May 16, 2018

Kanpur Plastipack (KANPLA)

₹ 150

Expansion on track, volume growth to follow

Rating matrix

Rating	:	Buy
Target	:	₹ 200
Target Period	:	12-18 months
Potential Upside	:	33%

What's changed?

Target	Changed from ₹ 180 to ₹ 200
EPS FY19E	Changed from ₹ 11.1 to ₹ 12.9
EPS FY20E	Changed from ₹ 14.6 to ₹ 15.4
Rating	Unchanged

Key financials

₹ crore	FY17	FY18	FY19E	FY20E
Net Sales	246.8	285.5	327.8	413.1
EBITDA	33.5	35.8	42.6	53.7
Net Profit	14.3	16.9	18.4	22.1
EPS	10.0	11.8	12.9	15.4

Valuation summary

	FY17	FY18	FY19E	FY20E
P/E	15.1	12.8	11.7	9.7
Target P/E	20.1	17.0	15.5	13.0
EV / EBITDA	8.6	8.3	8.1	6.6
P/BV	2.6	2.1	1.7	1.5
RoNW	17.4	16.1	14.3	15.0
RoCE	17.2	15.6	13.2	15.0
ROIC	18.2	19.9	13.6	15.2

Stock data

Stock Data	₹ crore
Market Capitalization	214.9
Total Debt (FY18)	90.0
Cash and Cash Equivalent (FY18)	7.4
Enterprise Value	297.6
52 week H/L	189 / 103
Equity Capital	14.3
Face Value	₹ 10
MF Holding (%)	0
FII Holding (%)	0

*Mcap and Equity capital incorporated for rights issue

Stock data

	1M	3M	6M	12M
Kanpur Plastipack	8.6	-6.3	33.8	10.0
NeoCorp Int	14.9	-5.0	-13.3	-59.7
Emmbi Ind	-6.5	-16.2	-26.9	2.5

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- Kanpur Plastipack (KPL) reported a robust Q4FY18 performance
- Net sales for the quarter came in at ₹ 75.8 crore, up 14.7% YoY
- EBITDA in Q4FY18 was at ₹ 10.4 crore (up 30.8% YoY) with corresponding EBITDA margins at 13.5% (up 170 bps YoY) largely driven by operational efficiencies amid raw material price pressure
- PAT in Q4FY18 came in at ₹ 6.1 crore, up 131.2% YoY
- KPL is well on track to commission its expanded FIBC & MFY capacity in phases over FY19E-20E thereby leading to robust volume led sales and profitability growth in FY18-20E

Impressive expansion set to get commissioned, strengthens outlook

KPL has been operating its FIBC manufacturing capacity of ~15,500 tonne at almost full (~100%) utilisation levels in FY16-18. Sensing the same, KPL is currently embarking on an impressive expansion to add 8,400 tonne FIBC capacity at a capex of ~₹ 85 crore financed with a mix of debt & equity. This expansion will be commissioned progressively in phases with commercial production beginning July 2018 up until H1FY20. At peak utilisation levels, it will generate sales of ~₹ 130 crore, with intended RoCE of ~16-18%. Furthermore, the company also plans to expand its multi filament yarn (MFY) capacity by 5400 tonne (3350 tonne capacity as of FY18) in a phased manner in FY19E-20E at a capex of ~₹ 17 crore (debt ₹ 11 crore, internal accruals ₹ 6 crore). At optimum utilisation levels, the same is likely to provide incremental sales of ~₹ 65 crore and RoCE in excess of 20%. Therefore, the business outlook is strong with multiple expansion projects on the anvil. This is further bolstered by the strong demand outlook for its products, placing KPL on a solid pedestal to deliver impressive volume led growth in FY18-20E.

Outpacing commodity space, value added offerings the differentiator!

KPL graduated into FIBC, bulk bags player in 1999 from predominantly a manufacturer of flat raffia tapes & HDPE woven sacks 1971. The company marked its turnaround in 2011 via backward integration into MFY that led to increasing its value added FIBC offerings and deeper export penetration. This strategic move helped KPL improve its EBITDA margins from 8.6% in FY11 (up 390 bps) to 12.5% in FY18 after peaking at 13.6% in FY17. Hence, KPL has evolved through innovation in the commodity space by harbouring long standing customer relationships with FY11-18 sales, EBITDA, PAT CAGR of 13.4%, 19.6%, 27.9%, respectively.

Bullishness reloaded, strong earnings trajectory, warrant re-rating

KPL has been a pioneer in the FIBC space with impressive history of upgradation of its product profile. After facing capacity constraints over FY16-18, the wait is finally over with expanded capacity coming on stream in a phased manner from July 2018 onwards. In FY18, the management successfully negated rising raw material cost pressures to maintain a healthy 12.5% EBITDA margin and improved on its working capital cycle with net working capital days at 105 days (120 days in FY17). With impressive average CFO generation of ~₹ 25 crore (implied CFO yield of 12.8%) in FY18-20E, the planned expansion capex of ~₹ 100 crore will comfortably be met through a mix of debt, equity. Consequent debt: equity is expected at 1x and is well within our comfort. Going forward, incorporating the positives, we expect sales, EBITDA & PAT to grow at a CAGR of 20.3%, 22.5% & 14.4%, respectively, in FY18-20E. We value KPL at ₹ 200 i.e. 14.0x P/E on FY19E & FY20E average EPS of ₹ 14.1 and ascribe a **BUY** rating to the stock. We also derive comfort from prudent management pedigree and healthy return ratios profile at ~15%.

Company Analysis

Kanpur Plastipack is a 46-year-old company operating out of Kanpur manufacturing FIBC. KPL was founded in 1971 by MS Agarwal as a manufacturer of raffia flat tapes and HDPE woven sacks. The company has constantly evolved through innovation by entering the FIBC space in 1999. Thereafter, it marked its turnaround through backward integration by manufacturing MFY since 2011. KPL's success is driven by its relation led marketing mantra backed by its low cost manufacturing, quality product and wide distribution network. This is clearly reflected in its revenues as top five customers constitute 46% of sales with the next five constituting 16% and the remaining at 38%. As of FY17, KPL has an annual manufacturing capacity of 15500 tonne and 3350 tonne of FIBC and MFY, respectively. The company operates in over 30 countries with exports contributing ~80% of sales in FY17. All its products are polymer based with polypropylene as its major raw material.

In 2008, KPL was the first company to receive certification to manufacture food grade FIBC

In synthetic packaging, it manufactures polymer based flexible intermediate bulk containers (FIBC) that are both generalised as well as embedded with specific properties

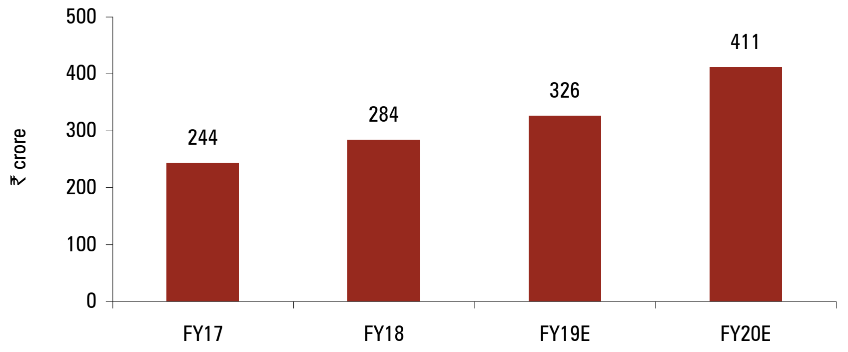
The company is currently headed by Manoj Agarwal (MD) and Shashank Agarwal (Deputy-MD). KPL's three generations of professional entrepreneurs have helped maintain their long standing customer relations and driven innovation

Revenue growth to emerge post capacity expansion in FY19E

Revenues have witnessed robust growth in the past, with sales increasing at a CAGR of 13% in FY11-18. Sensing capacity constraints, the management is now executing an impressive capex plan that will propel its next leg of growth thereby providing robust topline and bottomline growth over FY19-20E and beyond.

The expansion is set to add 8400 tonne FIBC capacity at a capex of ~₹ 85 crore, which is expected to be completely absorbed over a two to three year period. The expansion will be commissioned progressively in phases with commercial production beginning July 2018 until H1FY20

Exhibit 1: Sales trend

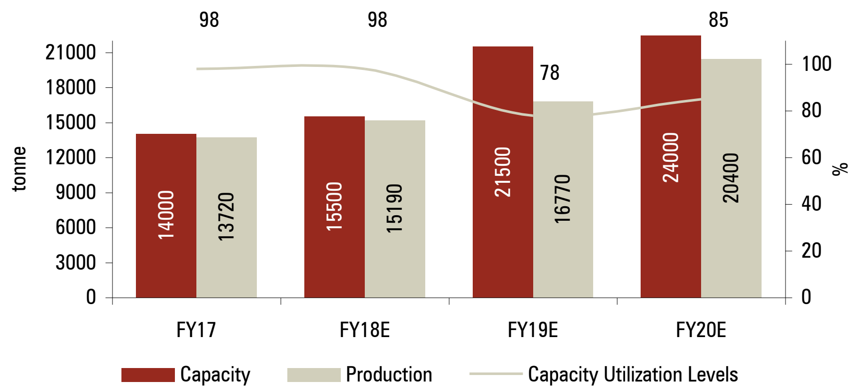


Source: Company, ICICI Direct Research

Going forward, we expect revenues to grow at 20.3% CAGR in FY18-20E with a robust jump expected in FY20E.

KPL operated at almost 100% utilisation levels in FY16-18

Exhibit 2: Capacity, production & capacity utilisation levels

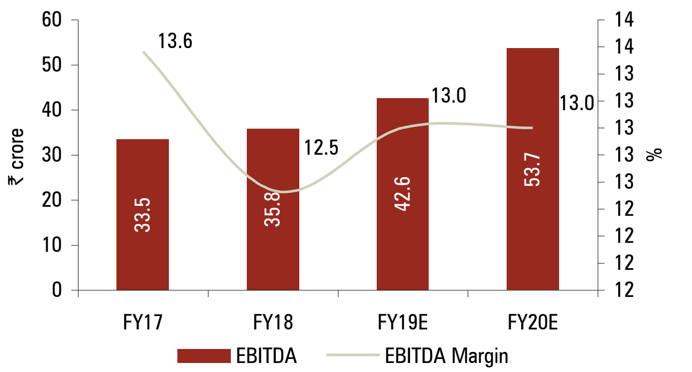


Source: Company, ICICI Direct Research

EBITDA, PAT to gain momentum with healthy topline growth!

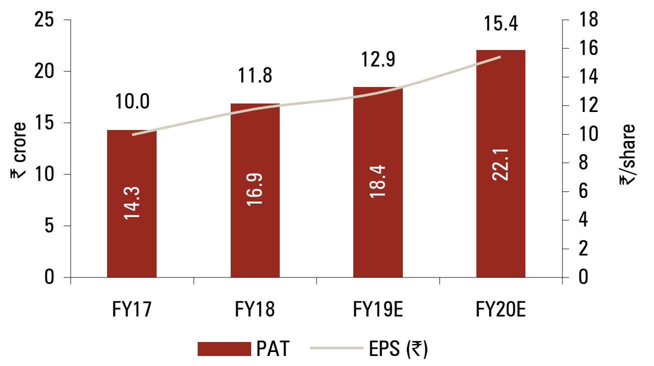
We expect EBITDA to grow at a robust pace of 22.5% CAGR in FY18-20E largely tracking strong sales growth on account of capacity expansion. Also, we expect KPL to improve EBITDA margins marginally by 50 bps to 13.0% in FY20E. The improvement in EBITDA margins will be largely on the back of an improving product mix in favour of value added products and additional sweating of new assets.

Exhibit 3: EBITDA & EBITDA margins trend



Source: Company, ICICI Direct Research

Exhibit 4: PAT & EPS trend



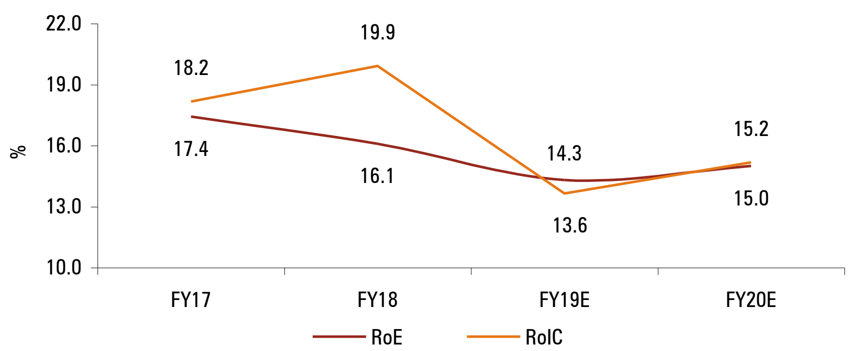
Source: Company, ICICI Direct Research

PAT is expected to reach ₹ 22.1 crore in FY20E (₹ 16.9 crore in FY18) growing at a healthy CAGR of 14.4% in FY18-20E. PAT growth lags topline and EBITDA growth, owning to higher incidence of depreciation & interest on account of commissioning of new facility in FY19E. EPS in FY19E is expected at ₹ 12.9/share while the same in FY20E is expected at ₹ 15.4/share.

Return ratio profile to improve with further sweating of new capacity

Return ratios are expected to be suppressed in FY19E tracking the expanded asset base and is set to improve from FY20E and beyond with increasing utilisation levels of the new expanded capacity. RoE and RoCE are expected to decline to 13.6% and 14.3%, respectively, in FY19E from FY18 levels of 16.1% and 19.9%, respectively.

Exhibit 5: Return ratio profile



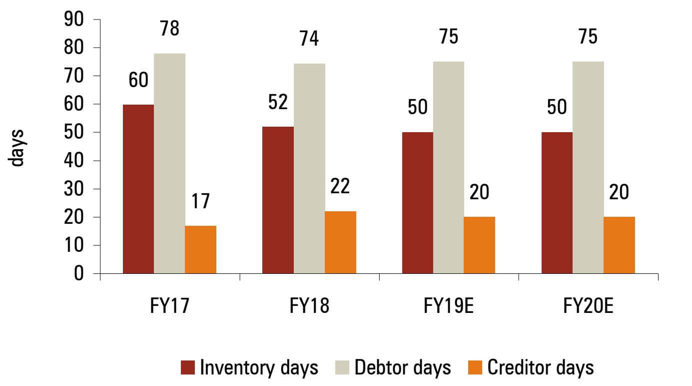
Source: Company, ICICI Direct Research

Going forward, however, as the new capacity gets commissioned and the company realises incremental sales & profitability we expect, RoE & RoCE to rebound to ~15% in FY20E.

Working capital cycle improves in FY18; to sustain at these levels

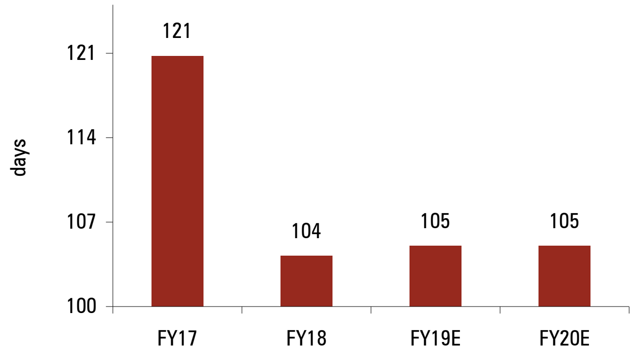
Working capital stretched considerably with net working capital (NWC) days coming in at 120 days in FY17 on account of higher inventory and debtor days. However, this has been normalised in FY18 with NWC days coming in at 104 days. Going forward, given the strong product demand and expanded capacity getting commissioned, the management is confident of maintaining the working capital cycle at current levels in FY18-20E.

Exhibit 6: Working capital components (days) trend



Source: Company, ICICI Direct Research

Exhibit 7: Net working capital days trend

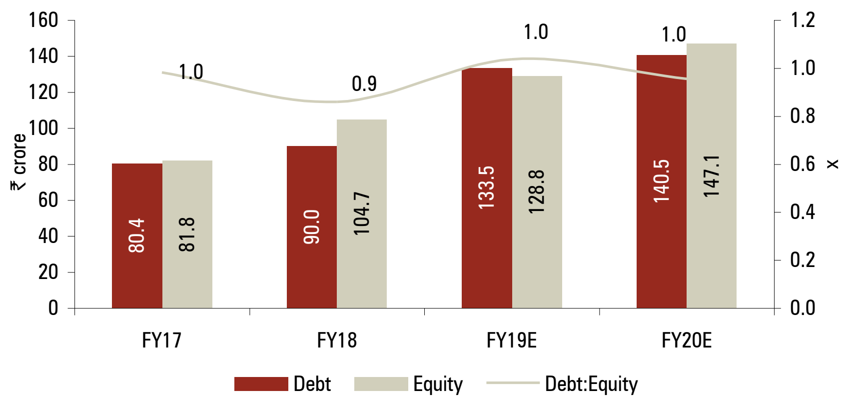


Source: Company, ICICI Direct Research

Debt gearing to peak in FY19, improve thereafter

Debt gearing significantly improved from 1.3x in FY15 to 0.9x in FY18. This was mainly due to its stable earnings profile and improved working capital management resulting in healthy CFO generation in FY15-18. Despite a major expansion being under way, we expect debt gearing to only increase marginally to 1.0x in FY19E with peak level of absolute debt at ~₹ 134 crore. The same is expected to decline from FY20E onwards.

Exhibit 8: Debt: equity profile



Source: Company, ICICI Direct Research

Outlook and valuation

KPL graduated into a FIBC and bulk bags player in 1999 from predominantly a manufacturer of flat raffia tapes and HDPE woven sacks in 1971. The company marked its turnaround in 2011 through backward integration into MFY that resulted in increasing its value added FIBC offerings and deeper export penetration. This strategic move helped KPL improve its EBITDA margins from 8.6% in FY11 (up 390 bps) to 12.5% in FY18 after peaking at 13.6% in FY17. Therefore, KPL has evolved through innovation in the commodity space by harbouring long standing customer relationships with FY11-18 sales, EBITDA and PAT CAGR of 13.4%, 19.6% and 27.9%, respectively.

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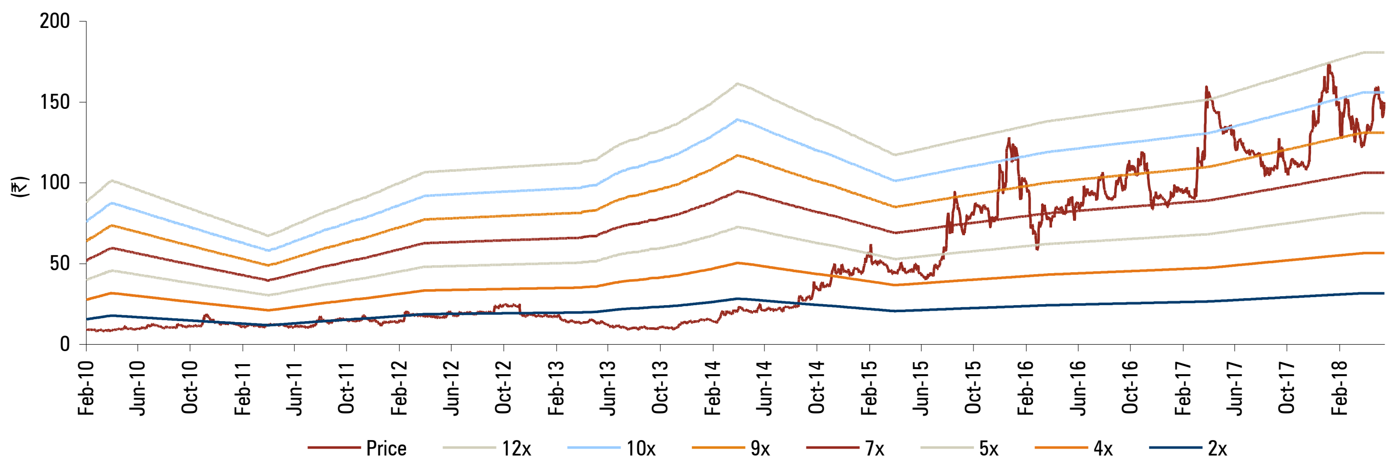
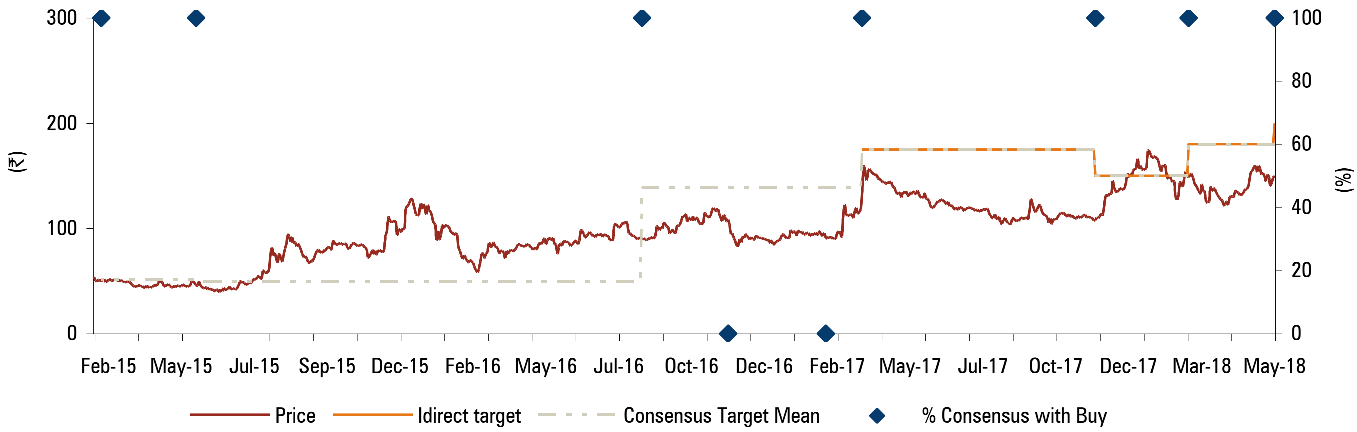
Exhibit 9: Two year forward P/E (Kanpur Plastipack currently trading at 9.7x)



Source: Reuters, ICICI Direct Research

Recommendation history vs. consensus estimate



*Source: Bloomberg, Company, ICICI Direct Research; *I-direct coverage on Kanpur Plastipack was initiated on March 2017*

Key events

Date/Year	Event
1971	Kanpur Plastipack (KPL) was founded by MS Agarwal. It began as a manufacturer of Raffia flat tapes and HDPE woven sacks at Kanpur
1999	The company graduated into a manufacture of Flexible Intermediate Bulk Container (FIBC) thereby expanding its geographical footprint
2002	KPL received the Best Customer Award from GAIL (India) Ltd
2007	The company came out with rights issue of 1:2 at a premium of ₹ 10/share
2008	Obtained the certification to manufacture food grade FIBCs and clean room bags. It became the first company to receive the same.
2010	Appointed Mr. Shashank Agarwal a graduate from the University of Nottingham, UK in B. Engg. (Hons.) (Manufacturing Engineering & Operations Management) as a Whole Time Director (Technical). Also appointed as the Del Credere Associate Cum Consignment Stockist for Indian Oil Corporation for their polymer division, while they surrendered their previous stockist-ship held with GAIL (India) Ltd
2011	Backward integrated into the manufacture of Multi Filament Yarn by setting up a 1200 tonne facility. Intends to use ~30% internally to manufacture value added FIBC's and market the remaining quantity outside. Issued Bonus in the ratio of 1:2
2012	KPLexpanded FIBC capacity from 10000 tonne to 13000 tonne in order to cater to the robust oversease demand. Exports rose 68.1% YoY to ₹ 153 crore in FY2012 vs. ₹ 91 crore in FY2011.
2015	Expanded FIBC capacity further to 14000 tonne through debottlenecking and MFY capacity to 3350 tonne. Since the inception MFY unit KPL enjoyed both incremental revenues (₹ 20.6 crore in FY15) as well as expanded EBITDA margins
2016	Issued Bonus in the ratio of 1:2. The company registered and impressive performance with sales, EBITDA and PAT at ₹ 248 crore, ₹ 35.4 crore and ₹ 16.5 crore respectively. Improved operational performance was visible as EBITDA margins came in at 14.3%, up 330 bps YoY.
2017-18	The company has announced a major capex to increase its FIBC capacity by 8400 tonne and MFY capacity by 5400 tonne at a capex of ~₹ 100 crore. The said expansion is on track to be progressively commissioned in phases beginning July 2018 up until H1FY20E This expansion ensure a profitable growth for the company over FY19-22E.

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Agarwal (Mahesh Swarup)	31-Mar-18	17.3	2.5	0.6
2	Agarwal (Usha)	31-Mar-18	10.3	1.5	0.0
3	Agarwal (Manoj)	31-Mar-18	8.6	1.2	0.3
4	MSA Investment & Trading Company Pvt. Ltd.	31-Mar-18	5.2	0.7	0.0
5	Agarwal (Shashank)	31-Mar-18	4.9	0.7	0.0
6	KSM Exports, Ltd.	31-Mar-18	4.4	0.6	0.0
7	Agarwal (Mahesh Swarup) HUF	31-Dec-17	4.1	0.6	0.0
8	Government of India	31-Mar-18	3.8	0.5	0.5
9	Jain (Alka)	31-Mar-18	2.4	0.3	0.0
10	Agarwal (Manoj) HUF	31-Dec-17	2.2	0.3	0.0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoter	69.2	69.2	69.2	69.2	71.6
FII	0.0	0.0	0.0	0.0	0.0
DII	0.0	0.0	0.0	0.0	0.0
Others	30.8	30.8	30.8	30.8	28.4

Recent Activity

Buys			Sells		
Investor name	Value (USD m)	Shares (m)	Investor name	Value (USD m)	Shares (m)
Agarwal (Mahesh Swarup)	+1.1M	+0.6M	NA		
Government of India	+1.0M	+0.5M			
Agarwal (Manoj)	+0.6M	+0.3M			

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY20E
Net Sales	243.8	283.9	326.2	411.3
Other Operating Income	3.0	1.5	1.6	1.8
Total Operating Income	246.8	285.5	327.8	413.1
Growth (%)	-0.3	15.7	14.8	26.0
Raw Material Expenses	130.1	158.2	180.3	227.2
Employee Expenses	21.9	26.4	29.5	37.2
Other Operating Expense	61.3	65.1	75.4	95.0
Total Operating Expenditure	213.3	249.7	285.2	359.4
EBITDA	33.5	35.8	42.6	53.7
Growth (%)	-5.5	6.9	19.1	26.0
Depreciation	4.2	4.1	6.8	9.1
Interest	6.5	6.4	9.5	11.6
Other Income	0.0	0.0	0.0	0.0
PBT	22.8	25.3	26.3	32.9
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	8.5	8.4	7.9	10.9
PAT	14.3	16.9	18.4	22.1
Growth (%)	-13.3	18.1	9.4	19.6
EPS (₹)	10.0	11.8	12.9	15.4

Source: Company, ICICI Direct Research

Cash flow statement				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY20E
Profit after Tax	14.3	16.9	18.4	22.1
Add: Depreciation	4.2	4.1	6.8	9.1
(Inc)/dec in Current Assets	-15.0	9.9	-16.2	-32.1
Inc/(dec) in CL and Provisions	-1.2	-2.7	2.4	7.5
Others	6.5	6.4	9.5	11.6
CF from operating activities	8.8	34.6	20.9	18.2
(Inc)/dec in Investments	-6.1	-1.0	6.0	1.0
(Inc)/dec in Fixed Assets	-10.7	-41.6	-66.2	-10.5
Others	1.4	-1.1	0.0	0.0
CF from investing activities	-15.5	-43.8	-60.2	-9.5
Issue/(Buy back) of Equity	4.0	1.2	1.2	0.0
Inc/(dec) in loan funds	15.3	9.7	43.5	7.0
Interest & Dividend paid	-9.1	-9.3	-12.9	-15.4
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-4.4	7.6	7.9	0.0
CF from financing activities	5.8	9.2	39.7	-8.4
Net Cash flow	-0.9	0.0	0.4	0.2
Opening Cash	1.1	0.2	0.2	0.6
Closing Cash	0.2	0.2	0.6	0.8

Source: Company, ICICI Direct Research

Balance sheet				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY20E
Liabilities				
Equity Capital	11.9	13.1	14.3	14.3
Preference Capital	2.0	2.0	2.0	2.0
Reserve and Surplus	67.9	89.5	112.5	130.7
Total Shareholders funds	81.8	104.7	128.8	147.1
Total Debt	80.4	90.0	133.5	140.5
Deferred Tax Liability	8.2	8.7	8.7	8.7
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	170.4	203.4	271.0	296.3
Assets				
Gross Block	103.6	112.8	209.4	224.9
Less: Acc Depreciation	30.4	34.5	41.3	50.4
Net Block	73.2	78.3	168.1	174.5
Capital WIP	3.0	35.4	5.0	0.0
Total Fixed Assets	76.2	113.7	173.1	174.5
Investments	6.1	7.2	1.2	0.2
Inventory	39.9	40.4	44.7	56.3
Debtors	52.0	57.9	67.0	84.5
Loans and Advances	24.9	8.7	11.4	14.4
Other Current Assets	0.0	0.0	0.0	0.0
Cash	0.2	0.2	0.6	0.8
Total Current Assets	117.0	107.1	123.7	156.1
Current Liabilities	11.2	17.2	17.9	22.5
Provisions	17.6	9.0	10.7	13.5
Current Liabilities & Prov	28.9	26.2	28.6	36.1
Net Current Assets	88.1	80.9	95.1	120.0
Others Assets	0.0	1.6	1.6	1.6
Application of Funds	170.4	203.4	271.0	296.3

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18	FY19E	FY20E
Per share data (₹)				
EPS	10.0	11.8	12.9	15.4
Cash EPS	12.9	14.6	17.6	21.8
BV	57.1	73.1	89.9	102.6
DPS	1.5	1.6	2.0	2.2
Cash Per Share (Incl Invst)	4.4	5.1	1.2	0.7
Operating Ratios (%)				
EBITDA Margin	13.6	12.5	13.0	13.0
PAT Margin	5.8	5.9	5.6	5.3
Inventory days	59.7	51.9	50.0	50.0
Debtor days	77.9	74.4	75.0	75.0
Creditor days	16.8	22.1	20.0	20.0
Return Ratios (%)				
RoE	17.4	16.1	14.3	15.0
RoCE	17.2	15.6	13.2	15.0
RoIC	18.2	19.9	13.6	15.2
Valuation Ratios (x)				
P/E	15.1	12.8	11.7	9.7
EV / EBITDA	8.6	8.3	8.1	6.6
EV / Net Sales	1.2	1.0	1.1	0.9
Market Cap / Sales	0.9	0.8	0.7	0.5
Price to Book Value	2.6	2.1	1.7	1.5
Solvency Ratios				
Debt/EBITDA	2.4	2.5	3.1	2.6
Debt / Equity	1.0	0.9	1.0	1.0
Current Ratio	4.0	4.1	4.3	4.3
Quick Ratio	2.7	2.5	2.7	2.7

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct Research endeavours to provide objective opinions and recommendations. ICICI Direct Research assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

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ANALYST CERTIFICATION

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