SKP Securities Ltd

Uflex Ltd.

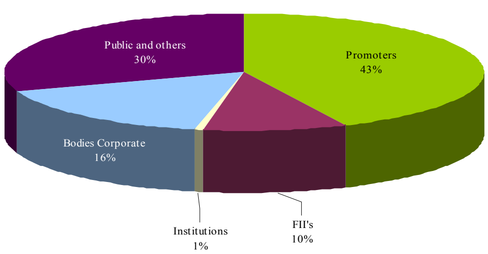
...improving margins with cost rationalization

CMP Rs. 132 **Target Rs. 191** **Initiating Coverage- Buy**

Key Share Data

Face Value (Rs.)	10.0
Equity Capital (Rs. mn)	649.7
Market. Capitalization (Rs. mn)	8581
52-wk High / Low (Rs.)	134/79
Average Daily Volume	342466
BSE code	500148
NSE code	UFLEX
Reuters code	UFLX.BO
Bloomberg code	UFLX IN

Shareholding Pattern – 30th June 2010



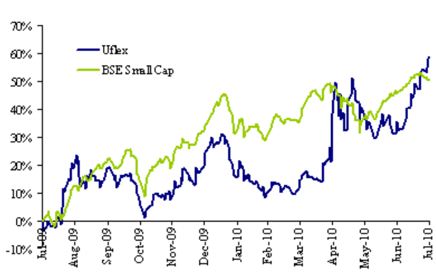
Consolidated Financials (Rs. mn)

	FY09	FY10	FY11E	FY12E
Net Sales	20421.0	24010.4	29081.5	36729.3
Sales Gr	24.6%	17.6%	21.1%	26.3%
EBIDTA	2706.5	4422.4	5653.3	7682.4
PAT	1867.1	1926.4	2611.3	3492.7
PAT Gr	67.7%	3.2%	35.6%	33.8%
EPS (Rs.)	28.7	29.6	35.7	47.8
CEPS (Rs)	44.2	47.9	52.3	71.3

Key Financial Ratios

	FY09	FY10E	FY11E	FY12E
Int Cover (x)	1.6	2.6	3.6	3.7
P/E (x)	4.6	4.5	3.7	2.8
P/BV (x)	1.0	0.8	0.7	0.6
P/Cash EPS	3.0	2.8	2.5	1.9
MCap/Sales	0.4	0.4	0.3	0.3
EV/EBIDTA	7.8	4.9	4.2	3.8
ROCE	7.6%	13.1%	15.5%	16.2%
ROE	21.2%	18.9%	19.4%	21.3%
EBITDM(%)	13.3%	18.4%	19.4%	20.9%
NPM (%)	8.9%	7.8%	9.0%	9.5%
Debt-Equity	1.6	1.4	1.1	1.3

Performance comparison Uflex v/s BSE Smallcap



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Company Profile

Uflex Ltd (Uflex) is the largest manufacturer of flexible packaging such as sachets and pouches, for leading FMCG players in India and abroad, with the 19% market share in India. It also manufactures BOPET, BOPP, CPP and metallized films. It has the total current capacity of 214,560 MTPA of which 54,560 comprises of flexible packaging. Uflex have its state-of-the-art manufacturing facilities in India, Egypt, Dubai and Mexico.

Investment Rationale

Topline to grow with the CAGR of 22%during next 2-3 years:

- Topline of Uflex has grown with the CAGR of 20% in the past three years. It is further expected to grow by 22% in the coming few years. The demand drivers are-
  - increasing penetration of organized retail
  - growing middle class – changing life style
  - fast growing FMCG sector, with deeper rural penetration

Increasing Capacities – India and Abroad:

- Uflex has chalked out aggressive capacity expansion plan to strengthen its global presence and consolidate its position in India.
- The Company is expanding its flexible packaging capacity to 79,000 MTPA by FY12 from the current 54,560 MTPA. Total capex for India is estimated at Rs 5.5 bn.
- It is also putting new plastic films facilities at Mexico and Egypt with the estimated capex of USD 244 mn. Phase – I of Mexico is already commissioned in FY10.

Cost restructuring – improving D/E and profitability:

- Uflex is all set to improve its profitability through-
  - restructuring power overheads;
  - reducing debts;
  - launching innovative high margin products.
- We expect EBIDTA margin to improve to around 21% from the current 18.4% with the above cost rationalization process undertaken by the company.

Outlook & Recommendation

The flexible packaging industry is expected to sustain the growth of 15-20% per annum over the next two years. Uflex, being the largest player in domestic markets is all set to cater the increasing demand of the industry and reap the benefits.

At the current market price of Rs 132, the stock is trading at a P/E of 3.7x and 2.8x of FY11E and FY12E earnings of Rs 35.7 and Rs 47.8 respectively. ***We recommend BUY rating on the stock with a target price of Rs 191/- (45% upside) in 18 months at the P/E of 4x on FY12 earnings.***

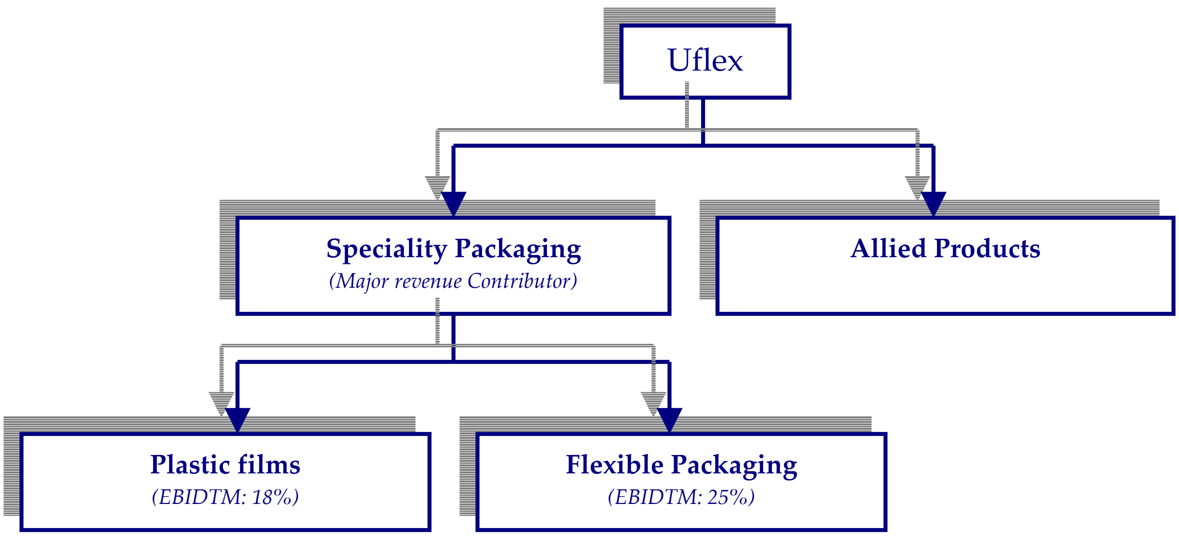
The Company: A snap shot

An introduction: Uflex Ltd (Uflex), earlier known as Flex Industries Ltd, was established in 1985.It is the largest flexible packaging company in India and is an emerging player in the global platform. It is the only vertically integrated company with large capacities of plastic films and flexible packaging products. The company is also present in the manufacturing of allied products such as rotogravure cylinders, holograms, Ink & adhesives and packaging and converting machines.

Uflex offers finished packaging for a wide variety of products such as snack foods, candy and confectionery, sugar, rice & other cereals, beverages, tea & coffee, desert mixes, noodles, wheat flour, soaps and detergents, shampoos & conditioners, vegetable oil, spices, marinates & pastes, cheese & dairy products, frozen food, sea food, meat, anti-fog, pet food, pharmaceuticals, contraceptives, garden fertilizers & plant nutrients, motor oil & lubricants, automotive & engineering components etc.

Business Classification

Business classification of Uflex is as follows:



Source: Company

1. **Plastic Films:** Uflex's speciality packaging division is predominantly divided in to two business segments namely plastic films and flexible packaging. It is the world's fifth largest packaging company in the world for its biaxially oriented polyethylene terephthalate (BOPET). It also manufactures biaxially oriented polypropylene (BOPP), cast polypropylene (CPP) films polyester chips of different grades.

   BOPET films: Uflex's BOPET film is one of the initial products of the company. BOPET is the polyester film used for its high tensile strength, chemical & dimensional stability, gas and aroma barrier properties. It also acts as good barrier to oxygen.

   Applications: All these properties making it suitable for food packaging, electrical insulation, office supplies, graphic arts, imaging & industrial applications, audio video and other magnetic tape applications of various types of consumer products.

   Second Largest player in India: The global market size of this segment is around USD 4.8 bn in which Uflex contribute about 4% after the industry giants such as Dupont/Teijin (14%), Toray/Saehan (13%), Mitsubishi/Hoechst and SKC (8% each). In India Uflex is the second largest player with 22% market share after Jindal Polyfilms Ltd (26%).

BOPP films: BOPP films have high gloss and transparency and provide a strong moisture barrier making it suitable for many types of consumer products. Its applications include:

- Food packaging with primary applications in confectionery, biscuits, bakery pasta, dried foods, meat etc.
- Cable Over-wraps, crimps seal packs, and pouches:
- Cigarette cartons packaging;
- Bags for ready-made garments;
- Adhesive tapes and print laminates;
- Decorative purposes.

The company's BOPP films are highly cost effective and functionally efficient product that has made swift headways into the higher barrier sensitive packaging segment across the world.

CPP films: CPP films are the transparent and white opaque, heat sealable, plastic films. Following are the categories of CPP films manufactured by the company with its applications:

Categories	Properties	Applications
Antifog Films	Transparent one side and heat sealable	Widely used for hot and cold anti fog application in food products such as fresh vegetables, food and meat.
Bread Packaging films	Transparent and heat sealable	Packaging of bread
Deep freeze film	Transparent and heat sealable treated for deep freeze	Deep freezing of eatables such as green peas etc.
Lamination & conversion grade films	Transparent and white opaque; heat sealable	Confectionary, packaging, lamination surface printing etc.
Metallizing grade films	Transparent film for metallization	
Retort grade films	Transparent and heat sealable	Ready to eat food
Twist grade films	Transparent; for twist wrap	Candy wrap and confectionary

Source: Company

PET chips: PET chips are mainly classified as polyester chips of films grade, yarn grade, and bottle grade. These chips are used as a raw material for the manufacturing of plastic films (BOPET, BOPP and CPP), polyester yarns and PET bottles.

The market for film grade chips in India has grown beyond expectations in the recent past. High degree of competition in the industry due to installation and commissioning of new facilities by the new entrants and end users has de-stabilized the demand and supply scenario of PET chips in India

The yarn grade chips market in India is going through a dull and difficult phase due to falling prices and realizations due to competition from countries like China and Indonesia has made it unlucrative. The market for bottle grade chips in India is also highly competitive with exceptionally low margins. ***Thus, the company, therefore, produce only film grade chips which makes it vertically backward integrated company.***

Metallized films: Metallized films are the combination of the above plastic films with vaporized aluminium wire. Plastic films are put in to a metallizer wherein aluminium wire is heated at 1400°C. The aluminium wire gets vaporized and a thin layer of vaporized aluminum is formed on the plastic film.

These high barrier metallized films are ultimate solution for packaging wide variety products that requires extended shelf life. It is also used in the host of applications in textiles and capacitor industries.

2. **Flexible Packaging:** Flexible packaging consists of multi-layer laminated rolls of plastics (LDPE, HDPE, BOPET, BOPP, CPP) paper, cloth, or metal foils that are used separately or in combination for various packaging applications.

   Applications: Flexible packaging has unique set of properties that ensure toughness, moisture, resistance, aroma retention, gloss, grease resistance, heat sealability, printability, and low odor. These properties makes flexible packaging suitable for packaging of food, tea, coffee, spices, chewing tobacco, bakery, confectionery, oil etc.

   It can also be used in certain non-food applications such as household detergents, health & personal care, soaps, shampoos etc.

   Market Leader in India: The current market size of flexible packaging in India is about Rs 150 bn. Uflex is the dominant market leader with the market share of 19% in the segment followed by Paper Products Ltd (15%), Positive Packaging Industries Ltd (10%) and Essel Propack Ltd (8%).

Manufacturing facilities and Capacities: Uflex's manufacturing facilities are spread over 350 acres across the four continents. It has state-of-the-art manufacturing facilities in India (Jammu, Noida and Gwalior), Dubai, Mexico and Egypt. Capacities at the above locations at a glance:

Geographies	BOPET	BOPP	Flexi Packaging	Total
India	54,000	28,000	54,560	**136,560**
Dubai	51,600	-	-	**51,600**
Mexico	26,400	-	-	**26,400**
Egypt	-	-	-	**-**
Total Capacity	**132,000**	**28,000**	**54,560**	**214,560**

Source: Company & SKP Research; all figures in MTPA

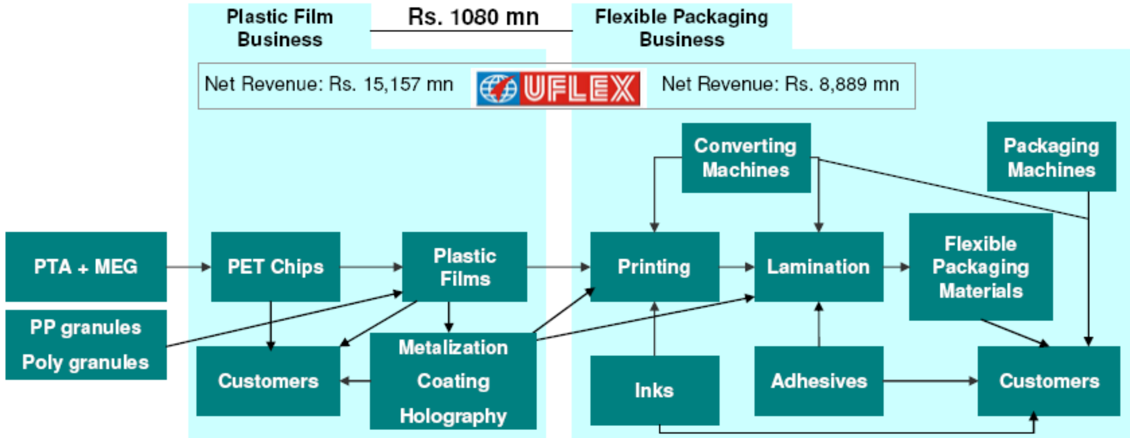
Key Customers: Almost all the big FMCG players domestically and abroad such as Unilever, Tata Tea, Hindustan Petroleum, Procter and Gamble, Nestle, ITC, Wrigley, Cadbury, Britannia, Colgate Polmolive, Pillsbury are the clients of Uflex.

3. **Allied Products:** Apart from the above products, Uflex also manufactures certain allied products, which supplements the main products (plastic films and flexible packaging) of the company. A brief description of such products are given below:

Product	Capacity	Application
Rotogravure (Printing) Cylinder	66,000 MTPA	These are printing cylinders (made of copper) on which letters and pictures are etched, used for the printing on web of paper or plastic in a rotary press.
Hologrammed Sticker Sheets	70 mn sheets	Widely used to curb product piracy
Packaging and Converting Machines	1,570 Nos.	Used for making pouches, holograms, wrapping and slitting.
Printing ink and Adhesives	17,100 MTPA	**Printing inks** are used for printing on substrates such as plastic films. **Adhesives** for lamination etc.

Source: Company

Business Model of Uflex at a glance:



Source: Company

Raw Materials

- Plastic films and metallized films are the raw materials for manufacturing flexible packaging such as pouches.
- Printing is done upon polyester films and BOPP films as per the clients' requirements. Then this printed film is laminated with polyfilms (such as LLDP Granules, LDP Granules and HDP Granules) to manufacture sachets and pouches. These are pure plastic (without metallized films) products widely used for packaging of vegetables, breads and deep freezing.
- Rotogravure cylinders, printing inks and adhesives are used for printing and lamination.
- Metallized films are used for lamination where high degree of aroma and moisture retention is required. Tea, Coffee, potato chips etc are several examples of such products.
- PET Chips are used for manufacturing plastic films. PTA and MEG are used for manufacturing PET Chips.
- As mentioned earlier, Uflex produces plastic films, and metallized films in India and abroad in-house. PTA, MEG and various chemicals are procured from suppliers like Reliance, India Glycol, Indorama Glycol etc.
- ***These raw materials are the derivatives of crude oil and thus their prices are highly volatile.*** Uflex successfully passes the increase/decrease in the prices to its customers.

Recent Development

1. **Uflex announced right issue in the ratio of 1:4:** Uflex has recently announced to raise fund to the tune of Rs 2 – 2.5 bn through the right issue. The company has fixed the ratio of 1:4 for the same.

   It is expected that the Company will announce the price of the issue by the end of September or by the first week of October 2010, when the company is targeting to launch the issue. ***The company will utilize the funds for ongoing capex and repayment of debts.***

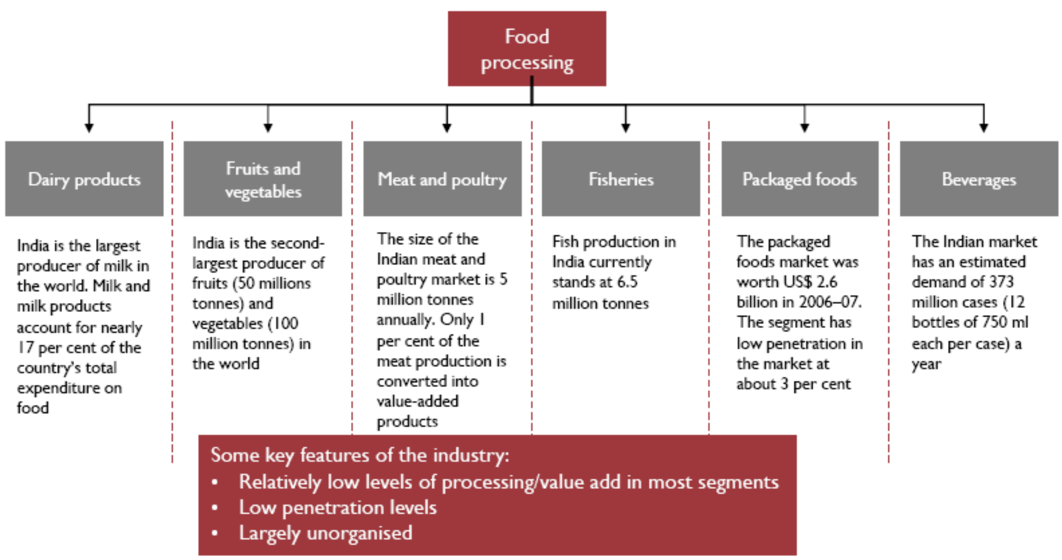
2. **Exiting from the non core-businesses such as Municipal Solid Waste (MSW) and telecom project in Gambia:** The Company has entered in to agreement to sell the MSW project, which was a non-core business of Uflex. This project is valued at around Rs 1bn.

   During FY09 Uflex decided to promote, develop, construct and operate ultra modern complexes to handle MSW integrated processing plants in Northern India under the joint venture with technology partner through its subsidiary AKC Developers Ltd. The company has invested Rs 550 mn in the project. The Company wants to divest from the business to focus on its core business of plastic films and speciality packaging.

   Gambia Project: Uflex also intends to exit from telecom business, at Gambia, which is also is the non-core business of the company. This project is also valued at around Rs 1 bn.

Investment Arguments

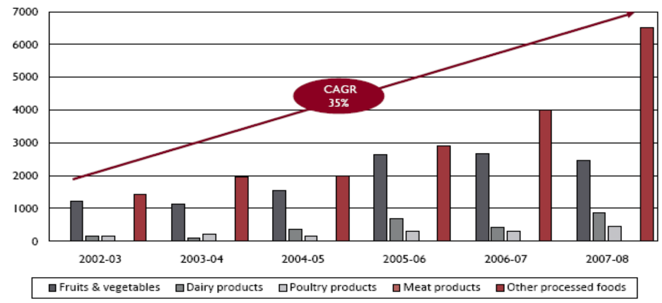
1. **Growing Food Processing Industry – advantageous for flexible packaging business:**
   - Food market in India is about USD 182 bn of which food-processing market is about USD 70 bn.
   - The Government of India has formulated a Vision-2015 action plan in order to further grow the food processing industry under which the size of the industry is to be trebled to about USD 210 bn.
   - The penetration level of the industry is as low as 6%. This situation is rapidly changing with semi processed and ready to eat packaged food industry is reflecting rapid growth (of over 33% till 2006). This change is primarily happening because of fast growing consumerism. The GOI has targeted to increase the penetration level to 20% till 2015. The food processing industry at a glance:



Source: IBEF.org

Rapid growth in exports: The Indian food processing industry is primarily export oriented. India's geographical situation gives it the unique advantage of connectivity to Europe, the Middle East, Japan, Singapore, Thailand, Malaysia and Korea. India's exports of processed food were Rs. 89.75 bn in 2007-08 growing with the CAGR of 35% since 2002-03.

Food processing exports have been growing rapidly



Processed food exports constitute nearly 5 per cent of the total exports of the country
Source: ibef.org

A large portion of the flexible packaging demand from India is from the processed food segment. The growth in this segment will fuel growth in speciality packaging segment of the company. Uflex being the largest domestic player with the market share of 19% is all ready to meet the demanding needs of the business with possess of required knowledge, infrastructure and process capabilities.

2. **Topline to grow with the CAGR of handsome 22% during the next two years with the rising demand for flexible packaging:** Uflex's topline has seen handsome CAGR growth of 20% for the past three years and is further expected to grow at a CAGR of 22% in the coming two years. Consolidated topline posted by the company for FY10 was Rs 24 bn, which is expected to touch Rs 36.7 bn by the end of FY12. The company's target is to achieve Rs 45 bn by FY13. Uflex is eyeing to achieve the market share of 35-40% in the next two to three years. The growth will be fuelled by:

- **Increasing penetration of organized retail:** The increasing penetration of organized retail and the increasing preference for branded products are fuelling the demand for flexible-packaging solutions. The Indian retail market size is estimated at US$ 350.2 billion and is projected to grow at 13% per annum to reach US$ 590 billion by 2011–12.

  The current share of organized retail in FMCG is estimated to be 4% to 5% and is expected to increase by 14% to 18% by 2015. Strong underlying economic growth, population expansion, the increasing wealth of individuals and the rapid construction of organized retail infrastructure are key factors behind the forecast growth.

- **Growing middle class – changing food habits:** The growing middle class with its changing lifestyle is also encouraging the consumption of convenience foods such as packaged soups and pre-cooked dinners that are conventionally packaged in flexible packages.

  According to a study by the McKinsey Global Institute (MGI), released in May 2007, India's middle class will swell by more than ten times—from 50 million in 2007 to 583 million people by 2025. By 2025, India will also become the 5th largest consumer market, moving up from the 12th position it occupied in 2007.

- **Fast moving FMCG Sector:** The Indian fast moving consumer goods (FMCG) sector, with a market size of US$ 25 billion (2007–08 retail sales), constitutes 2.15% of India's gross domestic product (GDP). India is recognized as a cost-effective quality manufacturing base in the world market. ***Food products are the largest consumption category in India, accounting for nearly 21 per cent of the country's GDP.*** The industry is poised to grow between 10 to 12% annually.

- **Drive to reach rural areas:** FMCG addresses a very core need in the consumer's life and so it is less prone to economic swings than high-ticket items such as television or even apparel. India is a consumption driven economy and FMCG giants are cognizant of the growing rural segment. Rural area comprises 12.2% of the world population.

The FMCG industry is set to grow 20-30 per cent in 2009-10, up from 10-20 per cent in 2008-09. ***The growth would be driven by the launch of new products and increasing rural consumption creating the demand for sachets and pouches.***

- **Increasing health consciousness:** Today, people are getting more and more health conscious, thus, boosting the demand for well packaged, branded products rather than the loose and unpackaged products (specially eatables).

All these things together give strategic advantage to players such as Uflex and provides ideal opportunities for investment. India's Rs 150 bn flexible-packaging market is growing at 22-25% annually due to the above growth drivers, against the world average of 6-7%, making it one of the fastest-growing industries in the country.

Demand for packaging in India at present is skewed towards rigid packaging such as bottles and cans. However, the convenience and advantage of flexible packaging such as moisture resistance, grease resistance, aroma retention, sealability and printability is weaning consumers away from rigid packs.

3. **Increasing capacities - India and Abroad:** Uflex has planned major capacity expansion plan to strengthen its global presence and consolidate its position in the domestic market. The new capacities will come at India, Mexico and Egypt. The expansion is spanning in three years starting from FY10.

- **India Expansion:** Uflex has envisaged capacity expansion plan of Rs 5.5 bn in India, enhancing its capacities for flexible packaging from the current 54,560 MT to 79,000 MT by FY12. Out of the above capex The Company is setting up a new facility at Jammu with the capital outlay of not more than Rs 2.5 bn.

  The phase I of the project envisages the estimated cost of Rs 3 bn, expected to be completed by March 2011 whereas Phase II will get commissioned by September 2011.

- **Mexico Expansion:** Uflex is setting up its manufacturing base of plastic films (BOPET) in Mexico to focus on international markets with the initial capacity of 26,400 MT with the total estimated cost of USD 109 mn.

  Project is divided in two phases of which first phase is already complete in FY10. Phase II is expected to come on stream by June 2011 (estimated cost USD 55 mn). Total debt requirement for the expansion is around USD 47 mn, which has been already tied up.

  Why Mexico: The project will provide access to part of North American Free Trade Agreement (NAFTA) region and other North American markets.

- **Egypt Expansion:** Keeping in view the global consumption trend of flexible packaging materials, Uflex is setting up a green field manufacturing facility for BOPP, CPP and BOPET films with the capacity of 35,000 MT, 30,000 MT and 12,000 MT respectively, with the total estimated cost of USD 135 mn.

  This plan is also divided in two phases. Phase one is expected to commissioning by August 2010 costing USD 55 mn whereas Phase II will come on stream by December 2011.

  Total Debt requirement for both the phases is around USD 88 mn of which USD 55 mn is already tied up.

Why Egypt:

- To cater Africa, Southern Europe, and the Gulf Cooperation Council (GCC) countries.
- High quality of power supply which results in higher productivity and lower per unit cost of production
- The lower tax regime is also one of the benefits.

Capacities after expansion at a glance:

	CPP	BOPET	BOPP	Flexi Packaging	Total
FY10					
India	-	54,000	28,000	54,560	**136,560**
Dubai	-	51,600	-	-	**51,600**
Mexico	-	26,400	-	-	**26,400**
Egypt	-	-	-	-	**-**
Total Capacity	-	132,000	28,000	54,560	**214,560**
FY11					
India	-	-	-	-	**-**
Dubai	-	-	-	-	**-**
Mexico	-	-	-	-	**-**
Egypt	-	-	35,000	-	**35,000**
Total Capacity	-	132,000	63,000	54,560	**249,560**
FY12					
India	-	-	-	24,440	**24,440**
Dubai	-	-	-	-	**-**
Mexico	-	26,400	-	-	**26,400**
Egypt	12,000	30,000	-	-	**42,000**
Total Capacity	**12,000**	**188,400**	**63,000**	**79,000**	**342,400**

Source: Company and SKP Research; All capacities in MTPA

- We expect that the share of international revenues will increase from the current 43% to 60% by the year 2013 with the completion of the Egyptian and Maxico units.

- The move of overseas expansion is to counter anti-dumping measures, which is unfavorable for the export of films from India.

4. Improving margins with cost rationalization and launching innovative products:

- **Reduction in the cost of power:** Uflex has taken number of steps to improve upon the efficiency of the power consumption. This has result into the savings of about 10 gms of fuel per KWH which in turn translate into a savings of 1200 MT of furnace oil (FO) on per annum basis.

  The company has captive power plant of 18-20 MW fuelled with furnished oil which they are converting in to gas based power plant which will further reduce power cost.

  Uflex has installed vapour absorption machines, which is used for air conditioning and the process cooling purposes. This installation has helped the company to save around 17 lakhs unit of electricity per annum. .

  Uflex is also installing power savers for supplying low voltage lighting systems in the plants. This will result in the savings of 2.1 lakhs units of power per annum.

- **Debt Repayment:** Uflex has plans to bring down the debt equity ratio from current 1.4x to 1.3x by FY12 by repayment of debts. Proceeds from the right issue will be partly used for the repayment of debts. The company targets to bring down its D/E to around 1x by FY13.

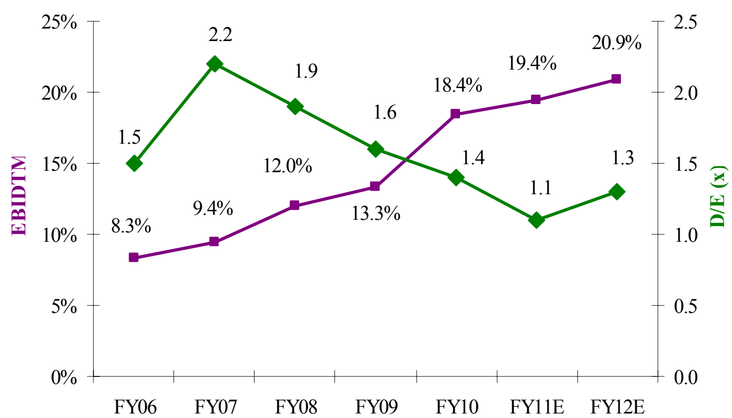
- **Launching innovative high margin products:** Flexible packaging is the highly competitive industry and innovation is the key to retain the market. Thus, Uflex introduces value-added innovative products in the market every now and then. The major innovative products of the company are-

Product	Description
Green PET Films	• Green PET films are made from PTA produced by the oxidation of paraxylene and ***Green MEG that is manufactured from ethanol produced from agro-based sources.*** • This replaces conventional inputs that are produced from petroleum-based feedstock. PET film contains 30% of MEG, which in this case is ***totally based on renewable agro inputs***. • These films are approved by the USFDA and also meet all EU guidelines for food compliance and food contact. These films have the same properties as traditional films made from petro-based PET resins.
rPET Films	• This is another range of "green" films. They contain up to 30% post consumer recyclate PET (rPET) resins. • ***rPET waste that would otherwise have been consigned to land-fills is recycled into high-quality films.*** • These films are, again, USFDA and EU compliant for safe food contact.
Direct Embossable Pet Films	• This film is co-extruded with a special surface layer that can be embossed directly without any off-line coating, which is an expensive process.
White PET Films	• PET film with excellent opacity in various thickness ranges suitable for lids, labels & surface printing where white background is required.
Isotropic PET Films	• Prepared from special isotropic resin, with excellent barrier properties and higher tear resistant, ideal for lidding application in dairy products especially yogurt cups.

Source: Company

- These products innovated by Uflex fetches high realizations and hence enjoy better margins as compared to conventional flexible packaging products.

- Profitability and D/E of the company at a glance:



Source: Company and SKP Research

Key Concerns

1. **Plastic film market is highly competitive**: PET and BOPP films market is highly competitive. Uflex faces stiff competition both from the international and domestic manufacturers. The competition is increasing with the addition of new capacities and emergence of new global players, especially from China. Increased competition may lead to reduction in realizations, decrease in business and thus affecting the margins of the company.

2. **Price volatility of polymers:** Polymers are the key raw material for the company, which is derived from crude oil, which is highly price volatile. Any adverse movement in the prices may put negative impact on the margins of the company.

3. **Foreign Exchange Fluctuation:** Uflex is exposed to multiple currencies due to the global scale of operations. The Company's performance and future can be affected by fluctuations in exchange rates.

Peers - India

Indian Peers

Company	EBIDTA per Kg (Rs)	D/E	P/E	EV/EBIDTA
Cosmo Films Ltd	16.3	0.9	5.4	2.4
Jindal Polyfilms Ltd	15.8	0.3	5.8	3.8
Max (I) Ltd	17.9	0.1	--	53.8
Polyplex Corporation	13.0	1.1	8.0	8.9
Uflex Ltd	18.5	1.4*	4.3*	4.5*

*Source: Company, Capitaline and SKP Research; * figures based on FY10*

Foreign Peers

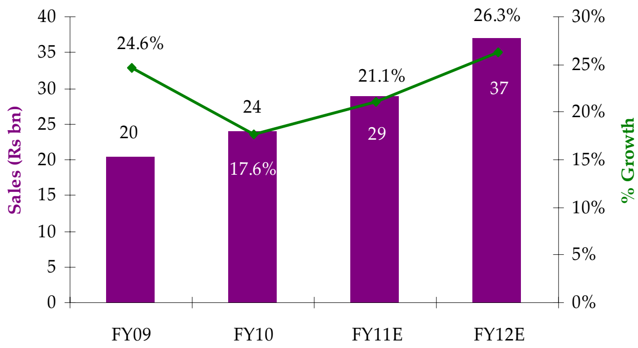
Company	Region	Market Cap (USD mn)	Last Reported EBITM
Bermis	USA	3,130	7.9%
Sonoco Products	USA	3,100	7.0%
Uflex	India	170	13.5%

Source: Company and SKP Research

- Bermis and Sonoco are among the leaders in packaging solutions industry.

- Vertical integration, innovative and new product development and location of units at lower cost regions enable Uflex to earn higher margins.

Financial Outlook



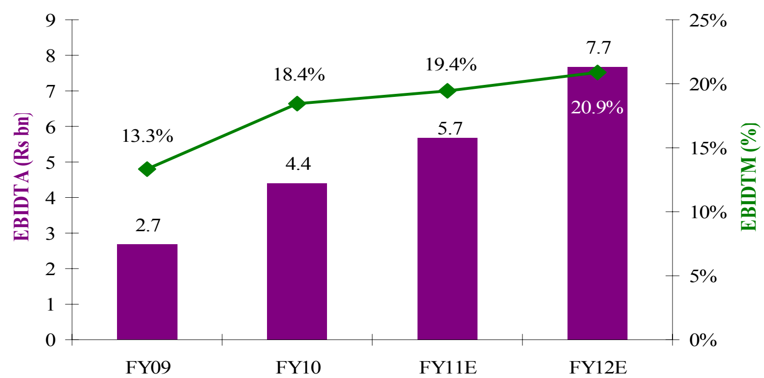
Source: Company & SKP Research

Top-line to grow with the CAGR of 22% in the coming 2-3 years: Net sales have gone up to Rs 24 bn for FY10 by registering a growth of 17.6% on the back of new capacity additions with optimal utilization of around 90%

We expect the topline to grow with the CAGR of 22% in the coming two to three years, with new capacities coming on stream and deeper penetration of FMCG in rural India creating the demand for sachets and pouches. We expect equal contribution from plastic films and laminates segment by FY12. Currently plastic films contribute 63% of total revenue.

EBITDA margin to stabilize around 21% by FY12

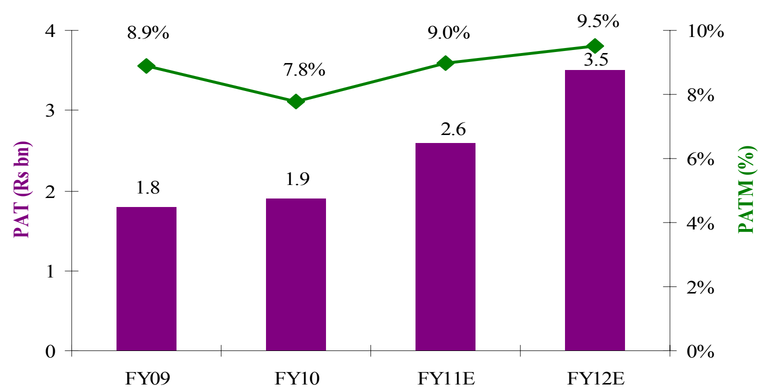
Uflex has witnessed EBITDA margin of 18.4% in FY10. ***We expect the company to stabilize its margin at 21% by FY12 on account of effective cost control measures taken and high margin innovative packaging solutions offered by the company.***



Source: Company & SKP Research

PAT margin to stabilize around 9.5%

PAT margin has decreased to 7.8% in FY10 vis-à-vis 8.9% last year. ***We expect PAT margin to stabilize around 9.5% by FY12. EPS of the company is expected to grow from Rs 29.6 in FY10 to Rs 47.8 in FY12.***



Source: Company & SKP Research

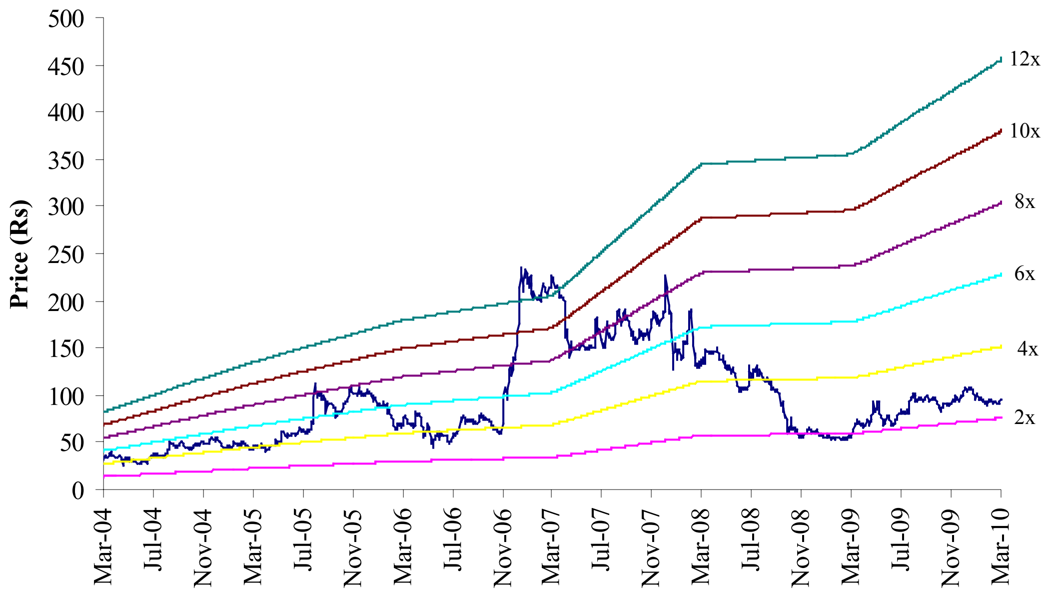
Outlook and Valuation

The flexible packaging industry is expected to sustain the growth of 15-20% per annum over the next two years. Rising middle class and more effort of FMCG majors to penetrate in to rural markets, preservation of food and other products will lead the market towards better quality standards and technically improved products. There will be increase in the demand of special films that can be used for various type of packaging in various industries.

All these factors make the industry highly lucrative. Uflex, being the largest player in domestic markets is all set to cater the increasing demand of the industry and reap the benefits.

At the current market price of Rs 132, the stock is trading at a P/E of 3.7x and 2.8x of FY11E and FY12E earnings of Rs 35.7 and Rs 47.8 respectively. ***We recommend BUY rating on the stock with a target price of Rs 191/- (45% upside) in 18 months at the P/E of 4x on FY12 earnings.***

One year forward P/E Band



Source: SKP Research

Financials (Rs mn)

Income Statement

Particulars	FY09	FY10	FY11E	FY12E
Net sales	20421.0	24010.4	29081.5	36729.3
Growth (%)	*24.6%*	*17.6%*	*21.1%*	*26.3%*
EBIDTA	2706.5	4422.4	5653.3	7682.4
EBIDTA Margin (%)	*13.3%*	*18.4%*	*19.4%*	*20.9%*
Growth (%)	*38.0%*	*63.4%*	*27.8%*	*35.9%*
Depreciation	1002.9	1190.0	1211.7	1720.4
EBIT	1703.7	3232.4	4441.5	5962.03
EBIT Margin (%)	*8.3%*	*13.5%*	*15.3%*	*16.2%*
Growth (%)	*53.4%*	*89.7%*	*37.4%*	*34.2%*
Interest	1048.7	1223.0	1220.2	1634.0
Other Income	1176.1	206.0	261.7	330.6
Exceptional Item	0.0	0.0	0.0	0.0
EBT	1831.0	2215.4	3483.1	4658.6
Tax	3.4	331.3	870.8	1164.6
Extraordinary Item	0.0	0.0	0.0	0.0
Minority Interest	0.1	0.8	1.0	1.2
Profit/(Loss) of Associat	39.55	0.0	0.0	0.0
PAT	1867.1	1926.4	2611.3	3492.7
PAT Margin (%)	*9.1%*	*8.0%*	*9.0%*	*9.5%*
Growth (%)	*67.7%*	*3.2%*	*35.6%*	*33.8%*
Diluted EPS (Rs.)	28.7	29.6	35.7	47.8

Balance Sheet

Particulars	FY09	FY10E	FY11E	FY12E
Equity Capital	649.7	649.7	731.0	731.0
Reserves	7966.0	9568.7	12697.5	15649.5
Share Warrants	179.1	0.0	0.0	0.0
Net worth	8794.8	10218.5	13428.5	16380.5
Long-term Loan	13694.5	14440.0	15252.8	20425.5
Minority Interest	87.9	88.7	89.6	90.8
Deferred Tax Liab.	877.7	877.7	877.7	877.7
Total Liabilities	**23454.7**	**25624.8**	**29648.6**	**37774.4**
Net Fixed Assets	14518.0	13751.0	14931.3	25059.0
Capital WIP	592.5	1610.0	3000.0	0.0
Investments	973.7	973.7	973.7	973.7
Inventories	2237.6	2641.1	3199.0	3672.9
Accounts receivable	3950.5	4682.0	5670.9	6611.3
Cash & Bank	1189.9	1395.2	1120.8	844.3
Other Current Assets	22.2	26.1	31.6	39.9
Loan & Advances	5012.8	6242.7	7561.2	8447.7
Current Assets	**12412.9**	**14987.2**	**17583.4**	**19616.2**
Account payables	3797.4	4465.9	5409.2	6244.0
Other Current Liab	738.8	868.7	1052.2	1328.9
Provisions	506.6	363.1	379.1	302.1
Curr. liab. & prov.	**5042.9**	**5697.7**	**6840.4**	**7875.0**
Net Current Assets	7370.0	9289.5	10743.0	11741.2
Miscellaneous Exp	0.5	0.5	0.5	0.5
Total Assets	**23454.7**	**25624.7**	**29648.6**	**37774.4**

Cash Flow Statement

Particulars	FY09	FY10E	FY11E	FY12E
Profit before Tax	1870.6	2215.4	3483.1	4658.6
Add: Depreciation, Int. & Other Expenses	1520.4	2413.0	2431.9	3354.4
Net changes in WC, tax interest	-2363.2	-2031.7	-2798.2	-2639.1
Cash flow from operating activities	**1027.8**	**2596.7**	**3116.8**	**5373.9**
Capital expenditure	-3029.7	-1610.6	-3782.0	-8848.0
Investments, Sales of FA, Div. Recd & others	2187.8	0.0	0.0	0.0
Cash flow from investing activities	**-841.9**	**-1610.6**	**-3782.0**	**-8848.0**
Cash flow from financing activities	**-1761.8**	**-780.9**	**390.8**	**3197.6**
Changes in Consolidation Reserve	**0.0**	**0.0**	**0.0**	**0.0**
Net Increase/Decrease in Cash & Cash Equivalents	**-1575.9**	**205.2**	**-274.4**	**-276.5**
Opening Cash Balance	2765.9	1190.0	1395.2	1120.8
Closing Cash Balance	**1190.0**	**1395.2**	**1120.8**	**844.3**

Key Ratios

Particulars	FY09	FY10E	FY11E	FY12E
Valuation Ratios				
P/E	4.6	4.5	3.7	2.8
P/Cash EPS	3.0	2.8	2.5	1.9
P/BV	1.0	0.8	0.7	0.6
EV/EBIDTA	7.8	4.9	4.2	3.8
EV/Sales	1.0	0.9	0.8	0.8
Earnings Ratios				
OPM	8.3%	13.5%	15.3%	16.2%
NPM	8.9%	7.8%	9.0%	9.5%
ROCE	7.6%	13.1%	15.5%	16.2%
ROE	21.2%	18.9%	19.4%	21.3%
Balance Sheet Ratios				
Current Ratio	2.5	2.6	2.6	2.5
Debt/Equity	1.6	1.4	1.1	1.3
Debtor days	72	66	65	61
Creditors Days	125	116	114	108
Inventory Days	67	68	67	64
FA/Turnover	0.99	1.06	1.2	1.2

Notes:

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg, Thomson First Call & Investext Myiris, Moneycontrol, Tickerplant and ISI Securities

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