

Backed by strong volumes, Rajshree Polypack Ltd's (RPPL) topline increased 22.7% YoY to Rs671.2mn in 1HFY19. Volumes of plastic rigid sheets and thermoformed packaging products increased 7.2% YoY and 22.2% YoY to 1,309 MT and 1,965 MT respectively. Gross margin for 1HFY19 stood at 40.1% (44.4% in FY18) on account of rising crude prices (RM cost inflation is passed with a lag of one quarter). On account of rising cost pressure, EBITDA margins compressed 320bps YoY to 16.4% in 1HFY19. PAT increased 7.4% YoY to Rs50.9mn (margins compressed 110bps YoY to 7.6%).

Additional capacity to come on stream by Oct'19: RPPL's current sheet extrusion and thermoforming capacity is at 10,200 MT (90% utilization in 1HFY19) and 4,320 MT (85% utilization in 1HFY19) respectively. Keeping in view of the future demand, RPPL is planning to expand the sheet extrusion and thermoforming capacity by ~39% and ~44% respectively. At present, the funds raised for expansion (Rs391mn) via IPO are lying in the escrow account. Management intends to complete formalities (getting approvals & signing contracts) by this month end and order for new machinery will be placed by December. The new capacity is expected to come on stream by October 2019. In light of the proposed expansion plan, we expect revenues to grow at a CAGR of 24.0% over FY18-21E. Considering 1HFY19 performance, we reduce our sales estimates by 0.9% and 0.7% respectively for FY19E and FY20E.

Rising crude prices puts pressure on margins: EBITDA margin was down 320bps YoY to 16.4% in 1HFY19 due to compression in gross margin on account of rising crude prices. Management stated that cost inflation is passed on with a lag of one quarter and if crude prices remain stable EBITDA margin can improve by 100-150bps vis-à-vis 16.4% achieved in 1HFY19. However, considering rising cost inflation we have reduced our gross margin estimates by 190bps and 130bps for FY19E/20E.

Key financials (Y/e March)	2018	2019E	2020E	2021E
Revenues (Rs m)	1,123	1,319	1,646	2,143
Growth (%)	18.1	17.5	24.8	30.2
EBITDA (Rs m)	205	223	309	448
PAT (Rs m)	96	106	157	246
EPS (Rs)	12.0	9.5	14.0	21.9
Growth (%)	8.3	(21.0)	47.9	56.2
CEPS (Rs)	18.6	20.6	21.0	30.6
Net DPS (Rs)	2.1	1.1	1.7	2.6
Profitability & Valuation	2018	2019E	2020E	2021E
EBITDA margin (%)	18.3	16.9	18.8	20.9
RoE (%)	21.5	11.4	14.7	19.1
RoCE (%)	24.1	15.6	20.2	26.9
EV / sales (x)	1.2	0.8	0.7	0.4
EV / EBITDA (x)	6.5	4.6	3.5	2.0
PE (x)	9.0	11.3	7.7	4.9
P / BV (x)	1.9	1.3	1.1	0.9
Net dividend yield (%)	1.8	1.1	1.6	2.4

Source: Company Data, PL Research

Q2FY19 Result Update

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Shailee Parekh

shaileeparekh@plindia.com
+91-22-66322302

Charmi Mehta

charmimehta@plindia.com
+91-22-66322274

Rating	BUY
Price	Rs 107
Target Price	Rs 161
Implied Upside	51%
Sensex	35,159
Nifty	10,585
Bloomberg Code	RAJPPL:IN
Reuters Code	RAJH.NS
(Prices as on November 9th, 2018)	

Tracking Data

Market Cap (Rs bn)	1.2
Shares O/s (m)	11.2
3M Avg. Daily Value (Rs m)	NA

Major Shareholders

Promoters	51%
Foreign Body Corp	20%
Public & Others	29%

Stock Performance

(%)	1M	6M	12M
Absolute	(3.2)	-	-
Relative	(4.3)	-	-

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019E	9.5	-	NA
2020E	14.0	-	NA

Outlook & valuation: We expect sales and PAT to grow at a CAGR of 24.0% and 37.0% respectively over FY18-21E backed by capacity addition from the new plant. While margin pressure is evident in near term due to rising crude prices we believe there are two structural levers that remain intact 1) rising share of value added products (generic products yield 11-13% EBITDA margin against speciality products that yield 25-27% EBITDA margin) 2) raw material recipe, mould bank & technological edge (enables client stickiness and provides some bargaining power despite being in a commodity business) that RPPL possesses. At the CMP stock is trading at PER of 11.3x/7.7x/4.9x our FY19E/20E/21E EPS estimates. **We recommend a BUY with a TP of Rs 161 (9x Sept-20E EPS).**

Conference call highlights

- For the new project RPPL shall sign the contract by Nov end. Order for placement of machinery will be done in first week of December. The project commencement timeline of October 2019 remains intact.
- If the crude prices remain stable EBITDA margins can improve by 1-1.5% in FY19 (17.5% vis-à-vis 16.4% achieved in 1HFY19)
- Export sales have increased from 5% to 12%. It is expected to remain at 12% for FY19.
- Other expenses increased due to higher port charges and sea freight cost amid rising share of exports.
- RPPL has added 4-5 new clients in the quarter.
- Thermoforming market size stands at 700-800MT per month.
- Raw material recipe, technology and mould bank helps RPPL to keep competition at bay.
- The FMCG conglomerate that has lined up expansion plan to market new product in India has visited RPPL's facilities and launch of the product is expected in Jan 2019.

Q2FY19 Result Overview (Rs m)

Y/e March	H1'19	H1'18	YoY gr. (%)
Income from Operations	671	547	22.7
Other Income	5	2	104.8
Total Revenue	676	549	23.1
Operating Expenses	565	480	17.7
EBITDA	110	107	2.8
<i>Margin (%)</i>	<i>16.4</i>	<i>19.6</i>	
EBIT	99	96	3.4
Net Interest	11	11	(1.9)
Profit before Tax	72	69	4.4
Total Tax	21	21	(2.4)
<i>Effective tax rate (%)</i>	<i>29.0</i>	<i>31.0</i>	
Profit after Tax	51	47	7.4
<i>PAT Margin (%)</i>	<i>7.6</i>	<i>8.7</i>	
EPS	4.5	4.2	7.4

Source: Company Data, Idea Research

Operational Metric

Y/e March	H1'19	H1'18	YoY gr. (%)
Plastic rigid sheet sales (Rs mn)	227	202	12.0%
- Domestic	193	174	11.0%
- Exports	33	28	18.0%
Plastic rigid sheet sales (MT)	1,309	1,221	7.2%
- Domestic	1,141	1050	8.7%
- Exports	168	171	-1.8%
<i>Rigid sheets Capacity Utilisation</i>	<i>90%</i>	<i>84%</i>	
Packaging product sales (Rs mn)	445	345	29.0%
- Domestic	364	332	9.9%
- Exports	80	13	512.2%
Packaging product sales (In 000' pcs)	3,76,666	3,64,708	3.3%
- Domestic	3,36,418	3,54,665	-5.1%
- Exports	40,248	10,043	300.8%
<i>Packaging products Capacity Utilisation</i>	<i>85%</i>	<i>74%</i>	

Source: Company Data, Idea Research

Income Statement (Rs m)

Y/e March	2018	2019E	2020E	2021E
Sales	1,123	1,319	1,646	2,143
Raw material cost	625	787	969	1,235
Gross Profit	499	533	677	908
Employee cost	88	91	103	116
Other expenses	205	219	264	343
EBITDA	205	223	309	448
Depreciation	52	58	78	98
Interest	24	21	15	10
Other income	7	7	7	7
PBT	136	151	222	347
Tax	40	45	65	101
PAT	96	106	157	246
Avg shares	8.0	11.2	11.2	11.2
EPS (Rs)	12.0	9.5	14.0	21.9

Key Financial Metrics

Y/e March	2018	2019E	2020E	2021E
Growth				
Revenue (%)	18.1	17.5	24.8	30.2
EBITDA (%)	1.8	8.7	38.6	45.0
PAT (%)	8.3	11.3	47.9	56.2
EPS (%)	8.3	11.3	47.9	56.2
Profitability				
EBITDA Margin (%)	18.3	16.9	18.8	20.9
PAT Margin (%)	8.5	8.1	9.6	11.5
RoCE (%)	24.1	15.6	20.2	26.9
RoE (%)	21.5	11.4	14.7	19.1
Balance Sheet				
Net Debt : Equity	0.3	0.1	0.0	0.0
Net Wrkng Cap. (days)	51	44	44	43
Valuation				
PER (x)	9.0	11.3	7.7	4.9
P / B (x)	1.9	1.3	1.1	0.9
EV / EBITDA (x)	6.5	4.6	3.5	2.0
EV / Sales (x)	1.2	0.8	0.7	0.4
Earnings Quality				
Eff. Tax Rate	29.5	29.7	29.1	29.1
Other Inc / PBT	0.05	0.04	0.03	0.02

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2018	2019E	2020E	2021E
Non-Current Assets	485	700	865	774
Gross Fixed Assets	687	732	1,226	1,233
less: accumulated depreciation	241	298	377	475
Net fixed assets	446	434	849	758
Capital Work In Progress	-	250	-	-
Non-Current Investments	3	3	3	3
Other financial assets	15	3	3	3
Other Non-Current Assets	21	10	10	10
Current Assets	346	592	541	837
Inventories	110	120	150	186
Trade receivables	204	191	238	310
Other Current Assets	23	20	20	20
Cash & Bank Balance	9	261	134	322
Total Assets	831	1,292	1,407	1,611

Equity

Equity Share Capital	80	471	471	471
Other Equity	365	458	597	813
Total Networkth	445	929	1,068	1,284
Non-Current Liabilities	182	117	73	54
Long Term borrowings	138	77	22	4
Deferred tax liabilities	44	40	51	50
Current Liabilities				
Trade Payables	101	105	129	164
Current portion of long term debt	57	62	55	18
Advances from customers	12	12	12	12
Other liabilities	15	18	21	25
Others	19	48	49	54
Total Equity & Liabilities	831	1,292	1,407	1,611

Source: Company Data, PL Research.

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Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India
Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209