

December 30, 2016

Nano Nivesh



Key risks to investing in Nano stocks

- Nano stocks may not be in the limelight and inherently being micro cap in nature will have a high risk return profile
- We advise clients to be disciplined in investing at all times. Allocate only a small proportion of your investible income to these stocks and diversify well
- Try to diversify your exposure within the Nano stocks as well by investing equal proportions in several picks
- These stocks may have low volumes and trade infrequently
- Micro cap stocks the world over are, to a large extent, affected by the “Pump and Dump” phenomenon of inflated price buying and depressed price selling
- As explained above, the clients should be patient and trade only through limit orders on any side of the trade.
- The risk of volatility remains in such micro cap stocks as they can move up or down with large buy/sell orders
- The fair value of Nano stocks are subject to expected growth potential in the future. Though due diligence has been done to a fair extent, the actualisation of growth still has a degree of uncertainty attached to it

Nano stocks report tries to highlight companies with good and scaleable business models, dependable management and sound financials. However, these stocks may not be in the limelight and have a high risk high return potential. Please watch out for the following factors before investing in these stocks:

Allocate a small proportion of your investible income to these stocks and diversify well. If you choose to invest in these stocks, most of your assets allocated towards equity should remain in more stable investments like stocks of large companies. Moreover, try to diversify your exposure within the nano stocks as well by investing equal proportions in several picks. This will help you avoid losing too much of your total wealth if the investments do not turn out well. When you invest in micro-cap stocks there is a higher risk of impairment.

These stocks may have low volumes and trade infrequently. This can create a situation in which you may not be able to find any willing buyers for your stocks when you wish to sell. We advise our clients to be patient and trade only through limit orders to avoid volatile fluctuations, both while putting a buy and sell order in these stocks.

December 30, 2016

Prima Plastic Ltd (PRIPLA)

Prima Plastic (PPL), engaged in the manufacture of plastic moulded furniture, derives ~73% of sales from the Indian markets and 27% from the overseas business. With a strong presence in the western and southern markets, the company is focusing on expanding in the eastern markets. It has also increased overseas capacity by 3x in FY17 (vs. FY16) to increase the proportion of overseas business. On the back of an impressive expansion plan (overseas), we expect sales & PAT to grow at a CAGR of ~21% & ~19%, respectively, in FY16-19E.

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Buy Price Range

₹ 207

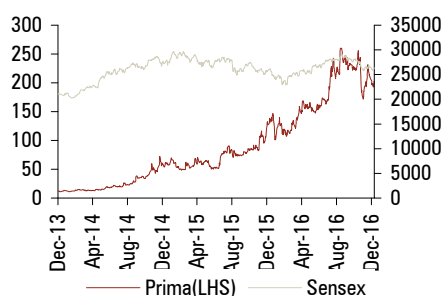
Recommendation

Buy

Fair value

₹ 267-283

Price performance



Highlights

- **Aggressive expansion plans:** PPL envisaged a series of expansions in FY15-16 to increase domestic & overseas capacity by 64% through internal accrual of ~₹ 35 crore. In FY16, It increased domestic capacity by 15% by adding a new plant in Andhra Pradesh (AP) to increase penetration in eastern & southern regions. Further, PPL increased its overseas capacity by ~3x (by doubling capacity in Cameroon and starting a new facility in Central America (Guatemala)). This would help PPL serve the rising demand for moulded furniture, increase presence in untapped markets and reduce export related freight cost
- **Overseas business to drive future growth:** Prima Dee-lite (50% JV) posted a strong performance with revenue, earning CAGR of ~40%, 22%, respectively, in FY12-16, supported by strong EBITDA margin (average 29% EBITDA margin). The encouraging performance was backed by lucrative demand, change in product mix and brand acceptance, which also boosted the confidence of the management to expand into new geographies. We believe the strong performance of Prima Dee lite would continue albeit lower than historical trend due to an increase in overhead expenditure and rising competition. To replicate the same performance, PPL formed another JV (90% owned by PPL) in Central America that will start manufacturing moulded furniture by Q4FY17. We believe the overseas business will contribute ~39% by FY19E in topline (from 27% in FY16) due to current expansion
- **Strong balance sheet, attractive margin:** Debt free status, benign raw material prices, rising contribution of higher margin business and efficient working capital management have helped PPL to produce strong RoCE & RoE of 26% & 19%, respectively. Going forward, we expect consolidated revenue, earnings CAGR of 21%, 19% supported by EBITDA margin expansion of ~83 bps in FY16-19E. We value PPL at ₹ 267-₹283 i.e. 17x-18x P/E of FY18E.

Key risks-

Volatility in crude prices/currency: Major raw materials consumed by the company are Polypropylene (PP), which is linked to crude prices. Additionally, the company makes payment in foreign currency for import of machinery and raw materials. PPL does not have a hedging policy to mitigate currency fluctuation. Thus, a sharp increase in crude prices and adverse currency movement may hurt the EBITDA margin of the company as PPL is a relatively small player and may be unable to pass on entire hike in raw material price.

Geopolitical risk: Total 50% of PPL's capacity is in Cameroon and Guatemala. Any political instability, change in government policy in the country could adversely impact the business opportunity for the company.

Lack of innovation to lead loss in market share: The industry is highly competitive in terms of launching new/premium SKUs wherein Nilkamal, Cello and Supreme Industries are pioneers and have the financial firepower to invest heavily in R&D and innovation. PPL, being a small player (in capacity terms) has to continuously develop new products and launch in markets. Lack of innovation would lead to a loss in market share to other organised players.

Delay in government flagship programmes: Government programmes like 'Housing for All' and 'Swachh Bharat Abhiyaan' would be a strong boost to the plastic furniture industry in India, going forward. However, any delay in execution of such projects could hurt demand for plastic products in India.

Description

Headquartered in Mumbai, PPL is the fourth largest plastic furniture manufacturer (after Nilkamal, Wim Plast and Supreme Industries) in India with a strong presence in the west and south. With the addition of a new plant in Ongole (AP), now PPL has three manufacturing plants in India with total capacity of ~11500 TPA (I-direct estimate). PPL also export its products to the Middle East, Latin American and African countries. It recorded export revenue CAGR of 15% in the last five years. Prima Dee-lite Plastics (overseas JV) contributed ~27% to the consolidated topline in FY16. PPL received ₹ 2.5 crore (up 56% YoY) as dividend income from the JV during FY16.

History and track record

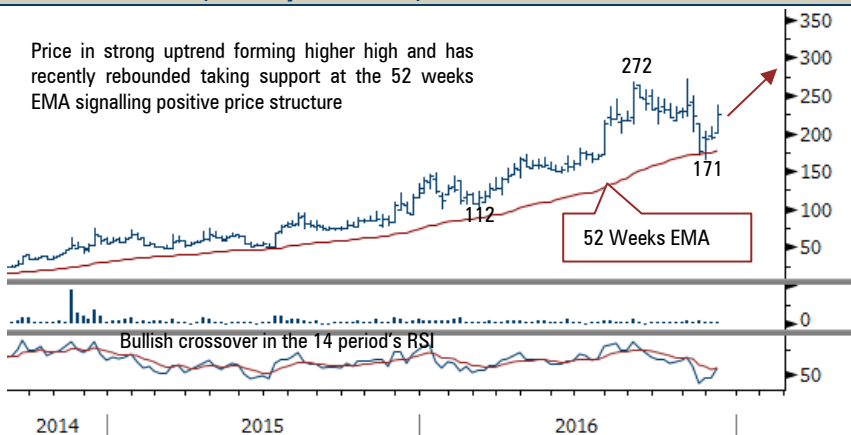
- The company was incorporated in 1993 and promoted by Manhar V Parekh and his sons, Bhaskar and Dilip M Parekh to manufactures moulded furniture articles in India
- PPL has a strong presence in the southern region mainly due to manufacturing plants in Daman and Kerala (near selling markets)
- To tap the growing African markets, PPL entered the African market by forming a 50% JV with local partners in 2005 with an initial investment of ₹ 1 crore
- PPL hived off its loss-making ACP business in FY15
- Underutilised domestic capacity and diversion in non core business resulted in lower domestic sales
- Entered the Central American market by forming a JV with local player (90% owned by Prima)
- Despite a series of expansions, PPL remained debt free with a strong RoCE, RoE of ~26%, ~19%, respectively. We believe the rising contribution of higher margin business and focus on maintaining working capital cycle would keep the balance sheet lighter. This would yield higher RoCE, RoE of ~28%, 20%, respectively, by FY18E

Earnings estimates

₹ crore	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	116.9	128.3	138.2	185.4	226.2
EBITDA	13.6	19.8	20.5	29.0	36.7
EBITDA Margins (%)	11.6	15.4	14.8	15.6	16.2
Net Profit	6.7	12.3	13.4	17.3	20.9
EPS	6.1	11.2	12.1	15.7	19.0

Source: Company, ICICIdirect.com Research

Technical Chart (Weekly Bar chart)



Source: Bloomberg, ICICIdirect.com Research

Stock data

Market capitalisation (₹ crore)	228
52 Week High / Low (₹)	272 / 93
Promoter Holding (%)	58.5
DII Holding (%)	0.0
FII Holding (%)	0.0
Dividend Yield (%)	5.4
12M / 6M stock return (%)	46 / 22
Debt	0.8
Cash and Cash Equivalent	10.0
Enterprise Value	302.0
5 Year Revenue CAGR (%)FY12-16	16.6
5 Year EBITDA CAGR (%)FY12-16	29.2
5 Year PAT CAGR (%)FY12-16	32.8

Valuation

	FY16	FY17E	FY18E	FY19E
P/E	18.5	17.0	13.2	10.9
Target P/E	25.3	23.3	18.0	14.9
EV / EBITDA	11.1	10.6	7.5	5.7
P/BV	3.5	3.0	2.6	2.1
RoNW	18.9	17.8	19.4	19.6
RoCE	26.2	24.7	27.0	27.8
ROIC	27.6	25.5	28.8	32.6

Source: ICICIdirect.com Research

Quarterly performance

(₹ crore)	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Sales	29.0	27.4	20.5	20.4
EBITDA	3.7	3.5	2.0	1.8
EBITDA Margin (%)	12.8	12.6	9.6	9.1
Depreciation	0.2	1.1	0.2	0.2
Interest	0.1	0.1	0.2	0.2
Other Income	0.6	2.6	0.4	0.6
PAT	3.0	4.1	1.5	1.4
EPS (₹)	2.8	3.7	1.4	1.3

Source: ICICIdirect.com Research

Shareholding trend (%)

Key Shareholders	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Promoter group	58.9	58.9	58.9	58.5
FII	0.0	0.0	0.0	0.0
DII	0.0	0.0	0.0	0.0
Non-institutional	41.1	41.1	41.1	41.5

Source: ICICIdirect.com Research

Technical View

The share price of Prima Plastic had a stupendous rally through 2014, 2015 and first half of 2016. The deep correction off life-time highs of ₹ 272 since the middle of 2016 present a fresh entry opportunity in the stock as the overall structure is positive with a higher peak and higher trough formation on the long term chart.

The stock has recently rebounded after taking support at the 52 weeks EMA signalling a positive price structure. Historically, the long term average has acted as strong support for the stock as can be seen in the adjacent chart.

The weekly 14 period's RSI has generated a buy signal after rebounding from the bull market support level of 40 thus validates the positive bias in price

The stock after the base formation around the 52-week EMA, has resumed its up move and is likely to retest its all time high of ₹ 272 in the medium term.

What's the story?

Indian plastic processing industry: potential to grow

The Indian plastic processing industry has grown at 12.4% CAGR in volume terms from 6 MTPA in FY08 to 12 MTPA in FY14 while, in value terms, it recorded 11.6% CAGR from ₹ 46,585 crore to ₹ 90,000 crore during the same period. Consumption growth was largely driven by increasing usage of plastics in various industries like agriculture, packaging, automobiles, electronics, telecom, healthcare, consumer durables (CD), etc. In the last decade, several new applications of plastic products like use of thermoplastic in the automotive segment and use of packaging products to safeguard CD items, helped boost overall demand. According to FICCI, the plastic processing industry is expected to record a volume CAGR of 10.4% to 18 MTPA from FY14-18E while, in value terms, it is expected to record 11.1% CAGR to ₹ 1,37,000 crore by the end of FY18E. Despite plastic increasingly becoming a material of choice of widespread consumption, current per capita consumption in India (in kg/person) is still much below (~9.7 kg) other nations like the US (~109 kg) and China (~45 kg). Indian plastic furniture market size is pegged at ₹ 3100 crore (FY16) with the share of the organised sector at 55%. We believe the furniture industry would grow at 14% CAGR by FY20 to ₹ 5200 crore. Within this, organised players would grow at a higher pace (19% CAGR) to ₹ 3400 crore, with their contribution rising to 65%. Further, implementation of GST would help organised players gain market share from unorganised players by eliminating tax arbitrage. Also, rising per capita income, higher discretionary spending and rising urbanisation would drive consumption of plastic furniture with a rising share of premium products.

Aggressive expansion, premiumisation, GST to drive sales, profitability

Operating mainly in the plastic furniture segment, PPL is the fourth largest player in the organised category after Nilkamal, Wim Plast and Supreme Industries. PPL commands a value market share (organised segment) of 6% (vs. 32% of Nilkamal) and has over 400 distributors and ~5000 dealer across India. The company is now looking to expand into eastern markets by commencing a new plant in Ongole (AP) with a capex of ~₹ 7 crore. Post expansion, domestic capacity will increase 15% in FY17 and simultaneously reduce dependency on outsourcing of plastic furniture. We believe domestic sales will record CAGR of ~14% in FY16-19E supported by volume CAGR of ~11%. Sales growth would be supported by addition of new capacities and government orders (Company received order worth ₹ 7 crore from Telangana government under Swachh Bharat Abhiyaan). Further, PPL's plan to increase proportion of premium product (currently PPL has ratio of premium, economic products of ~40%, 60%, respectively) into sales coupled with replacement of old machineries into Daman plant (power cost ~2.5% of sales) driving EBITDA margin by ~150 bps in FY16-19E. Further, lower interest cost (limited to working capital) coupled with higher EBITDA margin is expected to drive PAT at a CAGR of ~10% in FY16-19E. In 2005, PPL entered the Cameroon (Central Africa) market by forming a 50% JV (Prima Dee-lite) with the local player with initial capacity of 4000 TPA. In the last 10 years, it has created a strong brand and launched premium products, which drove sales CAGR of ~40% in FY12-16 and recorded RoE of 35% (three year average). PPL plans to double the capacity of JV (that will be operational by Q4FY17) looking at rising demand of plastic furniture and attractive earning potential. Additionally, company has also ventured into the Central America region through a JV (90% owned by PPL) in 2016. It put up a new manufacturing plant (with starting capacity of 3000 TPA) in Guatemala. The company had incurred ~₹ 35 crore on expansions (domestic, overseas), funded through internal accrual. We believe the overseas business would outperform the domestic business in terms of sales, earnings growth considering ~3x overseas capacity addition (vs. 15% domestic capacity addition), going forward.

Strong earnings growth, lighter balance sheet

PPL is making efforts to strengthen its foothold in the domestic plastic furniture industry amid the presence of leading players by adding new capacity and dealer networks. Additionally, the strong performance of the overseas business helped generate strong operating cash flow of ~₹ 47 crore in the last five years. As a result, despite ~₹ 35 crore of capex, PPL has managed its debt free status by FY16. Benign raw material prices (polypropylene prices down 9% YTD) and efficient working capital management (declined from 142 days in FY12 to 94 days in FY16) drove the consolidated earnings growth (CAGR 33%) and improvement in return ratios with RoCE, RoE of 26%, 19% in FY16 (vs. 11%, 9% in FY12), respectively. We believe, despite intense competition, PPL is poised to grow in the domestic market backed by a series of expansions in untouched geographies, garnering market share from unorganised players (due to implementation of GST). Further, increasing proportion of overseas business (up to 39% by FY19) would lead to consolidated sales CAGR of 21% (supported by volume CAGR of 17%) in FY16-19E. EBITDA and PAT are expected to record CAGR of 23% & ~19%, respectively (limited margin expansion in FY18E due to initial ramp up cost and impact of demonetisation), with increasing depreciation and lower other income incidence (due to utilisation of cash towards capex).

Financial summary (Consolidated)

Profit and loss statement ₹ Crore				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Total operating Inc	128.3	138.2	185.4	226.2
Growth (%)	8.6	7.7	34.2	22.0
Raw Material Expenses	72.9	74.6	99.3	122.6
Employee Expenses	7.7	10.1	15.3	17.9
Purchase of goods	2.3	2.2	2.9	4.5
Other expenses	26.6	31.8	40.3	46.1
Total Operating Exp	109.4	118.7	157.8	191.0
EBITDA	19.8	20.5	29.0	36.7
Growth (%)	45.7	3.5	41.5	26.9
Depreciation	3.5	2.6	4.6	5.4
Interest	0.4	0.6	1.5	2.1
Other Income	1.3	1.4	1.3	0.1
PBT	17.2	18.7	24.2	29.2
Total Tax	4.9	5.3	6.9	8.3
PAT	12.3	13.4	17.3	20.9
Growth (%)	83.4	8.8	29.4	20.9
EPS (₹)	11.2	12.1	15.7	19.0

Source: Company, ICICIdirect.com Research

Cash flow statement ₹ Crore				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Profit after Tax	12.3	13.4	17.3	20.9
Add: Depreciation	3.5	2.6	4.6	5.4
(Inc)/dec in Current Assets	-2.9	-6.3	-19.5	-16.5
Inc/(dec) in CL and Provisions	2.3	-0.7	4.5	3.9
CF from operating activities	15.6	9.5	8.4	15.9
(Purchase)/Sale of Fixed Assets	-6.3	-5.0	-2.0	-3.0
Longterm loans and advances	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-6.3	-5.0	-2.0	-3.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-2.7	1.0	3.0	0.0
Dividend paid & dividend tax	-2.6	-2.6	-2.6	-2.6
Others	-0.8	-1.1	-2.0	-2.7
CF from financing activities	-6.1	-2.8	-1.7	-5.4
Net Cash flow	3.2	1.7	4.7	7.6
Opening Cash	6.8	10.0	11.7	16.4
Closing Cash	10.0	11.7	16.4	24.0

Source: Company, ICICIdirect.com Research

Balance sheet ₹ Crore				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Liabilities				
Equity Capital	11.0	11.0	11.0	11.0
Reserve and Surplus	53.9	64.0	78.1	95.8
Total Shareholders funds	64.9	75.0	89.1	106.8
Total Debt	0.8	1.8	4.8	4.8
Def Tax Liability	1.2	1.2	1.2	1.2
Total Liabilities	66.9	78.1	95.1	112.8
Assets				
Gross Block	56.7	61.7	63.7	66.7
Less: Acc Depreciation	37.7	40.3	45.0	50.4
Total Fixed Assets	18.9	21.3	18.7	16.3
Investment	0.5	0.5	0.5	0.5
Inventory	19.9	24.6	34.5	42.1
Debtors	18.0	19.4	26.1	31.8
Loans and Advances	7.3	9.0	11.1	13.6
Other CA	3.9	2.4	3.2	3.9
Cash	10.0	11.7	16.4	24.0
Total Current Assets	59.1	67.1	91.4	115.4
Creditors	5.0	5.4	7.2	8.8
Provisions	4.5	1.9	2.6	3.2
Other CL	4.5	6.0	8.0	9.8
Total Current Liabilities	14.0	13.3	17.8	21.7
Net Current Assets	45.1	53.8	73.6	93.7
Total Assets	66.9	78.1	95.1	112.8

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Per share data (₹)				
EPS	11.2	12.1	15.7	19.0
Cash EPS	14.3	14.5	19.9	23.9
BV	59.0	68.2	81.0	97.1
DPS	2.4	2.4	2.4	2.4
Operating Ratios (%)				
EBITDA Margin	15.4	14.8	15.6	16.2
PAT Margin	9.6	9.7	9.3	9.2
Asset Turnover	1.9	1.8	1.9	2.0
Inventory turnover	6.4	5.6	5.4	5.4
Debtor turnover	7.1	7.1	7.1	7.1
Creditor turnover	25.7	25.7	25.7	25.7
Return Ratios (%)				
RoE	18.9	17.8	19.4	19.6
RoCE	26.2	24.7	27.0	27.8
RoIC	27.6	25.5	28.8	32.6
Valuation Ratios (x)				
P/E	18.5	17.0	13.2	10.9
EV / EBITDA	11.1	10.6	7.5	5.7
EV / Net Sales	1.7	1.6	1.2	0.9
Market Cap / Sales	1.8	1.6	1.2	1.0
Price to Book Value	3.5	3.0	2.6	2.1
Solvency Ratios				
Debt / Equity	0.0	0.0	0.1	0.0
Current Ratio	5.2	7.6	7.6	7.6
Quick Ratio	3.1	4.2	4.1	4.1

Source: Company, ICICIdirect.com Research

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