

Flexituff International Ltd. (FIL)

Sector: Packaging/Technical Textile

 9th November, 2015

Stressed quarter but a bright future; Maintain BUY

Flexituff International reported a strong YoY revenue/earnings growth in Q2FY16. It has posted net sales of Rs.3364.5 mn, growth of ~16.2%/8.5% YoY/QoQ. EBITDA saw an increase of ~12.6%/7.4% YoY/QoQ respectively, with contraction in margins by ~35/12 bps YoY/QoQ. PAT stood at Rs. 33 mn, a growth of ~227%/11.7% YoY/QoQ respectively.

Revenue growth by ~16.2% YoY: FIL posted revenue of Rs.3364.5 mn vs. Rs.2891.5 mn in Q2FY16, a growth of ~16.4%/8.5% YoY/QoQ, respectively. The increase is seen mainly due to the growth in the geotextile segment of the company. We expect that the company will grow at a CAGR of 17.4% over FY15-18e backed by increasing growth in Geotextiles.

YoY PAT increased by ~227%: The PAT of Flexituff International Ltd. stood at Rs. 33 mn vs Rs. 10 mn in Q2FY16 showing ~227% growth YoY. This increase in PAT is mainly seen due to increased volume growth from geotextiles. Although, the Company has shown a strong growth YoY, it has realized de-growth of ~11.7% QoQ mainly due to deferred tax amounting to ~Rs. 8 mn, which in the previous quarter had been realized as a MAT Credit of ~Rs. 11 mn. The management is also trying to reduce its interest burden and we believe the company will show a strong earnings growth going forward.

Reduction in Debt: FIL's interest burden increased since Q1FY16 due to transfer of capitalized interest to its Profit & Loss Account, which the management believes will reduce significantly from Q3FY16. The company's long term debt stands at ~Rs. 2,839 mn vs. ~Rs. 2,904 mn. Although the company has started with debt reduction, the process is going slow. Therefore, we have revised our estimates with respect to the increased interest burden and slow debt reduction process. This has led to reduction in PAT from 79% to 68.5% CAGR over FY15-18e.

Valuation: FIL's revenue would continue to remain strong on account of strong volume growth from all its segments, especially Geotextiles. Also, the increasing contribution of Geotextiles will enable the company to improve its margins, going forward. We believe revenue/earnings to grow at ~17.4%/68.5% CAGR over FY15-18e. The stock currently trades at 21.2x/10.1x/6.5x of FY16e/FY17e/FY18e. We value the stock at 15x PE and maintain our BUY rating with the price target of Rs. 347 (upside 48%).

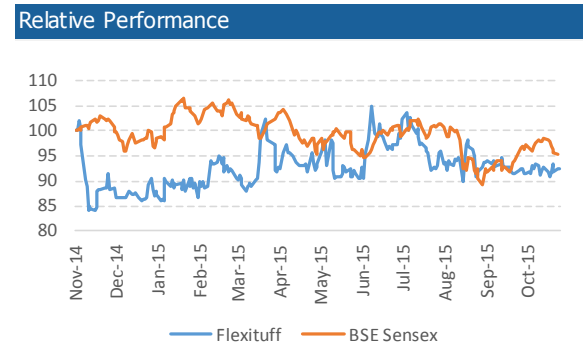
Price	Price Target	Up/Down (%)
Rs. 234	Rs. 347	48%

Bloomberg Code	Reuters Code
FLEXI IN	FLEI.BO

Share Holding (%)	As on 30th September 2015
Promoters	32.9
FII	10.4
DII's	8.01

Stock Data	
Nifty	7,954
Sensex	26,265
52 week high/low	275/201
Market Cap (Rs. bn)	5.8
Face Value	Rs. 10

Price performance (%)	1M	3M	6M	1Y
Absolute	2.9	-2.0	0.7	-5.4
Relative to Sensex	5.9	5.0	3.8	0.3



Source: -Bloomberg

Exhibit 1: Financial summary (Rs mn)

Y/E March	FY13	FY14	FY15	FY16e	FY17e	FY18e
Net sales	9,655	10,860	11,722	13,673	16,010	18,953
Growth (%)	30.8	12.5	7.9	16.6	17.1	18.4
PAT	259	183	188	251	575	900
Adjusted PAT	259	283	188	251	575	900
EPS (Rs)	11.3	11.4	7.6	10.1	23.1	36.2
Growth (%)	-35.2	1.0	-33.6	33.3	129.6	56.5
P/E(x)	19.5	19.8	33.0	23.2	10.1	6.5
ROE (%)	9.0	8.4	5.1	6.6	14.3	19.3
ROCE (%)	11.9	8.8	14.1	8.9	11.9	14.5
Net debt/equity (x)	1.1	1.3	1.5	1.4	1.2	0.9
P/Bv (x)	1.6	1.5	1.6	1.5	1.4	1.2

Source: Company, BOBCAPS

Exhibit 2: Income Statement

(Rs Mn)	2QFY16	2QFY15	YoY (%)	1QFY16	QoQ (%)
Net Sales	3391.5	2919.8	16.2	3125.1	8.5
Raw material consumed	1344.7	1275.8	5.4	1494.4	-10.0
(%) of net sales	40.0	44.1		48.6	
Staff cost	387.3	338.5	14.4	381.8	1.5
(%) of net sales	11.5	11.7		12.4	
Manufacturing & Other Expenses	1533.3	946.0	62.1	908.1	68.8
(%) of net sales	45.6	32.7		29.5	
EBITDA	373.3	331.7	12.6	347.6	7.4
Depreciation	175.1	117.1		154.4	
EBIT	198.2	214.6		193.2	
Interest	210.7	194.6	8.3	241.5	-12.7
Other Income	53.3	0.1		74.6	
PBT	40.8	20.2	102.6	26.3	55.0
Less: Taxation	7.7	10.0		-11.1	
Less: Minority Interest	0.0	0.0		0.0	
Recurring PAT	33.1	10.1	226.9	37.5	-11.7
Exceptional items	0.0	0.0		0.0	
Reported PAT	33.1	10.1	226.9	37.5	-11.7
Key Ratios (%)					
EBITDA Margin	11.0	11.4		11.1	
Tax / PBT	18.9	49.8		-42.2	
NPM	1.0	0.3		1.2	
EPS	1.3	0.4		1.5	

Source: Company, BOBCAPS

Financials

Exhibit 3: Income statement (Rs mn)

Y/E Mar (Rsmn)	FY13	FY14	F Y15	FY16e	FY17e	FY18e
Net sales	9,655	10,860	11,722	13,673	16,010	18,953
growth (%)	30.8	12.5	7.9	16.6	17.1	18.4
COGS	4,847	5,627	6,156	7,110	8,325	9,856
Staff Cost	931	1,125	1,309	1,477	1,729	2,047
Changes in inventories	(286)	104	(24)	(24)	(28)	(33)
Other Expenses	2,946	2,891	3,118	3,575	4,074	4,787
EBITDA	1,216	1,114	1,162	1,535	1,910	2,297
growth (%)	8.2	(8.5)	4.4	32.1	24.4	20.3
Depreciation	237	271	461	545	561	577
EBIT	979	843	702	991	1,349	1,721
Other income	36	92	100	103	107	112
Interest paid	664	576	687	776	727	690
Extraordinary/Exceptional items	-	(100)	-	-	-	-
PBT	351	259	114	318	730	1,143
Tax	96	76	(74)	67	155	242
Minority interest	(4)	-	-	-	-	-
PAT	259	183	188	251	575	900
Non-recurring items	-	100	-	-	-	-
Adjusted PAT	259	283	188	251	575	900
growth (%)	(31)	9	(34)	33	130	57

Source: Company, BOBCAPSe

Exhibit 4: Balance sheet (Rs mn)

Y/E Mar (Rsmn)	FY13	FY14	F Y15	FY16e	FY17e	FY18e
Cash & Bank balances	262	279	307	361	414	528
Other Current assets	5,152	5,356	5,842	6,303	7,324	8,644
Investments	10.24	11.96	12.78	12.78	12.78	12.78
Net fixed assets	4,723	5,847	6,678	6,698	6,441	6,271
Intangible assets	58	181	302	-	-	-
Other non-current assets	1	0	-	-	-	-
Total assets	10,206	11,676	13,141	13,375	14,192	15,456
Current liabilities	3,237	2,772	3,253	3,775	4,388	5,084
Borrowings	3,363	4,705	5,621	5,351	5,011	4,761
Other non-current liabilities	528	557	478	457	516	578
Current/Non current liabilities	7,128	8,034	9,352	9,583	9,916	10,423
Share capital	230	249	249	249	249	249
Reserves & surplus	2,849	3,393	3,540	3,543	4,027	4,784
Shareholders' funds	3,078	3,642	3,789	3,792	4,276	5,033
Total liabilities	10,206	11,676	13,141	13,375	14,192	15,456

Source: Company, BOBCAPSe

Exhibit 5: Ratios

Y/E Mar	FY13	FY14	F Y15	FY16e	FY17e	FY18e
Per share data (Rs)						
EPS	11.3	11.4	7.6	10.1	23.1	36.2
CEPS	21.6	22.3	26.1	32.0	45.7	59.4
DPS	1.2	1.2	1.2	1.6	3.7	5.7
BV	134	146	152	152	172	202
Profitability ratios (%)						
Gross margins	40.1	37.8	36.3	37.2	37.2	37.2
Operating margins	12.6	10.3	9.9	11.2	11.9	12.1
Net margins	2.7	2.6	1.6	1.8	3.6	4.8
Valuation ratios (x)						
PE	19.5	19.8	33.0	23.2	10.1	6.5
P/BV	1.6	1.5	1.6	1.5	1.4	1.2
EV/EBITDA	6.7	7.8	8.0	5.8	4.7	3.9
EV/Sales	0.8	0.8	0.8	0.7	0.6	0.5
RoE	9.0	8.4	5.1	6.6	14.3	19.3
RoCE	11.9	8.8	14.1	8.9	11.9	14.5
RoIC	4.1	3.5	1.6	2.5	6.0	9.3

Source: Company, BOBCAPSe

Exhibit 6: Cash flow statement (Rs mn)

Y/E Mar (Rsmn)	FY13	FY14	F Y15	FY16e	FY17e	FY18e
Profit after tax	259	183	188	251	575	900
Depreciation	235	200	487	545	561	577
Chg in working capital	(490)	(684)	(15)	49	(348)	(563)
Total tax paid	95	73	(77)	-	-	-
Net Extra-ordinary income	-	100	-	-	-	-
Cash flow from operations	99	(128)	583	845	788	914
Capital expenditure	(988)	(1,448)	(1,437)	(263)	(304)	(407)
Change in investments	(10)	(2)	(1)	-	-	-
Cash flow from investments	(998)	(1,449)	(1,438)	(263)	(304)	(407)
Free cash flow	(899)	(1,577)	(855)	582	484	507
Issue of shares	12	19	-	-	-	-
Net inc/dec in debt	804	1,342	916	(270)	(340)	(250)
Dividend (incl. tax)	(27)	(29)	(30)	(40)	(91)	(143)
Other financing activities	147	363	(11)	(208)	(0)	0
Net Extra-ordinary income	-	(100)	-	-	-	-
Cash flow from financing	937	1,695	875	(518)	(431)	(393)
Inc/(Dec) in Cash & Bank bal.	38	18	20	63	52	114

Source: Company, BOBCAPSe

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