



**Plastiblends India Ltd (NSE Code: PLASTIBLEN) – Alpha/Alpha +
stock report for Nov'15**

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Company Snapshot (4th Nov'15)

BSE CMP – 355.10; NSE CMP – 353.25

Dividend yield – 1.55%

BSE Code – 523648

NSE Code – PLASTIBLEN

Market capitalization – Rs 460.00 cr.

Total Equity shares – 1.29 cr.

Face Value – Rs 5.00

52 Weeks High/Low – Rs 399.00/191.00

Particulars (in cr.)	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
Income from operations	124.25	157.17	167.29	210.28	276.93	341.12	408.99	465.84	494.35
Total Cost of Goods sold	85.79	106.2	116.21	150.59	194.95	246.58	304.44	336.49	352.50
Gross profit	38.46	50.97	51.08	59.69	81.98	94.54	104.55	129.35	141.85
Gross Profit margin (%)	30.95%	32.43%	30.53%	28.39%	29.60%	27.71%	25.56%	27.77%	28.69%
EBITDA	13.37	18.71	17.44	19.78	30.01	32.17	31.38	47.22	50.8
EBITDA margin (%)	10.76%	11.90%	10.43%	9.41%	10.84%	9.43%	7.67%	10.14%	10.28%
Other Income									
Div/interest/exchange variation	1.09	1.31	0.82	0.37	0.45	0.3	1.05	2.69	1.14
Miscellaneous income	1.36	2.82	2.83				0.46	0.76	0.72
Depreciation	-1.63	-2.35	-3.1	-3.45	-3.65	-4.01	-4.08	-4.3	-6.24
Interest	-0.55	-2	-2.51	-2.37	-3.2	-4.48	-5.78	-5.79	-3.6
PBT	13.65	18.49	15.48	14.34	23.61	23.98	23.03	40.59	42.81
PAT	12.08	15.92	11.77	10.36	18.54	16.71	15.36	27.24	30.05
ROAE	27.30%	24.71%	16.13%	13.09%	20.90%	16.54%	13.74%	21.49%	21.91%
Cash flows from operations	3.12	2.28	19.67	-6.23	-13.14	10.59	4.1	37.19	36.72
Debt to Equity ratio	0.23	0.26	0.13	0.34	0.49	0.45	0.48	0.20	0.11
Net debt	13.64	18.44	9.87	27.82	46.53	47.85	56.26	27.38	17.47

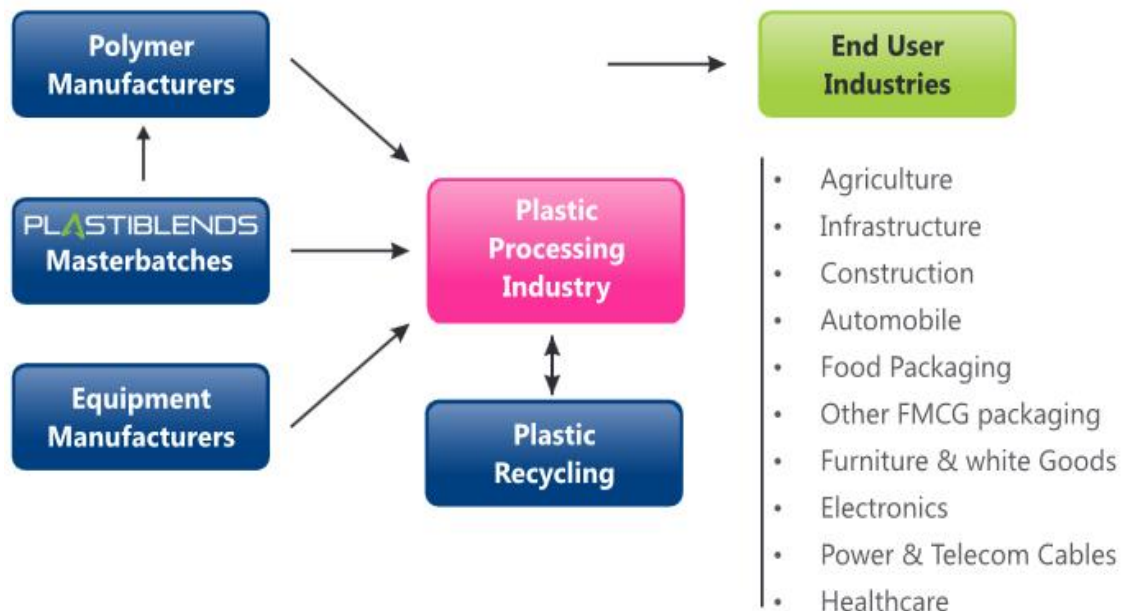
Understanding Business

Plastiblends India Limited is India's leading manufacturer and exporter of Colour & Additive Master Batches and Thermoplastic Compounds for the Plastic Processing Industry.

The company is headquartered in Mumbai and its manufacturing facilities are located at Daman (Western India) & Roorkee, Uttarakhand (Northern India) with an annual manufacturing capacity of ~ 85,000 MT.

The company belongs to Kolsite group, which also has presence across engineering (Kabra Extrusions) and box strapping businesses (Maharashtra Plastic and Industries).

What are Masterbatches? Masterbatches are key ingredients in successful product formulation for plastic Industry. These are concentrated mixture of pigments & additives which are used by plastic processors to lend and enhance the performance properties of the end product. These are generally sold as white masterbatches, black masterbatches, color masterbatches and high performance and specialty masterbatches.



Source: AR 2011

Masterbatches allow the processor to improve the appearance and performance of the raw polymer/resin in a cost effective manner during the manufacturing process. They provide protection from sunlight, fire, rodents and microbes, etc and are also used for protection against weathering for a wide range of thermoplastic polymers.

The improvement achieved in various functional properties of ordinary polymers using additive masterbatches is significant and hence additives are also called as miracle workers of polymer industry.

These days masterbatches are omnipresent in all processes of plastic industry, including injection moulding, extrusion, rotational moulding, sheet, film, and blow moulding.

Basically, what we like about the masterbatch industry is that though the cost of masterbatches in the final plastic product is very low, their quality is very important for attaining the desired properties of the end product and thereby there could be significant shift towards larger players like Plastiblends on account of their R&D backed continuous introduction of new products and better quality.

Manufacturing facilities and Expansion plans – Plastiblends manufacturing facilities are located at Daman (Western India) & Roorkee, Uttarakhand (Northern India) with an annual manufacturing capacity of over 85,000 MT.

The Company also has in-house full-fledged Research & Development Department that enables it to deliver a broad spectrum of new & customized solutions for tailor made products and formulations like bio-degradable masterbatches and masterbatches for BOPP Films, PP Yarns, and Fibres etc. In fact, company's R&D facility was the first in the masterbatch industry to be registered with the Department of Scientific and Industrial Research.

In view of market potential and demand, the Company has planned 60,000 tonnes of capacity expansion and has acquired land near Palsana, Surat to set up new unit. The new unit is expected to start commercial operations in phase-wise manner.

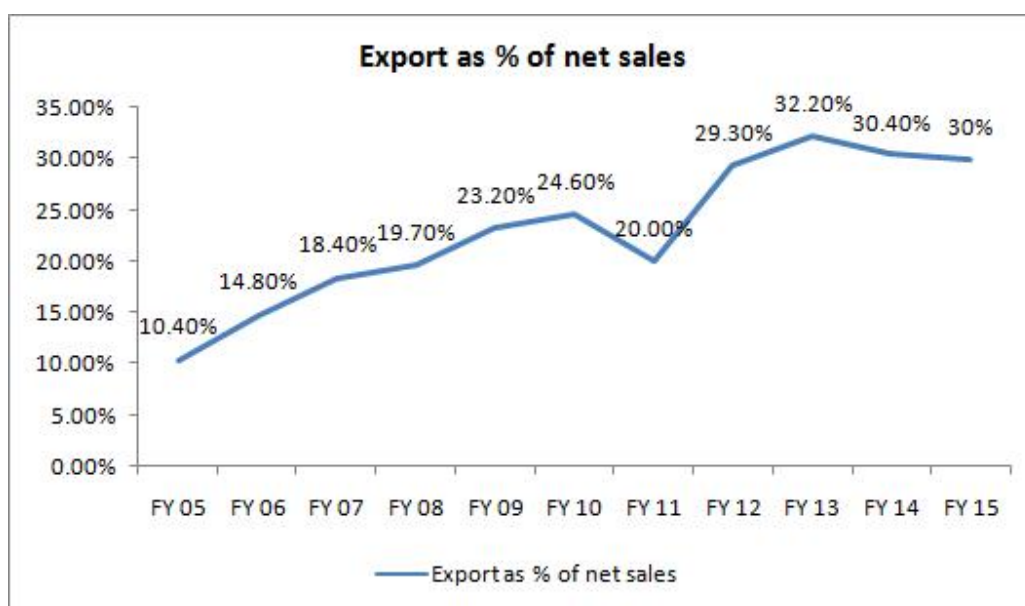
During phase 1 the company plans to start 30,000 tonnes capacity by Mar'16 and the planned CAPEX for the same is ~50 crores. As per the management, the plant will be automated and hence will result in savings on employee cost and will be operationally more efficient. Further, due to its proximity to port, the company plans to cater to exports through Surat plant, thereby resulting in savings on logistics cost.

At full capacity utilization, the phase 1 of Surat plant will have annual revenue potential of Rs 200-250 crores.

Planned Capacity expansions			
Location	FY 15	FY 16 E	FY 17 E/FY 18 E
Daman	65000	65000	65000
Roorkee	20000	20000	20000
Surat		30000 (E)	60000 (E)
Total	85000	115000	145000

Source: Company

Exports – The Company exports to a large number of countries worldwide and has a strong foothold in the global market. Share of exports to total net sales has increased gradually from 10% in FY 05 to ~30% in FY 15.



Source: Plastiblends ARs

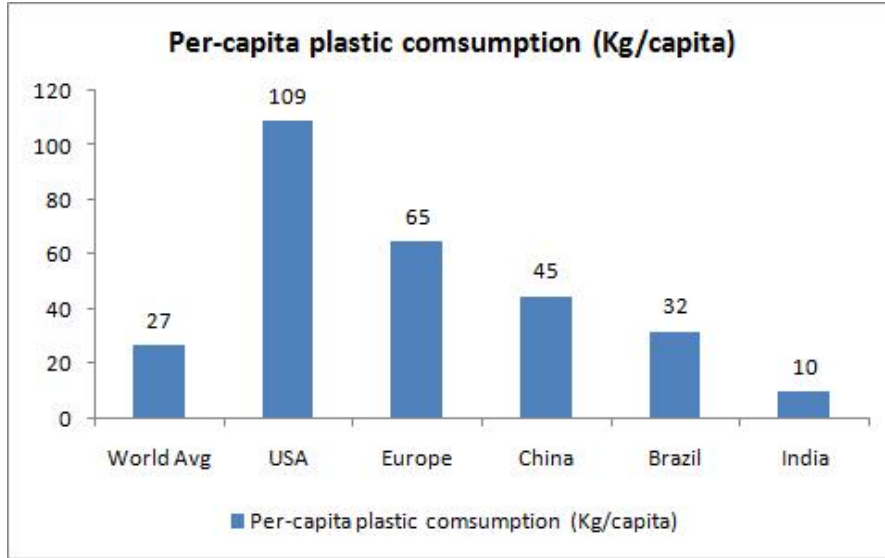
Going forward, management expects exports to grow at faster pace than domestic sales. Management aims to take export share to ~50% of net sales in FY 20. The company exports to Africa, Middle East, SE Asia, North America, etc

Masterbatch Industry

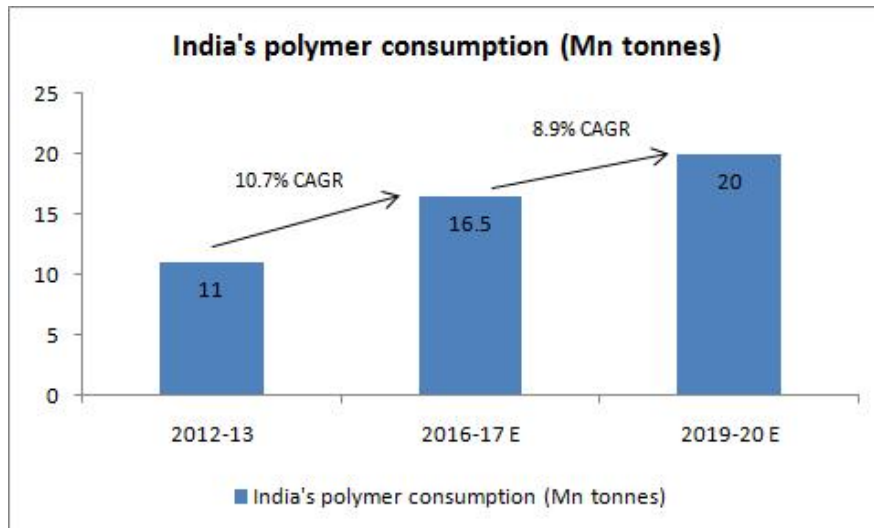
The growth of masterbatch industry is totally reliant on the growth in the consumption of plastic/polymer products by end users in the Indian and international market.

Plastics are rapidly replacing items like wood, steel, rubber etc. Demand is increasing for high performance plastics in major end – user industries like agriculture, packaging, automobile, consumer durables, telecom, etc. With the development of bio-additives, usage of masterbatches holds positive prospects for the manufacturing of bio-degradable plastics. Other important innovations such as development of anti-microbial masterbatches, flame retardant masterbatches, antioxidant masterbatches is set to drive the market for masterbatches across various end user industries.

As per the report by Tata Strategic, India's per capita consumption of plastic products is ~10 kg against 32 kg in Brazil, 45 kg in China, 65 kg in Europe and 109 kg in US. Current low per capita consumption level of plastic products as compared to developed countries per capita consumption suggests that India offers a huge opportunity over long term.

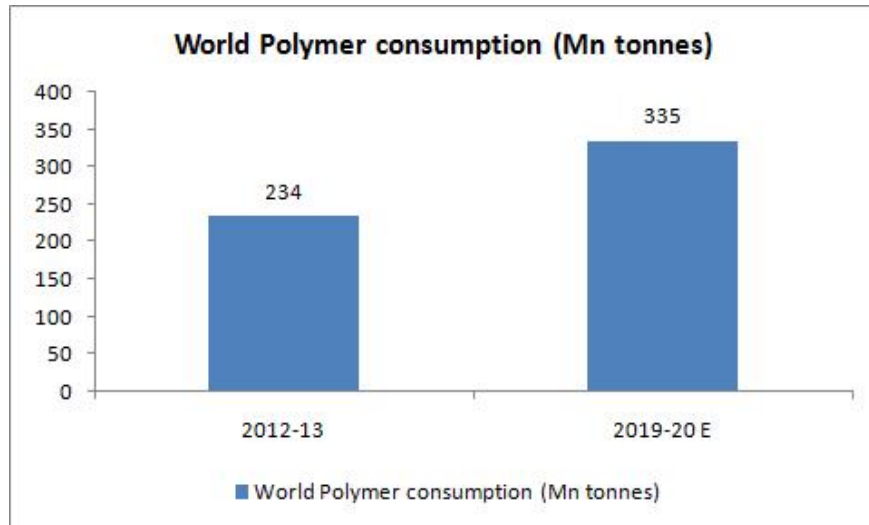


Source: FICCI, Tata Strategic report



Source: FICCI

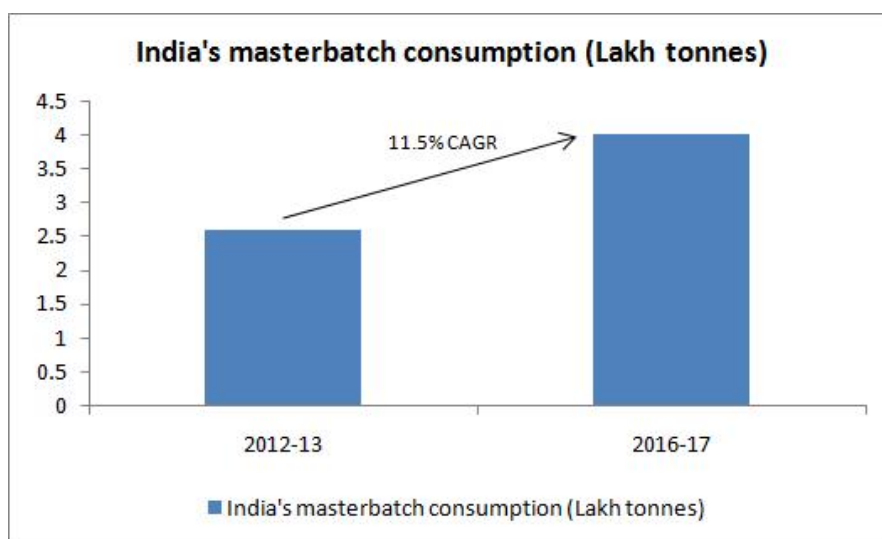
Polymer consumption in India as of FY 13 stood at 11 MMTPA and is expected to grow at CAGR of 9% to 20 MMTPA by FY 20.



Source: ABM research

As of FY 13, global polymer consumption stood at ~234 MMTPA and is likely to grow at CAGR of 5.3% to 335 MMTPA by FY 20. This shows that globally as well opportunity for masterbatch industry is very huge and Indian players can capitalize on the same.

The second leg of growth for organized players like Plastiblends India will come from the fact that unorganized market is still more than 50% of the overall masterbatch industry. As per industry estimates, India's masterbatch industry is currently valued at Rs 5000 crore and the organized players account for ~ 50% of the market size. Industry is largely fragmented in nature with Plastiblends being the market leader with share of ~10%.



Source: Company, ABM research

Masterbatch consumption in India is estimated to be 4 lakh tonnes in 2016-17 from 2.6 lakh tonnes during the year 2012-13 and thereby the overall industry is expected to continue reporting 11-12% growth.

Management

Plastiblends India is a part of Kolsite group which has wide-ranging experience of plastics industry as the group is involved in the production of packaging products (Maharashtra Plastic and Industries), extrusion machinery (Kabra Extrusionstechnik) and masterbatches (Plastiblends).

The company is led by Kabra family with Shreevallabh Kabra, Satyanarayan Kabra, Anand Kabra and Varun Kabra at the helm of the affairs. The promoters own 62.05% stake in the company and have increased stake from 61.73% at the end of Sep'14 to 62.05% at the end of Sep'15.

Overall, company's disclosures policies, remuneration to the promoters and related party transactions are within reasonable range and we haven't found any major issues in terms of corporate governance.

As we will notice in the financial performance section, the management has also done a fine job of maintaining reasonable growth, profitability and has been rationale with capital allocation decisions.

The management has not diluted equity in the last 10 years and has managed to grow the business through internal accruals and debt. Even the overall debt is very low at around 20 crores and debt equity ratio of 0.14.

Shareholding pattern

	Sep'15	Jun'15	Mar'15	Dec'14	Sep'14
Promoter and Promoter Group	62.05%	61.77%	61.76%	61.76%	61.73%
India	62.05%	61.77%	61.76%	61.76%	61.73%
Foreign					
Public	37.95%	38.23%	38.24%	38.24%	38.27%
Institutions	1.93%	1.92%	1.84%	1.85%	1.81%
FII	1.88%	1.85%	1.77%	1.77%	1.77%
DII	0.05%	0.07%	0.07%	0.08%	0.04%
Non-Institutions	36.02%	36.31%	36.40%	36.39%	36.46%
Bodies Corporate	2.59%	3.11%	3.72%	3.72%	3.56%
Custodians	--	--		--	--
Total	1,29,94,600	1,29,94,600	1,29,94,600	1,29,94,600	1,29,94,600

From a passive investor's perspective it's important for the ones running the company to have high ownership as it aligns their interest in line with those of minority shareholders and in the case of Plastiblends the promoters own reasonably good stake at 62.05%. Further, in the last 1 year the promoters have increased their stake marginally from 61.73% to 62.05%.

As on 30th Sep'15, the major shareholders of the company and their stakes are as below:

Name of the shareholder	Category	% stake in Plastiblends India
Promoters and PAC	Promoters	62.05%
Colloids (Widness) – Pension Fund	Public	1.77%
Shivani T Trivedi	Public	1.14%

Plastiblends India – Performance Snapshot

We believe, if both the business and the management are good it should reflect in the operating and financial performance of the company. If the financial performance has consistently been poor with no visible signs of improvement, then either the business or the management or rather both are not good.

Particulars (in cr.)	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
Income from operations	124.25	157.17	167.29	210.28	276.93	341.12	408.99	465.84	494.35
Total Cost of Goods sold	85.79	106.2	116.21	150.59	194.95	246.58	304.44	336.49	352.50
Gross profit	38.46	50.97	51.08	59.69	81.98	94.54	104.55	129.35	141.85
Gross Profit margin (%)	30.95%	32.43%	30.53%	28.39%	29.60%	27.71%	25.56%	27.77%	28.69%
EBITDA	13.37	18.71	17.44	19.78	30.01	32.17	31.38	47.22	50.8
EBITDA margin (%)	10.76%	11.90%	10.43%	9.41%	10.84%	9.43%	7.67%	10.14%	10.28%
Other Income									
Div/interest/exchange variation	1.09	1.31	0.82	0.37	0.45	0.3	1.05	2.69	1.14
Miscellaneous income	1.36	2.82	2.83				0.46	0.76	0.72
Depreciation	-1.63	-2.35	-3.1	-3.45	-3.65	-4.01	-4.08	-4.3	-6.24
Interest	-0.55	-2	-2.51	-2.37	-3.2	-4.48	-5.78	-5.79	-3.6
PBT	13.65	18.49	15.48	14.34	23.61	23.98	23.03	40.59	42.81
PAT	12.08	15.92	11.77	10.36	18.54	16.71	15.36	27.24	30.05
ROAE	27.30%	24.71%	16.13%	13.09%	20.90%	16.54%	13.74%	21.49%	21.91%
Cash flows from operations	3.12	2.28	19.67	-6.23	-13.14	10.59	4.1	37.19	36.72
Debt to Equity ratio	0.23	0.26	0.13	0.34	0.49	0.45	0.48	0.20	0.11
Net debt	13.64	18.44	9.87	27.82	46.53	47.85	56.26	27.38	17.47

Particulars (in cr.)	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
Income from operations	124.25	157.17	167.29	210.28	276.93	341.12	408.99	465.84	494.35
Fixed assets	37.8	50.02	56.64	58.7	58.31	61.47	65.03	64.62	77.61
Investments	15.95	7.62	4.56	5.85	4.21	4.01	5.2	5.53	5.69
Working capital	19.03	30.54	24.87	45.34	79.33	89.12	102.82	93.96	91.70
Fixed asset turnover ratio	3.29	3.14	2.95	3.58	4.75	5.55	6.29	7.21	6.37
Working capital turnover ratio	6.53	5.15	6.73	4.64	3.49	3.83	3.98	4.96	5.39

As far as Plastiblends is concerned, as can be observed from the above 9 years performance snapshot, Plastiblends has a good and consistently improving record of financial performance.

The following observations about the performance of the company can be made from the above snapshot:

- Over the last 9 years the sales of the company have grown at a rate of 20.5% CAGR while during the last 5 years the sales have grown at a rate of 19% CAGR. For the same period the average industry growth rate has been ~13%-15%.
- Despite wide variations in the crude oil prices (raw materials are mostly derivatives of crude oil), the company has been consistent in terms of maintenance of gross margins at around 28%-30% which is indicative of the fact that sooner or later the company is able to transfer the increase in pricing to its customers. At the same time, it also has to pass on the benefit of lower raw material costs, so gross margins are unlikely to improve much unless there's a major change in product mix.
- Similarly, on the operating cost front, the EBITDA margins have been steady in the range of 9%-11%. EBITDA has grown at 18.5% CAGR over the last 9 years and 20.5% over the last 5 years
- The growth in before tax profitability has been slightly lower at around 16% for the last 9 years on account of lower other income and increase in financial charges with higher gross debt.
- During the last 9 years the capital employed in the business has grown at a rate of 13.5% CAGR and 10% CAGR over the last 5 years, thus indicating improvement in utilization ratios. Major improvement has been on the front of fixed assets turnover ratio.
- Over the last 9 and 5 years, the average return on equity has been maintained at around 19%.
- Cash flows of the company were not as good till FY 11 as also evident from declining working capital turnover ratio, however since then there's been gradual improvement and the company's cash flows have been in line with reported profits.
- The gross debt of the company had increased from 14 crores in FY 07 to 57 crores in FY 13, however since then it has reduced to around 20 crores on the back of improvement in profitability and cash flows.

Focus on exports – Over the last 9 years the company has reported 25% + annualized growth in exports and the share of exports have increased from ~10% in FY 05 to ~30% in FY 15.

Exports constitute a very big market and with production facilities from west making way for low-cost manufacturing in India and other Asian countries, the size of the opportunity becomes even bigger.

Particulars (in cr.)	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
Income from operations	124.25	157.17	167.29	210.28	276.93	341.12	408.99	465.84	494.35
Foreign exchange earned	22.82	31.02	38.88	51.7	55.28	99.92	131.63	141.46	141.67
Foreign exchange used	22.35	32.43	37.31	59.94	98.63	118.53	136.80	147.58	153.07
Exports as % of overall sales	18.37%	19.74%	23.24%	24.59%	19.96%	29.29%	32.18%	30.37%	28.66%

Going forward, management expects exports to grow at faster pace than domestic sales and aims to take export share to ~50% of net sales in FY 20.

What's the way ahead? As mentioned in the sections above, the Company has planned 60,000 tonnes of capacity expansion and has acquired land near Palsana, Surat to set up new unit.

During phase 1 the company plans to start 30,000 tonnes capacity by Mar'16 and the planned CAPEX for the same is ~50 crores, funded mostly through internal accruals. At full capacity utilization, the phase 1 of Surat plant will have annual revenue potential of Rs 200-250 crores. The phase 2 of 30,000 tonnes will probably come up a year or two later at lower cost being brownfield expansion.

Due to its proximity to port, the company plans to cater to exports through Surat plant, thereby resulting in savings on logistics cost.

Overall, the financial performance of the company has been good in terms of growth, profitability, return ratios and cash flows from operations. As discussed in the above sections, the overall masterbatch industry in India is expected to grow at 11%-12% on

account of both domestic growth opportunities and the gradual shift of the industry from developed world to Asian countries. Further, organized players like Plastiblends can benefit from declining contribution of small unorganized players lacking in R&D facilities and introduction of new products.

With the confluence of above factors, we expect Plastiblends to maintain 15-20% + growth rate over the longer run.

Dividend Policy

Dividend Payout ratio					
	FY 11	FY 12	FY 13	FY 14	FY 15
Dividend Payout ratio	24.53%	27.72%	29.61%	23.85%	23.78%

As can be observed above, the company has been consistently paying out ~25% of its profits in the form of dividends and considering decent cash flows and high promoter holding, we expect the company to maintain similar level of dividend payout.

We believe the dividend policy of the company is well balanced in terms of sharing profits with the shareholders and retaining the balance for future growth.

Valuations

As discussed in the preceding sections, Plastiblends is involved in an easy to understand and essential business (unless masterbatches get substituted by another product) of masterbatch production and sales. The company has a reasonably transparent and rationale management at the helm of the affairs which has consistently delivered 18-20% growth in sales and profitability and has been rationale with capital allocation.

The industry seems poised for decent growth over the foreseeable future on the back of much lower per capita polymer consumption in India, growing opportunity of exports and marginalization of small unorganized players.

Coming back to valuations, at around current price, the market capitalization of the company is 460 crores. The company has net debt of ~20 crores and therefore the enterprise value is ~480 crores.

The company has reported trailing twelve months (TTM) pre-tax earnings of 50 crores while the TTM EBIT is 53.50 crores. Thus, the stock is available at ~9.2 times pre-tax earnings and similarly the EV/EBIT ratio is 8.97 and we therefore believe that the valuations of the company are reasonable around current levels.

Risks & Concerns

Masterbatch industry is highly competitive with a lot of small and mid size players and significant capacity in the segment, thereby limiting the bargaining power of Plastiblends.

In case of huge volatility in raw material prices, the company isn't able to pass on the same instantly to its customers and thereby the profitability can get impacted in the shorter term.

Technological changes in the master batch industry or if substitute products come up then the business of plastiblends can get impacted.

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