

Prima Plastics

BUY
Robust volume growth to boost performance

Summary

- Prima Plastics' (Prima) Q1FY18 standalone result came as a mixed bag where revenue and PAT was below expectation while EBITDA was in line with our expectation.
- The company expanded its West Africa capacity to 8,500MT from 4,500MT, started new capacity of 3,000MT at Central America while added new capacity of 1,500MT at Hyderabad from Q4FY17, which would drive growth from FY18.
- We expect its revenue/EBITDA/PAT CAGR of 27.3%/35.9%/45% during FY17-FY19E on the back of volume growth and better margins at overseas business. We are raising our TP to Rs283 (14x FY19E EPS) from Rs271. Maintain BUY.

Key Highlights and Investment Rationale

- Standalone business: Higher margin was offset by lower volume growth**
Revenue remained flattish YoY to Rs209 mn against our expectation of Rs224 mn due to negative impact on sales volume owing to GST implementation. However, due to lower other expenses and raw material costs, EBITDA margin improved to 10.4% in Q1FY18 vs 9.5% in Q1FY17 and our expectation of 9.4%. Consequently, EBITDA increased 10.9% YoY to Rs22 mn. But due to lower than expected other income, PAT declined 24.3% YoY to Rs12 mn.
- Capacity expansion, new products & expansion to new geographies to drive growth**
The company expanded capacity by almost 80% from Q4FY17 which would be sufficient to boost growth over the next couple of years. New plant at Hyderabad would cater the demand at Odissa and AP. Also, the company is looking to strengthen its business to Northern region and in other African countries as well. Also, higher margin of over 29% overseas would expand overall margin.
- Raising TP to Rs283; Maintain BUY**
The stock is trading at a P/E multiple of 11.9x on FY19E. We are raising our TP to Rs283 (14x FY19E EPS) from Rs271. **Maintain BUY.**

TP	Rs283
CMP	Rs239
Potential upside / downside	+18%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY18E	FY19E
IDBI Capital	15.4	20.2
Consensus	15.4	20.2
% difference	-	-

Shareholding Pattern (%)

Promoters	58.5
FII	0.2
DII	0.0
Public	41.3

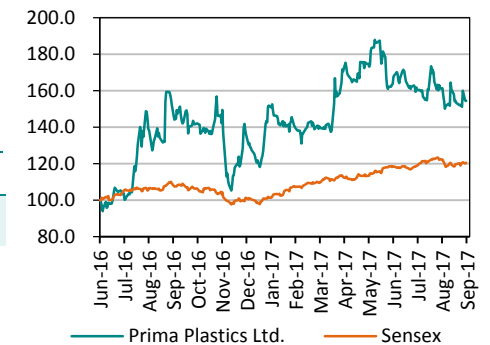
Price Performance (%)

	-1m	-3m	-12m
Absolute	0.7	(10.4)	5.9
Rel to Sensex	(2.4)	(13.8)	(7.6)

Key Stock Data

Bloomberg / Reuters	PRMP IN / PRIP.BO
Sector	Plastic Product
Shares o/s (mn)	11
Market cap. (Rs mn)	2,629
Market cap. (US\$ mn)	41
3-m daily average value (Rs mn)	252
52-week high / low	Rs315 / 165
Sensex / Nifty	32,186 / 10,079

Relative to Sensex (%)



Financial snapshot

Year	FY2015	FY2016	FY2017	FY2018E	FY2019E
Revenue	1,182	1,292	1,268	1,675	2,054
EBITDA	138	198	202	290	372
EBITDA (%)	11.7	15.3	15.9	17.3	18.1
Adj. PAT	67	123	107	170	222
EPS (Rs)	6.1	11.2	9.7	15.4	20.2
EPS Growth (%)	(12.1)	83.5	(13.3)	59.2	30.9
PE (x)	39.3	21.4	24.7	15.5	11.9
Dividend Yield (%)	0.6	0.9	1.0	1.6	2.1
EV/EBITDA (x)	18.9	12.9	13.1	9.0	6.8
RoE (%)	12.3	20.4	15.5	21.4	23.7
RoCE (%)	17.9	26.2	22.8	27.5	30.6

Source: Company; IDBI Capital Research

Table 1: Financial snapshot (Standalone)

(Rs mn)

Year-end: March	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Revenues	209	205	2.0	249	(16.0)
Expenditure	188	186	1.1	219	(14.4)
COGS	122	121	0.9	145	(15.6)
Employee Cost	21	15	36.8	16	28.9
Other Expenses	45	50	(9.2)	59	(23.1)
EBITDA	22	20	10.9	30	(27.4)
Depreciation	3	2	61.9	3	18.5
Interest	1	1	(12.2)	1	0.0
Other Income	3	4	(27.6)	18	(85.9)
PBT	20	20	0.1	44	(55.6)
Tax	8	4	103.8	14	(45.3)
Tax Rate (%)	39	19		31	
Adjusted PAT	12	16	(24.3)	30	(60.3)
Adjusted EPS	1.1	1.4	(24.3)	2.7	(60.3)
Margins (%)					
EBITDA	10.4	9.5	83	12.0	(164)
PAT	5.7	7.7	(199)	12.1	(640)

Lower volume growth owing to GST implementation impacted revenue growth negatively.

Source: Company; IDBI Capital Research

Table 2: Actual vs. estimates

Year to March	Q1FY18	Q1FY18E	Variance (%)
Revenues	209	224	(6.6)
Operating Profit	22	21	1.9
Adj. PAT	12	16	(24.1)
Adj EPS	1.1	1.4	(24.1)
EBITDA (%)	10.4	9.4	320bps

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Net sales	1,292	1,268	1,675	2,054
<i>Growth (%)</i>	9.3	(1.8)	32.1	22.6
Operating expenses	(1,094)	(1,066)	(1,385)	(1,682)
EBITDA	198	202	290	372
<i>Growth (%)</i>	43.3	2.1	43.6	28.2
Depreciation	(35)	(32)	(45)	(55)
EBIT	163	171	245	316
Interest paid	(4)	(8)	(8)	(8)
Other income	13	12	24	25
Pre-tax profit	172	175	261	333
Tax	(49)	(69)	(89)	(108)
<i>Effective tax rate (%)</i>	28.4	39.1	34.3	32.4
Net profit	123	107	171	225
Adjusted net profit	123	107	170	222
<i>Growth (%)</i>	83.5	(13.3)	59.2	30.9
<i>Shares o/s (mn nos)</i>	11	11	11	11

Cash Flow Statement

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Pre-tax profit	172	175	261	333
Depreciation	35	32	45	55
Tax paid	(49)	(69)	(89)	(108)
Chg in working capital	(1)	17	(75)	(84)
Other operating activities	(9)	-	(2)	-
Cash flow from operations (a)	148	155	139	197
Capital expenditure	(65)	(220)	(60)	(60)
Chg in investments	-	-	-	-
Other investing activities	-	-	-	(3)
Cash flow from investing (b)	(65)	(220)	(60)	(63)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(27)	102	(24)	17
Dividend (incl. tax)	(25)	(27)	(42)	(56)
Other financing activities	-	-	-	-
Cash flow from financing (c)	(51)	75	(66)	(39)
Net chg in cash (a+b+c)	32	10	13	95

Balance Sheet

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Net fixed assets	213	402	417	421
Investments	5	5	5	5
Other non-curr assets	26	26	26	26
Current assets	552	546	686	911
Inventories	199	192	250	309
Sundry Debtors	180	181	230	281
Cash and Bank	100	110	123	219
Marketable Securities	-	-	-	-
Loans and advances	73	63	84	103
Total assets	797	979	1,134	1,364
Shareholders' funds	649	729	856	1,023
Share capital	110	110	110	110
Reserves & surplus	539	619	746	913
Total Debt	8	109	86	102
Secured loans	1	1	1	1
Unsecured loans	7	108	84	101
Other liabilities	-	-	-	-
Curr Liab & prov	140	140	192	238
Current liabilities	95	88	114	138
Provisions	45	53	78	100
Total liabilities	148	250	278	341
Total equity & liabilities	797	979	1,134	1,364
Book Value (Rs)	59	66	78	93

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY16	FY17	FY18E	FY19E
Adj. EPS (Rs)	11.2	9.7	15.4	20.2
Adj. EPS growth (%)	83.5	-13.3	59.2	30.9
EBITDA margin (%)	15.3	15.9	17.3	18.1
Pre-tax margin (%)	13.3	13.8	15.6	16.2
ROE (%)	20.4	15.5	21.4	23.7
ROCE (%)	26.2	22.8	27.5	30.6
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.7	1.4	1.6	1.6
Leverage factor (x)	1.2	1.3	1.3	1.3
Net margin (%)	9.5	8.4	10.1	10.8
Net Debt/Equity (x)	(0.1)	0.0	0.0	(0.1)
Working Capital & Liquidity ratio				
Inventory days	56	55	54	55
Receivable days	51	52	50	50
Payable days	32	30	30	30

Valuation

Year-end: March	FY16	FY17	FY18E	FY19E
PER (x)	21.4	24.7	15.5	11.9
Price / Book value (x)	4.1	3.6	3.1	2.6
PCE (x)	16.7	19.1	12.3	9.5
EV / Net sales (x)	2.0	2.1	1.6	1.2
EV / EBITDA (x)	12.9	13.1	9.0	6.8
Dividend Yield (%)	0.9	1.0	1.6	2.1



Notes

Dealing

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Key to Ratings Stocks:
BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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