore, respectively by FY20.

EBITDA has been rising steadily


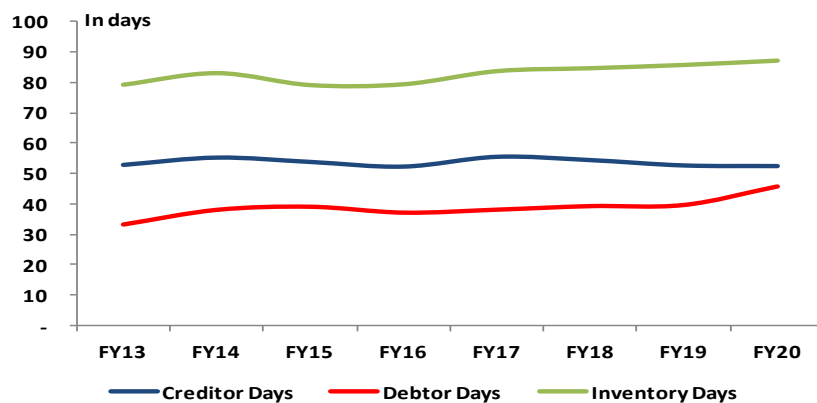
Source: Uflex, Ventura Research

PAT to witness robust growth


Source: Uflex, Ventura Research

 ➤ **Working capital to increase incrementally**

The interest cost came in at Rs 186.8 crore, while the blended interest was 8.7%. The debtor days were 84 in FY17, which were a bit higher than 79 in FY16. Inventory days were flat at 38 days. Creditor days also increased from 52.2 to 55.6 days. We have built in slight increase in the working capital considering easier credit terms for the new aseptic plant.

Debtors, Creditors and Inventory Days


Source: Uflex, Ventura Research

 ➤ **Capex remains heavy**

The company plans to expend Rs 450 crore in FY18 as capex on overall modernization, maintenance and improvement to manufacture new value added products including holography. In

FY19 & FY20, the company does not expect to incur a huge capex; it is expected to be in the range of Rs 200-250 crore.

➤ **Continuous innovation & production excellence has been a hallmark**

The company has always been at the forefront of innovation, some of the recent ones include achievement of low ink GSM by modifying and optimizing the rotogravure cell structures, easy-scoop-lock-tight-pitcher bags for food packaging and digitally printable polyester film (F-PDP). Apart from its innovations the company has been conferred with various awards to recognize its contributions in the packaging space. These include- AIMCAL marketing excellence award 2017 for its 3D slide to close bag, Asia's most trusted flexible packaging solutions company award and EXCEED environmental & occupational health and safety awards, among others.

➤ **Furthur re-rating on the cards**

We believe that the aseptic packaging unit and its successful launch will lead to a re-rating of the stock. We have valued the stock on a SOTP basis with a revised target price of Rs 722 (5.2x FY20EV/EBITDA), representing an upside of 79% over the next 21 months from the CMP of Rs 404.

Valuation Table (Rs in crore)			
Uflex SOTP Valuation	Basis	Multiple	EV (Rs in cr)
Film Business	FY20E EBITDA - Rs 640 cr	4.0 X	2560.1
Packaging Business	FY20E EBITDA - Rs 533 cr	5.6 X	2984.2
Liquid Packaging	FY20E EBITDA - Rs 179 cr	8.0 X	1435.1
Total EV			6,979.4
Less: FY20 Debt			2,286.4
Add: FY20 Cash			521.1
Market Capitalisation			5,214.0
No of shares outstanding			7.2
Total value per share			722
CMP			404
Potential upside			79%

The global peers include unlisted players like Great View Aseptic Packaging Co, Tetra Laval International SA & Robert Bosch GMBH and listed ones being El Dupont De Nemours & Co, Amcor Ltd, Bemis Co Inc & Sealed Air Corp. We have valued the aseptic business at a conservative 33% discount (8x FY20EV/EBITDA) to El Dupont De Nemours & Co (11.9x FY20EV/EBITDA).

Aseptic Packaging Global Listed Peers (in Million USD)

Y/E March	Net Sales	EBITDA	PAT	EBITDA margin (%)	PAT margin (%)	EPS	EPS growth (%)	ROE (%)	P/E	P/BV	EV/EBITDA
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El Dupont De Nemours & Co

Dec-16	24,594.0	5,440.0	2,951.0	22.1	12.0	3.4	20.9	29.5	25.8	6.3	14.0
Dec-17E	25,303.0	5,804.0	3,420.0	22.9	13.5	3.9	14.9	36.8	21.4	6.3	13.1
Dec-18E	26,071.0	6,148.0	3,658.0	23.6	14.0	4.2	8.3	30.2	20.1	5.6	12.4
Dec-19E	27,062.0	6,397.0	3,833.0	23.6	14.2	4.4	5.3	29.3	18.9	4.9	11.9

Amcor Ltd

Jun-16	9,421.0	1,409.0	671.1	15.0	7.1	0.6	(5.0)	59.7	53.7	16.4	13.3
Jun-17E	9,394.0	1,452.0	691.6	15.5	7.4	0.6	3.5	84.5	20.9	16.6	12.8
Jun-18E	9,928.0	1,566.0	775.9	15.8	7.8	0.7	13.6	81.0	19.1	13.2	11.9
Jun-19E	10,248.0	1,654.0	842.1	16.1	8.2	0.7	9.0	69.0	17.4	10.7	11.3

Bemis Co Inc

Dec-16	4,004.0	600.0	255.8	15.0	6.4	2.7	5.5	20.7	19.3	3.5	9.7
Dec-17E	4,045.0	574.2	233.4	14.2	5.8	2.5	(5.6)	18.5	18.4	3.7	10.1
Dec-18E	4,116.0	604.6	251.1	14.7	6.1	2.8	11.4	20.5	16.5	3.6	9.6
Dec-19E	4,230.0	645.5	280.2	15.3	6.6	3.2	13.1	20.7	14.5	3.2	9.0

Sealed Air Corporation

Dec-16	6,778.0	1,157.0	526.4	17.1	7.8	2.7	2.7	92.6	18.5	14.4	11.0
Dec-17E	4,331.0	826.4	339.9	19.1	7.8	1.8	(32.7)	98.3	25.1	N/A	15.4
Dec-18E	4,462.0	896.2	397.2	20.1	8.9	2.5	40.8	-	18.0	N/A	14.2
Dec-19E	4,633.0	967.9	449.3	20.9	9.7	3.0	19.0	(52.3)	15.0	N/A	13.2

Indian Peers (Rs in crore)

Y/E March	Net Sales	EBITDA	PAT	EBITDA margin (%)	PAT margin (%)	EPS	EPS growth (%)	ROE (%)	P/E	P/BV	EV/EBITDA
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Uflex Ltd

2017	6,504.8	874.3	350.7	13.4	5.4	48.6	12.1	9.6	7.7	6.3	5.3
2018E	7,450.1	1,061.8	401.0	14.3	5.4	55.5	14.3	10.0	6.7	6.3	4.5
2019E	8,195.1	1,200.6	491.3	14.7	6.0	68.0	22.5	11.0	5.5	5.6	3.9
2020E	9,234.6	1,352.3	611.0	14.6	6.6	84.6	24.4	12.1	4.4	4.9	3.4

Cosmo Films

2017	1,586.5	158.1	91.3	10.0	5.8	47.0	(11.5)	18.2	8.2	1.3	8.6
2018E	1,732.2	189.1	92.0	10.9	5.3	47.3	0.7	15.5	9.1	1.4	7.2
2019E	1,955.7	225.1	110.6	11.5	5.7	56.9	20.3	16.7	7.6	1.2	6.0

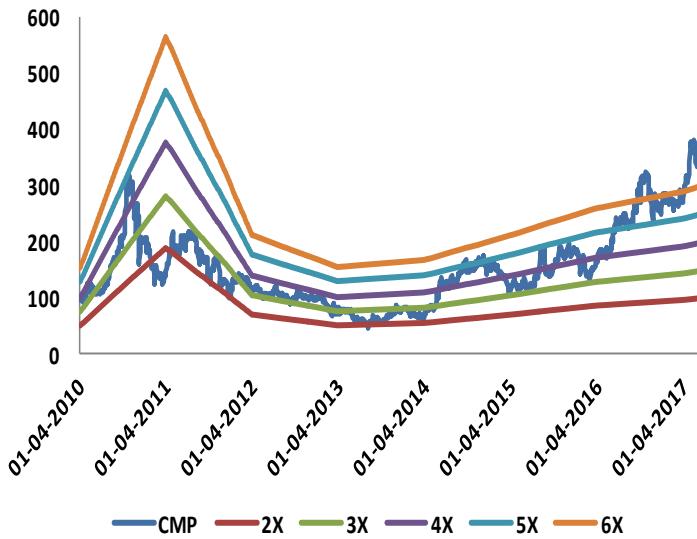
Essel Propack

2017	2,302.3	441.6	174.7	19.2	7.6	11.1	9.6	17.4	19.7	3.6	9.9
2018E	2,672.8	507.7	229.9	19.0	8.6	14.4	30.6	19.8	16.8	3.0	8.7
2019E	3,013.6	576.8	282.2	19.1	9.4	18.0	24.4	20.0	13.5	2.6	7.6

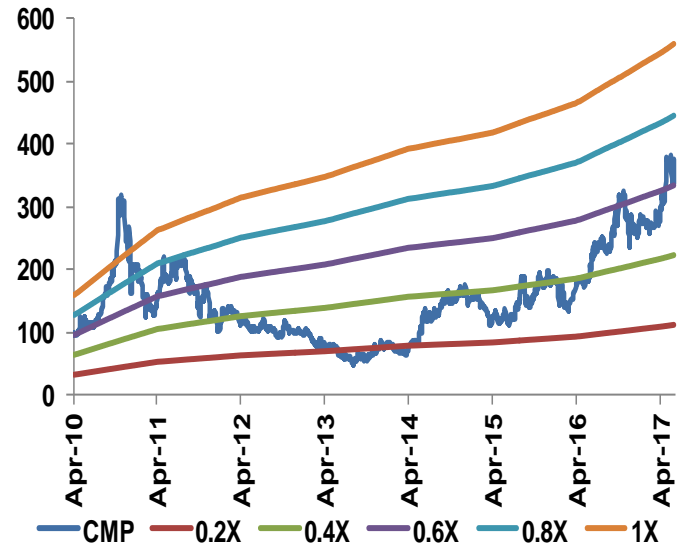
Time Techno Plast

2017	2,754.6	404.2	147.1	14.7	5.3	6.9	22.1	11.9	17.9	2.1	10.9
2018E	3,168.3	470.7	178.0	14.9	5.6	7.2	4.3	11.7	20.3	2.5	9.3
2019E	3,603.4	535.2	211.5	14.9	5.9	9.4	30.0	12.3	16.9	2.2	8.1

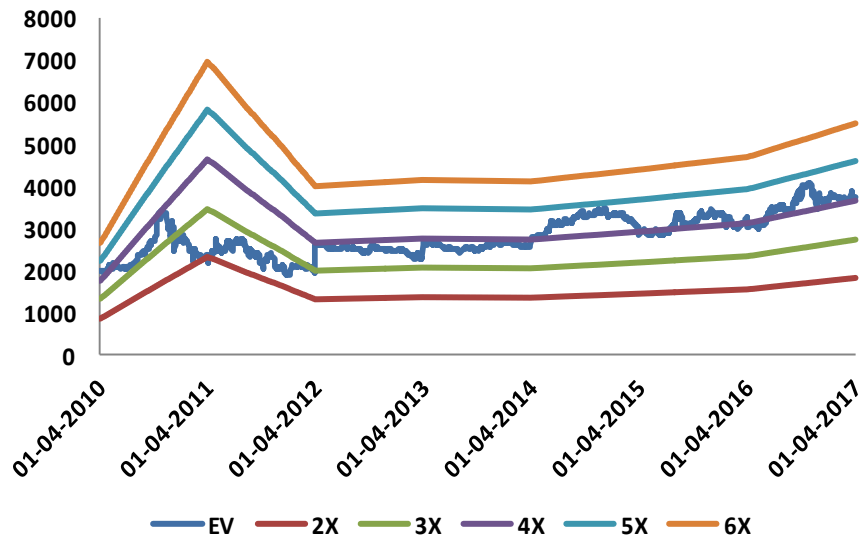
Source: Uflex, Reuters, Ventura Research

Uflex PE Chart


Source: Uflex, Ventura Research

Uflex PB Chart


Source: Uflex, Ventura Research

Uflex EV/EBITDA Chart


Source: Uflex, Ventura Research

Financials and Projections

Y/E March, Fig in ` Cr	FY17	FY18E	FY19E	FY20E	Y/E March, Fig in ` Cr	FY17	FY18E	FY19E	FY20E
Profit & Loss Statement					Per Share Data (Rs)				
Net Sales	6504.8	7450.1	8195.1	9234.6	Adj. EPS	48.6	55.5	68.0	84.6
% Chg.		14.5	10.0	12.7	Cash EPS	92.6	108.4	123.5	142.6
Total Expenditure	5630.5	6388.3	6994.5	7882.3	DPS	3.5	4.0	4.2	4.5
% Chg.		13.5	9.5	12.7	Book Value	504.7	555.4	618.4	697.6
EBDITA	874.3	1061.8	1200.6	1352.3	Capital, Liquidity, Returns Ratio				
EBDITA Margin %	13.4	14.3	14.7	14.6	Debt / Equity (x)	0.6	0.6	0.5	0.5
Other Income	24.6	25.0	39.2	53.8	Current Ratio (x)	1.3	1.4	1.5	1.7
PBDIT	898.9	1086.8	1239.8	1406.1	ROE (%)	9.6	10.0	11.0	12.1
Depreciation	317.5	381.5	400.1	418.7	ROCE (%)	10.0	11.3	12.4	13.5
Interest	186.8	192.9	197.3	195.6	Dividend Yield (%)	0.9	1.1	1.1	1.2
Exceptional items	0.0	0.0	0.0	0.0	Valuation Ratio (x)				
PBT	394.5	512.4	642.4	791.9	P/E	7.7	6.7	5.5	4.4
Tax Provisions	43.8	111.4	151.1	180.8	P/BV	0.7	0.7	0.6	0.5
Reported PAT	350.7	401.0	491.3	611.0	EV/Sales	0.7	0.6	0.6	0.5
Minority Interest	0.0	0.0	0.0	0.0	EV/EBIDTA	5.3	4.5	3.9	3.4
PAT	350.7	401.0	491.3	611.0	Efficiency Ratio (x)				
PAT Margin (%)	5.4	5.4	6.0	6.6	Inventory (days)	38.1	39.2	39.6	45.6
Other opr Exp / Sales (%)	0.0	0.0	0.0	0.0	Debtors (days)	83.7	84.7	85.8	87.2
Tax Rate (%)	11.1	20.0	22.5	22.0	Creditors (days)	55.6	54.5	52.6	52.4
Balance Sheet					Cash Flow Statement				
Share Capital	72.2	72.2	72.2	72.2	Profit Before Tax	394.5	512.4	642.4	791.9
Reserves & Surplus	3571.9	3938.0	4392.8	4964.7	Depreciation	317.5	381.5	400.1	418.7
Minority Interest	0.0	0.0	0.0	0.0	Working Capital Changes	87.3	-264.5	-188.0	-377.6
Long Term Borrowings	1029.8	1047.1	1076.0	1061.6	Others	36.8	90.0	52.3	21.0
Deferred Tax Liability	126.5	135.4	142.0	148.6	Operating Cash Flow	836.2	719.4	906.8	853.9
Other Non Current Liabilities	19.9	22.5	25.7	29.4	Capital Expenditure	-760.8	-499.7	-354.7	-360.1
Total Liabilities	4820.2	5215.2	5708.6	6276.4	Other Investment Activities	34.9	-77.3	-257.8	-64.4
Gross Block	5702.8	6152.8	6452.8	6752.8	Cash Flow from Investing	-725.9	-577.0	-612.5	-424.5
Less: Acc. Depreciation	-2341.4	-2722.9	-3123.0	-3541.6	Changes in Share Capital	0.0	0.0	0.0	0.0
Net Block	3361.4	3429.9	3329.8	3211.2	Changes in Borrowings	12.9	30.0	50.0	-25.0
Capital Work in Progress	497.0	546.7	601.4	661.5	Dividend and Interest	-214.6	-227.7	-233.9	-234.7
Non Current Investments	201.7	215.8	233.8	253.4	Cash Flow from Financing	-201.7	-197.7	-183.9	-259.7
Net Current Assets	674.4	931.1	1445.5	2045.3	Net Change in Cash	-91.4	-55.3	110.5	169.6
Long term Loans & Advances	85.7	91.7	98.2	105.0	Opening Cash Balance	387.9	296.3	241.0	351.5
Total Assets	4820.2	5215.2	5708.6	6276.4	Closing Cash Balance	296.3	241.0	351.5	521.1

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