Shri Jagadamba Polymers

Grab a PP woven bag to pack those volumes

Business Background

Shri Jagadamba Polymers (SJP) (estd in 1985) is engaged in the business of technical textile, geo textile and other allied products i.e manufacturing of PP/ HDPE woven and non-woven fabrics and bags. The Company has an installed capacity of 1000 MT per month to process woven polypropylene / polyethylene fabrics on both circular as well as sulzer looms. The total market share (₹151.5cr) of Indian technical textile industries (₹14,013cr) was ~1.1% in 2019.

More than 80% of production is exported to the US, Europe and several other countries. Revenue concentration from top 5 customers is high at 63% during FY19.

The Company has targeted to double its capacity to 24,000 MT annually and install some higher end products to cover several other areas of the global market. Plans have also been laid to put up captive wind power generation. Already has windmill capacity of 3.6 MW. As a part of backward integration plans are being finalized to put up in-house additive unit and machinery workshop.

Products

Products mix is highly concentrated on **Packtech** which makes up ~40% of the Indian technical textile market and 30% of the export market (stats from 2016). Has a smaller focus on Agrotech and Geotech. Specific products include:

- PP Woven Bags
- Fabric
- Flexible Intermediate Bulk Containers
- Box Bags: Serves fiber packaging, used clothing, mattress covers, furniture covers, merchandise covers
- Siltfence: Siltfence is a black color woven fabric used in construction industry in US and Europe
- Geotextile: Geotextile is a high strength polypropylene woven fabric produced with high tenacity tapes and then woven on wider width sulzer looms upto 5.3 mtrs
- Groundcover: “Groundcover" is a black woven polypropylene fabric used under the ground for weed control, highly used in agriculture and horticulture industry
- Lumber Cover

Snapshot

	July-2020
Market Cap (₹ Cr.)	186.50
P/E	6.82
Book Value (₹)	105.28
Div (%)	30.00%
5 Year Avg P/E	9.4
EPS (TTM)	31.21
Price/FCF	11.64
Price/Book	9.02
Dividend Yield.(%)	0.09%

SWOT Analysis

Strengths

- Product is near 100% customizable which creates more dependency and a relationship based business
- OP Margins match larger local market peers at 16-19% and asset turnover is best in class at 2.75 vs median of 1.27 for the rest of the listed peers
- Has a reasonably low working capital cycle of ~40 days (AR + Inv - AP) which is also reflected in the last 3 year Net profit to FCF convertibility of near 65-85% in the two years prior to the last FY (Capex effect)
    - Working Capital Days for FY19 (Current Assets - Current Liabilities) is 63 days below the Median industry cycle of 77 days

Weaknesses

- Strong R&D is a requirement in the technical textile field and the Company does not focus on this aspect which is concerning giving that already mature nature of the Packtech industry
- Product itself is not premium and brand recognition would be limited
- Lack of pricing power due to commodity nature of the product

Opportunities

- Technical-textiles market in India is forecasted to grow at CAGR 12% during 2016 – 2025 whereas US and EU markets could grow by 3% and 5%, respectively
- Strong focus on improvement of roads and highways supports transportation could provide the opportunity to expand within Geotech
- Recent Capex of ₹37cr. (17.8% of revenue) gives the Company a strong platform to scale up production
    - Company has a high asset turnover of 2.75 so investment could give a boost to sales

- Rising awareness among the end-users will lead to improved product acceptance

Threats

- Operates in a commodity product business with low barriers to entry
- Open to strong competition from China should be able to manufacture the product at a lower cost
- Raw material prices are sensitive to oil
- Product is not bio-degradable and in the very long term could be phased out in certain countries globally
- Promoters have a private company in the same line of business on which they have a strong focus and benefits of the earnings may not be passed on to minority shareholders

Porter's 5 Forces – Total Score: 0/10

Threat of new entrants – High

- Relatively large investment requirements with median asset turnover of 1.27x
- No significant barrier to access technology and nor does it require meaningful know-how
- Low margin business and lack of genuine brand value enables new entrants to compete on price

Threat of substitutes – High

- Large number of alternatives to packtech in terms of pure plastics, cardboard, wood, steel etc which can be used for cheap and secure packaging
- Applicability of the product, towards certain type of goods which need to be packed, may be a key differentiator for the customer to stick with the product

Bargaining power of Suppliers – High

- Oil is a key input for the product which could affect margins
- Limited suppliers of its key raw material (plastic granules) in the domestic market due to the oligopolistic nature of the supply market

Bargaining power of Buyers – High

- Companies struggle to pass on rise in input prices to the customer
- Buyers are most likely able to substitute to other packaging products
    - Product also has very little differentiation
- Switching costs are low

Rivalry amongst competitors – High

- Large number of global players offering a relatively generic product
- Industry is highly fragmented locally with large number of unorganized players competing as well
- Relatively high barriers to exit since the industry is capital intensive

- Competition majorly done in terms of price
- Only offsetting factor is that the industry is fast growing which gives enough opportunity for competitors

Management Overview

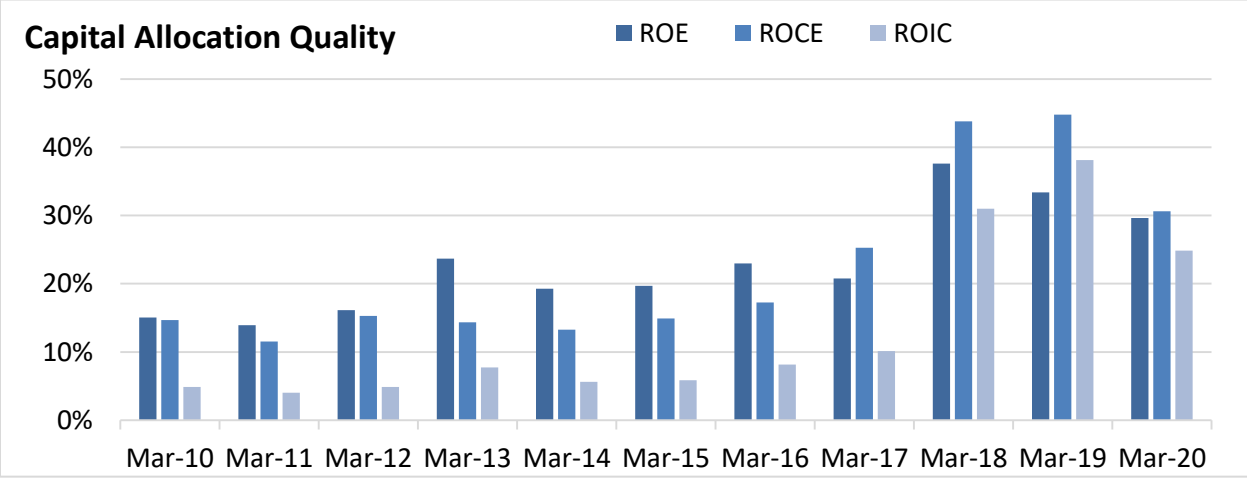
Ramakant Bhojnagarwala – Chairman and MD

SJP is promoted by Mr. Ramakant Bhojnagarwala, a first generation entrepreneur who has nearly five decades of experience in the textile and polymer industry. He monitors the overall operations of SJPL and plays an active role in managing its day-to-day operations. He is assisted by his son Mr. Hanskumar Agarwal, who is a graduate and has nearly two decades of experience in technical textile industry. The promoters are well supported by an experienced and qualified team of professionals.

Moreover, promoters have also set-up another company; Shakti Polyweave Private Limited which is also engaged in similar line of operations. Both these companies operate under the common management and have business linkages. While SJPL is publicly listed on the stock exchange, SPPL is an unlisted closely-held company. An important caveat to this is that the Company released a loan of ₹7.7cr (most likely to this company) in FY20 which reduced the FCF by the same amount, which is more glaring due to the increased Capex of ₹37cr for the year.

Age: 78 years

Remuneration (FY20): ₹1.80cr; 6.6% of Net Profit (Ramakant Bhojnagarwala – Chairman and MD)



Peer Comparison (FY19 data)

Screener: FY19 Data

S.No.	Name	CMP Rs.	Mar Cap Rs.Cr.	EV Rs.Cr.	EV / EBITDA	P/E	PEG	NPM Ann %	Asset Turnover	Debt / Eq	ROE %	ROIC %	ROCE %	Sales Growth 5Yrs %	Profit Growth 5Yrs %	CMP / FCF	OPM %	Working Capital Days
1	Essel Propack	189.45	5976.22	6250.7	10.96	27.94	3.01	7.51	1.27	0.42	14.65	11.73	16.23	3.53	9.28	28.1	19.79	67.79
2	Polyplex Corpn	609.5	1949.18	1675.91	1.99	7.36	0.06	7.22	1.28	0.23	12.42	15.02	19.69	7.57	115.58	8.05	16.12	100.99
3	Uflex	261.6	1889.01	4852.52	4.38	5.11	0.57	3.94	1.24	0.73	7.6	8.1	10.07	6.44	8.94	14.14	14.56	48.14
4	Jindal Poly Film	392.65	1719.27	2663.94	3.51	3.21		-10.97	1.11	0.66	-9.55	15.71	11.99	-6.24		18.25	18.81	116.37
5	Huhtamaki PPL	213.85	1615.04	1843.03	6.85	10.4	0.47	6.58	2.66	0.39	25.81	21.23	21.97	17.87	22.28	16.08	10.27	53.71
6	Cosmo Films	402.3	782.07	1511.16	5.39	6.9	0.21	5.15	1.43	1.05	15.71	10.69	14.15	6	32.53	8.09	11.84	77.04
7	Garware Polyest	228.5	532.75	621.76	3.58	6.19	0.1	8.61	0.62	0.09	6.01	7	9.17	2.37	63.58	5.33	17.48	93.2
8	Ester Industries	58.8	490.36	608.96	3.07	4.93	0.16	3.03	1.83	0.32	10.52	8.96	14.3	2.08	30.44	8.99	18.24	41.85
9	Control Print	205.7	335.94	334.44	7.09	11.3	0.82	17.04	0.87	0	13.73	14.51	17.32	13.91	13.72	26.81	23.62	310.28
10	TCPL Packaging	284.2	258.62	599.03	4.66	7.03	2.67	4.1	1.42	1.32	14.43	10.36	13.49	12.32	2.63	22.46	14.2	81.7
11	Everest Kanto	20.55	230.59	427.2	4.72	49.27	2.54	8.36	0.82	0.44	12.33	6.9	6.49	7.43	19.43	2.35	10.46	37.61
12	**Sh. Jagdamba Pol**	**210**	**183.92**	**201.75**	**4.87**	**6.73**	**0.14**	**11.52**	**2.75**	**0.34**	**40.13**	**31.14**	**48.69**	**16.3**	**47.43**	**11.48**	**19.12**	**63.33**
13	Nahar Poly	59.75	146.91	149.92	3.26	3.94		4.6	0.58	0.01	2.66	13.2	2.73			6.99	15.21	443.92
14	Hitech Corp.	75	128.82	289.61	4.8	24.54	0.72	3.55	1.32	0.98	9.12	9.87	13.76	11.25	33.87	-6.17	12.98	-21.82
	Median		**532.75**	**621.76**	**4.66**	**7.03**	**0.57**	**5.15**	**1.27**	**0.42**	**12.33**	**10.69**	**13.76**	**6.935**	**22.28**	**8.99**	**15.21**	**77.04**

- Best in class return ratios for ROE, ROCE and ROIC mainly driven by high Asset Turnover and second in class Net Profit Margin
- **Advantageous metrices:** P/E, PEG, NPM, Asset Turnover, Debt/Equity, ROE, ROIC, ROCE, Sales Growth, Profit Growth, OPM, Working Capital cycle
- **Disadvantageous metrices:** EV/EBITDA, P/FCF

Valuation (Price as on 20/07/20: ₹201.4)

Discounted Cash Flow Total Valuation	EBITDA Method	Perpetuity Method
Total of Present Value of Cash Flows (₹cr)	87.36	87.36
Present Value of Terminal Value (₹cr)	118.20	125.99
Total Enterprise Value (₹cr)	**205.56**	**213.35**
Net Debt, Non-controlling interests, preferred securities (₹cr)	22.71	22.71
Equity Value (₹cr)	**182.85**	**190.64**
Share Count (millions)	0.88	0.88
Estimated Equity Value per Share	**208.78**	**217.67**

Conclusion (Bigger picture)

SJPL is a basic commodity manufacturing company with nothing exciting about the product in itself. The industry is also one of the worst possible due to lack of product differentiation, being unorganized to a large extent and a relatively low bargaining power on the supply side.

However the exposure of the product is to foreign developed markets which are large and reasonably fast-growing consumers which result in superior margins. The local market is expected to grow 11%+ in the coming years which could provide another avenue of growth.

One of the largest concerns regarding the Company is management's twin private ltd company. This twin company is in the same line of business and most information on this is only available through SJPL. The most evident issue is how the Company keeps giving out small short term loans which has manifested itself in the biggest way last FY with ₹7.7cr loan given out while the Company has taken a LT loan of ₹30cr to fund its Capex, leaving no FCF on the table for investors. The Capex has actually been a huge positive which also mitigates this risk since most investors have previously highlighted lack of growth ambition by management w.r.t. SJPL vis. a vis. the private Company.

On the metrics front, the Company is an outright leader in efficiency (Asset Turnover) which is paramount to success in a commodity industry. The Company also has significantly higher margins than most peers. Combined with a reasonable Debt to Equity ratio, this produces best in class ROE, ROCE and ROIC. This combined with a long runway for growth makes it ideal for long-term investing unless the industry effects prove overwhelming or management really behaves in a crooked way.