

## Polyplex Corporation

### Performance Highlights

(Rs cr)	4QFY2010	4QFY2009	%chg (yoy)	3QFY2010	%chg (qoq)
Net Sales	321	269	19.4	310	3.4
EBITDA	59	52	13.0	55	6.7
EBITDA Margin (%)	18.4	19.5	(104)bp	17.9	58bp
Net Profit	41	27	50.2	25	59.8

Source: Company, Angel research

Polyplex Corporation (PCL) has reported higher-than-estimated 4QFY2010 numbers. Net sales grew 19.4% yoy to Rs321cr (Rs269cr). The company reported 104bp contraction in OPM to 18.4% (19.5%), but above our estimate of 17.9%, mainly due to the increase in raw material costs. Net profit jumped by 50.2% yoy to Rs41cr (Rs27cr) on the back of the substantial increase in other income.

**FY2010 results above expectation:** PCL reported 9.1% yoy growth in net sales to Rs1223cr mainly on the back of better economic conditions, which led to a rise in capacity utilizations to 93% in FY2010 v/s 85% in FY2009. PCL reported OPM of 18.3% (20.9%) for FY2010, which contracted by 260bp yoy but was slightly above our estimate of 18.2%. Net profit for FY2010 declined by 14.9% to Rs94cr (Rs110cr) but was still above our expectation of Rs72cr.

**Outlook and Valuation:** PCL holds 70% stake in its listed Thailand subsidiary Polyplex Thailand (PTL), which has a market cap of Rs950cr and is available at 1.3x P/BV. However, PCL has a market cap of Rs480cr or 0.7x FY2010E P/BV, which is at more than 50% discount to PTL's market cap and at a discount of nearly 28% to PCL's 70% stake in PTL, which works out to around Rs665cr. In comparison to its peers too, PCL is available at inexpensive valuations of 0.5x FY2012E P/BV, with Cosmo Films, Jindal Poly and Ester Industries trading between 0.8x-1.1x FY2010E P/BV, respectively. Considering the 26% estimated CAGR in earnings over FY2010-12E, **we maintain a Buy on the stock, with a Target Price of Rs418.**

#### Key Financials (Consolidated)

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	1,121	1,223	1,581	1,733
% chg	11.9	9.1	29.3	9.6
Net Profit	110	94	124	150
% chg	10.4	(14.9)	32.5	20.1
EBITDA Margin (%)	20.9	18.3	18.5	19.0
FDEPS (Rs)	69.0	58.8	77.8	93.5
P/E (x)	4.4	5.1	3.9	3.2
RoE (%)	19.4	13.9	16.1	16.7
RoCE (%)	14	10	13	14
P/BV (x)	0.8	0.7	0.6	0.5
EV/Sales (x)	0.9	1.0	0.7	0.5
EV/EBITDA (x)	4.5	4.1	2.6	1.8

Source: Company, Angel Research

## BUY

CMP	Rs300
Target Price	Rs418

Investment Period	12 Months
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#### Stock Info

Sector	Packaging
Market Cap (Rs cr)	480
Beta	0.4
52 Week High / Low	305/164
Avg. Daily Volume	6472
Face Value (Rs)	10
BSE Sensex	18,113
Nifty	5,442
Reuters Code	PLYP.BO
Bloomberg Code	PPC@IN

#### Shareholding Pattern (%)

Promoters	46.9
MF / Banks / Indian Fls	19.2
FII / NRIs / OCBs	11.6
Indian Public / Others	22.3

Abs. (%)	3m	1yr	3yr
Sensex	3.1	22.0	16.4
Polyplex	34.2	60.9	93.8

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**Exhibit 1: 4QFY2010 performance**

(Rs cr)	4QFY2010 4Q	3QFY2010 3Q	%chg (qoq)	4QFY2009 4Q	%chg (yoy)	FY2010	FY2009	%chg (yoy)
<b>Net Sales</b>	<b>321</b>	<b>310</b>	<b>3.4</b>	<b>269</b>	<b>19.4</b>	<b>1,223</b>	<b>1,121</b>	<b>9.1</b>
Total Expenditure	262	255	2.7	216	21.0	999	886	12.8
<b>EBITDA</b>	<b>59</b>	<b>55</b>	<b>6.7</b>	<b>52</b>	<b>13.0</b>	<b>224</b>	<b>235</b>	<b>(4.6)</b>
Depreciation	16	15	5.0	14	14.7	60	54	10.8
<b>EBIT</b>	<b>44</b>	<b>41</b>	<b>7.4</b>	<b>39</b>	<b>12.6</b>	<b>164</b>	<b>181</b>	<b>(9.3)</b>
Interest	7	5	36.1	8	(5.9)	25	35	(29.6)
Other Income	13	1	1,562.0	8	59.3	17	21	(16.0)
<b>PBT</b>	<b>49</b>	<b>36</b>	<b>37.3</b>	<b>39</b>	<b>26.3</b>	<b>156</b>	<b>166</b>	<b>(5.8)</b>
Tax	(6)	(0)	-	2	-	19	12	61.0
Minority Interest	14	10	36.8	10	41.9	43	44	(0.6)
<b>Net Profit</b>	<b>41</b>	<b>25</b>	<b>59.8</b>	<b>27</b>	<b>50.2</b>	<b>94</b>	<b>110</b>	<b>(14.9)</b>
Basic EPS (Rs)	25	16	59.8	17	50.2	59	69	(14.9)

Source: Company, Angel Research

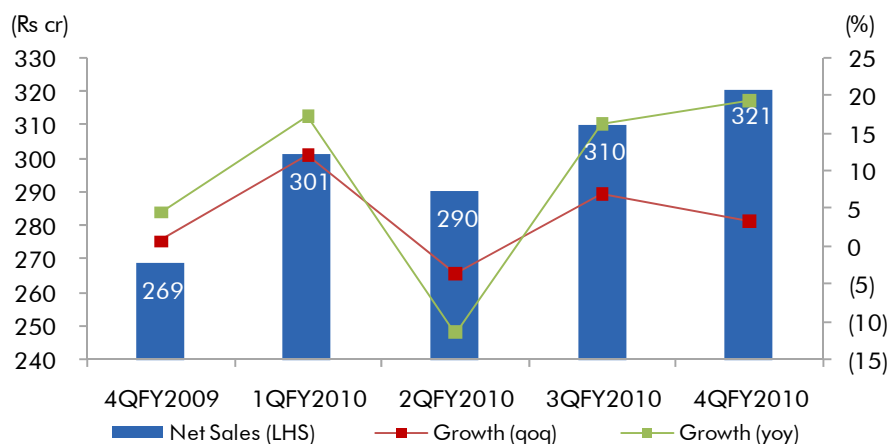
**Exhibit 2: 4QFY2010- Actual v/s Angel estimates**

Rs cr	Estimates	Actual	Variation (%)
<b>Net Sales</b>	<b>299</b>	<b>321</b>	<b>7.5</b>
EBITDA	54	59	9.1
EBITDA Margin (%)	17.9	18.4	2.8
Tax	-	(6)	-
<b>Net Profit</b>	<b>19</b>	<b>41</b>	<b>115.0</b>

Source: Company, Angel Research

**Revenues up 19.4%, substantially above expectation:** The company's net sales grew by 19.4% yoy to Rs321cr (Rs269cr) for the quarter, driven by better capacity utilisation and commencement of new biaxially oriented polypropylene (BOPP) and PET units in 4QFY2010. On qoq basis, the company managed a marginal 3.4% growth in revenues. For FY2010, capacity utilisation stood at 93% v/s 85% in FY2009. For FY2010, revenues increased marginally by 9.1% to Rs1,223cr (Rs1,121cr).

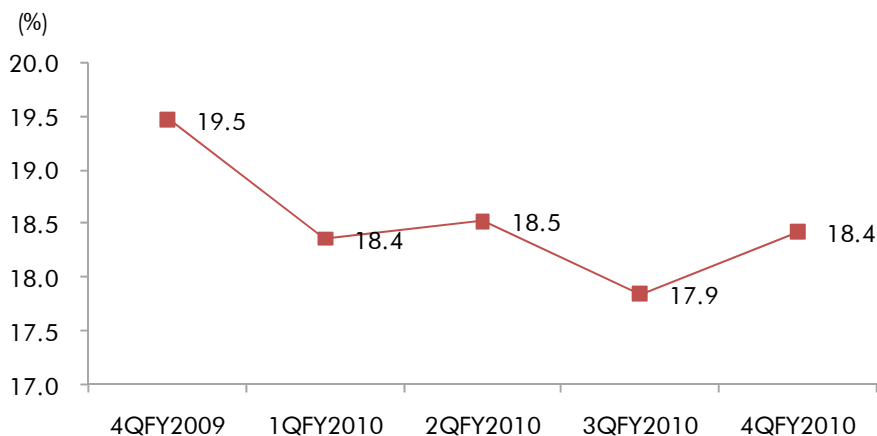
**Exhibit 3: Quarterly Revenue trend**



Source: Company, Angel Research

**OPM contracts yoy on higher raw materials costs but increases qoq:** PCL reported 104bp contraction in OPM to 18.4% (19.5%) for the quarter, which however exceeded our estimate of 17.9%. On a qoq basis, the company managed to increase its OPM by 58bp on strong demand for PET films. For FY2010, the company's OPM declined to 18.3% (20.9%) mainly due to higher raw material costs.

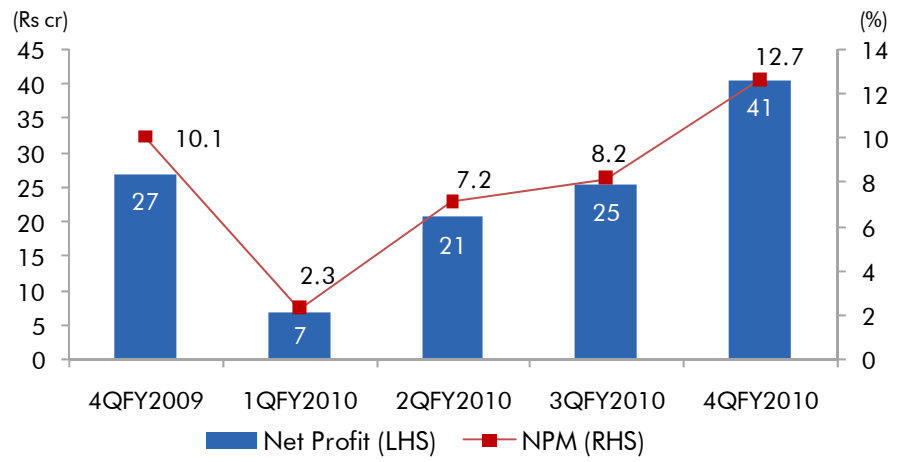
**Exhibit 4: Quarterly OPM trend**



Source: Company, Angel Research

**Bottom-line increases on tax reversal and higher other income:** In 4QFY2010, PCL reported net profit of Rs41cr (Rs27cr), up 50.2% yoy on the back of higher other income, which stood at Rs13cr (Rs1cr) and tax reversal of Rs6cr. For FY2010, the net profit fell 14.9% to Rs94cr (Rs110cr) largely on the back of weak 1HFY2010.

**Exhibit 5: Strong turnaround in Net Profit**



Source: Company, Angel Research

## Investment Rationale

**Capacity expansion to drive robust growth in revenues:** PCL has recently forayed into the lucrative, high-growth BOPP and cast polypropylene (CPP) segments. In FY2010, global demand for BOPP far exceeded supply, with an estimated BOPP production of ~6,046 kilo tonne/year v/s ~6,648 kilo tonne/year of demand. To meet such growing demand, PCL has set up new BOPP capacity of 35,000 tpa in India as well as a new 10,000 tpa CPP plant in Thailand. In PET films, PCL increased capacity in India by 155% in FY2010. Overall, on the back of the company's capacity expansion moves, we expect it to post 19% CAGR in sales over FY2010-12E.

**Valuation - Available at discount to subsidiary (PTL) and peers:** PCL holds 70% stake in its listed Thailand subsidiary Polyplex Thailand (PTL), which has a market cap of Rs950cr and is available at 1.3x P/BV. However, PCL has a market cap of Rs480cr or 0.7x FY2010E P/BV, which is at more than 50% discount to PTL's market cap and at a discount of nearly 28% to PCL's 70% stake in PTL, which works out to around Rs665cr. In comparison to its peers too, PCL is available at inexpensive valuations of 0.5x FY2012E P/BV, with Cosmo Films, Jindal Poly and Ester Industries trading between 0.8x-1.1x FY2010E P/BV, respectively. Over the past five years, PCL has traded in the range of 0.3-0.7x one-year forward P/BV, considering the 26% CAGR in earnings over FY2010-12E, we value PCL at the upper band (0.7x) FY2012E P/BV.

## Outlook

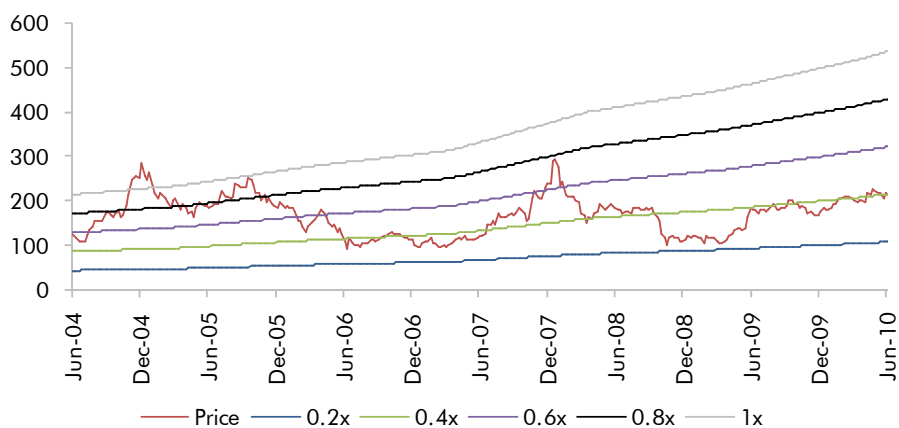
PCL is well placed to cater to future demand on account of having one of the largest PET film production capacities in the world, which is complemented by its excellent geographical reach through its plants in Thailand, Turkey and India. Pertinently, PCL garners a major part of its revenues from the packaging industry, which is expected to register around 15% CAGR over FY2010-12E. Moreover, the company's foray into the BOPP segment is expected to yield good returns for it, as demand for BOPP far exceeds supply. The company's profitability is expected to improve with the company expanding capacity of its PET film unit in India along with the setting up of new BOPP and cast polypropylene (CPP) units.

### Exhibit 6: Key Assumptions

(%)	Estimates	
	FY2011	FY2012
Sales Growth	29.3	9.6
Capacity Utilisation-BOPP	60.0	85.0
-CPP	50.0	70.0
Operating Margins	18.5	19.0

Source: Company, Angel Research

**Exhibit 7: One-year forward P/BV band**



Source: Company, Angel Research

**Profit and Loss Statement (Consolidated)**

Y/E March (Rs cr)	FY07	FY08	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>767</b>	<b>1,001</b>	<b>1,121</b>	<b>1,223</b>	<b>1,581</b>	<b>1,733</b>
% chg	44.36	30.51	11.92	9.14	29.27	9.62
Total Expenditure	674	834	886	999	1,289	1,404
Net Raw Materials	550	691	681	771	996	1,092
Other Mfg costs	126.7	144.9	198.6	277.2	308.3	329.3
Other	(2.8)	(1.9)	6.2	(48.6)	(15.8)	(17.3)
<b>EBITDA</b>	<b>92.9</b>	<b>167.6</b>	<b>234.6</b>	<b>223.7</b>	<b>292.2</b>	<b>328.9</b>
% chg	7.77	80.55	39.92	(4.64)	30.62	12.58
(% of Net Sales)	12.1	16.7	20.9	18.3	18.5	19.0
Depreciation & Amortisation	35.1	21.2	54.0	59.9	62.5	65.6
<b>EBIT</b>	<b>57.7</b>	<b>146.5</b>	<b>180.5</b>	<b>163.8</b>	<b>229.7</b>	<b>263.3</b>
% chg	(3.2)	153.8	23.3	(9.3)	40.2	14.6
(% of Net Sales)	7.5	14.6	16.1	13.4	14.5	15.2
Interest & other Charges	20.4	19.4	35.3	24.8	46.5	38.6
Other Income	10.7	9.9	20.6	17.3	19.0	18.1
(% of PBT)	22.2	7.2	12.4	11.1	9.4	7.5
<b>Recurring PBT</b>	<b>48.0</b>	<b>137.0</b>	<b>165.9</b>	<b>156.3</b>	<b>202.1</b>	<b>242.8</b>
% chg	(16.6)	181.9	22.4	(5.8)	29.3	20.1
<b>PBT (reported)</b>	<b>48.0</b>	<b>137.0</b>	<b>165.9</b>	<b>156.3</b>	<b>202.1</b>	<b>242.8</b>
Tax	3.5	5.1	11.9	19.0	20.2	24.3
(% of PBT)	7.3	3.7	7.1	12.2	10.0	10.0
<b>PAT (reported)</b>	<b>44.5</b>	<b>131.9</b>	<b>154.0</b>	<b>137.3</b>	<b>181.9</b>	<b>218.5</b>
Less: Minority interest (MI)	12.7	30.4	43.6	43.3	57.4	69.0
<b>PAT after MI (reported)</b>	<b>31.9</b>	<b>101.6</b>	<b>110.4</b>	<b>94.0</b>	<b>124.5</b>	<b>149.6</b>
<b>ADJ. PAT</b>	<b>31.9</b>	<b>101.6</b>	<b>110.4</b>	<b>94.0</b>	<b>124.5</b>	<b>149.6</b>
% chg	(16.6)	213.6	10.4	(14.9)	32.5	20.1
(% of Net Sales)	4.2	10.1	9.9	7.7	7.9	8.6
<b>Basic EPS (Rs)</b>	<b>21.8</b>	<b>62.6</b>	<b>69.0</b>	<b>58.8</b>	<b>77.8</b>	<b>93.5</b>
<b>Fully Diluted EPS (Rs)</b>	<b>21.8</b>	<b>62.6</b>	<b>69.0</b>	<b>58.8</b>	<b>77.8</b>	<b>93.5</b>
% chg	(16.6)	187.2	10.4	(14.9)	32.5	20.1

**Exhibit 8: Balance Sheet (Consolidated)**

Y/E March (Rs cr)	FY07	FY08	FY09	FY10E	FY11E	FY12E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	15	17	17	17	17	17
Reserves & Surplus	392	483	622	701	811	945
<b>Shareholders Funds</b>	<b>407</b>	<b>500</b>	<b>639</b>	<b>718</b>	<b>827</b>	<b>962</b>
Minority Interest	138	158	198	241	299	368
Total Loans	335	455	681	854	696	591
Deferred Tax Liability	16	14	15	-	-	-
<b>Total Liabilities</b>	<b>897</b>	<b>1,127</b>	<b>1,533</b>	<b>1,813</b>	<b>1,823</b>	<b>1,921</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	827	825	1,205	1,643	1,715	1,800
Less: Acc. Depreciation	191	227	293	353	415	481
<b>Net Block</b>	<b>636</b>	<b>598</b>	<b>912</b>	<b>1,290</b>	<b>1,299</b>	<b>1,320</b>
Capital Work-in-Progress	26	264	218	72	-	-
Goodwill	1	0	1	1	1	1
<b>Investments</b>	<b>52</b>	<b>15</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>
Current Assets	291	390	503	568	683	781
Cash	29	20	93	121	115	159
Loans & Advances	28	43	52	57	63	69
Inventories	106	122	160	174	225	247
Debtors	128	205	198	216	279	306
Current liabilities	110	150	153	168	210	231
<b>Net Current Assets</b>	<b>181</b>	<b>241</b>	<b>350</b>	<b>401</b>	<b>473</b>	<b>551</b>
Mis. Exp. not written off	0	8	3	-	-	-
<b>Total Assets</b>	<b>897</b>	<b>1,127</b>	<b>1,533</b>	<b>1,813</b>	<b>1,823</b>	<b>1,921</b>

**Cash flow Statement (Consolidated)**

Y/E March (Rs cr)	FY07	FY08	FY09	FY10E	FY11E	FY12E
Profit before tax	37	126	145	139	183	225
Depreciation	35	21	54	60	63	66
Change in Working Capital	5	(68)	(36)	(21)	(75)	(32)
Other income	11	10	21	17	19	18
Direct taxes paid	6	1	3	5	12	19
<b>Cash Flow from Operations</b>	<b>83</b>	<b>88</b>	<b>181</b>	<b>190</b>	<b>178</b>	<b>258</b>
(Inc.) / Dec. in Fixed Assets	(159)	(236)	(333)	(292)	-	(86)
(Inc.) / Dec. in Investments	(23)	37	(35)	-	-	-
(Inc.) / Dec. in loans and adv.	15	(16)	(9)	(5)	(6)	(6)
<b>Cash Flow from Investing</b>	<b>(167)</b>	<b>(215)</b>	<b>(377)</b>	<b>(297)</b>	<b>(6)</b>	<b>(92)</b>
Issue of Equity	-	-	-	-	-	-
Inc. / (Dec.) in loans	37	120	226	173	(158)	(105)
Dividend Paid (Incl. Tax)	(7)	(11)	(13)	(15)	(15)	(15)
Others	60	10	56	(23)	(5)	(2)
<b>Cash Flow from Financing</b>	<b>91</b>	<b>118</b>	<b>269</b>	<b>135</b>	<b>(178)</b>	<b>(122)</b>
Inc. / (Dec.) in Cash	6	(9)	73	27	(6)	44
<b>Opening Cash balances</b>	<b>23</b>	<b>29</b>	<b>20</b>	<b>93</b>	<b>121</b>	<b>115</b>
<b>Closing Cash balances</b>	<b>29</b>	<b>20</b>	<b>93</b>	<b>121</b>	<b>115</b>	<b>159</b>



**Key Ratios**

Y/E March	FY07	FY08	FY09	FY10E	FY11E	FY12E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	13.8	4.8	4.4	5.1	3.9	3.2
P/E (on basic, reported EPS)	13.8	4.8	4.4	5.1	3.9	3.2
P/CEPS	6.6	3.9	2.9	3.1	2.6	2.2
P/BV	1.1	1.0	0.8	0.7	0.6	0.5
Dividend yield (%)	1.3	2.0	2.3	2.7	2.7	2.7
Market cap. / Sales	0.6	0.5	0.4	0.4	0.3	0.3
EV/Sales	1.0	0.9	0.9	1.0	0.7	0.5
EV/EBITDA	8.0	5.4	4.5	5.4	3.6	2.8
EV / Total Assets	0.8	0.8	0.7	0.7	0.6	0.5
<b>Per Share Data (Rs)</b>						
EPS (Basic)	22	63	69	59	78	94
EPS (fully diluted)	22	63	69	59	78	94
Cash EPS	56	115	144	131	164	191
DPS	4.0	6.0	7.0	8.0	8.0	8.0
Book Value	278	313	399	449	517	601
<b>ROE Decomposition (%)</b>						
EBIT margin	7.5	14.6	16.1	13.4	14.5	15.2
Tax retention ratio	92.7	96.3	92.9	87.8	90.0	90.0
Asset turnover (x)	0.9	0.9	0.8	0.7	1.0	1.0
ROIC (Post-tax)	6.6	12.9	12.1	8.8	12.5	13.8
Cost of Debt (Post Tax)	6.0	4.7	5.8	2.8	5.4	5.4
Leverage (x)	0.6	0.7	0.7	0.9	0.7	0.5
Operating ROE	6.9	18.4	16.8	13.8	17.7	17.9
<b>Returns (%)</b>						
ROCE (Pre-tax)	6.9	14.5	13.6	9.8	12.6	14.1
Angel ROIC (Pre-tax)	7.3	17.7	15.4	10.4	13.9	15.4
ROE	8.5	22.4	19.4	13.9	16.1	16.7
<b>Turnover ratios (x)</b>						
Inventory / Sales (days)	53	41	46	50	46	50
Receivables (days)	54	61	66	62	57	62
Payables (days)	43	42	41	38	35	38
Working capital cycle (ex-cash) (days)	78	68	78	80	74	79

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### Disclosure of Interest Statement

	Polyplex Corporation
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	Yes
3. Angel and its Group companies' Directors ownership of the stock	Yes
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.

<b>Ratings (Returns) :</b>	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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