



**Prima Plastics Ltd (BSE Code: 530589) – Alpha/Alpha + stock report
for Jan'16**

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Company Snapshot (24th Jan'16)

BSE CMP – 111.50

Dividend yield – 1.34%

BSE Code – 530589

Market capitalization – Rs 122.50 cr.

Total Equity shares – 1.10 cr.

Face Value – Rs 10.00

52 Weeks High/Low – Rs 149.00/48.00

Particulars (in cr.)	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
Income from operations	49.62	56.84	66.95	69.41	87.41	102.45	118.16
Total Cost of Goods sold	34.84	34.04	44.81	45.27	58.24	63.53	75.53
Gross profit	14.78	22.8	22.14	24.14	29.17	38.92	42.63
Gross Profit margin (%)	29.79%	40.11%	33.07%	34.78%	33.37%	37.99%	36.08%
EBITDA	0.97	7.23	6.54	7.09	5.96	13.85	13.8
EBITDA margin (%)	1.95%	12.72%	9.77%	10.21%	6.82%	13.52%	11.68%
Other Income							
Div/interest/other	1.02	0.63	0.35	0.75	0.38	0.57	0.33
Exchange variation/Sale of asset			0.17	0.16	4.09	0.15	0.22
Depreciation	-2.09	-2.09	-2.03	-1.97	-2.73	-3.32	-2.82
Interest	-0.92	-0.58	-0.71	-1.08	-1.27	-1.26	-1.15
PBT	-1.02	5.19	4.31	4.95	6.43	9.97	10.38
PAT	-1.05	4.26	2.85	3.95	5.08	7.6	6.69
ROAE	-5.83%	11.40%	7.23%	9.55%	11.42%	15.30%	12.31%
Cash flows from operations	0.77	4.27	1.39	3.44	3.38	1.94	13.2
Debt to Equity ratio	0.06	0.02	0.06	0.25	0.08	0.12	-0.06
Net debt	2.34	0.83	2.45	10.63	3.9	6.26	-3.37

Understanding Business and Company

Prima Plastics, as the name suggests manufactures plastic moulded furniture (PMF). The company manufactures products ranging from chairs, baby chairs, dining tables, stools, teapots, material handling products etc and competes with the likes of Nilkamal, Wimplast, and several unorganized players.



Till recently the company also had another business line of Aluminum Composite Panels (ACP), however the same was consistently reporting losses and in FY 15 the management decided to close the same.

The company sells its products through a network of ~200 distributors and over 2000 dealers across India and operates manufacturing facilities in Daman and in Kerala. Besides domestic sales, company also exports its products mainly to Africa, Middle-East and Central America.

Further, Prima Plastics also has a 50:50 joint venture (JV) in Cameroon, Africa by the name of Prima Dee-lite Plastics and the same manufactures PMF and HDPE Woven Sack Bags for sale in Cameroon.

In the domestic market the company plans to expand its presence in eastern region by establishing plastic goods manufacturing plant in Andhra Pradesh. Further, on the back of success in Cameroon and experience of exporting to other African and Central American nations, Prima plastics is exploring the opportunity of setting up manufacturing unit in small Central American nation. As per the management the aforesaid expansions would be funded largely though internal accruals.

Discontinuation of loss making ACP division – PMF has always been the core business of Prima Plastics, however somewhere down the line it ventured into ACP business and the management’s focus got divided between the two businesses.

While PMF business has been growing consistently and has always been profitable for the company, ACP was continuously making losses.

Segment details	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
Plastic Moulded (PMF)	40.87	53.74	60.61	64.94	83.13	95.98	109.76
Aluminium Composite (ACP)	8.84	3.42	6.46	4.65	4.36	6.19	8.59
P/L before interest and tax (PMF)	-0.19	6.98	4.48	6.31	4.85	12.01	13.39
P/L before interest and tax (ACP)	-0.85	-1.17	0.15	-1.01	-1.54	-1.78	-2.22
Less: Financial expense	-0.91	-0.58	-0.71	-1.08	-1.27	-1.26	-1.15
Add: Unallocable income	0.93	-0.04	0.40	0.73	4.39	0.36	1.00

Source: Prima Plastics ARs

As can be observed above, ACP unit’s revenues remained more or less in the range of 4-8 crores and the losses before interest and tax amounted to 0.8-2.2 crores.

We believe the above had two negative impacts on the company; the obvious one being lower profitability and the other major impact being reduced management focus on core PMF business in a bid to revive weaker ACP business.

However, finally in FY 15 management decided to close down the ACP unit and sold off the core plant of ACP Division in January 2015. Further, the land, building & other machinery were retained to accommodate additional requirement of factory space of plastic division and also to expand plastic business.

So, the profitability is likely to improve on account of 3 factors:

- Reduced/zero losses (gradually) from ACP unit
- Complete management focus on PMF business
- Better utilization of company's resources (fixed assets as mentioned above) with diversion from ACP to PMF business

Joint Venture (JV) in Cameroon – Another salient feature of Prima Plastics is its 50:50 JV in Cameroon, Africa by the name of Prima Dee-lite Plastics and the same manufactures PMF and HDPE Woven Sack Bags for sale in Cameroon.

The company started this JV at an investment of Rs 1 crore (Prima's share) in 2006. Since then there has been no further investment; initially the company did advance interest bearing loans to the JV, but there are no outstanding loans now and the JV is cash rich.

Proportionate share from JV	Dec'8	Dec'9	Dec'10	Dec'11	Dec'12	Dec'13	Dec'14
Income							
Revenue from operation	5.86	6.57	7.16	9.28	16.34	23.62	31.84
other income				0	0	0.06	0
Expenditure							
Cost of materials			3.8	5.62	9.57	11.83	16.59
(Increase)/Decrease in stocks of finished			-0.02	-0.25	-0.49	-0.13	0.4
Operating cost and other expenses	5.09	4.28	0.68	0.68	1.76	2.63	3.47
Employee benefit			0.32	0.35	0.86	1.45	1.91
Finance Cost			0.19	0.20	0.46	0.35	0.18
Depreciation	0.52	0.56	0.48	0.46	1.12	1.69	1.68
Profit/Loss before tax	0.25	1.73	1.71	2.22	3.05	5.86	7.60
PBT Margin (%)	4.27%	26.33%	23.88%	23.92%	18.67%	24.81%	23.87%

Source: Prima Plastics ARs

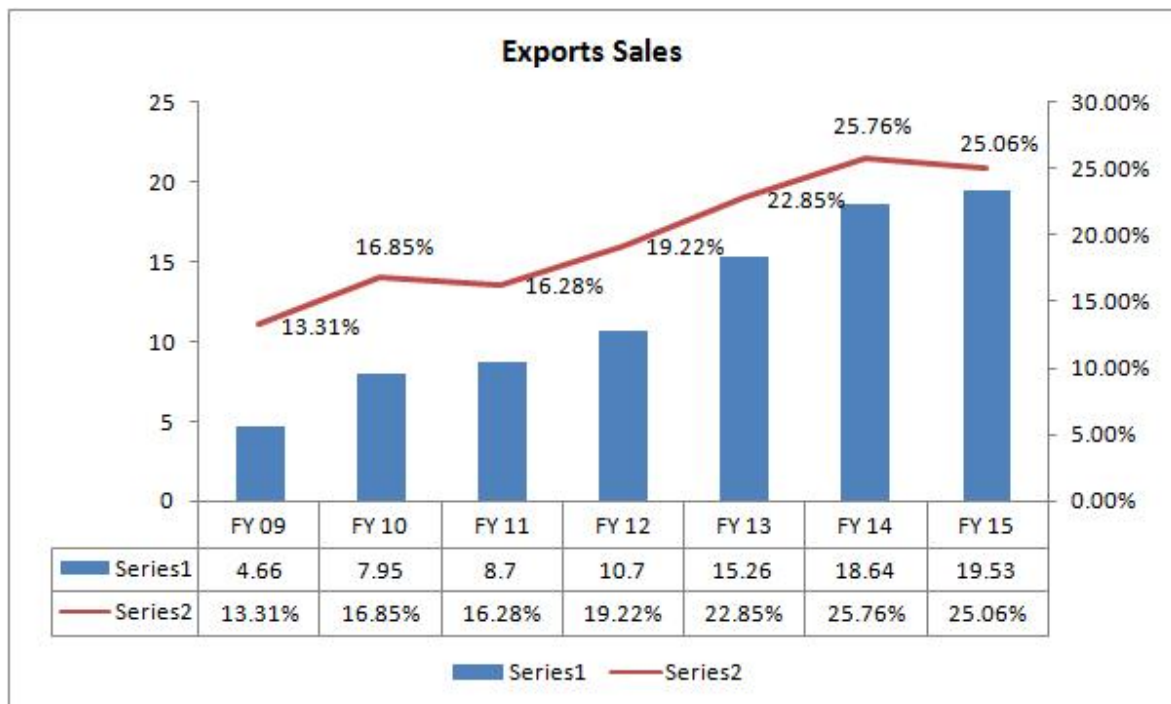
The above picture depicts Prima's share (50%) of sales and profits in the JV. As can be observed from the picture, the JV has been performing really well in terms of growth in sales and profitability, though on a small base.

Also, in terms of return ratios the performance has been excellent because only 12-13 crores (accumulated reserves) is employed in the business which delivered 7.6 crores in PBT.

In order to maintain the growth rate the JV also recently embarked on USD 1 million expansion plan funded entirely through internal accruals as the company is cash rich.

Exports – Besides selling plastic furniture domestically, Prima Plastics also exports its products to African, Middle-Eastern and Central American nations. In fact, it has been conferred with Top Exporter Awards by PLEXCONCIL India in the Moulded Furniture Category several times since 1996.

In fact, company could get a foothold in Cameroon and established the manufacturing unit as the current JV partner was previously distributor of the company in Cameroon.



Source: Prima Plastics ARs

In the above picture we have highlighted the exports sales of plastic goods by Prima Plastics. The above figures do not include the sales of Cameroon based JV because that operates as an independent unit and caters to the demand in Cameroon and nearby African nations.

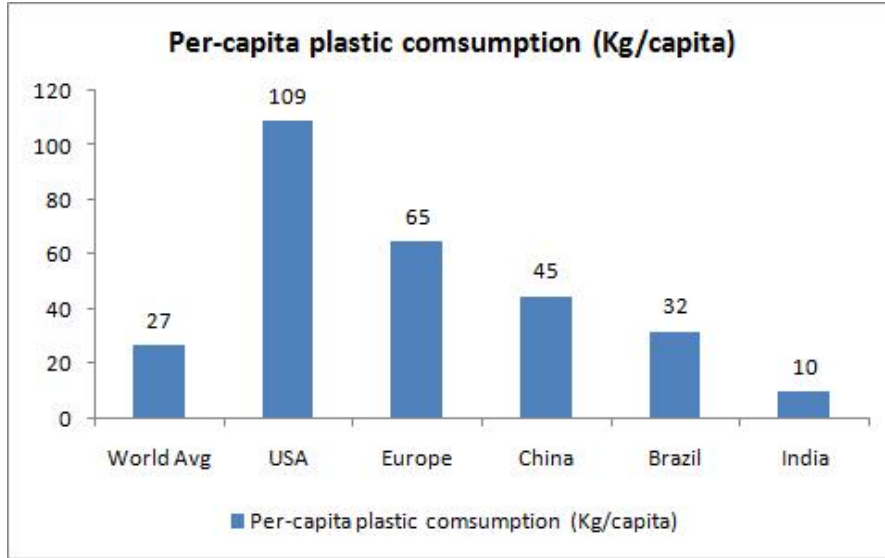
So, as can be observed the exports sales have been recording good growth and have grown from 4.66 crores in FY 09 to 19.53 crores in FY 15 and the contribution to the overall sales has gradually increased from 13% to 25%.

Plastic consumption in India and Africa

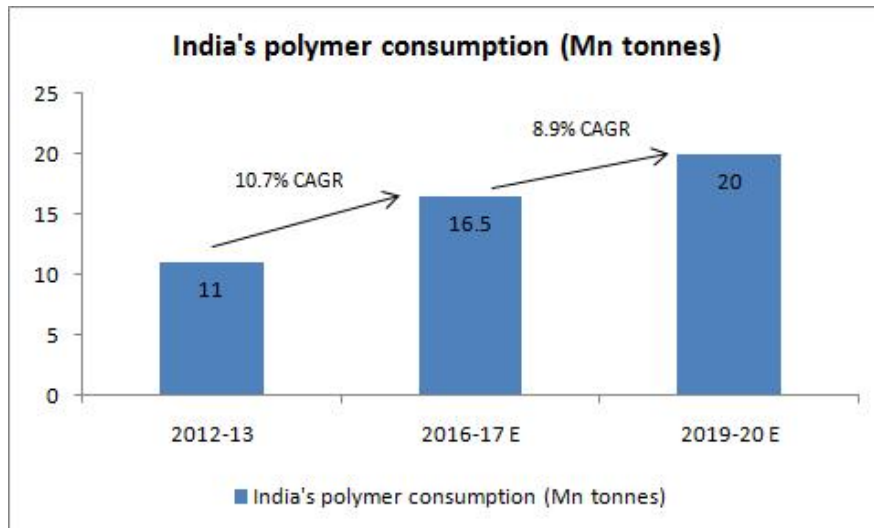
Prima Plastics basically derives revenue from sales in India and in Africa in the form of JV in Cameroon.

Both the regions are in developing phase and currently have low per-capita consumption of plastic goods, which indicates good prospects for the company provided it executes well and remains focused on PMF business.

Indian scenario – 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.

Demand in Africa – Africa's overall economy is currently on a growth path. Many countries in Africa have experienced several years of strong economic growth (ranging from 8-12% in 2015) and it is now one of the fastest growing markets for plastic goods and machinery in the world. A growing economy, a population of over 680 million and the

potential for significant long-term growth has made the African continent a priority market for many international companies. Some of the areas identified as opportunities for international companies include plastics production machinery (PME) as well as plastics material resins (PMR). Not to mention the high demand for plastic goods that has been growing throughout Africa.

According to industry reports, during the past six years the use of plastics in Africa has grown by an astounding 150%, at a compounded average growth rate (CAGR) of approximately 8.7 per cent. Imports of plastics into Africa have grown between 23% and 41% during this time. In a recent conference presentation, analysts predicted that the use of plastics in East Africa alone is expected to treble in the next five years. And there is potential for much more growth. Plastics consumption per capita in Kenya, for instance was just 10 kg in 2004 and it is expected to increase to 30 kg by 2020, which is still very low compared to many other countries in other parts of Africa.

Management

Prima Plastics is led by Parekh family with Mr. Bhaskar Parekh as the Executive Chairman and his brother Mr. Dilip Parekh as the Managing Director. The promoters own reasonably good 58.85% stake in the company and thereby their interests are directly aligned with those of minority shareholders.

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.

Further, sooner than later management has closed the non-profitable ACP unit to focus only on its core competency of PMF business.

The management has not diluted equity in the last 10 years and has managed to grow the business through internal accruals and debt. In fact, on consolidated basis the company is debt free with surplus cash of 3-4 crores.

Shareholding pattern

	Sep'15	Jun'15	Mar'15
Promoter and Promoter Group	58.85%	58.85%	58.85%
India	58.85%	58.85%	58.85%
Foreign			
Public	41.15%	41.15%	41.15%
Total	1,10,00,470	1,10,00,470	1,10,00,470

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 Prima Plastics the promoters own reasonably good stake at 58.85%

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

Name of the shareholder	Category	% stake in Prima Plastics
Promoters and PAC	Promoters	58.85%
Dheeraj Kumar Lohia	Public	3.02%
Sangeetha S	Public	2.00%
Punit Shailesh Bhuptani	Public	1.17%

As can be observed, institutional interest in the company is zero; if the company is able to perform consistently and grow its sales and profitability it will attract institutional interest and there could be re-rating in the valuations of the stock; however it will happen only over longer term.

Prima Plastics – 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.

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Interest	-0.92	-0.58	-0.71	-1.08	-1.27	-1.26	-1.15
PBT	-1.02	5.19	4.31	4.95	6.43	9.97	10.38
PAT	-1.05	4.26	2.85	3.95	5.08	7.6	6.69
ROAE	-5.83%	11.40%	7.23%	9.55%	11.42%	15.30%	12.31%
Cash flows from operations	0.77	4.27	1.39	3.44	3.38	1.94	13.2
Debt to Equity ratio	0.06	0.02	0.06	0.25	0.08	0.12	-0.06
Net debt	2.34	0.83	2.45	10.63	3.9	6.26	-3.37

Segment details	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
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P/L before interest and tax (PMF)	-0.19	6.98	4.48	6.31	4.85	12.01	13.39
P/L before interest and tax (ACP)	-0.85	-1.17	0.15	-1.01	-1.54	-1.78	-2.22
Less: Financial expense	-0.91	-0.58	-0.71	-1.08	-1.27	-1.26	-1.15
Add: Unallocable income	0.93	-0.04	0.40	0.73	4.39	0.36	1.00

In case of Prima Plastics, the second snapshot holds more significance and depicts the actual performance of the company considering that over the last few years the ACP

division was lowering the profitability of the company and with the same now closed the entire focus is on PMF division.

As can be observed from the attached snapshots, Prima's performance over the years has been reasonable and there are early signs of expected improvement based on important points discussed in the sections above.

Focusing only on PMF business, the company has reported around 15.4% CAGR in sales over the last 5 years and ~16% CAGR in PBT over the same period. While domestic PMF business of the company has reported 11% CAGR for the last 5 years, company's JV share has grown from 6.5 crores to 32 crores in terms of sales and 1.7 crores to 7.6 crores in terms of PBT.

JV in Cameroon has been reporting extremely good performance in terms of growth (though on a lower base) and profitability and is expected to continue performing well on the back of relatively low competition and growing demand in the country and nearby African countries.

As far as domestic operations of the company are concerned, we believe that singular focus on PMF business and low cost CAPEX at existing facilities should help the company report higher growth in sales and much higher improvement in profitability in the years ahead. In fact, in the half year ending Sep'15 the company's margins have already improved significantly, though helped by lower crude prices as well.

Further, what is good about the performance of the company is overall focus on fiscal prudence with company consistently generating positive cash flows from operations and at the same time reducing debt and attaining cash surplus status.

The ROAEs (return on average equity) look low at 12-15%, however the numbers were depressed as the ACP division delivered negative returns on capital employed. If only PMF business division is considered then return ratios have improved to over 20% + since the last 2 years.

What's the way ahead? As mentioned in the sections above, there are several levers for the expected improvement in the performance of the company in the years ahead and they are as below:

- Closure of ACP unit which was loss making. This will automatically improve the profitability of the company.
- Utilization of facilities earlier dedicated to ACP unit for expansion of PMF capacity.
- Expansion in Andhra Pradesh which will help the company address demand in eastern markets of India
- Replicate the business model of JV in Cameroon by setting up a unit in small Central American nation

The company will be carrying out above mentioned expansions mostly through internal accruals and therefore we expect the balance sheet of the company to remain healthy.

It's difficult to pin-point growth potential, but 15-20% + growth seems maintainable with upside potential over the longer run.

Dividend Policy

Dividend Payout ratio					
	FY 11	FY 12	FY 13	FY 14	FY 15
Dividend Payout ratio	38.46%	27.85%	21.65%	14.47%	24.63%

From 2011 to 2014, the company paid Rs 1/- per share as dividend and thereby with increasing profitability the payout ratio came down. In 2015, the company increased the dividend to Rs 1.5/- per share.

As the company is debt free and is planning expansions through internal accruals, 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

At around current price of 110, the market capitalization of the company is 120 crores. The company is debt free with 3-4 crores surplus cash.

For FY 16, we expect the company to report (on consolidated basis) ~15 crores PBT (13 crores PBT for PMF business in FY 15) and 10-11 crores PAT with average post-tax ROE of ~20%. Thus, the stock is available at ~11 times FY 16 (E) earnings and we therefore believe that the valuations of the company are reasonable around current levels of 110.

Risks & Concerns

Company is increasingly getting dependent on international operations and any kind of political turmoil in African countries can impact the performance of Prima Plastics.

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.

In the past management has ventured into unrelated business of ACPs and similar attempt in the future can impact the profitability of the company.

Research Analyst Details

Name: Ekansh Mittal Email Id: ekansh@katalystwealth.com Ph: +91 512 6050062

Analyst ownership of the stock: Yes, analyst owns the stock

Analyst Certification: The Analyst certify (ies) that the views expressed herein accurately reflect his (their) personal view(s) about the subject security (ies) and issuer(s) and that no part of his (their) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.

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Mittal Consulting

7, Panch Ratan, 7/128
Swaroop Nagar, Kanpur – 208002

Ph.: +91-512-6050062

Mob: +91-98188 66676

Email: info@katalystwealth.com