

Flexituff International Ltd. (FIL)

Sector: Packaging/Technical Textile

 19th August, 2015

Bright future; maintain BUY

Flexituff International Ltd. (FIL) reported 1QFY16 result with a sales growth of ~16%/-3% YoY/QoQ respectively to Rs.3.16bn. EBITDA saw a strong growth of ~35%/31% YoY/QoQ respectively due to increase in Geotextiles contribution to the revenue. Reported PAT decreased by ~71% YoY to Rs.37.5 mn vs Rs.130 mn mainly due to a steep increase in the finance cost by ~52%YoY, which had been capitalized in FY15.

Revenue growth by ~16% YoY: Flexituff International's top line increased by 16% YoY to Rs. 3.16 bn in 1QFY16 led by all segmental growth (FIBC, geotextile, BOPP bags, Polymer Compounding and Dridders). we expect the company to maintain the growth rate at CAGR of ~20% over FY15-18e backed by growth especially in geotextile segment.

EBITDA margin expansion by ~181bps: FIL's EBITDA margin increased to 13% as against 11.2% YoY to Rs.410mn v/s Rs.972mn in 1QFY16. EBITDA expansion of ~181 bps is seen due to: 1) higher revenue contribution from geotextiles 2) start of geotextile manufacturing at the new Geo-synthetic plant. We expect that Flexituff International would be able to show a healthy margin expansion (~278bps over FY15-18e) going forward with the change in product mix and shift from geotextile trading to its manufacturing.

PAT affected by higher interest cost: FIL reported a PAT of Rs.37.5mn, a drop of ~71% in Q1FY16 vs. Rs.130mn in Q1FY15. The Company's PAT margin has contracted by ~358bps/34bps YoY/QoQ respectively because of increase in finance cost by ~52% YoY. In FY14-15, FIL had capitalized the interest incurred on borrowings for its new Geo-synthetic plant. This has now been transferred to its Income statement. However, going forwards company expects to reduce its debt which can lead to reduction in interest cost.

Valuation: We believe that FIL is poised for a strong growth on the back of overall segmental growth, change in product mix favoring geotextile and strengthening EBITDA margin. At CMP of Rs.230, the stock is trading at ~19x/7.8x/5.3x of FY16/17/18e. We maintain BUY rating with target price of Rs.441 (upside 92%).

Price	Price Target	Up/Down (%)
Rs. 230	Rs. 441	92%

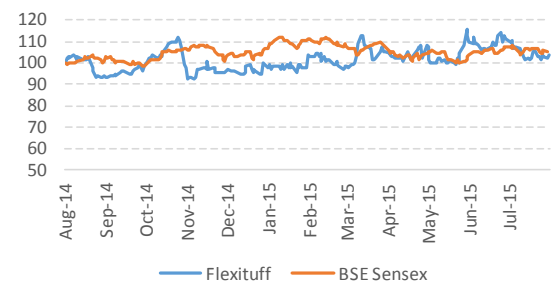
Bloomberg Code	Reuters Code
FLEXI IN	FLEI.BO

Share Holding (%)	As on 30th June 2015
Promoters	32.88
FII	9.77
DIIs	8.04

Stock Data	
Nifty	8,467
Sensex	27,832
52 week high/low	264/202
Market Cap (Rs. bn)	5.8
Face Value	Rs. 10

Price performance (%)	1M	3M	6M	1Y
Absolute	-6.1	-2.6	1.8	4.5
Relative to Sensex	-4.3	-3.8	6.9	-1.3

Relative Performance



Source:-Bloomberg

Exhibit 1: Financial summary (Rs mn)

Year end: March	FY13	FY14	FY15	FY16E	FY17E	FY18E
Net sales	9,655	10,924	11,772	13,673	16,010	18,953
Growth (%)	30.8	13.2	7.8	16.1	17.1	18.4
PAT	259	183	188	301	731	1086
Adjusted PAT	259	283	188	301	731	1086
EPS (Rs)	11.3	11.4	7.6	12.1	29.4	43.7
Growth (%)	-35.2	1.0	-33.6	59.8	143.2	48.7
P/E(x)	19.5	19.8	33.0	19.0	7.8	5.3
ROE (%)	9.0	8.4	5.1	7.7	16.8	21.2
ROCE (%)	11.9	8.9	14.2	8.3	12.2	14.9
Net debt/equity (x)	1.1	1.3	1.5	1.3	1.0	0.8
P/Bv (x)	1.6	1.5	1.6	1.4	1.2	1.0

Source: Company, BOBCAPSE

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Exhibit 2: Q1FY16 Quarterly financials

(Rs Mn)	1QFY16	1QFY15	YoY (%)	4QFY15	QoQ (%)
Net Sales	3154.2	2703.7	16.7	3247.3	-2.9
Other Related Income	2.6	20.0		9.6	
Total Income	3156.8	2723.7	15.9	3256.9	-3.1
Total Expenses	2746.7	2419.1		2943.2	
(%) of net sales	87.0	88.8		90.4	
(Increase)/ decrease in stock	-6.9	61.6		-199.9	
Raw material consumed	1778.8	1616.5		1500.1	
(%) of net sales	56.4	59.8		46.2	
Staff cost	381.8	301.1		320.4	
(%) of net sales	12.1	11.1		9.9	
Manufacturing & Other Expenses	593.1	439.8		1322.6	
(%) of net sales	18.8	16.3		40.7	
EBITDA	410.1	304.6	34.6	313.7	30.7
Depreciation	154.4	104.4		123.3	
EBIT	255.7	200.2		190.4	
Interest	241.5	159.2	51.7	167.0	44.6
Other Income	12.1	7.9		16.1	
PBT	26.3	48.9		39.6	
Less: Taxation	-11.1	-81.0		-10.3	
Less: Minority Interest	0.0	0.0		0.0	
Recurring PAT	37.5	130.0		49.8	
Exceptional items	0.0	0.0		0.0	
Reported PAT	37.5	130.0	-71.2	49.8	-24.8

Source: Company, BOBCAPS

Financials

Exhibit 3: Income Statement

Y/E Mar (Rsmn)	FY13	FY14	F Y15	FY16e	FY17e	FY18e
Net sales	9,655	10,924	11,772	13,673	16,010	18,953
<i>growth (%)</i>	<i>30.8</i>	<i>13.2</i>	<i>7.8</i>	<i>16.1</i>	<i>17.1</i>	<i>18.4</i>
COGS	4,847	5,627	6,156	7,055	8,261	9,780
Staff Cost	931	1,125	1,309	1,408	1,537	1,801
Changes in inventories of finished goods, work-in-progress and Stock-in-Trade	(286)	104	(24)	121	96	114
Other Expenses	2,946	2,891	3,118	3,559	4,069	4,779
EBITDA	1,216	1,178	1,213	1,530	2,047	2,480
<i>growth (%)</i>	<i>8.2</i>	<i>(3.1)</i>	<i>3.0</i>	<i>26.1</i>	<i>33.8</i>	<i>21.2</i>
Depreciation	237	271	461	561	576	592
EBIT	979	908	752	968	1,471	1,889
Other income	36	28	49	50	51	52
Interest paid	664	576	687	638	596	566
Extraordinary/Exceptional items	-	(100)	-	-	-	-
PBT	351	259	114	380	925	1,375
Tax	96	76	(74)	80	194	289
Minority interest	(4)	-	-	-	-	-
PAT	259	183	188	301	731	1,086
Non-recurring items	-	100	-	-	-	-
Adjusted PAT	259	283	188	301	731	1,086
<i>growth (%)</i>	<i>(31)</i>	<i>9</i>	<i>(34)</i>	<i>60</i>	<i>143</i>	<i>49</i>

Source: Company, BOBCAPSe

Exhibit 4: Balance Sheet

Y/E Mar (Rsmn)	FY13	FY14	F Y15	FY16e	FY17e	FY18e
Cash & Bank balances	262	279	307	109	355	648
Other Current assets	5,152	5,356	5,842	6,266	7,324	8,644
Investments	10.24	11.96	12.78	12.78	12.78	12.78
Net fixed assets	4,723	5,847	6,979	7,228	6,912	6,746
Intangible assets	58	181	-	-	-	-
Other non-current assets	1	0	0	-	-	-
Total assets	10,206	11,676	13,141	13,616	14,604	16,051
Current liabilities	3,237	2,922	3,253	3,850	4,476	5,188
Borrowings	3,363	4,555	5,621	5,221	4,881	4,631
Other non-current liabilities	528	557	478	503	591	662
Current/Non current liabilities	7,128	8,034	9,352	9,574	9,948	10,481
Share capital	230	249	249	249	249	249
Reserves & surplus	2,849	3,393	3,540	3,793	4,408	5,321
Shareholders' funds	3,078	3,642	3,789	4,042	4,657	5,570
-	-	-	-	-	-	-
Total liabilities	10,206	11,676	13,141	13,616	14,604	16,051

Source: Company, BOBCAPSe

Exhibit 5: Cash Flow Statement

Y/E Mar (Rsmn)	FY13	FY14	F Y15	FY16e	FY17e	FY18e
Profit after tax	259	183	188	301	731	1,086
Depreciation	235	200	461	561	576	592
Chg in working capital	(490)	(533)	(165)	208	(345)	(537)
Total tax paid	95	73	-	-	-	-
Net Extra-ordinary income	-	100	-	-	-	-
Cash flow from operations	99	23	484	1,070	963	1,141
Capital expenditure	(988)	(1,448)	(1,872)	(350)	(260)	(425)
Change in investments	(10)	(2)	(1)	-	-	-
Acquisition of Goodwill						
Cash flow from investments	(998)	(1,449)	(1,873)	(350)	(260)	(425)
Free cash flow	(899)	(1,426)	(1,390)	720	703	716
Issue of shares	12	19	-	-	-	-
Net inc/dec in debt	804	1,191	1,067	(400)	(340)	(250)
Dividend (incl. tax)	(27)	(29)	(29)	(48)	(116)	(173)
Other financing activities	147	363	(89)	0	0	(0)
Net Extra-ordinary income	-	(100)	-	-	-	-
Cash flow from financing	937	1,544	949	(448)	(456)	(423)
Inc/(Dec) in Cash & Bank bal.	38	18	(441)	272	246	293

Source: Company, BOBCAPSe

Exhibit 6: Ratio analysis

Y/E Mar	FY13	FY14	F Y15	FY16e	FY17e	FY18e
Per share data (Rs)						
EPS	11.3	11.4	7.6	12.1	29.4	43.7
CEPS	21.6	22.3	26.1	34.6	52.5	67.4
DPS	1.2	1.2	1.2	1.9	4.7	6.9
BV	134	146	152	162	187	224
Profitability ratios (%)						
Gross margins	40.1	38.2	36.6	38.1	38.8	38.9
Operating margins	12.6	10.8	10.3	11.2	12.8	13.1
Net margins	2.7	2.6	1.6	2.2	4.6	5.7
Valuation ratios (x)						
PE	19.5	19.8	33.0	19.0	7.8	5.3
P/BV	1.6	1.5	1.6	1.4	1.2	1.0
EV/EBITDA	6.7	7.4	7.7	5.8	4.3	3.6
EV/Sales	0.8	0.8	0.8	0.6	0.6	0.5
RoE	9.0	8.4	5.1	7.7	16.8	21.2
RoCE	11.9	8.9	14.2	8.3	12.2	14.9
RoIC	4.1	3.6	2.1	3.2	7.6	11.1

Source: Company, BOBCAPSe

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BUY. We expect the stock to deliver >15% absolute returns.

HOLD. We expect the stock to deliver 5-15% absolute returns.

SELL. We expect the stock to deliver <5% absolute returns.

Not Rated (NR). We have no investment opinion on the stock.

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