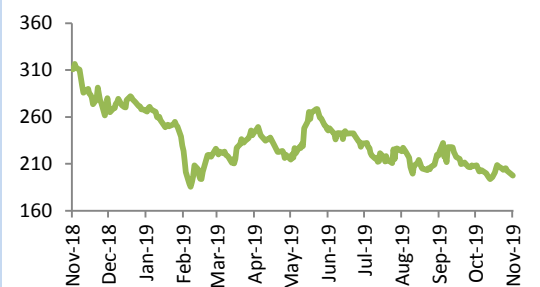


## Uflex Ltd.

Recommendation	HOLD		
CMP	Rs. 205		
Target Price	Rs. 249		
Sector	Plastic		
<b>Stock Details</b>			
BSE Code	500148		
NSE Code	UFLEX		
Bloomberg Code	UFLX IN		
Market Cap (Rs cr)	1,480		
Free Float (%)	56%		
52- Wk H/L (Rs)	355/181		
Avg. volume BSE + NSE (Qrly)	69,890		
Face Value	Rs. 10		
Dividend (FY 19)	20%		
Shares o/s (cr)	7.2		
Relative Performance	1Mth	3Mth	1Yr
Uflex	0%	-8%	-35%
Sensex	5%	8%	14%



<b>Shareholding Pattern</b>		Sept'19
Promoters Holding		44.0%
Institutional (Incl. FII)		7.6%
Corporate Bodies		15.9%
Public & others		32.5%

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Consolidated	Sales (Cr)	Growth	EBITDA (Cr)	Margin	PAT	Margin	EPS (Rs)	P/E	RoE
FY18A	6799.7	10.4%	879.4	12.9%	310.5	4.6%	43.0	4.8	7.8%
FY19A	7957.2	17.0%	990.0	12.4%	313.8	3.9%	43.5	4.7	7.3%
FY20E	8070.8	1.4%	1166.6	14.5%	445.8	5.5%	61.7	3.3	9.4%
FY21E	8948.2	10.9%	1143.6	12.8%	399.9	4.5%	55.4	3.7	7.8%

**Growth slows down, Revival in FY20E looks bleak!**

Uflex Ltd. reported a muted quarter where consolidated sales de-grew by ~7% YoY to Rs 1872.2 Cr on the back of decline in volumes due to the shifting of a film production line from Dubai to Russia. Consolidated EBITDA Margin came at 14.7% vs QoQ 13.8%, YoY 12.9%. The margin expansion was primarily due to improvement in packaging business margins where the company exited certain low margin businesses. PAT for Q2FY20 was at Rs. 94 Cr vs. Rs 95.7 Cr/90.7 Cr in Q2FY19/Q1FY20 respectively. PAT was lower on account of higher depreciation due to the commissioning of the holographic line in Jammu. PAT margins stood at 5% vs. 4.7% in Q2FY19.

**Key Highlights**

- **Aseptic Packaging:** Q2 is generally a lean period for aseptic packaging, however, Uflex has seen a significant improvement in Aseptic volumes. Volume growth on a YoY basis was 150% albeit on a smaller base. Uflex has taken on board a few large customers which indicates that the product has been received well in the market. The management has guided for 70-75% capacity utilization as exit rate for FY20.
- **Packaging Business:** The packaging business volumes have seen a marginal improvement in Q2FY20 of 2.4% despite full capacity utilization. The company has exited a few low margin businesses and is concentrating on high margin packaging business to aid EBITDA margins.
- **Film Business:** Overseas BOPET margins have been going strong, but the Indian BOPET margins have seen a decline on account of commissioning of a new line in India. BOPET margins stood at ~Rs. 49/kg vs 55/kg in Q2FY19. However, the reported margins are better as the company has benefitted from the depreciating rupee YoY. The management has guided for better margins Q3 as the prices have seen an uptick from Nov'19. BOPP margins have seen a drastic improvement of 18% YoY. However, the Company will not see any significant improvement from this up move as it has a small BOPP capacity.
- Film volumes are likely to be muted in Q3FY20 due to the shifting of the production from Dubai to Russia and will see a pick-up only from Q4FY20 onwards once the production line is operational. The capacity of the Russia line is 2000 MT/month which is slightly higher than the line in Dubai.
- The company had announced the setting up of a BOPET film facility in Nigeria and a BOPP line in Hungary and the commissioning of these plants is on schedule. The company expects the production to commence by Q2FY21.

**Valuation & Recommendation**

The stock has underperformed the markets and has corrected 35% in the last one year on the uncertainty of new supply facilities coming up and the unclear stance of the government on the use of single use plastic. However, both the issues have turned out to be inconsequential for the industry as a whole and we believe the stock has bottomed out and can a turnaround from here.

We expect Uflex's revenues to grow at 6.2% CAGR from FY19-21E and EBITDA to grow at 7.5% during the same period. PAT is expected to grow at 12.9% CAGR.

## Uflex Ltd.

## Quarterly Result

Particulars (Rs Cr)	Q2FY20	Q2FY19	YoY	Q1FY20	QoQ	H1FY20	H1FY19	YoY
<b>Total Revenues</b>	<b>1872.2</b>	<b>2015.8</b>	<b>-7.1%</b>	<b>1978.3</b>	<b>-5.4%</b>	<b>3850.4</b>	<b>3920.7</b>	<b>-1.8%</b>
Cost of materials	1089.4	1240.6	-12.2%	1181.1	-7.8%	2270.6	2393.1	-5.1%
Employees Cost	169.2	160.5	5.4%	186.5	-9.3%	355.7	321.2	10.7%
Other exps	337.9	355.1	-4.9%	337.1	0.2%	675.0	699.1	-3.4%
<b>EBITDA</b>	<b>275.6</b>	<b>259.6</b>	<b>6.2%</b>	<b>273.6</b>	<b>0.7%</b>	<b>549.2</b>	<b>507.3</b>	<b>8.3%</b>
<i>Margins</i>	<i>14.7%</i>	<i>12.9%</i>		<i>13.8%</i>		<i>14.3%</i>	<i>12.9%</i>	
Depreciation	98.6	95.7		101.7		200.2	187.7	
<b>EBIT</b>	<b>177.1</b>	<b>164.0</b>	<b>8.0%</b>	<b>171.9</b>	<b>3.0%</b>	<b>349.0</b>	<b>319.6</b>	<b>9.2%</b>
Interest	56.9	53.6	6.3%	57.9	-1.8%	114.9	107.0	7.4%
Other Income	4.4	4.1		4.5		8.8	10.2	
<b>PBT</b>	<b>124.5</b>	<b>114.5</b>	<b>8.8%</b>	<b>118.4</b>	<b>5.1%</b>	<b>243.0</b>	<b>222.8</b>	<b>9.0%</b>
Tax	22.0	19.3		26.8		48.8	34.6	
<i>Tax rate</i>	<i>17.7%</i>	<i>16.9%</i>		<i>22.6%</i>		<i>20.1%</i>	<i>15.5%</i>	
EO items & MI	1.5	-0.5		1.0		2.5	-1.6	
<b>PAT reported</b>	<b>101.1</b>	<b>95.7</b>	<b>5.6%</b>	<b>90.7</b>	<b>11.4%</b>	<b>191.7</b>	<b>189.8</b>	<b>1.0%</b>
<b>EPS</b>	<b>13.0</b>	<b>13.3</b>		<b>12.6</b>		<b>26.6</b>	<b>26.3</b>	

**Film Business:**

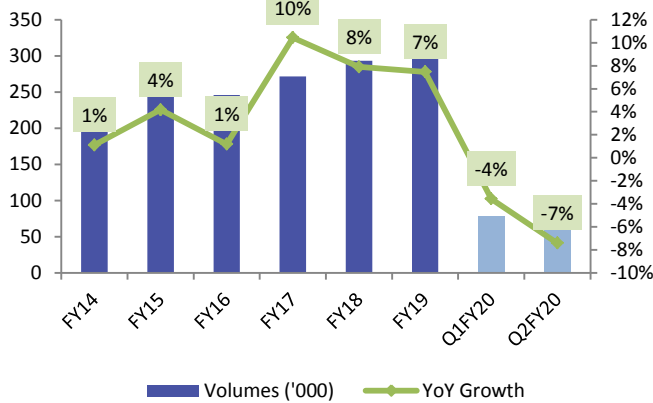
- During the quarter, the film business sales volumes declined by 7.4% YoY as the company had decided to shift one production line from Dubai to Russia. This is likely to impact volumes in Q3FY20 as well as the shifted facility is expected to be commissioned in Jan/Feb'20. The capacity of the newly commissioned line is 2000MT/month which is marginally higher than the existing line.
- The management also indicated that new industry capacity coming on-stream are expected to put some pressure on margins in the near term; however it is likely to get absorbed in medium to long term, keeping the margins steady as the industry has witnessed from the Jindal Poly's line getting commissioned in H1FY20.
- The BOPP films, which form a small part of the company's product portfolio, have seen an improvement in margins by 18% YoY. The company is setting up a BOPP facility in Hungary and a BOPET Line in Nigeria which is on schedule and the company expects to start production by FY21.

**Other Business Highlights:**

- Despite Q2 being a lean quarter for aseptic packaging, Uflex has seen a significant improvement in Aseptic volumes. Volume growth on a YoY basis was 150% albeit on a smaller base. EBITDA was negative in the current quarter; however with a pick-up in business in H2FY20, the company expects to exit FY20 being EBITDA positive and end Q4FY20 with a capacity utilization of 70-75%. We assume sales volumes of 1.5-1.7bn packs at 50-55% capacity utilization.

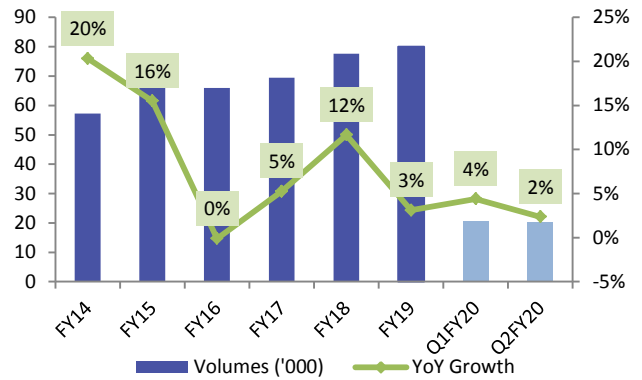
**Uflex Ltd.**

**Exhibit 1. - Film Business Volume Growth (YoY)**



Source: Company, NBRR

**Exhibit 2. - Packaging Business Volumes Growth (YoY)**



Source: Company, NBRR

**Valuation and View**

- ✦ The stock has underperformed the markets and has corrected 35% in the last one year on the uncertainty of new supply facilities coming up and the unclear stance of the government on the use of single use plastic. However, both the issues have turned out to be inconsequential for the industry as a whole and we believe the stock has bottomed out and can a turnaround from here.
- ✦ We expect Uflex’s revenues to grow at 6.2% CAGR from FY19-21E and EBITDA to grow at 7.5% during the same period. PAT is expected to grow at 12.9% CAGR.
- ✦ We have valued the company on EV/EBITDA basis, as we believe that packaging business deserves a higher multiple than the commoditized film business. **We have valued Packaging business incl. Aseptic at 3.5x EV/EBITDA on FY20E EBITDA and the films business at 3x on FY20E EBITDA and arrived at a target of INR 249, which implies 21.6% upside from current levels. We recommend “HOLD” rating on the stock.**

<b>Pkg incl Aseptic</b>	<b>FY20E</b>
EBITDA	407.8
EV/E Multiple	3.5
EV	1,427.2
<b>Film</b>	<b>FY20E</b>
EBITDA	758.9
EV/E Multiple	3.0
EV	2,276.8
<b>Consolidated</b>	<b>FY20E</b>
EV	3,704.0
Less: Debt	1,905.1
<b>Mcap</b>	<b>1,798.9</b>
No of shares	7.2
<b>Tgt price</b>	<b>249</b>
<b>Potential</b>	<b>21.6%</b>

## Uflex Ltd.

### Financials (Consolidated)

Profit & Loss	FY18A	FY19A	FY20E	FY21E	Balance Sheet	FY18A	FY19A	FY20E	FY21E
<b>Net Sales</b>	<b>6799.7</b>	<b>7957.2</b>	<b>8070.8</b>	<b>8948.2</b>	Property and CWIP	3945.7	4005.2	4068.2	4290.3
% change	10.4%	17.0%	1.4%	10.9%	Total Investments	15.9	14.6	14.6	14.6
<b>EBITDA</b>	<b>879.4</b>	<b>990.0</b>	<b>1166.6</b>	<b>1143.6</b>	Oth Non CA	196.4	343.6	260.8	260.8
EBITDA margin	12.9%	12.4%	14.5%	12.8%	Inventories	796.8	843.5	874.3	969.4
Depn & Amort	351.6	380.9	402.1	452.8	Debtors	1932.6	2045.5	2062.5	2286.8
<b>Operating income</b>	<b>527.8</b>	<b>609.1</b>	<b>764.5</b>	<b>690.7</b>	Cash & Bank	315.5	288.1	492.7	352.9
Interest	197.1	217.9	200.0	189.5	Current Tax Assets	0.0	0.0	0.0	0.0
Other Income	20.0	20.7	22.0	25.0	Other Current Assets	441.9	377.3	437.2	439.2
<b>PBT</b>	<b>350.7</b>	<b>411.9</b>	<b>586.5</b>	<b>526.2</b>	<b>Total Assets</b>	<b>7688.2</b>	<b>7959.6</b>	<b>8252.0</b>	<b>8655.7</b>
Tax	41.7	93.5	140.8	126.3	Total Equity	3974.7	4298.1	4725.7	5107.6
MI & EO	-1.5	4.5	0.0	0.0	Non Controlling Int.	4.9	6.3	6.3	6.3
<b>PAT</b>	<b>310.5</b>	<b>313.8</b>	<b>445.8</b>	<b>399.9</b>	Total Borrowings	2079.4	2105.1	1905.1	1805.1
PAT margin (%)	4.6%	3.9%	5.5%	4.5%	Total Provisions	32.2	46.2	46.2	46.2
Sh o/s - Diluted	7.2	7.2	7.2	7.2	Other Non CL	138.3	190.1	190.1	190.1
Adj EPS	43.0	43.5	61.7	55.4	Trade Payables	1196.4	1056.3	1120.9	1242.8
Cash EPS	91.7	96.2	117.4	118.1	Current Tax Liabiliti	18.5	26.1	26.1	26.1
<b>Qtrly-Consol</b>	<b>Sept.18</b>	<b>Dec.18</b>	<b>Mar.19</b>	<b>June.19</b>	Other CL	243.8	231.5	231.5	231.5
<b>Revenue</b>	<b>2015.8</b>	<b>1979.3</b>	<b>2057.3</b>	<b>1978.3</b>	<b>Total Eq. &amp; Liabilitie:</b>	<b>7688.2</b>	<b>7959.6</b>	<b>8252.0</b>	<b>8655.7</b>
<b>EBITDA</b>	<b>259.6</b>	<b>225.9</b>	<b>256.8</b>	<b>273.6</b>	<b>Cash Flow</b>	<b>FY18A</b>	<b>FY19A</b>	<b>FY20E</b>	<b>FY21E</b>
Dep & Amoriz	95.7	97.2	96.0	101.7	EBITDA	879.4	990.0	1166.6	1143.6
<b>Op Income</b>	<b>164.0</b>	<b>128.7</b>	<b>160.9</b>	<b>171.9</b>	Change in WC	-219.6	-321.2	39.7	-199.4
Interest	53.6	56.6	54.4	57.9	Tax	-41.7	-93.5	-140.8	-126.3
Other Inc.	4.1	3.8	6.7	4.5	<b>CF from Operation</b>	<b>618.1</b>	<b>575.2</b>	<b>1065.6</b>	<b>817.9</b>
<b>PBT</b>	<b>114.5</b>	<b>76.0</b>	<b>113.1</b>	<b>118.4</b>	Capex	-306.1	-442.3	-465.0	-675.0
Tax	19.3	19.6	39.3	26.8	Oth Inc & Investmen	38.2	21.9	22.0	25.0
EO	-0.5	2.4	3.7	1.0	<b>CF from Investing</b>	<b>-267.9</b>	<b>-420.4</b>	<b>-443.0</b>	<b>-650.0</b>
<b>PAT</b>	<b>95.7</b>	<b>54.0</b>	<b>70.1</b>	<b>90.7</b>	<b>Financing</b>				
EPS (Rs.)	13.3	7.5	9.7	12.6	Dividend Paid	-30.4	-17.4	-18.1	-18.1
<b>Performance Ratio</b>	<b>FY18A</b>	<b>FY19A</b>	<b>FY20E</b>	<b>FY21E</b>	Share Capital	0.0	0.0	0.0	0.0
EBITDA margin(%)	12.9%	12.4%	14.5%	12.8%	Loans	-22.7	25.7	-200.0	-100.0
EBIT margin (%)	7.8%	7.7%	9.5%	7.7%	Interest	-197.1	-217.9	-200.0	-189.5
PAT margin (%)	4.6%	3.9%	5.5%	4.5%	Others	-80.7	27.5	0.0	0.0
ROE (%)	7.8%	7.3%	9.4%	7.8%	<b>CF from Financing</b>	<b>-331.0</b>	<b>-182.2</b>	<b>-418.1</b>	<b>-307.6</b>
ROCE (%)	8.7%	9.5%	11.5%	10.0%	Net Chg. in Cash	19.2	-27.4	204.5	-139.7
PAT growth (%)	-10.9%	1.1%	42.0%	-10.3%	Cash at beginning	296.3	315.5	288.1	492.7
Debt/Equity (x)	0.5	0.5	0.4	0.4	Cash at end	315.5	288.1	492.7	352.9
<b>Valuation Ratio</b>	<b>FY18A</b>	<b>FY19A</b>	<b>FY20E</b>	<b>FY21E</b>	<b>Per Share Data</b>	<b>FY18A</b>	<b>FY19A</b>	<b>FY20E</b>	<b>FY21E</b>
PE (x)	4.8	4.7	3.3	3.7	Adj EPS	43.0	43.5	61.7	55.4
Price/BV (x)	0.4	0.3	0.3	0.3	BV per share	550.4	595.2	654.4	707.3
EV / Sales	0.5	0.4	0.4	0.3	Cash per share	43.7	39.9	68.2	48.9
EV / EBITDA	3.7	3.3	2.5	2.6	Dividend per share	4.2	2.4	2.5	2.5

Source: Company, NBRR

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## Uflex Ltd.

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