

Polyplex Corporation

Performance Highlights

| Particulars (Rs cr) | 1QFY2011 | 1QFY2010 | %chg (yoy) | 4QFY2010 | %chg (qoq) |
|---------------------|----------|----------|------------|----------|------------|
| Net Sales | 427 | 301 | 41.7 | 321 | 33.0 |
| EBITDA | 89 | 55 | 60.7 | 59 | 50.3 |
| EBITDA Margin (%) | 20.8 | 18.4 | 247bp | 18.4 | 240bp |
| Net Profit | 39 | 7 | 461 | 41 | (3.5) |

Source: Company, Angel Research

Polyplex Corporation (PCL) reported higher-than-estimated 1QFY2011 numbers. Net sales grew 41.7% yoy to Rs427cr (Rs301cr). The company reported (247)bp expansion in OPM to 20.8% (18.4%). Net profit surged 461% yoy to Rs39cr (Rs7cr) on strong demand. **We maintain an Accumulate on the stock.**

Results above expectation: PCL reported a growth of 41.7% yoy to Rs427cr (Rs301cr) in top-line on the back of higher capacity utilisation, commencement of new BOPP and PET plants in India and higher selling price due to favourable market conditions and strong demand. PCL reported OPM of 20.8% (18.4%) for the quarter, which expanded by 247bp yoy and also exceeded our estimate of 18.5%. Net profit jumped 461% yoy to Rs39cr (Rs7cr) largely on the back of higher top-line and OPM expansion.

Outlook and Valuation: The polyester films segment cycle is on an uptrend and is witnessing strong demand. We believe that PCL is well placed to service such burgeoning 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. We have revised upwards our top-line and bottom-line estimates for FY2011 and FY2012 to reflect the same. Accordingly, we expect PCL to register 22% and 30% CAGR in net sales to Rs1,822cr and net profit to Rs160cr respectively, over FY2012E. At current levels, the stock is trading at 0.6x P/BV FY2012E. Thus, on the back of 30% CAGR in earnings over FY2010-12E and inexpensive valuations, we maintain an Accumulate on the stock, with a revised Target Price of Rs438 (Rs418).

Key Financials (Consolidated)

| Y/E March (Rs cr) | FY2009 | FY2010E | FY2011E | FY2012E |
|-------------------|--------|---------|---------|---------|
| Net Sales | 1,121 | 1,223 | 1,692 | 1,822 |
| % chg | 11.9 | 9.1 | 38.4 | 7.7 |
| Net Profit | 110 | 94 | 153 | 160 |
| % chg | 10.4 | (14.9) | 62.8 | 4.5 |
| EBITDA Margin (%) | 20.9 | 18.3 | 20.0 | 19.0 |
| FDEPS (Rs) | 69.0 | 58.8 | 95.7 | 100.0 |
| P/E (x) | 5.8 | 6.8 | 4.2 | 4.0 |
| RoE (%) | 19.4 | 13.9 | 19.4 | 17.2 |
| RoCE (%) | 14 | 10 | 15 | 15 |
| P/BV (x) | 1.0 | 0.9 | 0.7 | 0.6 |
| EV/Sales (x) | 1.1 | 1.1 | 0.7 | 0.6 |
| EV/EBITDA (x) | 5.2 | 6.1 | 3.5 | 3.0 |

Source: Company, Angel Research

ACCUMULATE

| | |
|--------------|-------|
| CMP | Rs399 |
| Target Price | Rs438 |

| | |
|-------------------|-----------|
| Investment Period | 12 Months |
|-------------------|-----------|

Stock Info

| | |
|--------------------|-----------|
| Sector | Packaging |
| Market Cap (Rs cr) | 638 |
| Beta | 0.5 |
| 52 Week High / Low | 412/164 |
| Avg. Daily Volume | 10238 |
| Face Value (Rs) | 10 |
| BSE Sensex | 18,167 |
| Nifty | 5,452 |
| 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 | 5.2 | 17.1 | 21.0 |
| Polyplex | 83.9 | 119.6 | 136.6 |

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Exhibit 1: 1QFY2011 performance (consolidated)

| | 1QFY2011 | 1QFY2010 | %chg (yoy) | 4QFY2010 | %chg (yoy) | FY2010 | FY2009 | %chg (yoy) |
|-------------------|------------|------------|-------------|------------|--------------|--------------|--------------|---------------|
| Net Sales | 427 | 301 | 41.7 | 321 | 33.0 | 1,223 | 1,121 | 9.1 |
| Total Expenditure | 338 | 246 | 37.4 | 262 | 29.1 | 999 | 886 | 12.8 |
| EBITDA | 89 | 55 | 60.7 | 59 | 50.3 | 224 | 235 | (4.6) |
| EBITDA Margin (%) | 20.8 | 18.4 | 247.2 | 18.4 | 240.3 | 18.3 | 20.9 | (264.2) |
| Depreciation | 21 | 14 | 41.6 | 16 | 31.5 | 60 | 54 | 10.8 |
| EBIT | 68 | 41 | 67.5 | 44 | 57.0 | 164 | 181 | (9.3) |
| Interest | 11 | 7 | 64.4 | 7 | 50.7 | 25 | 35 | (29.6) |
| Other Income | 12 | 3 | 285.1 | 13 | (7.6) | 17 | 21 | (16.0) |
| PBT | 69 | 37 | 86.5 | 49 | 40.8 | 156 | 166 | (5.8) |
| Tax | 11 | 20 | (43.1) | (6) | - | 19 | 12 | 61.0 |
| Minority Interest | 19 | 10 | 82.9 | 14 | 30.0 | 43 | 44 | (0.6) |
| Net Profit | 39 | 7 | 461 | 41 | (3.5) | 94 | 110 | (14.9) |
| Basic EPS (Rs) | 24.6 | 4.4 | 461 | 25.5 | (3.5) | 58.8 | 69.0 | (14.9) |

Source: Company, Angel Research

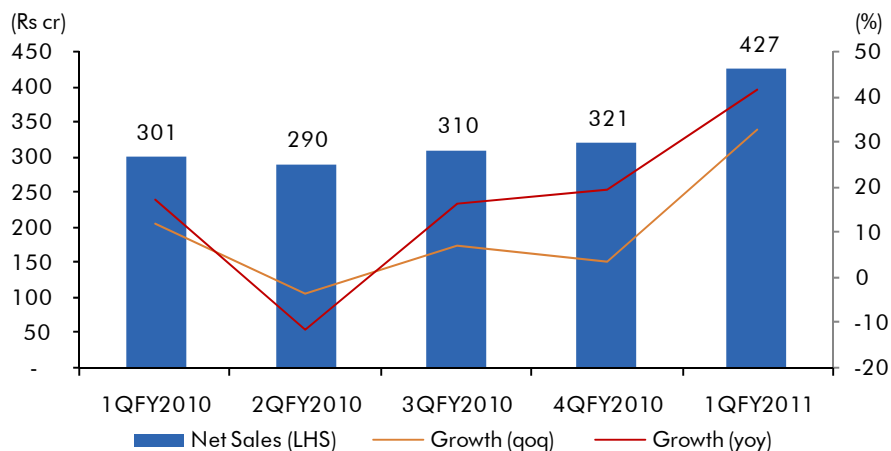
Exhibit 2: 1QFY2011- Actual v/s Angel estimates

| | Estimates | Actual | Variation(%) |
|-------------------|------------|------------|--------------|
| Net Sales | 395 | 427 | 8.0 |
| EBITDA | 73 | 89 | 21.7 |
| EBITDA Margin (%) | 18.5 | 20.8 | 235.3 |
| Depreciation | 16 | 21 | 31.3 |
| Interest | 12 | 11 | (3.2) |
| Net Profit | 31 | 39 | 26.3 |

Source: Company, Angel Research

Revenues up 41.7%, substantially above expectation: The company's net sales grew 41.7% yoy to Rs427cr (Rs301cr) for the quarter, driven by better capacity utilisation and commencement of the new BOPP and PET units in 4QFY2010. On a qoq basis, the company managed 33.0% growth in revenues. Going ahead, we expect revenues to increase further in 2QFY2011, as the PET films prices have risen in June on the back of strong demand and are expected to rule high till December 2010.

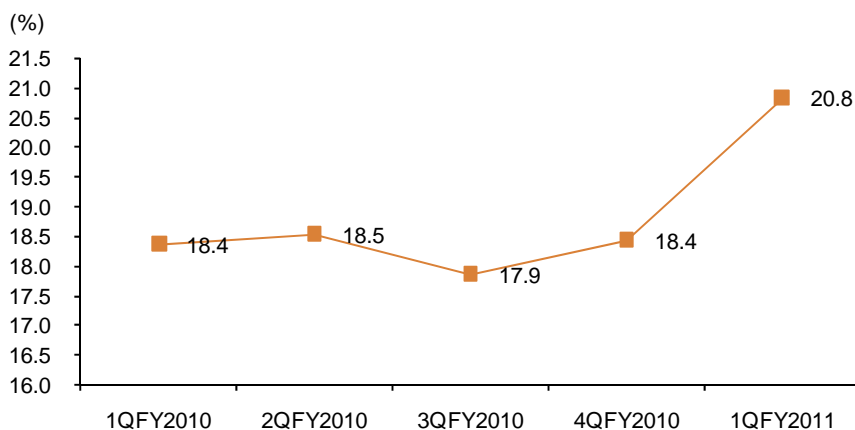
Exhibit 3: Sales trend



Source: Company, Angel Research

OPM expands on better realisations: PCL reported OPM of 20.8% (18.4%) for the quarter, which expanded by 247bp and surpassed our estimate of 18.5%. On a qoq basis, OPM increased by 240bp on the back of strong demand for polyester films and increase in selling price, which was much higher than the increase in the raw material cost.

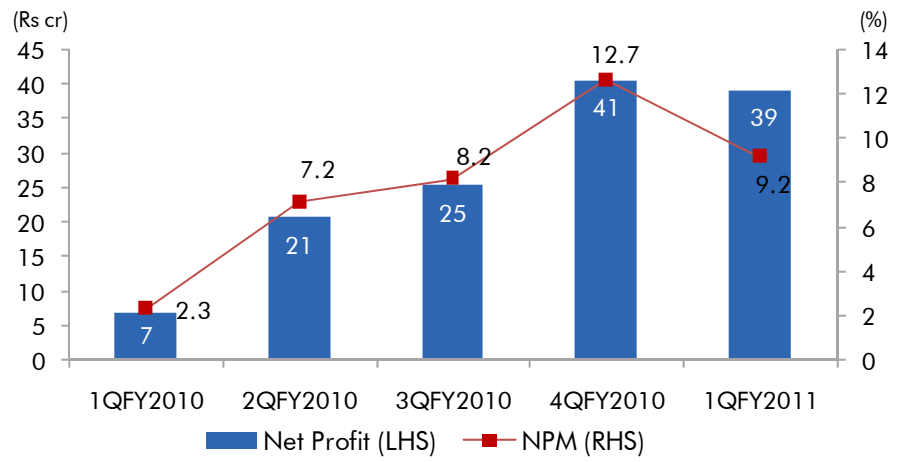
Exhibit 4: Strong expansion in OPM



Source: Company, Angel Research

Bottom-line jumps on OPM expansion and higher other income: In 1QFY2011, net profit spiked to Rs39cr (Rs7cr), up by a significant 461% yoy on higher top-line, OPM expansion and a substantial 285% increase in other income to Rs12cr (Rs3cr).

Exhibit 5: NPM trend



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 CPP segments. In FY2010, global demand for BOPP far exceeded supply, with an estimated BOPP production of ~6,046kilo tonne/year v/s ~6,648kilo tonne/year of demand. To meet such growing demand, PCL has set up new BOPP capacity of 35,000tpa in India as well as a new 10,000tpa 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 20% CAGR in consolidated 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 Rs1557cr and is available at 2.2x P/BV. However, PCL has a market cap of Rs638cr or 0.9x FY2010E P/BV, which is at more than 59% discount to PTL's market cap and at a discount of nearly 30% to PCL's 70% stake in PTL, which works out to around Rs1090cr. In comparison to its peers too, PCL is available at inexpensive valuations of 0.6x FY2012E P/BV, with Cosmo Films, Jindal Poly and Ester trading between 0.8x-1.6x 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 and considering the 30% CAGR in earnings over FY2010-12E, we value PCL at the upper band (0.7x) FY2012E P/BV.

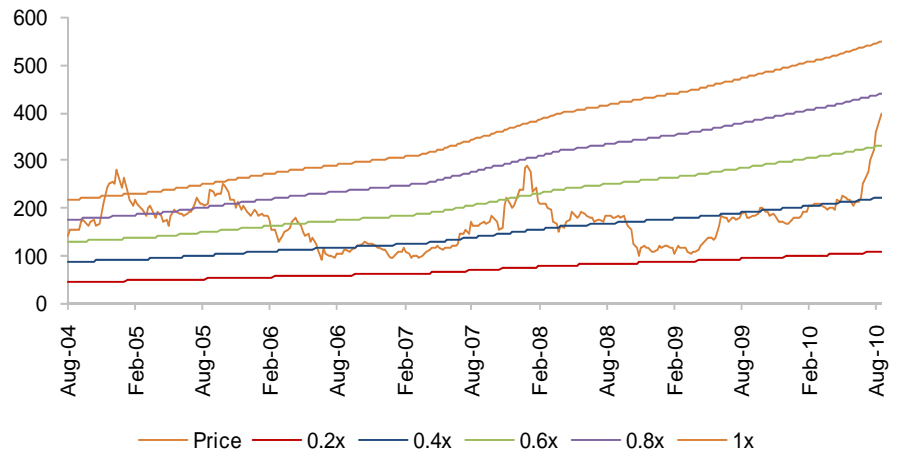
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Exhibit 6: Key assumptions

| (%) | Estimates | |
|----------------------|-----------|--------|
| | FY2011 | FY2012 |
| Sales Growth | 38.4 | 7.7 |
| Capacity Utilisation | | |
| -BOPP | 75.0 | 85.0 |
| -CPP | 50.0 | 70.0 |
| Operating Margin | 20.0 | 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 |
|--------------------------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Net Sales | 767 | 1,001 | 1,121 | 1,223 | 1,692 | 1,822 |
| % chg | 44.4 | 30.5 | 11.9 | 9.1 | 38.4 | 7.7 |
| Total Expenditure | 674 | 834 | 886 | 999 | 1,354 | 1,476 |
| Net Raw Materials | 550 | 691 | 681 | 771 | 1,049 | 1,148 |
| Other Mfg costs | 126.7 | 144.9 | 198.6 | 277.2 | 321.5 | 346.1 |
| Other | (2.8) | (1.9) | 6.2 | (48.6) | (16.9) | (18.2) |
| EBITDA | 92.9 | 167.6 | 234.6 | 223.7 | 338.4 | 345.7 |
| % chg | 7.77 | 80.55 | 39.92 | (4.64) | 51.29 | 2.17 |
| (% of Net Sales) | 12.1 | 16.7 | 20.9 | 18.3 | 20.0 | 19.0 |
| Depreciation & Amortisation | 35.1 | 21.2 | 54.0 | 59.9 | 62.5 | 65.6 |
| EBIT | 57.7 | 146.5 | 180.5 | 163.8 | 275.9 | 280.1 |
| % chg | (3.2) | 153.8 | 23.3 | (9.3) | 68.4 | 1.5 |
| (% of Net Sales) | 7.5 | 14.6 | 16.1 | 13.4 | 16.3 | 15.4 |
| 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% | 7.6% | 7.0% |
| Recurring PBT | 48.0 | 137.0 | 165.9 | 156.3 | 248.4 | 259.6 |
| % chg | (16.6) | 181.9 | 22.4 | (5.8) | 58.9 | 4.5 |
| PBT (reported) | 48.0 | 137.0 | 165.9 | 156.3 | 248.4 | 259.6 |
| Tax | 3.5 | 5.1 | 11.9 | 19.0 | 24.8 | 26.0 |
| (% of PBT) | 7.3 | 3.7 | 7.1 | 12.2 | 10.0 | 10.0 |
| PAT (reported) | 44.5 | 131.9 | 154.0 | 137.3 | 223.5 | 233.7 |
| Less: Minority interest (MI) | 12.7 | 30.4 | 43.6 | 43.3 | 70.5 | 73.7 |
| PAT after MI (reported) | 31.9 | 101.6 | 110.4 | 94.0 | 153 | 160 |
| ADJ. PAT | 31.9 | 101.6 | 110.4 | 94.0 | 153 | 160 |
| % chg | (16.6) | 213.6 | 10.4 | (14.9) | 62.8 | 4.5 |
| (% of Net Sales) | 4.2 | 10.1 | 9.9 | 7.7 | 9.0 | 8.8 |
| Basic EPS (Rs) | 21.8 | 62.6 | 69.0 | 58.8 | 95.7 | 100.0 |
| Fully Diluted EPS (Rs) | 21.8 | 62.6 | 69.0 | 58.8 | 95.7 | 100.0 |
| % chg | (16.6) | 187.2 | 10.4 | (14.9) | 62.8 | 4.5 |

Balance Sheet (Consolidated)

| Y/E March (Rs cr) | FY07 | FY08 | FY09 | FY10E | FY11E | FY12E |
|-----------------------------|------------|--------------|--------------|--------------|--------------|--------------|
| SOURCES OF FUNDS | | | | | | |
| Equity Share Capital | 15 | 17 | 17 | 17 | 17 | 17 |
| Reserves & Surplus | 392 | 483 | 622 | 701 | 839 | 984 |
| Shareholders Funds | 407 | 500 | 639 | 718 | 856 | 1,001 |
| Minority Interest | 138 | 158 | 198 | 241 | 312 | 386 |
| Total Loans | 335 | 455 | 681 | 854 | 696 | 591 |
| Deferred Tax Liability | 16 | 14 | 15 | - | - | - |
| Total Liabilities | 897 | 1,127 | 1,533 | 1,813 | 1,864 | 1,978 |
| APPLICATION OF FUNDS | | | | | | |
| Gross Block | 827 | 825 | 1,205 | 1,643 | 1,715 | 1,800 |
| Less: Acc. Depreciation | 191 | 227 | 293 | 353 | 415 | 481 |
| Net Block | 636 | 598 | 912 | 1,290 | 1,299 | 1,320 |
| Capital Work-in-Progress | 26 | 264 | 218 | 72 | - | - |
| Goodwill | 1 | 0 | 1 | 1 | 1 | 1 |
| Investments | 52 | 15 | 50 | 50 | 50 | 50 |
| Current Assets | 291 | 390 | 503 | 568 | 737 | 848 |
| Cash | 29 | 20 | 93 | 121 | 134 | 197 |
| Loans & Advances | 28 | 43 | 52 | 57 | 63 | 69 |
| Inventories | 106 | 122 | 160 | 174 | 241 | 259 |
| Debtors | 128 | 205 | 198 | 216 | 299 | 322 |
| Current liabilities | 110 | 150 | 153 | 168 | 222 | 240 |
| Net Current Assets | 181 | 241 | 350 | 401 | 514 | 608 |
| Mis. Exp. not written off | 0 | 8 | 3 | - | - | - |
| Total Assets | 897 | 1,127 | 1,533 | 1,813 | 1,864 | 1,978 |

Cash flow Statement (Consolidated)

| Y/E March (Rs cr) | FY07 | FY08 | FY09 | FY10E | FY11E | FY12E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Profit before tax | 37 | 126 | 145 | 139 | 229 | 241 |
| Depreciation | 35 | 21 | 54 | 60 | 63 | 66 |
| Change in Working Capital | 5 | (68) | (36) | (21) | (98) | (27) |
| Other income | 11 | 10 | 21 | 17 | 19 | 18 |
| Direct taxes paid | 6 | 1 | 3 | 5 | 12 | 19 |
| Cash Flow from Operations | 83 | 88 | 181 | 190 | 201 | 279 |
| (Inc.) / Dec. in Fixed Assets | (159) | (236) | (333) | (292) | - | (86) |
| (Inc.) / Dec. in Investments | (23) | 37 | (35) | - | - | - |
| (Inc.) / Dec. in loans and advances | 15 | (16) | (9) | (5) | (6) | (6) |
| Cash Flow from Investing | (167) | (215) | (377) | (297) | (6) | (92) |
| 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) | (10) | (3) |
| Cash Flow from Financing | 91 | 118 | 269 | 135 | (182) | (124) |
| Inc. / (Dec.) in Cash | 6 | (9) | 73 | 27 | 13 | 64 |
| Opening Cash balances | 23 | 29 | 20 | 93 | 121 | 134 |
| Closing Cash balances | 29 | 20 | 93 | 121 | 134 | 197 |

Key Ratios

| Y/E March | FY07 | FY08 | FY09 | FY10E | FY11E | FY12E |
|--|------|------|------|-------|-------|-------|
| Valuation Ratio (x) | | | | | | |
| P/E (on FDEPS) | 18.3 | 6.4 | 5.8 | 6.8 | 4.2 | 4.0 |
| P/E (on basic, reported EPS) | 18.3 | 6.4 | 5.8 | 6.8 | 4.2 | 4.0 |
| P/CEPS | 8.7 | 5.2 | 3.9 | 4.2 | 3.0 | 2.8 |
| P/BV | 1.4 | 1.3 | 1.0 | 0.9 | 0.7 | 0.6 |
| Dividend yield (%) | 1.0 | 1.5 | 1.8 | 2.0 | 2.0 | 2.0 |
| Market cap. / Sales | 0.8 | 0.6 | 0.6 | 0.5 | 0.4 | 0.4 |
| EV/Sales | 1.2 | 1.1 | 1.1 | 1.1 | 0.7 | 0.6 |
| EV/EBITDA | 9.6 | 6.4 | 5.2 | 6.1 | 3.5 | 3.0 |
| EV / Total Assets | 1.0 | 1.0 | 0.8 | 0.8 | 0.6 | 0.5 |
| Per Share Data (Rs) | | | | | | |
| EPS (Basic) | 22 | 63 | 69 | 59 | 96 | 100 |
| EPS (fully diluted) | 22 | 63 | 69 | 59 | 96 | 100 |
| Cash EPS | 56 | 115 | 144 | 131 | 192 | 201 |
| DPS | 4.0 | 6.0 | 7.0 | 8.0 | 8.0 | 8.0 |
| Book Value | 278 | 313 | 399 | 449 | 535 | 626 |
| ROE Decomposition (%) | | | | | | |
| EBIT margin | 7.5 | 14.6 | 16.1 | 13.4 | 16.3 | 15.4 |
| 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 | 1.1 |
| ROIC (Post-tax) | 6.6 | 12.9 | 12.1 | 8.8 | 14.8 | 14.6 |
| 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 | 0.4 |
| Operating ROE | 6.9 | 18.4 | 16.8 | 13.8 | 21.3 | 18.5 |
| Returns (%) | | | | | | |
| ROCE (Pre-tax) | 6.9 | 14.5 | 13.6 | 9.8 | 15.0 | 14.6 |
| Angel ROIC (Pre-tax) | 7.3 | 17.7 | 15.4 | 10.4 | 16.4 | 16.2 |
| ROE | 8.5 | 22.4 | 19.4 | 13.9 | 19.4 | 17.2 |
| Turnover ratios (x) | | | | | | |
| Inventory / Sales (days) | 53 | 41 | 46 | 50 | 45 | 50 |
| Receivables (days) | 54 | 61 | 66 | 62 | 56 | 62 |
| Payables (days) | 43 | 42 | 41 | 38 | 34 | 39 |
| Working capital cycle (ex-cash) (days) | 78 | 68 | 78 | 80 | 71 | 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 | No |
| 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.

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