Prima Plastics

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Management Meet Update

NOT RATED

Sector: Plastics

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We interacted recently with Mr. Dilip Parekh, chief executive officer and managing director of Prima Plastics (PPL) to understand its overall business model and future growth strategy. PPL designs, manufactures and sells plastic moulded furniture – mainly chairs, tables, stools, trolleys & teapoys, and baby products. It is the fourth largest (~7% market share) plastic furniture player in the organised segment in India after Nilkamal, Wimplast and Supreme Industries. Apart from India, PPL also sells its products in the Middle East, African countries and Latin America. PPL has two plants, one each in Daman and Kerala, with total capacity of 10,000mt. PPL has formed a 50% joint venture (JV) called Prima Dee-Lite Plastics in Cameroon, Central Africa, in 2006 with an initial capacity of 4,000mt to cater to African market. It also formed a JV (90% PPL stake and 10% of local partner) in Central America (Guatemala) with an initial capacity of 4,000mt to cater to the requirement of Mexico and Guatemala markets. PPL has ~400 distributors with a network comprising 5,000 dealers in India and ~38 distributors in the African market. PPL clocked sales of Rs1,300mn in FY16, of which ~Rs950mn came from Indian operations and the remaining Rs350mn from African subsidiary. The Indian arm exported products worth Rs190mn (out of total Rs950mn). South India accounted for one-third of total domestic sales while the rest of India accounted for the balance two-third. PPL has 13 moulding machines currently and it plans to add 3 more machines at its Central America operations. More than 90% of the total sales of PPL come from B2C segment and the balance from B2B segment. PPL has increased its sales/EBIDTA/PAT at a CAGR of 17%/29%/33%, respectively, over FY12-FY16.

Capacity expansion to drive medium-term growth and margins: PPL currently has combined capacity of 10,000mt in Daman and Kerala. These two plants have a combined capacity utilisation level of 70%-75%. PPL has invested ~Rs70mn-Rs75mn on greenfield expansion at its plant in Ongole, Andhra Pradesh. This plant will have 1,500mt capacity and will serve eastern region. PPL has formed a 90:10 JV in Central America to serve the markets of Guatemala and Mexico. PPL has set up 4,000mt capacity in Guatemala incurring total capex of Rs180mn. PPL used to export its products to these markets before setting up the plant. It used to take ~90 days all the way from getting the order to shipping products to the clients. As a result of setting up this plant, the company will cut delay and save on logistic costs. PPL expects to clock sales of ~Rs200mn-Rs250mn from this JV in Guatemala by FY19. The partner having 10% stake in this JV has a distribution network in place which PPL plans to utilise. PPL also plans to expand its capacity in Cameroon from 4,00mt to 7,500mt with an investment of Rs120mn. All these capacities (~8,500mt) are expected to start contributing to total sales in the 4QFY17. PPL believes that with increased contribution from African and Central American JVs, operating margin will improve further.

Healthy growth with a clean balance sheet: PPL is almost a debt-free company with cash and cash equivalent of Rs105mn despite expanding its capacity from 14,500mt to 22,500mt. PPL has steadily increased its sales at a CAGR of 17% over FY12-FY16 while EBITDA/PAT grew 29%/33% each. Declining crude oil prices helped improve PPL's EBITDA margin to 15.7% (11.7% in FY15) and RoC and RoE to 16.8% and 20.4% (11.1% and 12.3% in FY15), respectively.

	FY11	FY12	FY13	FY14	FY15	FY16
Total Revenue	**670**	**694**	**874**	**1,025**	**1,182**	**1,292**
Growth(%)	*17.3*	*3.7*	*25.9*	*17.2*	*15.3*	*9.3*
Gross Profit	**168**	**185**	**216**	**310**	**420**	**535**
Gross Margins (%)	*25.2*	*26.7*	*24.7*	*30.3*	*35.5*	*41.4*
EBITDA	**65**	**73**	**62**	**145**	**138**	**203**
EBITDAM(%)	*9.8*	*10.6*	*7.1*	*14.2*	*11.7*	*15.7*
EBIT	**45**	**54**	**35**	**112**	**110**	**168**
EBITM(%)	*6.7*	*7.7*	*4.0*	*10.9*	*9.3*	*13.0*
Profit After Tax	**29**	**39**	**51**	**76**	**67**	**123**
PATM(%)	*4.3*	*5.7*	*5.8*	*7.4*	*5.7*	*9.5*
EPS	**2.6**	**3.6**	**4.6**	**6.9**	**6.1**	**11.2**
Growth(%)	*(32.9)*	*38.2*	*28.7*	*49.6*	*(12.0)*	*83.6*

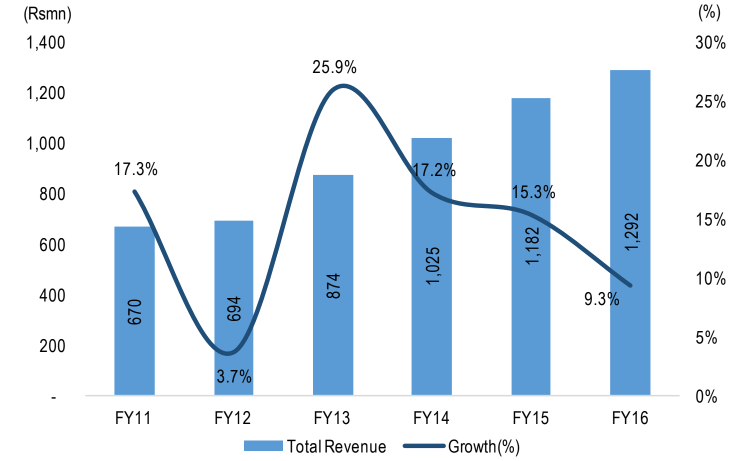
Source: Company, Nirmal Bang Institutional Equities Research

Other key highlights

- **Revenue segmentation:** PPL derives most of its domestic revenues from southern and western regions, wherein southern region contributes one-third to total domestic sales. In order to increase its presence in eastern region, PPL has set up capacity in Ongole, Andhra Pradesh. 90% of PPL's sales come from B2C segment while the remaining 10% comes from B2B segment. In FY16, the company received an order project from Hyderabad Municipal Corporation under Swacch Bharat Abhiyan. As part of this project, PPL supplied dustbins worth Rs70mn-Rs75mn. Other B2B projects include supplying plastic chairs to Tirupati temple and also to Mumbai Indians cricket team of Indian Premier League etc.
- **Raw material procurement:** In the past, PPL used to procure polypropylene (PP) from Saudi Arabia. Since the past few years, the company is procuring most of its PP requirement from Reliance Industries or RIL. Apart from RIL, Indian Organic Chemicals or IOCL, Haldia Petrochemicals and MRPL are establishing PP capacities in India. As a result of this, PPL will reduce its dependency for PP from a single player. PP prices are highly correlated to crude oil prices. Any significant movement in crude oil prices leads to increase or decrease in raw material costs. This is clearly evident from the fact that PPL's operating margin sharply improved from 11.7% in FY15 to 15.7% in FY16, a period during which global crude oil prices fell sharply from US$115/bbl to US$30/bbl.
- **Shutdown of aluminium composite panel (ACP) business:** The company's ACP business was loss-making and in 2015 the management decided to shut it down. PPL sold the machinery of ACP unit while it still owns the building. Shutdown of ACP unit also contributed to improvement in margins.
- **Move towards premium products:** Till 2013, customers preferred low to medium range plastic furniture. However, since 2014 the customers' buying pattern has changed wherein they prefer premium products as against low to medium-end products. PPL's ratio of low and medium range products to premium products is 40%:60% as of FY16-end. Premium products mainly include heavy duty chairs, rocking chairs, computer tables etc. Premium product category of the company is growing at a healthy pace of 15%. Going forward, the management believes that premium products will contribute more to PPL's total sales.
- **Improvement in blended margins:** Shutdown of ACP plant, increased premiumisation of products and higher contribution from African and Central American operations will improve PPL's operating margin on a consolidated level. For FY16, operating margin of Indian operations was 14.7% versus 19.4%of African operations with blended margin of 16.0%.
- **Company to be a beneficiary of Goods and Services Tax or GST: The** unorganised segment in plastic moulded furniture accounts up for ~40%-50%. With implementation of GST, it will become unviable for smaller unorganised segment players to survive. Demonetisation too has a severe impact on unorganised segment players. Post demonetisation, PPL received a few enquiries from these players to buy out their plants. Currently, PPL pays indirect tax of ~26%-27% (including value added tax or VAT of 13%-15%). Post GST implementation, if PPL comes under the tax slab of 18%, the management believes it will save ~7%-9% in taxes.

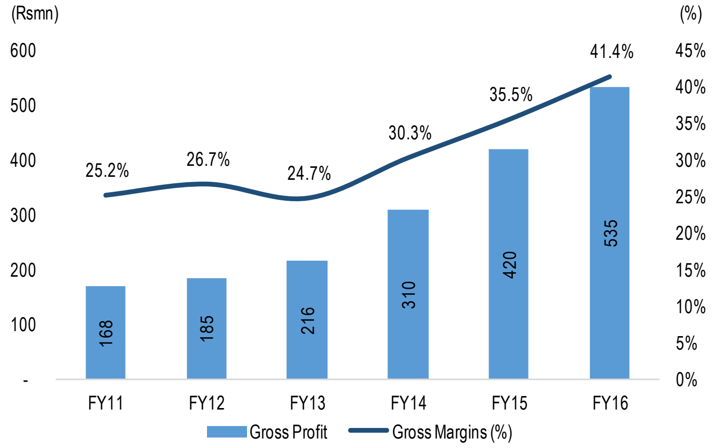
Highly profitable 50:50 JV in Africa: In order to cater to fast-growing African markets in an efficient manner, PPL decided to form a 50:50 JV called Prima Dee-Lite Plastics with an initial investment of Rs10mn. The JV has done exceptionally well and clocked sales CAGR of 39% over FY11-FY16 with an operating margin of ~20%.

Exhibit 1: Sales growth – Consolidated



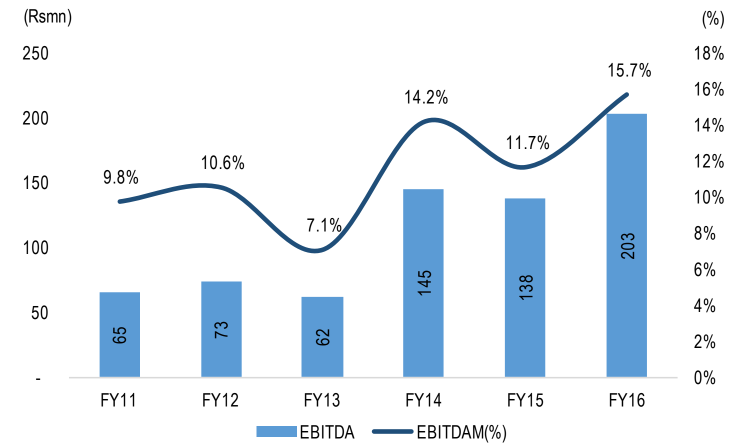
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Gross Profit – Consolidated



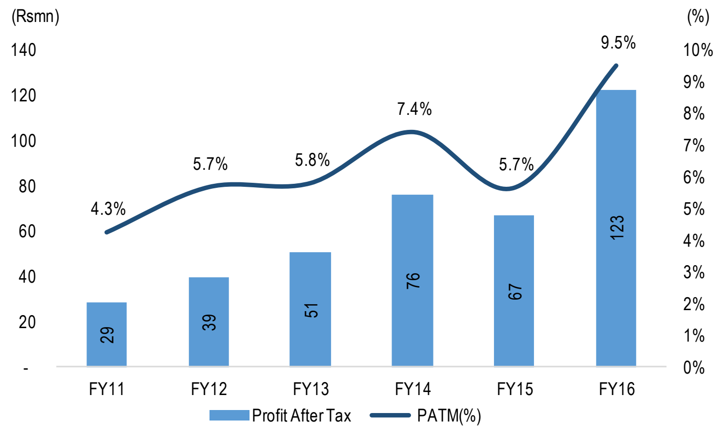
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Operating profit – Consolidated



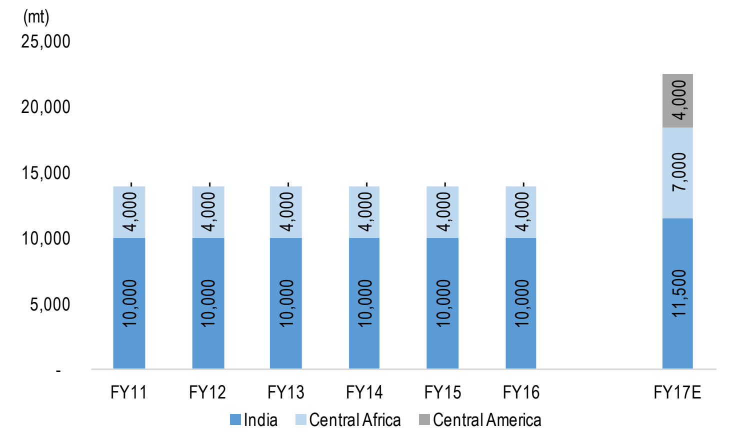
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: PAT – consolidated



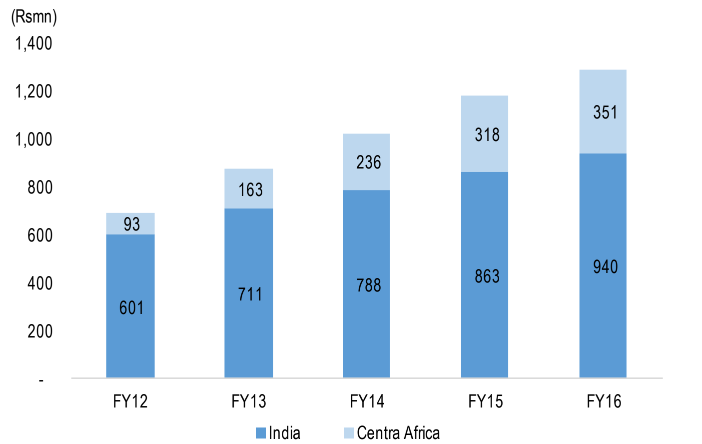
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Capacity addition



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Sales – Geography wise segmentation



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Key Ratios

	FY11	FY12	FY13	FY14	FY15	FY16
Profitability						
Return on Capital %	6.5%	6.5%	3.9%	11.8%	11.1%	16.8%
Return on Equity %	7.2%	9.5%	11.4%	15.3%	12.3%	20.4%
Margin Analysis						
Gross Margin %	25.2%	26.7%	24.7%	30.3%	35.5%	41.4%
EBITDA Margin %	9.8%	10.6%	7.1%	14.2%	11.7%	15.7%
EBITA Margin %	6.7%	7.7%	4.0%	10.9%	9.3%	13.0%
EBIT Margin %	6.7%	7.7%	4.0%	10.9%	9.3%	13.0%
PAT Margin %	4.3%	5.7%	5.8%	7.4%	5.7%	9.5%
Asset Turnover						
Total Asset Turnover	1.3x	1.2x	1.3x	1.4x	1.6x	1.7x
Fixed Asset Turnover	4.4x	3.9x	4.3x	5.0x	6.0x	6.5x
Accounts Receivable Turnover	5.2x	4.9x	5.8x	5.9x	6.4x	7.4x
Inventory Turnover	3.2x	3.3x	3.7x	3.3x	3.5x	3.7x
Short Term Liquidity						
Current Ratio	3.4x	2.3x	2.3x	2.4x	3.4x	3.9x
Quick Ratio	1.5x	1.2x	1.0x	1.2x	1.6x	2.0x
Cash from Ops. to Curr. Liab.	0.1x	0.2x	0.2x	0.1x	0.9x	0.9x
Avg. Days Sales Out.	70.8	74.2	63.3	61.6	56.7	49.6
Avg. Days Inventory Out.	114.3	109.6	98.4	110.0	105.5	98.9
Avg. Days Payable Out.	39.2	27.1	33.3	33.8	17.7	18.5
Working capital cycle	145.9	156.7	128.4	137.8	144.5	129.9
Long Term Solvency						
Total Debt/Equity	12.1%	35.8%	16.9%	20.8%	6.5%	1.4%
LT Debt/Equity	7.0%	12.1%	3.4%	0.8%	0.5%	0.2%

Source: Company, Nirmal Bang Institutional Equities Research

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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