

Plastene India Ltd. (PIL) : "Subscribe from long term perspective"

12th May, 2012

Ahmedabad based PIL, founded in 1998, is an integrated plastics packaging manufacturer. Presently, PIL is engaged in the business of manufacturing of flexible intermediate bulk containers (FIBCs), conventional poly-woven sacks (PWS), flexible packaging products, woven fabric, tarpaulin, multi-filament yarn (MFY) and webbings. The company also sells granules imported from countries like Saudi Arabia, Thailand, UAE, etc and occasionally trades in goods manufactured by them. It has four manufacturing facilities in India, two of which are strategically located close to Kandla and Mundra ports and other two in Mehsana district, Gujarat. The manufacturing capacity of the company was increased from 28,000 MTPA in FY08 to 55,000 MTPA in FY09 and remained constant upto FY11, thereafter the capacity has been increased to 56,200 MTPA by the end of FY12. PIL's capacity will increase to 69,000 MTPA and an additional capacity of 5,000 MTPA of block bottom valve bags will be installed once the IPO proceeds are deployed. Its product portfolio is well distributed among PWS and FIBC, which totally contribute around 60 per cent of the company's consolidated revenues. The balance is accounted by its polymer trading business besides the sale of intermediate products like master batch, fillers and MFY, etc.

At the lower band of the issue price, PIL is valued at 24x at its annualized EPS of Rs. 3.4. The following factors like a) highly fragmented nature of industry with low entry barriers, b) intense competition from existing players, c) lack of product differentiation, d) low margin business, e) high debt equity ratio of 1.64x at pre issue capital f) lower PAT margins owing to MTM forex losses, g) contingent liability position which stands at Rs.62 crores would exert pressure on the performance of the company. However, the lower EPS estimates for ten months may be on account of forex losses, which should be discounted. In addition, with due consideration to factors like a) location advantage, b) expanded product portfolio, c) diversified customer base, d) distributorship from Indian Oil Corporation Ltd. (IOCL) for supply of PP / HDPE / LLDPE granules, e) fiscal incentives and f) the success of Flexituff International Ltd. (Immediate peer of PIL) IPO, where PIL claims to operate, we recommend long term investors with higher risk appetite to "SUBSCRIBE" the issue.

Financial summary (Consolidated)

Y/e 31 Mar (Rs. cr)	10MFY 12	FY11	FY10	FY09
Total income	385.4	491.25	318.75	220.89
EBITDA Margin (%)	10.6	10.1	11.9	9.2
PBT	16	30.2	20.3	15.6
Reported PAT	10.1	21.2	13.7	9.4
PAT margin (%)	2.6	4.4	4.3	4.25
Equity Capital	25.24	25.24	23.14	22.32
Networth	124.2	113.16	71.14	51.17
Total Debt	194.36	149.47	118.82	117.8
Debt/Equity (x)	1.6	1.3	1.7	2.3
RoNW (%)	-	18.8	19.2	18.3
RoCE (%)	-	13.2	13.2	9.5

Source: RHP, Ajcon Research

Issue date	9 th May – 15 th May, 2012
Issue size	Rs. 775 mn at upper end of the price band
FV	Rs.10
Price Band	Rs. 81 - 84 per share
Fresh Issue	9.255 shares
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%
Equity shares post issue	35.74 mn shares
Post issue market capitalization	Rs. 3002.1 mn at upper end of the price band
Book Running Lead Managers	Motilal Oswal Investment Advisors Pvt. Ltd.
IPO Grading	Grade 3/5 by ICRA indicating average fundamentals
Registrar to the issue	Karvy Computershare Private Ltd.

Shareholding Pattern (%)	Pre Issue	Post Issue
Promoters	87.32	64.74
Individual Shareholders	10.17	7.54
Bodies Corporate	2.51	1.86
Public	-	25.86
Total	100	100

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Objects of the issue

Particulars	Amount (Rs. cr)
Expansion of manufacturing facilities and purchase of plant and machinery of new product, block bottom valve bags at Nani Chirai	49.35
Expansion of manufacturing facilities at Rajpur	28.08
General Corporate Purposes and Issue expenses	-

Source: RHP, Ajcon Research

Key advantages

Location Advantage

PIL manufacturing units in Nani Chirai, in the Kutch district of Gujarat are in close proximity to the Kandla and Mundra ports being approximately 40 Kms and 100 Kms respectively from these ports. This provides the company with efficient logistics thereby reducing our transportation and raw material cost as compared to its competitors. The Indian salt industry is located in the Kutch region which is one of its potential target customer bases. The company believes that is the only integrated player in Kutch district who can cater to the local demand of packaging products.

Expanded Product portfolio – One stop shop for packaging solutions to its customers

PIL's product portfolio comprises of Jumbo bags, woven sacks, woven fabric, flexible packaging, tarpaulin, masterbatches, fillers, webbings and multi filament yarns. It can cater to a variety of packaging solution requirements of customers across various industry segments and can manufacture packaging products for products ranging from 5 gram to 3,000 Kgs. Its broad range of products allows its customers to source most of their product requirement from th company. Its versatile equipment capability is one of its principal competitive strengths. In monsoon, when the demand for cement depletes, the company uses its equipments to manufacture tarpaulin which not only reduces its dependence on particular types of products, but also provides manufacturing benefits during the lean season.

Diversified customer base

PIL focuses on maintaining and establishing long-term relationships with its customers. Its customers include some of India's leading players in cement, fertilizers, salt, edible oil, food grains, sugar, rice industry to name a few. The Company believes that it has an ability to address the varied and expanding requirements of its customers. The Company's diversified customer base has helped it in introducing new products thereby expanding its product portfolio and consequently helping PIL in expanding into new markets such as Europe, U.S., U.K., Canada etc.

Distributorship from IOCL for supply of PP / HDPE / LLDPE granules

PIL are distributors for Indian Oil Corporation Limited (–IOCL|)) in Kutch and Saurashtra region of Gujarat for supply of PP / HDPE / LLDPE granules. The Company has entered into the distributorship agreement with IOCL on June 28, 2010. The Company is entitled to Rs. 0.35 per kg commission on sale of these IOCL products made by it and also on self consumption which reduces its raw material cost by approximately 0.50%. The Company has received Rs. 15.52 Lacs for the Fiscal 2011 and Rs. 38.33 Lacs for the ten months ended January 31, 2012 as commission from IOCL.

Integrated plastic packaging manufacturer

The Company is one of the few players in the plastic packaging industry to have backward integration facilities. It manufactures UV masterbatch, Antifab masterbatch, multi filament yarn and webbings which are used in the manufacturing of its final products.

Fiscal Incentives

For both of its units and subsidiaries units, Technology Upgradation Finance Scheme (TUFS) benefits are available to it from the Ministry of Textiles. Accordingly, the Company is entitled for concessional rate of interest and is

reimbursed 5% of the interest rate that the Company is charged on finance of new machinery. This has helped PIL in lowering its overall cost of funds and has increased its competitiveness. Further, its wholly owned subsidiary, Oswal Extrusion Limited being set up in the Kandla Special Economic Zone (KASEZ) enjoys the benefit of single window clearance for import and export. Accordingly, its Subsidiary receives various government department clearances such as clearances from the ministry of Finance and ministry of Commerce and Industry from a single office situated within the KASEZ. This improves efficiency by saving the time that it takes in taking the goods to the custom clearance. Being set up in a special economic zone it also enjoyed benefits of 100% income tax exemption for the first five years starting from 2005-06 and 50% thereafter for next 5 years, stamp duty exemption, Service tax exemption, VAT/ CST exemption, excise/custom Duty exemptions. Further, the Santej unit of Oswal Extrusion Limited which was set up in Jan 2010 is 100% EOU and is eligible for VAT/ CST refund, excise / custom Duty exemptions.

Modern technology

Its manufacturing facilities are equipped with modern machineries and technologies imported from Austria, Switzerland, U.S., etc. These equipments help it in reducing material gauze variations in the products and obtaining better quality finished products. PIL's roto gravure printing machine is supplied by a well known international supplier which has enabled it to fetch orders from its customers. It also has automatic cutting and sewing machine specifically imported from Botheven, Taiwan which enables it to reduce the manpower requirement for manufacturing of Woven Sacks. The Company also has latest twin screw extruder technology which helps us in formulating better quality master batches.

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