

11 November 2020

Wim Plast

Good recovery/better RoE, keys to a re-rating; maintaining a Buy

Rating: **Buy**

Target Price: Rs538

Share Price: Rs340

Wim Plast's Q2 was broadly as anticipated; healthy liquidity (up Rs400m in H1 to Rs1.2bn) was a positive. Ahead, we expect better prospects for its furniture division as the informal economy has difficulty operating; coolers would make a strong comeback in FY22 due to the wider distribution network and greater brand visibility. FCF and debt-free status continue. At ~8x FY22e P/E, we see good long-term potential in the scrip. Thus, we maintain a Buy, with a target of Rs538 (12x FY22e P/E), earlier Rs491. Good recovery in plastics/air-cooler and better RoE are keys to a re-rating.

Broadly in-line Q2. Consolidated revenue/EBITDA/PBT/PAT fell 15%/22%/24%/38% y/y. Plastics (furniture, bubble-guard sheet, moulds, etc.) revenue (86% of the total) was down 21% y/y while Others (air-coolers, tools) grew 80%. A 179bp y/y dip in the EBITDA margin to 18.6% was due to losses in Others while plastics improved. Tight control on working capital resulted in a healthy liquidity position in H1 (up ~Rs400m to ~Rs1.2bn). FCF continues.

Plastics - swift recovery (down 21% y/y); outlook improving. After a 73% y/y dip in Q1, the plastics division's sales recovered swiftly in Q2 (down only 21%). The EBIT margin expanded 134bps y/y to 21.4%. The shift from the informal to the formal economy in furniture now seems to be structural as the former is faced with difficulties in operating (Covid-19, GST, demonetisation etc).

Coolers - strong comeback likely in FY22. In FY20, coolers grew 12% y/y, despite the weak Q4 (down 27% y/y). After a subdued FY21, the category is expected to strongly come back in FY22 due to expanding reach, strong brand image, etc., and become a key player in 3-5 years (key to a re-rating).

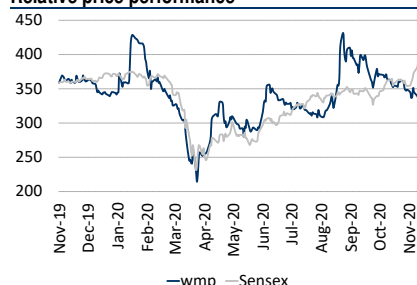
Valuation. Now, we expect 7%/9% CAGRs in revenue/PAT over FY20-22 with a ~13% RoE (20%+ till FY16). At ~8x FY22e P/E, we find valuations appealing, even factoring in concerns of low growth. **Risks:** Unfavourable summer; volatile RM prices.

| Key data | WMP IN / WIMP.BO |
|--------------------|------------------|
| 52-week high / low | Rs459 / 211 |
| Sensex / Nifty | 43575 / 12741 |
| 3-m average volume | \$0m |
| Market cap | Rs4bn / \$54.2m |
| Shares outstanding | 12m |

| Shareholding pattern (%) | Sep'20 | Jun'20 | Mar'20 |
|--------------------------|--------|--------|--------|
| Promoters | 69.9 | 69.9 | 69.9 |
| - of which, Pledged | - | - | - |
| Free float | 30.1 | 30.1 | 30.1 |
| - Foreign institutions | 2.5 | 3.0 | 3.6 |
| - Domestic institutions | 6.5 | 6.5 | 6.5 |
| - Public | 21.1 | 20.6 | 20.0 |

| Estimates revision (%) | FY21e | FY22e |
|------------------------|-------|-------|
| Sales | (1) | (1) |
| EBITDA | 5 | 6 |
| PAT | 15 | 10 |

Relative price performance



Source: Bloomberg

| Key financials (YE Mar) | FY18 | FY19 | FY20 | FY21e | FY22e |
|-------------------------|-------|-------|-------|-------|-------|
| Sales (Rs m) | 3,877 | 3,726 | 3,216 | 2,580 | 3,664 |
| Net profit (Rs m) | 444 | 392 | 451 | 304 | 538 |
| EPS (Rs) | 37.0 | 32.7 | 37.6 | 25.3 | 44.9 |
| PE (x) | 9.2 | 10.4 | 9.1 | 13.4 | 7.6 |
| EV / EBITDA (x) | 4.7 | 4.9 | 4.8 | 4.8 | 2.8 |
| PBV (x) | 1.4 | 1.3 | 1.2 | 1.1 | 1.0 |
| RoE (%) | 15.0 | 12.0 | 12.9 | 8.0 | 12.7 |
| RoCE (%) after tax | 14.4 | 11.6 | 10.3 | 7.0 | 11.0 |
| Dividend yield (%) | 2.1 | 2.1 | 2.1 | 0.6 | 2.1 |
| Net debt / equity (x) | -0.1 | -0.1 | -0.2 | -0.4 | -0.4 |

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations (Consol.)

Fig 1 – Income statement (Rs m)

| Year-end: Mar | FY18 | FY19 | FY20 | FY21e | FY22e |
|-----------------------------|------------|------------|------------|------------|------------|
| Net revenues | 3,877 | 3,726 | 3,216 | 2,580 | 3,664 |
| Growth (%) | 10.3 | -3.9 | -13.7 | -19.8 | 42.0 |
| Direct costs | 2,213 | 2,128 | 1,676 | 1,411 | 1,950 |
| SG&A | 856 | 854 | 874 | 653 | 870 |
| EBITDA | 808 | 744 | 666 | 516 | 844 |
| EBITDA margins (%) | 20.8 | 20.0 | 20.7 | 20.0 | 23.0 |
| - Depreciation | 153 | 168 | 185 | 186 | 201 |
| Other income | 16 | 20 | 79 | 83 | 82 |
| Interest expenses | 2 | 2 | 2 | 2 | 2 |
| PBT | 670 | 593 | 558 | 412 | 723 |
| Effective tax rate (%) | 33.6 | 33.9 | 19.4 | 26.8 | 25.8 |
| + Associates / (Minorities) | -1 | -0 | 1 | 2 | 2 |
| Net income | 444 | 392 | 451 | 304 | 538 |
| Adjusted income | 444 | 392 | 451 | 304 | 538 |
| WANS | 12 | 12 | 12 | 12 | 12 |
| FDEPS (Rs / sh) | 37.0 | 32.7 | 37.6 | 25.3 | 44.9 |
| FDEPS growth (%) | (8.6) | (11.6) | 14.9 | (32.7) | 77.4 |
| Gross margins (%) | 42.9 | 42.9 | 47.9 | 45.3 | 46.8 |

Fig 2 – Balance sheet (Rs m)

| Year-end: Mar | FY18 | FY19 | FY20 | FY21e | FY22e |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Share capital | 120 | 120 | 120 | 120 | 120 |
| Net worth | 2,968 | 3,259 | 3,506 | 3,785 | 4,240 |
| Debt | - | - | - | - | - |
| Minority interest | -0 | -0 | -1 | -1 | -1 |
| DTL / (Assets) | 108 | 126 | 83 | 93 | 103 |
| Capital employed | 3,076 | 3,384 | 3,587 | 3,876 | 4,341 |
| Net tangible assets | 1,247 | 1,353 | 1,283 | 1,197 | 1,196 |
| Net intangible assets | - | - | - | - | - |
| Goodwill | - | - | - | - | - |
| CWIP (tang. & intang.) | - | 0 | 9 | 9 | 9 |
| Investments (strategic) | - | - | - | - | - |
| Investments (financial) | 185 | 387 | 825 | 1,475 | 1,575 |
| Current assets (ex cash) | 1,907 | 1,860 | 1,775 | 1,380 | 1,759 |
| Cash | 84 | 39 | 35 | 116 | 156 |
| Current liabilities | 348 | 254 | 341 | 301 | 354 |
| Working capital | 1,560 | 1,606 | 1,435 | 1,079 | 1,405 |
| Capital deployed | 3,076 | 3,384 | 3,587 | 3,876 | 4,341 |
| Contingent liabilities | 95 | 98 | 33 | - | - |

Fig 3 – Cash-flow statement (Rs m)

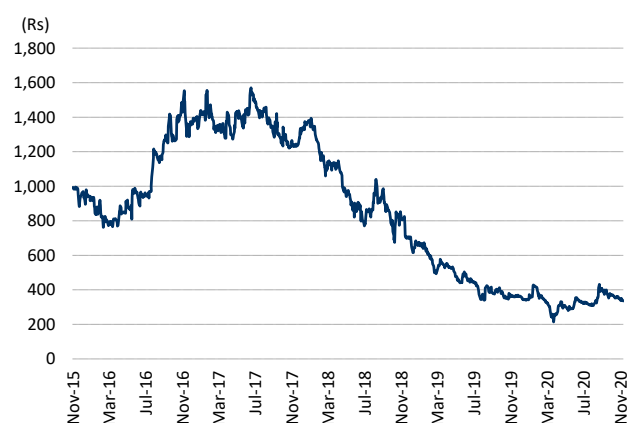
| Year-end: Mar | FY18 | FY19 | FY20 | FY21e | FY22e |
|--------------------------------|------|------|------|-------|-------|
| EBIT (before other income) | 654 | 575 | 480 | 331 | 643 |
| + Non-cash items | 153 | 168 | 185 | 186 | 201 |
| Oper. prof. before WC | 807 | 744 | 665 | 516 | 844 |
| - Incr. / (decr.) in WC | 385 | 138 | -188 | -361 | 321 |
| Others incl. taxes | 183 | 92 | 107 | 98 | 174 |
| Operating cash-flow | 239 | 514 | 746 | 779 | 349 |
| - Capex (tang. + intang.) | 266 | 274 | 124 | 100 | 200 |
| Free cash-flow | -27 | 240 | 621 | 679 | 149 |
| Acquisitions | | | | | |
| - Div. (incl. buyback & taxes) | 101 | 101 | 101 | 24 | 84 |
| + Equity raised | - | - | - | - | - |
| + Debt raised | - | - | - | - | - |
| - Fin investments | -57 | 202 | 438 | 650 | 100 |
| - Misc. (CFI + CFF) | (15) | (18) | 86 | (76) | (75) |
| Net cash-flow | -56 | -45 | -3 | 81 | 39 |

Source: Company, Anand Rathi Research

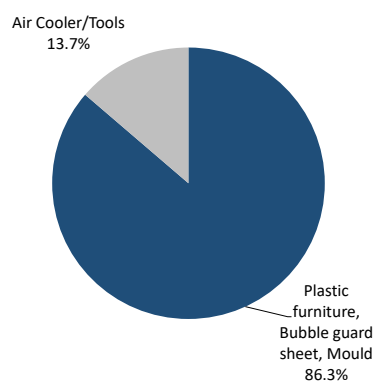
Fig 4 – Ratio analysis

| Year-end: Mar | FY18 | FY19 | FY20 | FY21e | FY22e |
|---------------------------------|------|-------|-------|-------|-------|
| P/E (x) | 9.2 | 10.4 | 9.1 | 13.4 | 7.6 |
| EV / EBITDA (x) | 4.7 | 4.9 | 4.8 | 4.8 | 2.8 |
| EV / Sales (x) | 1.0 | 1.0 | 1.0 | 1.0 | 0.6 |
| P/B (x) | 1.4 | 1.3 | 1.2 | 1.1 | 1.0 |
| RoE (%) | 15.0 | 12.0 | 12.9 | 8.0 | 12.7 |
| RoCE (%) - after tax | 14.4 | 11.6 | 10.3 | 7.0 | 11.0 |
| ROIC | 16.1 | 12.4 | 13.1 | 8.3 | 13.5 |
| DPS (Rs / sh) | 7.0 | 7.0 | 7.0 | 2.0 | 7.0 |
| Dividend yield (%) | 2.1 | 2.1 | 2.1 | 0.6 | 2.1 |
| Dividend payout (%) - incl. DDT | 18.9 | 21.4 | 18.6 | 7.9 | 15.6 |
| Net debt / equity (x) | -0.1 | -0.1 | -0.2 | -0.4 | -0.4 |
| Receivables (days) | 64 | 75 | 75 | 75 | 70 |
| Inventory (days) | 97 | 96 | 112 | 100 | 90 |
| Payables (days) | 14 | 12 | 15 | 14 | 14 |
| CFO : PAT % | 53.8 | 130.9 | 165.4 | 256.7 | 64.8 |

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

Fig 6 – Revenue break-up, by segment (Q2 FY20)


Source: Company

Financial highlights

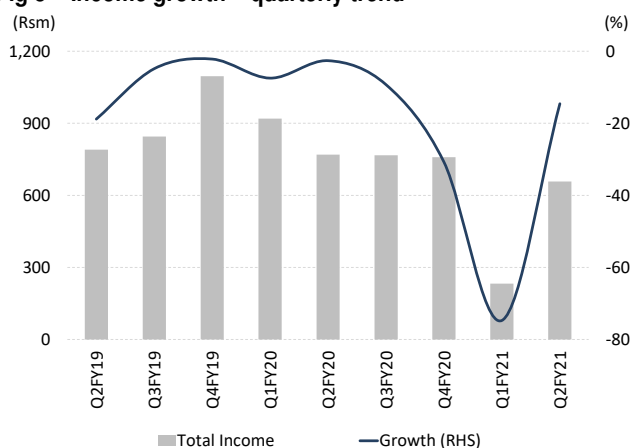
Fig 7 – Wim Plast – performance (Consol.)

| (Rs mn) | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | % Y/Y | % Q/Q | H1FY21 | H1FY20 | % Y/Y |
|--|-------------|-------------|-------------|---------------|-------------|----------------|----------------|-------------|--------------|----------------|
| Total Income | 770 | 767 | 759 | 233 | 658 | (15) | 183 | 891 | 1,690 | (47) |
| Raw material costs | 398 | 392 | 400 | 136 | 366 | (8) | 168 | 502 | 884 | (43) |
| Employee costs | 66 | 63 | 60 | 38 | 49 | (26) | 30 | 87 | 136 | (36) |
| Other expenses | 148 | 142 | 148 | 60 | 121 | (18) | 102 | 181 | 325 | (44) |
| EBITDA | 157 | 170 | 151 | (1) | 122 | (22) | | 121 | 345 | (65) |
| Depreciation | 47 | 47 | 45 | 46 | 46 | (2) | 0 | 91 | 93 | (2) |
| Finance costs | 1 | 1 | 0 | 0 | 0 | (37) | 5 | 1 | 2 | (45) |
| Other income | 13 | 13 | 43 | 25 | 18 | 34 | (31) | 43 | 23 | 90 |
| Exceptional items | - | - | - | - | - | - | - | - | - | - |
| PBT | 122 | 136 | 149 | (22) | 93 | (24) | | 71 | 273 | (74) |
| Tax | 13 | 35 | 39 | (6) | 25 | 100 | | 19 | 33 | (42) |
| PAT | 110 | 100 | 110 | (16) | 68 | (38) | | 52 | 240 | (78) |
| EPS (Rs) | 9.1 | 8.3 | 9.3 | (1.3) | 5.7 | (37) | | 4.4 | 20.0 | (78) |
| As % Total Income | | | | | | bps y/y | bps q/q | | | bps y/y |
| Gross margin | 48.3 | 49.0 | 47.3 | 41.4 | 44.4 | (381) | 306 | 43.6 | 47.7 | (402) |
| Employee costs | 8.6 | 8.3 | 7.9 | 16.2 | 7.5 | (117) | (870) | 9.7 | 8.0 | 171 |
| Other expenses | 19.3 | 18.5 | 19.5 | 25.8 | 18.4 | (84) | (731) | 20.4 | 19.2 | 113 |
| EBITDA margin | 20.3 | 22.2 | 19.9 | (0.5) | 18.6 | (179) | | 13.6 | 20.4 | (686) |
| Depreciation | 6.1 | 6.2 | 5.9 | 19.6 | 7.0 | 88 | (1,262) | 10.2 | 5.5 | 475 |
| EBIT margin | 14.3 | 16.0 | 14.0 | (20.1) | 11.6 | (267) | | 3.3 | 14.9 | (1,161) |
| Finance costs | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | (2) | (11) | 0.1 | 0.1 | 0 |
| Other income | 1.7 | 1.7 | 5.7 | 10.9 | 2.7 | 97 | (820) | 4.8 | 1.3 | 347 |
| PBT | 15.9 | 17.7 | 19.6 | (9.4) | 14.2 | (167) | | 8.0 | 16.2 | (814) |
| Effective tax rate | 10.3 | 26.2 | 26.4 | 26.5 | 27.0 | 1,666 | 46 | 27.1 | 12.2 | 1,493 |
| PAT | 14.2 | 13.0 | 14.4 | (6.9) | 10.4 | (386) | | 5.8 | 14.2 | (835) |
| Segment Revenues | | | | | | % Y/Y | % Q/Q | | | % Y/Y |
| Plastic (Furn., bubble-guard sheets etc) | 720 | 684 | 628 | 204 | 568 | (21) | 178 | 772 | 1,474 | (48) |
| Air Cooler/Tools | 50 | 83 | 132 | 28 | 90 | 81 | 216 | 119 | 216 | (45) |
| Total | 770 | 767 | 759 | 233 | 658 | (15) | 183 | 891 | 1,690 | (47) |
| Segment EBIT (%) | | | | | | bps y/y | bps q/q | | | bps y/y |
| Plastic (Furn., bubble-guard sheets etc) | 20.1 | 19.9 | 22.5 | (2.7) | 21.4 | 134 | 2,417 | 15.0 | 19.3 | (431) |
| Air Cooler/Tools | (19.6) | 13.0 | 11.3 | (80.7) | (26.3) | | | (39.4) | 5.2 | |
| Total | 17.5 | 19.1 | 20.5 | (12.3) | 14.9 | (263) | 2,717 | 7.8 | 17.5 | (975) |

Source: Company, Anand Rathi Research

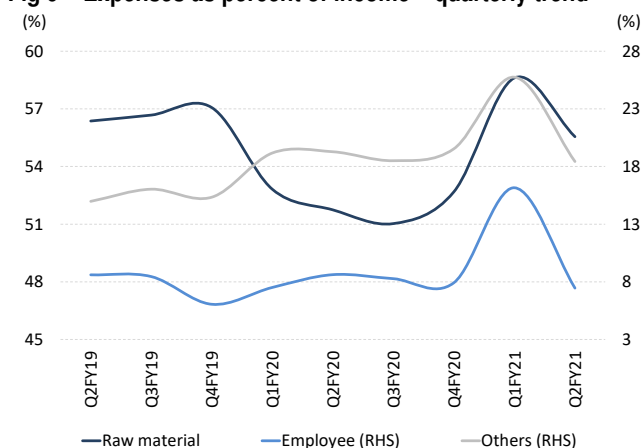
Note: Segment EBIT margins are as reported and not adjusted for un-allocable expenses / income

Fig 8 – Income growth – quarterly trend



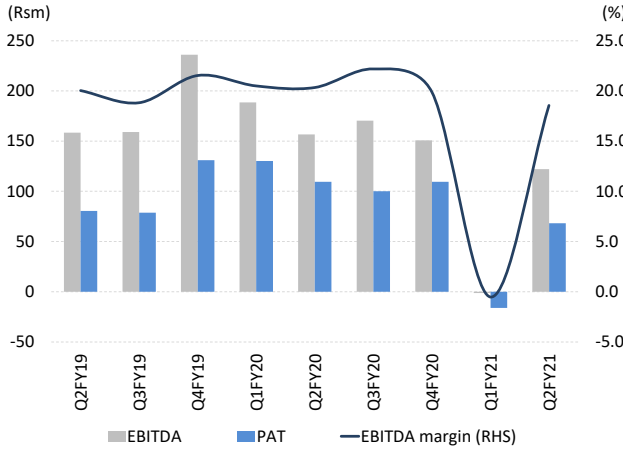
Source: Company, Anand Rathi Research

Fig 9 – Expenses as percent of income – quarterly trend



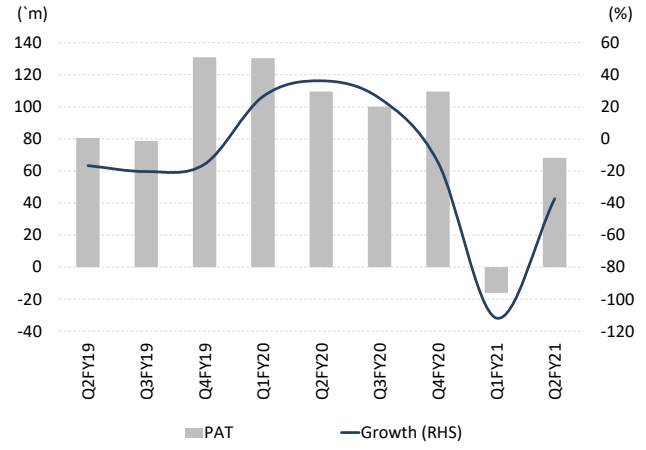
Source: Company, Anand Rathi Research

Fig 10 – EBITDA, PAT and margin – quarterly trends



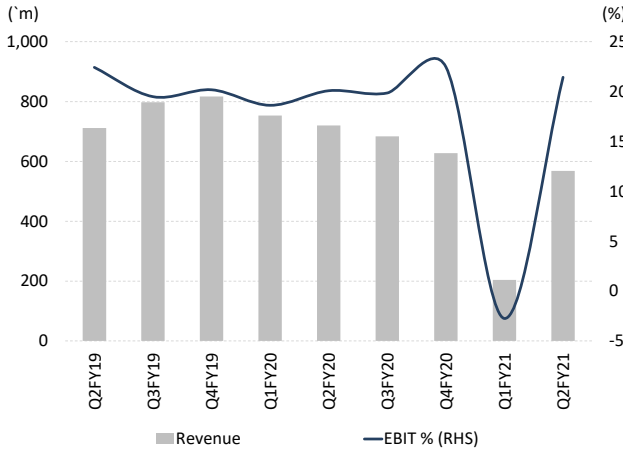
Source; Company, Anand Rathi Research

Fig 11 – Earnings growth – quarterly trend



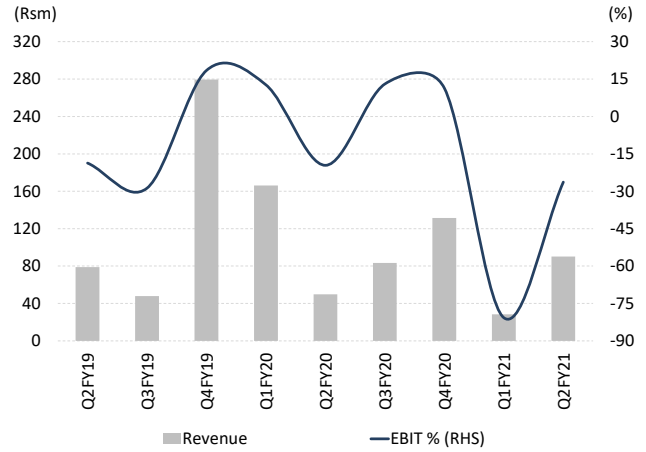
Source; Company, Anand Rathi Research

Fig 12 – Plastics – revenue, EBIT % - quarterly trends



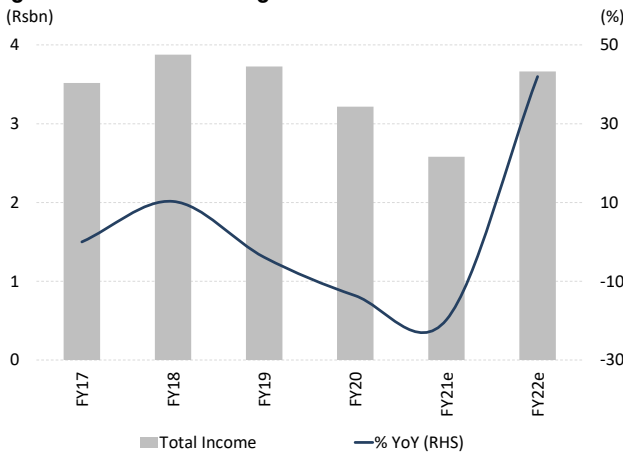
Source; Company, Anand Rathi Research

Fig 13 – Coolers/Tools – revenue, EBIT % - quarter trends



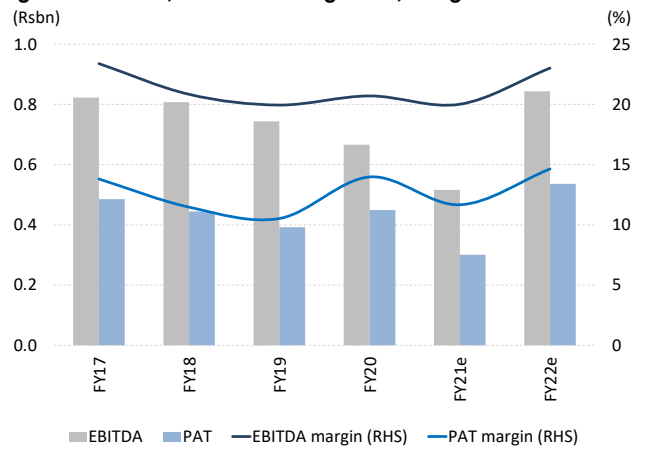
Source; Company, Anand Rathi Research

Fig 14 – Income – annual growth trend



Source; Company, Anand Rathi Research

Fig 15 – EBITDA, PAT – annual growth, margin trends



Source; Company, Anand Rathi Research

Valuation

We are positive on Wim Plast for its strong ‘Cello’ brand positioning in plastic furniture, wide distribution network and factories across regions, besides its free-cash-flow-generating ability (even through the slowdown) and debt-free balance sheet. After a strong FY10-15 (~20% revenue/PAT CAGRs), FY16-20 has been challenging, with only flattish growth. Despite this, it has maintained its FCF generation and debt-free status.

Growth concerns in both, plastics and coolers, have driven down the stock price considerably in the last three years, from ~Rs1,600 to Rs340 now. Ahead, we expect better prospects of its furniture division as the informal economy is faced with difficulties in operating. For coolers, we expect a strong comeback in FY22 owing to the company’s wide distribution network.

At ~8x FY22e P/E, we see good potential in the stock from a long-term perspective. We maintain our Buy recommendation, with a target of Rs538 (12x FY22e P/E). Strong recovery in furniture and profitable growth in air-coolers are keys to a re-rating.

Fig 16 – Change in estimates

| (Rs m) | Old estimates | | New estimates | | % Var | |
|-----------------|---------------|-------|---------------|-------|-------|-------|
| | FY21e | FY22e | FY21e | FY22e | FY21e | FY22e |
| Total Income | 2,609 | 3,692 | 2,580 | 3,664 | (1) | (1) |
| EBITDA | 491 | 793 | 516 | 844 | 5 | 6 |
| EBITDA margin % | 18.8 | 21.5 | 20.0 | 23.0 | | |
| PAT | 264 | 491 | 304 | 538 | 15 | 10 |
| EPS (Rs) | 22.0 | 40.9 | 25.3 | 44.9 | 15 | 10 |

Source: Anand Rathi Research

Fig 17 – One-year-forward P/E and Standard-deviation band



Source: Company, Anand Rathi Research

Key risks

- A not-so-hot summer would lead to less-than-anticipated growth in coolers.
- Changes in raw material prices (on crude-oil price movements or currency shifts) are normally passed on to consumers. However, volatile prices create uncertainty in the minds of dealers/distributors.
- Altered consumer preferences for non-plastic furniture pose a risk to the industry.

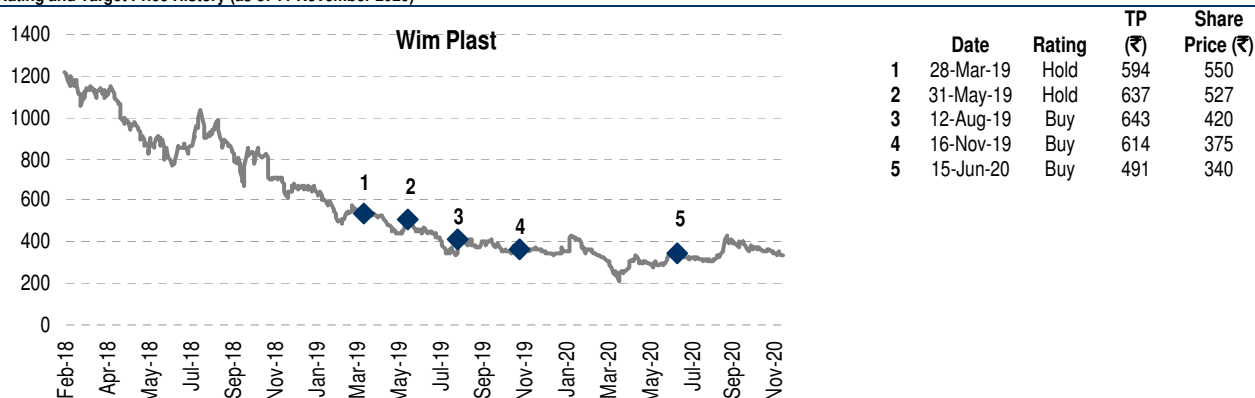
Appendix

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|---------------------------|------|-------|------|
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