

Captain Polyplast Limited

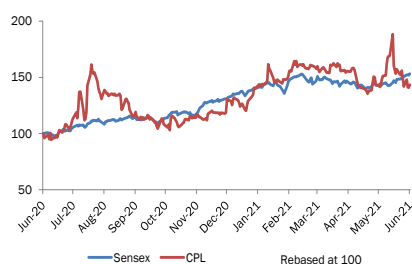
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Of the first water in an ocean of opportunities

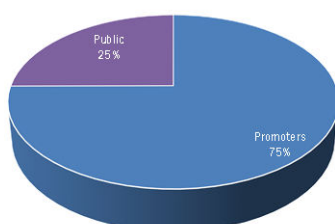
BUY

Sector	: Agriculture & Allied
Target Price	: ₹56
Last Closing Price	: ₹39
Market Cap	: ₹195 crore
52-week High/Low	: ₹55/24
Daily Avg Vol (12M)	: 79,072
Face Value	: ₹2
Beta	: 0.52
Pledged Shares	: 11.9%
Year End	: March
BSE Scrip Code	: 536974
NSE Scrip Code	: N/A
Bloomberg Code	: CAPP IN
Reuters Code	: CAPA.BO
Nifty	: 15,690
BSE Sensex	: 52,232
Analyst	: Research Team

Price Performance



Shareholding Pattern



Initiating Coverage

Investment Summary

- Captain Polyplast Limited (CPL) is a micro-irrigation solutions provider and manufacturer/supplier of micro-irrigation systems (MIS).
- A key driver of the Rs 6,000 crore-worth micro-irrigation industry is favourable government policies including subsidies on MIS.
- The very low of penetration of MIS in India (5.5%) presents robust growth opportunities. With a projected life of 7 years for MIS, the penetrated section of the micro-irrigation market also presents opportunities driven by replacement demand.
- Initiatives towards farm income growth will enable farmers to make higher reinvestment in equipment and technology including MIS.
- To feed the country's growing population and ensure food security, India's agriculture sector will need to increase production, which would drive demand for irrigation systems.
- With the agriculture sector being the largest consumer of water in the country, water stress and increased unpredictability of rainfall will accelerate demand for irrigation solutions.
- Sustainable agriculture practices such as precision irrigation and fertigation will be important future drivers of micro-irrigation systems.
- CPL witnessed degrowth during 9M FY21 due to the impact of covid-19 and lower industry-wide business from Andhra Pradesh, a major MIS market. Resolution of the payment delay issue in Andhra Pradesh and doubling of micro-irrigation budgetary allocation in FY22 is expected to drive revenues higher than FY20 levels. Due to its relatively smaller size, we expect CPL to be able to grow at 1.5x to 2.0x the market growth rate of ~10%. Robust sales growth is expected to generate operating leverage, resulting in margin expansion. The CPL stock currently trades at an attractive forward P/E level of 11.7x FY23E EPS. Assigning a target multiple of 17.0x FY23E EPS, our valuation generates a price target of Rs 56, informing a BUY rating with an upside potential of 45%.

Key Financial Metrics (Consolidated)

Rs lakh	FY19A	FY20A	FY21E	FY22E	FY23E
Operating revenue	14,922	18,623	16,755	19,888	22,712
Growth		24.8%	-10.0%	18.7%	14.2%
EBITDA	1,788	2,823	2,583	3,122	3,634
EBITDA margin	12.0%	15.2%	15.4%	15.7%	16.0%
PAT	720	1,260	986	1,356	1,662
PAT margin	4.8%	6.8%	5.9%	6.8%	7.3%
Diluted EPS (Rs)	1.44	2.51	1.99	2.69	3.30

Source: Company data; Khambatta Research

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CPL uses the latest German and Israeli technologies in the manufacture of micro-irrigation systems

Company Profile

Captain Polyplast Limited (CPL) is a micro-irrigation solutions provider and a pioneer in advanced micro-irrigation technologies in India. The company's primary business activities include the manufacture and sale of micro-irrigation systems (MIS) and allied products. CPL's irrigation system portfolio comprises drip irrigation systems (DIS) and sprinkler irrigation systems (SIS), which are produced using the most modern German and Israeli technologies. Besides MIS, the company is a provider of ancillary products and solutions such as solar pumps, rooftop solar power systems and water-soluble fertilisers. CPL is also a channel partner of Indian Oil Corporation (IOC) in Gujarat for polymer products. Headquartered in Rajkot, Gujarat, the company has two manufacturing units, equipped with hi-tech machinery and tools, at Veraval near Rajkot and Kurnool, Andhra Pradesh. CPL's testing laboratory complements its manufacturing facilities to ensure and maintain quality standards. With 18 sales offices, 11 depots and a marketing team comprising 250 members, CPL works with more than 750 dealers concentrated in the northern, western and southern parts of India. The company supplies its products to the export markets of the Gulf, Africa and Latin America. CPL has returned CAGRs of 18% and 36% for revenue and PAT in the 3 years up to FY20.

Drip irrigation system



Sprinkler irrigation system



Source: Shutterstock; company website

Micro-irrigation accounts for 98% of CPL's topline with 97% of sales generated from the domestic market

Products

The key products of CPL are MIS comprising drip and sprinkler irrigation systems and allied products, which accounted for approximately 98% of the company's revenues with the remainder contributed by the IOC polymer business in 9M FY21. A majority of operating revenues (~97%) come from the domestic market with 3% to 4% of sales generated from exports.

Drip irrigation systems (DIS): Drip irrigation is a method of delivering water and nutrients to crops very efficiently. Essentially, it applies just enough water and nutrients regularly to the plants. Thus, drip irrigation leads to higher yields in the context of limited resources. A DIS is a network of

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Sprinkler systems can save up to 30%-50% of water usage in irrigation

"driplines" along crop rows. These have "drippers" or "emitters" near the roots of each plant, so that drops of water and nutrients are not wasted away from the roots, ensuring more crop per drop.

Resource constraints (land, water, energy, labour) are farmers' biggest problems, globally. Drip irrigation addresses these problems simultaneously and ensures maximum RoI. Some key features and benefits of DIS are:

- Efficient application of water
- Efficient use of fertiliser/nutrient due to localized application and reduced leaching
- Greater land utilization – can irrigate irregular fields
- Moisture at the roots can be maintained at field capacity
- Soil type plays a less important role in frequency of irrigation

Sprinkler irrigation systems (SIS): An SIS pumps water through a pipe under high pressure, similar to rainfall through a small diameter nozzle. Water is distributed through a system of pipes, sprayed into the air and irrigates most soil types, enabled a wide range of discharge capacity. Advantages of SIS include:

- Eliminates water conveyance channels, reducing conveyance loss
- Suitable in all types of soil, except heavy clay
- Saving up to 30%-50% water
- Suitable for irrigation where there are more plants per unit area
- Helps increase yield
- Reduces soil compaction
- Mobility of system eases operations
- Suitable for undulating land
- Saves land as no bunds required
- Use of soluble fertilizers and chemicals is possible
- Provides frost protection & helps in alteration of micro climate
- Reduces labour cost

SIS components



Source: Company website

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CMD Mr. Ramesh Khichadia is an Agriculture Engineering graduate from Gujarat Agriculture University while Whole Time Director Mr. Ritesh Khichadia is an alum of IIT-Bombay and IIM-Lucknow

Management Profile

CPL is led by a top leadership team comprising promoters with robust experience in the micro-irrigation industry and working in executive roles. Leadership at the topmost level is provided by the company's Chairman & Managing Director.

Ramesh Khichadia, Chairman & Managing Director: Mr. Ramesh Khichadia is the founder and CMD of CPL. He has more than 25 years' experience in the pipes and irrigation business. An early starter, Mr. Ramesh Khichadia has worked across the organisation's levels, which helps him understand and take a hands-on approach in critical business functions at a micro level. Mr. Ramesh Khichadia has successfully led the company's key projects and expansion strategy. He is a BTech in Agriculture Engineering from Gujarat Agriculture University.

Gopal Khichadia, Whole Time Director: Mr. Gopal Khichadia has over 25 years of experience in the pipes and irrigation business. A founding director at CPL, he leads the core team driving the company's growth and transformation. Mr. Gopal Khichadia also provides top-level leadership in business development and operations.

Ritesh Khichadia, Whole Time Director: Mr Ritesh Khichadia is a highly-qualified young professional and entrepreneur. Before joining CPL, he worked as an investment advisor at Sanford Bernstein and subsequently as an M&A consultant at EY. Mr Ritesh Khichadia's key responsibilities as a director at CPL includes enhancing the brand value of Captain and overseeing strategies to accelerate the company's revenue growth. He has a BTech in Mechanical Engineering from IIT-Bombay and a PGDM with Finance and Strategy specialisations from IIM-Lucknow.

Industry Overview

Agriculture: With the world's second-largest arable land area, agriculture is the primary source of livelihood for about 58% of India's population. The Gross Value Added from agriculture, forestry and fishing was estimated at Rs 19.5 lakh crore (US\$ 276.4 bn) in FY20. The share of agriculture and allied sectors in gross value added (GVA) of India at current prices was 17.8% in FY20. With 20 agri-climatic regions, all the 15 major climates in the world exist in India. The country also has 46 of the 60 soil types in the world. India is the largest producer of spices, pulses, milk, tea, cashew and jute, and the second largest producer of wheat, rice, fruit and vegetables, sugarcane, cotton, and oilseeds. Further, it is second in global production of fruit and vegetables and the largest producer of mangos and bananas. In the 2019-20 crop year, food-grain production hit a record 296.65 million tonnes. The organic food segment in India is expected to record a 10% CAGR over 2015-25 and is estimated at Rs 75,000 crore (US\$ 10.7 bn) by 2025 from Rs 2,700 crore (US\$ 386.3 mn) in 2015. The Indian food-processing industry is expected at US \$535 bn by 2025-26 on government initiatives such as

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planned infrastructure of US\$ 1 tn and the Pradhan Mantri Kisan Sampada Yojna.

India can be among the top-five exporters of agro-commodities by shifting focus to cultivation and effectively hand-holding farmers, according to The World Trade Centre. Agricultural exports registered a 2.3% CAGR from FY16 to US\$ 35.1 bn in FY20. India's spices export increased 23% to Rs 2,690 crore (US\$ 359 mn) in June 2020 from Rs 2,190 crore (US\$ 292 mn) in the same month last year. The Agriculture Export Policy 2018 aimed to increase India's agricultural exports to Rs 4.2 lakh crore (US\$ 60 bn) by 2022.

The government of India introduced several projects to assist the agriculture sector. As per the Union Budget 2021-22, Rs 1.3 lakh crore (US\$ 18.4 bn) was allocated to the Ministry of Agriculture. The Pradhan Mantri Kisan Samman Nidhi Yojana (PM-Kisan) had transferred Rs 18,000 crore (US\$ 2.45 bn) to bank accounts of more than 90 million beneficiaries by December 2020. As per the Union Budget 2021-22, Rs 65,000 crore (US\$ 8.9 bn) was allocated to the Pradhan Mantri Kisan Samman Nidhi (PM-Kisan). As per the Union Budget 2021-22, Rs 8,514 crore (US\$ 1.2 bn) was allocated to the Department of Agricultural Research and Education.

Some of the critical areas constraining Indian agriculture are:

- According to the 2010-11 Agriculture Census, the number of operational holdings was 138.35 million, averaging 1.15 hectares (ha). Of the holdings, 85% were marginal and small farm categories of less than 2 ha (Gol, 2014).
- Subsistence farming, which puts economies of scale in question with most small holdings.
- Low-access of credit and the prominent role of unorganised creditors affecting decisions of farmers in purchasing inputs and selling output.
- Less use of technology, mechanisation and poor productivity; the first two are of major concern
- Very little value addition compared to developed countries and negligible primary-level processing at the farmer level.
- Poor farming infrastructure makes for greater dependence on the weather; marketing and supply chains suitable for high-value crops.

It is estimated that only a half of India's cultivable land for food grains has some kind of irrigation facility

Irrigation: Irrigation is the most critical area of gap in India's agriculture infrastructure. Only 37% of the country's arable land was covered by irrigation with the remaining majority being monsoon-dependent as of FY14. It is estimated that only a half of India's cultivable land for food grains has some kind of irrigation facility.

The government of India's scheme sponsoring micro-irrigation looks to enhance efficiency in agricultural water usage by promoting appropriate technological interventions such as drip and sprinkler irrigation technologies and encouraging farmers to use water conservation technologies. Launched by the Department of Agriculture & Cooperation, the Ministry of Agriculture in January 2006, the centrally-sponsored scheme (CSS) on micro-irrigation was

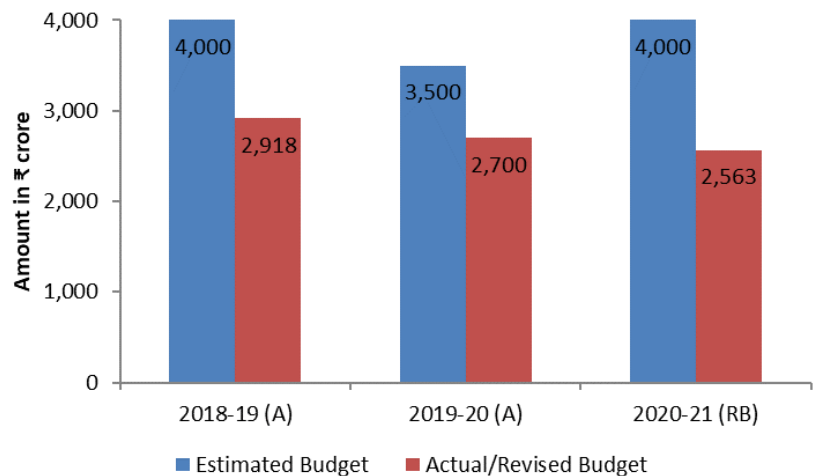
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Allocation to PMKSY was increased to Rs 11,588 crore in the Union Budget 2021-22

scaled up to the National Mission on Micro Irrigation (NMMI) June 2010, which continued until 2013-14. NMMI was subsumed under the National Mission on Sustainable Agriculture (NMSA) in April 2014 and implemented as On Farm Water Management (OFWM) during FY15. Subsequently, in April 2015, the micro-Irrigation component of OFWM was subsumed under the Pradhan Mantri Krishi Sinchai Yojana (PMKSY) to be implemented as a CSS on micro-irrigation with the same pattern of assistance and cost norms as prevailed under OFWM. The Pradhan Mantri Gram Sinchai Yojana (PMGSY) aims to irrigate fields of every farmer and improve water use efficiency to achieve the motto 'Per Drop More Crop'. Overall, the scheme ensures improved access to irrigation. In the Union Budget 2021-22, Rs 11,588 crore (US\$ 1.5 bn) was allocated to PMKSY.

Budgeted vs actual/ revised expenditure for micro-irrigation under PMKSY



Source: pmksy.gov.in

During the last five years, 47.9 lakh ha have been covered by micro irrigation in India

In 2019-20, about 11 lakh farmers benefitted from the adoption of drip and sprinkler irrigation systems. During the last five years, 47.9 lakh ha have been covered by micro irrigation in the country, including 11.72 lakh ha in 2019-20. A dedicated micro-irrigation fund (MIF) worth Rs 5,000 crore was created under the National Bank for Agriculture and Rural Development (NABARD) to facilitate states in mobilizing resources to expand micro-irrigation coverage with sanction of projects to the tune of over Rs3,800 crore to cover 12.53 lakh ha under the micro-irrigation scheme.

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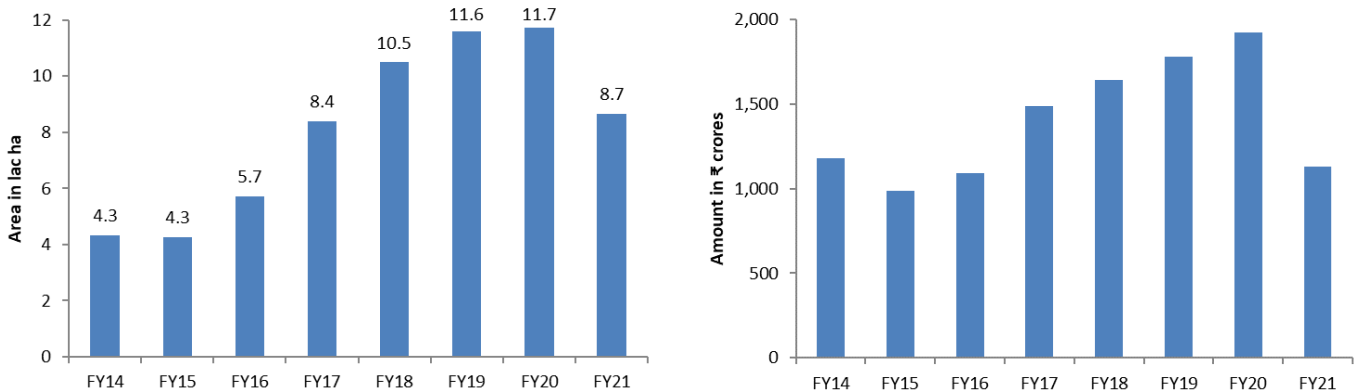
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Investment Thesis

Favourable government policies and subsidy programme are the most important drivers of micro-irrigation in the country. The Indian government’s policies for agriculture and irrigation are the key driving force for the uptake of MIS in the country. The PMKSY scheme, a CSS for micro-irrigation, and specifically the Per Drop More Crop programme which is a key component of the scheme are the most critical elements of the policy framework for the promotion of micro-irrigation in India. The subsidy payable to the beneficiary under the micro-irrigation scheme is 55% of the system’s cost for small and marginal farmers and 45% for other farmers. This subsidy, which is payable up to a ceiling of 5 ha per beneficiary, is collaboratively funded by the central and state governments. India’s micro-irrigation market is worth approximately Rs 6,000 crore with an addressable acreage of 70 mn ha out of a total arable land area of over 150 ha, of which ~15% is covered. The current rate of incremental micro-irrigation coverage is 1.2 mn to 1.5 mn ha each year with a target of covering 10 mn hectares in the next 5 years. The average cost of a drip irrigation system is Rs 1.2 lakh to Rs 1.5 lakh per hectare while that of a sprinkler system is Rs 30,000 to Rs 40,000 per hectare.

India’s micro-irrigation market is worth Rs 6,000 crore with an addressable acreage of 70 mn ha

Achievements in micro-irrigation in the Per Drop More Crop programme under PMKSY



Source: pmksy.gov.in

The average penetration of micro-irrigation at the national level is only 5.5%

Very low levels of penetration of micro-irrigation in India presents robust growth opportunities. In spite of a half of India’s arable land being rain-fed, micro-irrigation penetration is still very low in India. The average penetration at the national level is 5.5% which is much lower compared to countries such as Israel, the US and China. Israel has achieved the highest level of micro-irrigation penetration at 90%. India’s low penetration levels present a robust potential for growth of the micro-irrigation market in the country. The government’s NMMI programme had generated the strongest growth in micro-irrigation penetration in the last decade. Gujarat, Andhra Pradesh, Maharashtra and Haryana have recorded strong growth in terms of the area

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Micro-irrigation systems have
a projected life of 7 years

under micro-irrigation while achieving higher-than-average penetration. The factors driving the success of micro-irrigation in these four states include a state-level focus on micro-irrigation and better use of IT in their implementation, facilitated by a dedicated team for micro-irrigation implementation. It is possible to track the installation process through all its steps from issuance to work order to inspection in these four states. Replication of processes and systems used in the leading four states in other states will be a key driver of micro-irrigation there.

The penetrated section of the micro-irrigation market presents opportunities driven by replacement demand. MIS have a projected life of 7 years. If a system malfunctions within the projected life period, the manufacturer is responsible for repair and replacement of the system. The projected life is broadly in line with the useful life of an MIS after which it needs to be replaced with a new system. This presents healthy replacement demand and an additional market opportunity for MIS suppliers. With increasing uptake of MIS across the country, the replacement market too will expand over the medium-to-long term as farmers realise the benefits of micro-irrigation after installing it for the first time and normally continues using micro-irrigation.

Growth in farm income will enable farmers to make higher reinvestment in equipment and technology including MIS. The union government constituted an inter-ministerial committee in April 2016 to examine issues relating to doubling of farmers' income and recommend strategies to this end. Submitting its report in September 2018, the committee recommended seven sources of income growth: improvement in crop productivity; improvement in livestock productivity; resource use efficiency or savings in the cost of production; increase in the cropping intensity; diversification towards high value crops; improvement in real prices received by farmers; and shift from farm to non-farm occupations. The government has adopted several development programmes and schemes focusing on higher farm income which are supported by higher budgetary allocations, non-budgetary financial resources through corpus funds and supplementary income transfers under PM-Kisan. The latest major intervention of the 'Atma Nirbhar Bharat - Agriculture' includes comprehensive market reforms and the creation of an agricultural infrastructure fund worth Rs 1 lakh crore. Preliminary data estimated farmers' earnings per hectare of wheat, one of India's two main crops, to increase by approximately to 9% in FY21. Rising farmers' income will be a key driver for the uptake of farm mechanisation including MIS going forward.

Preliminary estimates
suggested a 9% increase in
farmers' earnings per hectare
of wheat in FY21

To feed the country's growing population and ensure food security, India's agriculture sector will need to increase production, which would drive demand for irrigation systems. Estimates show that while 27.8% of India's population suffered from modest or severe food insecurity in 2014-16, the proportion rose to 31.6% in 2017-19. The number of food-insecure people grew from 42.65 crore in 2014-16 to 48.86 crore in 2017-19. India accounted for 22% of the global burden of food insecurity in 2017-19, the

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Agriculture accounted for 85.3% of India's total water consumption in 2000

highest for any country. It is also noteworthy that while the PMSFI increased in India by 3.7 percentage points during this period, it fell by 0.5 percentage points in the rest of South Asia. The top issue by far for Indian agriculture is increasing productivity. Productivity is low in part because smallholder farmers produce less than their potential due to the poor adoption of best practices. Developing best practices in crop cultivation based on scientific methods, including applying fertilizers based on soil testing and optimizing water use through micro-irrigation systems can help increase productivity.

The agriculture sector is the largest consumer of water in India. According to the Central Water Commission, agriculture accounted for 85.3% of India's total water consumption in 2000. This is likely to decrease to 83.3% by 2025. Irrigation canals are not best suited to solve India's water problems as they are wasteful, drawing 4x more water from the rivers than what is delivered to the fields. Water utilisation efficiency is less than 30% in the best cases, and half that in the worst. A third of all irrigation projects started in the country are not completed. Union Agriculture Ministry statistics show that 48.6% of India's substantial 140 million hectares of farmland are irrigated. Fields in Punjab and Haryana, Uttarakhand and western Uttar Pradesh where irrigation canals are abundant use water from the Himalayan rivers extravagantly, which has reduced the flow of water downstream and increased water scarcity as the rivers reach the plains. The situation in the Kaveri and Godavari basins is similar. As a result, Bundelkhand, Marathwada and the Deccan region are areas of acute water distress. Increasing practice of water conservation methods and adoption of drip and sprinkler irrigation systems will enable farmers access to optimal water for their crops, thereby reducing water wastage and sustaining groundwater resources.

India ranks thirteenth among the world's 17 extremely water-stressed countries

Water stress and increased unpredictability of rainfall will accelerate demand for irrigation solutions. India ranked thirteenth among the world's 17 extremely water-stressed countries, according to the Aqueduct Water Risk Atlas released by the World Resources Institute (WRI). A region is said to be under water stress when demand for water there exceeds available volumes or when poor quality restricts use. Extremely high levels of water stress means an average 80 per cent of available water in a country is used by irrigated agriculture, industries and municipalities every year. Both surface and groundwater in India was highly exploited. Groundwater levels, in fact, declined at more than eight centimetres a year between 1990 and 2014 in northern India according to the WRI. According to the Union Jal Shakti Ministry, groundwater resources were over-exploited in 1,186 of 6,881 assessment units (blocks, talukas, watersheds and others) in India.

India is the world's largest user of groundwater by far with the water table falling by 0.4 metre on average. One recent report states that over 70% of surface irrigation water is being wasted, nationally. Given suboptimal command area, development and distribution of water in ill-maintained canals lead to suboptimal utilisation of water infrastructure and often results

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Of India's land area of 329 million ha, 147 million ha has degraded soil or water-related issues

Precision irrigation can cut down water consumption in farmlands by nearly 25%

in heavy soil erosion and siltation. A recent report by the Ministry of Earth Sciences (MoES) shows a significant drop in rainfall in Uttar Pradesh, Bihar and West Bengal over the past three decades, and rising variability in the monsoon, nationwide. The need is to follow conservation agriculture, i.e. farming practices adapted to the requirements of crops and local conditions.

Wheat, rice and sugarcane are grown in 40% of India's gross sown area but consume 80% of the irrigation water. Of India's land area of 329 million hectares (mha), 147 mha has degraded soil or water-related issues such as dwindling surface water and unregulated groundwater extraction. The adoption of MIS can help address the problem of declining groundwater resource by cutting down water-use per hectare and reducing water wastage associated with surface irrigation techniques such as flood and furrow irrigation.

Sustainable agriculture practices such as precision irrigation and fertigation will be important future drivers of micro-irrigation systems. Precision irrigation is an innovative technique that uses water wisely and helps farmers achieve higher levels of crop yield with minimal water. Precision irrigation techniques allow farmers to reduce water wastage with the objective of mitigating water stress. Precision irrigation can cut down water consumption in farmlands by nearly 25%. Apart from saving water, it reduces consumption of energy, labour and money, thereby leading to large-scale savings in the long run. This method also generates increases in farm yields, leading to higher profits for farmers. Drip irrigation system is the most important element in the implementation of precision irrigation besides other technologies such as GPS and automation.

Fertigation is a method of applying liquid and water-soluble fertilisers by incorporating them in drip or sprinkler irrigation systems so that they are distributed more evenly, leading to greater efficiency in application of nutrients. Fertigation is able to target crops' nutrient deficiencies more effectively while also reducing water consumption and the amount of fertilizer used, and preventing soil erosion, groundwater contamination and leaching.

Peer Comparison

CPL competes with global and Indian players in the domestic market including publicly-listed companies as well as private players such as the Israel-headquartered Netafim and Finolex Plasson. The biggest players in the domestic market are Netafim and Jain Irrigation. Together these two companies command ~50% of the market in India. For the purpose of comparing their financials, we have chosen here three of CPL's domestic listed peers, which operate in the MIS market but their product portfolios and markets are not necessarily identical.

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Peer Comparison: Key Financials Metrics, FY20

Rs crore	Captain Polyplast	Jain Irrigation Systems*	Mahindra EPC Irrigation	Kriti Industries
Revenue	186.2	8,576.9	284.0	548.7
EBITDA	28.2	925.6	36.9	45.1
EBITDA margin	15.2%	10.8%	13.0%	8.2%
PAT	12.6	239.1	23.3	18.5
PAT margin	6.8%	2.8%	8.2%	3.4%
Diluted EPS (Rs)	2.51	4.64	8.35	3.73
ROCE	21.6%	7.8%	20.4%	24.3%
ROE	23.8%	5.5%	14.5%	20.5%
Current market cap	195	1,141	426	353

*FY19 financials as the company reported losses in FY20
Source: Company data; Bloomberg; Khambatta Research

Valuation

At 17.0x FY23E EPS, we rate CPL a BUY with a target price of Rs 56 and an upside potential of 45%. CPL witnessed degrowth during 9M FY21 due to the impact of covid-19 and associated lockdown/restrictions on the supply chain during the earlier part of the first wave and lower industry-wide business from Andhra Pradesh, a major MIS market contributing up to ~15% of industry sales. The situation in Andhra Pradesh rose out of payment delays/bottlenecks, which is expected to be sorted in the current financial year. The doubling of allocation for the micro-irrigation CSS to over Rs 10,000 crore in FY22 is expected to drive growth with revenues seen at higher than FY20 levels. Due to its relatively smaller size, we expect CPL to be able to grow at 1.5x to 2.0x the market growth rate of ~10%. Robust sales growth is expected to generate operating leverage, resulting in margin expansion. The CPL stock currently trades at an attractive forward P/E level of 11.7x FY23E EPS. Assigning a target multiple of 17.0x FY23E EPS, our valuation generates a price target of Rs 56, informing a BUY rating with an upside potential of 45%.

The CPL stock currently trades at an attractive forward P/E level of 11.7x FY23E EPS

Relative Valuation: Price-to-Earnings

	High	Low	Average	Current
Captain Polyplast	43.0	9.2	23.7	15.2
Jain Irrigation Systems	44.2	12.0	25.4	N/A
Mahindra EPC Irrigation	57.7	8.8	33.8	22.2
Kriti Industries	34.6	6.8	18.6	9.3

Note: Multiples since FY17; normalised to exclude outliers
Source: Bloomberg; Khambatta Research

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Profit & Loss Account (Consolidated)

Rs lakh	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue from operations	14,922	18,623	16,755	19,888	22,712
Growth		24.8%	-10.0%	18.7%	14.2%
Cost of operations	13,135	15,799	14,172	16,766	19,078
EBITDA	1,788	2,823	2,583	3,122	3,634
EBITDA margin	12.0%	15.2%	15.4%	15.7%	16.0%
Depreciation & amortization	180	422	399	437	449
PBIT	1,721	2,733	2,275	2,805	3,322
Interest expense	735	1,010	956	987	1,094
PBT	986	1,723	1,319	1,818	2,227
Tax expense	266	463	334	462	566
PAT	720	1,260	986	1,356	1,662
PAT margin	4.8%	6.8%	5.9%	6.8%	7.3%
Diluted EPS (Rs)	1.44	2.51	1.99	2.69	3.30

Source: Company data; Khambatta Research

Abridged Balance Sheet (Consolidated)

Rs lakh	FY19A	FY20A	FY21E	FY22E	FY23E
Total shareholders' equity	4,059	5,300	6,266	7,602	9,243
Total debt	5,600	7,118	6,266	7,164	7,828
Current liabilities (ex short-term debt)	8,130	8,495	7,795	7,880	7,631
Total equity & liabilities	17,807	21,121	20,544	22,873	24,943
Fixed assets	1,899	1,974	2,094	2,210	2,391
Inventory	2,902	3,262	2,951	3,491	3,972
Trade receivables	9,027	9,476	8,722	10,080	11,200
Cash & cash equivalents	171	325	390	386	337
Total assets	17,807	21,121	20,544	22,873	24,943

Source: Company data; Khambatta Research

Ratio Analysis

	FY19A	FY20A	FY21E	FY22E	FY23E
ROA	4.0%	6.0%	4.8%	5.9%	6.7%
ROCE	17.8%	21.6%	17.8%	18.7%	19.2%
ROE	17.7%	23.8%	15.7%	17.8%	18.0%
Debt-to-equity ratio	1.38x	1.34x	1.00x	0.94x	0.85x

Source: Company data; Khambatta Research

Captain Polyplast Limited**04 June 2021****Key Risks**

- The most critical driver of micro-irrigation demand in India is agriculture/irrigation policies and programmes of the central and state governments including subsidies on the purchase of MIS. Any dilution of the existing favourable policies is likely to affect CPL's business performance.
- Unanticipated technology disruptions in the micro-irrigation industry or its value chain can negatively impact our outlook and forecasts.
- Further severe waves of COVID-19 or it remaining around for an extended period of time, especially in rural India can potentially dampen demand and/or disrupt the supply chain, leading to the underperformance of our estimates.

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Guide to Khambatta's research approach

Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

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Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Hold recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Sell recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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