

COSMOFILMS

HOLD VIEW- CAUTIOUS

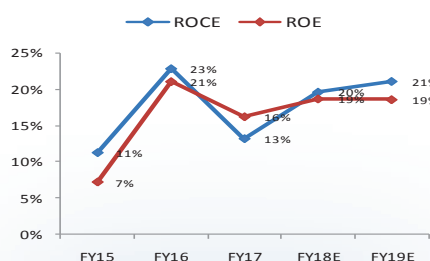
19-May-17

INDUSTRY - Packaging
 BSE Code - 508814
 NSE Code - COSMOFILMS
 NIFTY - 9430

Company Data

CMP	429
Target Price	470
Previous Target Price	490
Upside	10%
52wk Range H/L	469/301
Mkt Capital (Rs Cr)	835
Av. Volume (,000)	70

RoE & ROCE to move higher

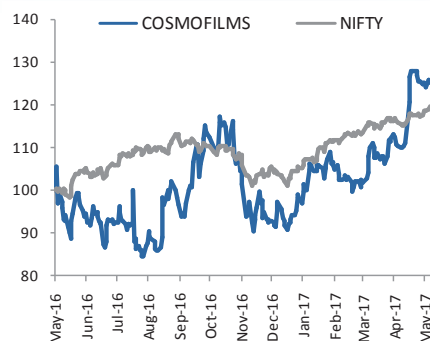


Share Holding pattern %

	4QFY17	3QFY17	2QFY17
Promoters	43.5	43.5	43.5
Public	56.5	56.5	56.5
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	15.7	20.6	29.9
Rel.to Nifty	11.3	12.5	9.0



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"Revenue gets the boost.. Margins a Big Miss"

Key Highlights of Q4FY17 and FY17 earnings

- ✓ Cosmo's Q4FY17 Net sales grew 13.5% YoY to 438 cr vs our estimate of 459 cr.. Sales grew 21.5% QoQ..
- ✓ EBITDA declined 1% QoQ to 34 cr and declined 30% YoY from 48 cr in the same period of last year.
- ✓ PAT grew 36% at 28 cr from 21 cr QoQ, grew 17% YoY.. PAT get boost from a tax reversal of 4 cr in Q4FY17.
- ✓ New Sales declined 2% YoY at 1587 cr vs our estimated figure of 1605 cr, however PAT declined 7.6% YoY at 89 cr, missed our estimates by 6%.
- ✓ Gross margins in Q4FY17 declined sharply by 420 bps QoQ to 34.5% vs 38.7% in Q3 vs our estimated 38.7%
- ✓ EBITDA margins too took a hit came at 7.8% in Q4, declined 110 bps QoQ.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	1,647	1,621	1,587	2,046	2,258
EBITDA	104	191	158	234	275
EBIT	70	156	118	187	222
PAT	28	96	89	114	132
EPS (Rs)	14	50	46	59	68
EPS growth (%)	-	248%	-7%	28%	16%
ROE (%)	7%	21%	16%	19%	19%
ROCE (%)	11%	23%	13%	20%	21%
BV	196	235	282	313	365
P/B (X)	0.4	1.2	1.3	1.5	1.4
P/E (x)	5	6	8	8.0	7.5

RECENT DEVELOPMENT: Commencement of New BOPP Line & taken up of BOPET project

- ✓ Cosmo has commissioned its new added BOPP line 60000 tones at Aurangabad Plant from February 2017. New line has started in phases.
- ✓ In Q4 Cosmo's US subsidiary has broke even at EBITDA level with \$1 mn additional through launch of new packaging products there.
- ✓ Company has announced its new BOPET project of 36000 tones at Aurangabad. Project will be funded through mix of Debt/Equity in the ratio of 75:25. This project will be commissioned from Q3FY19 and will add revenue to the tune of 300-350 crores annually. This BOPET will be speciality project with better EBITDA margins than the current BOPP films.

Quarterly Performance

Financials	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	386	409	433	385	438	13%	14%	1,621	1,587	-2%
Other Income	3	1	1	1	7	105%	877%	6	9	66%
COGS	234	238	256	221	287	23%	30%	1,025	1,002	-2%
Employee Cost	32	30	33	33	30	-7%	-10%	122	126	4%
Other Expenses	72	70	70	72	87	21%	21%	282	300	6%
EBITDA	48	44	46	34	34	-30%	-1%	191	158	-17%
Depreciation	9	9	10	10	11	20%	13%	36	40	11%
Interest	8	8	8	8	7	-9%	-13%	30	30	0%
PBT	35	28	29	17	23	-33%	34%	124	95	-24%
Tax	8	6	6	(1)	(4)	-149%	205%	28	6	-79%
PAT	24	19	21	21	28	17%	36%	96	89	-8%

Lingered on Demonetisation impact hit the gross margins

- ✓ As per highlighted by the management, company's gross margins took a hit in Q4FY17, due to lower demand from the end user industry, led by lingered on impact of demonetisation from December quarter.
- ✓ value addition in seeling per kg of BOP films dragged to 15-25/- kg from 25-45/- kg from a year ago.

Performance improved in oversease subsidiaries

- ✓ In Q4, company witnessed improvement in its U.S. subsidiary, which saw break even at EBITDA level in Q4FY17, with additional \$1mn sales through launch of new packaging products oversease.
- ✓ Earlier U.S. subsidiary was used to sell only thermal film, whereas now Cosmo ha launched product in BOPP category which witnessed sales boost.
- ✓ Korean subsidiary also started selling BOPP films from its oversease locations, which management is confident of giving further boost to overall sales..

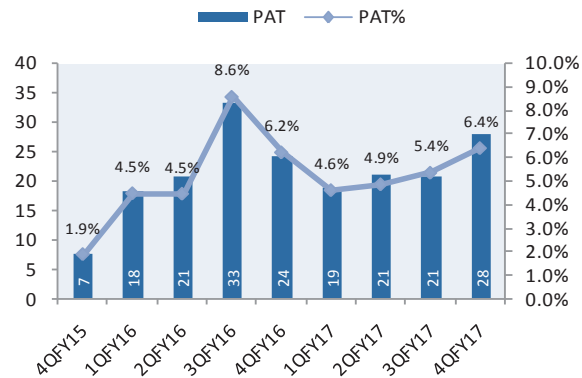
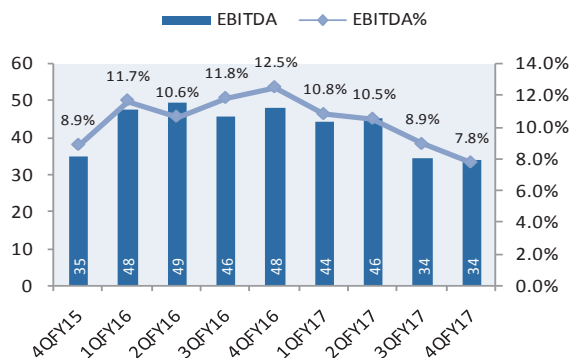
Working Capital Cycle Stretched

- ✓ Cosmo's working capital cycle witnessed pressure in FY17, as company recievable days increase to 34 days from 26 in FY16, and inventory days increased to 55 days in FY17 from 39 days a year
- ✓ Working capital cycle stretched due to ramp up of new BOPP line at Aurangabad due to which inventory was higher by the end of FY17.
- ✓ Management has guided for better working capital cycle by FY18, as current stretching in working capital is short lived. Management has targeted recievable days and invenotry days at 30 by FY18

Tax benefit from New Plant & Machinery gave major boost to PAT

- ✓ Comso's Q4FY17 PAT got big boost from Q4 tax benefit to the tune of 9.8 cr. arising from expense incurred on new plant & machinery at Aurangabad plant, due to which tax was -3.99 cr for Q4FY17.
- ✓ As per management, Tax benefit was one time as all the benefits on the tax front has been accounted in Q4FY17, which will not be repeated.
- ✓ Income Tax rate for FY18 will in range of 22-24%.

Margin %	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	40%	38%	37%	39%	35%	-5%	-4%	37%	37%	0.1%
EBITDA Margin	13%	11%	11%	9%	8%	-5%	-1%	12%	10%	-1.8%
PAT Margin	6%	5%	5%	5%	6%	0%	1%	6%	6%	-0.3%



Concall Highlights:

- ✓ New BOPP Line commissioned from Feb 2017
- ✓ Volumes in speciality films grew 20-22% YoY in Q4
- ✓ Demonetisation pressure lingered on till March which started in December 2016 quarter.
- ✓ March 2017 onwards witnessing situation improving to normalised levels.
- ✓ Gross margins declined due to pressure on realisation led by demonetisation effect as end user industry demand was under pressure.
- ✓ Overseas US subsidy performance improved in Q4 which saw breakeven at EBITDA level.
- ✓ Improvement was due to \$1 mn additional sales from new products and gone away of forex losses.
- ✓ New products in packaging launched in US..earlier only selling thermal through US.
- ✓ Korean subsidy also started selling BOPP now. If launches are successful,Cosmo will see big boost to its revenue in coming years.
- ✓ volume for speciality films in Q4 was 13000 tones..17000 tones in BOPP.
- ✓ New BOPP line commissioned in phases.. will see rampup to complete by June.. expect 100% utilisation from new added line by June 2017.
- ✓ 50% drop in BOPP margin in Q4 YoY however could compensate the margins through higher sales from speciality side and saving in power cost.
- ✓ New BOPP line will add 30-35% rev on BOPP side in FY18.
- ✓ Focused on utilising speciality film capacity better going forward.
- ✓ 42% of volumes in Q4 was from Speciality, whereas 58% from BOPP.
- ✓ Revenue from Speciality contribute 50%+ in overall revenues.
- ✓ There was decline in value addition in BOPP films to 15-30/-kg from 25-45/-kg a year ago which dented gross margins..
- ✓ 9.8 cr positive impact on Tax arising from 15% tax exemption available on investment on P&M at Aurangabad plant..this tax benefit has accounted completely in Q4..
- ✓ FY18 tax rate would be in the range of 22-24%.

- ✓ Long term debt is higher due to implementation of added BOPP line.
- ✓ Receivables and inventory is on higher side in FY17, due to commissioning of new line
- ✓ Receivable and inventory days will get reduced to the normal level by FY18 end.
- ✓ Target receivable and inventory days at sub 30 levels.
- ✓ Saw EBITDA margins of 12% in FY16 at normalise phase.. expect to achieve the same EBITDA margins in FY18, as expect higher volumes from speciality films segment going forward also.
- ✓ Will see 30-35% sales growth in FY18.
- ✓ Demand is good in BOPP and speciality film segment..demand is not a problem for the business. Company is selling all the products its producing.

Investment Arguments:

Sales to get boost from ramp up of new BOPP capacity

- ✓ After commissioning of new 60000 tones BOPP line at Aurangabad, management has guided for 30k-35k tones additional sales from BOPP films. This coupled with focusing on achieving higher sales volume in Speciality films, to grow revenue by 30-35% in FY18. However we have cut our earlier sales target after week commentary from the management.

Margins to remain under pressure in FY18.. FY19 picture looks comfortable

- ✓ After sharp deterioration in gross margins in Q4FY17, we have reduced our targeted gross margins for FY18, as additional sales from the BOPP films will reduce overall margins, however better margins in new BOPP line than earlier one will offset much of the downside in margins. From FY19 we expect margins to move higher as we expect recovery in the end user industry and also we expect commodity cycle getting bottomed out after FY18, which will increase realisations.

View & Valuation

At CMP of 430/- stock is available at 1.35x to its FY18 and 1.15x to its FY19 expected book value. With growing and sustainable margins, we believe company to post healthy ROE of 18.7% and 19% in FY18 & FY19 respectively, improve significantly from 16.3% delivered in FY17. We believe Cosmo is well positioned to see a major rerating once company start delivering sales from new capacity with improved margins and profitability. However keeping in mind margin deterioration in Q4FY17 and following week commentary by management, we have reduced our earlier target for the stock from 490/- to 470/-for FY18 and reduced target from 570/- to 545/-for FY19, valuing stock at 1.5x to its FY18 & FY19 respective expected book value.

(Rs in Crore)	Old. Esti		New. Esti		Change (%)	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
<i>Total Volumes (tones)</i>						
Net Sales	2276	2461	2,046	2,258	-10%	-8%
Other Income	4	4	9	9	130%	130%
COGS	1,337	1,424	1,333	1,456	0%	2%
Employee Cost	141	155	137	150	-3%	-3%
Other Expenses	380	411	342	377	-10%	-8%
EBITDA	273	314	234	275	-14%	-12%
Depreciation	51	51	46	53	-9%	5%
Interest	38	31	50	48	31%	55%
PBT	188	236	147	183	-22%	-22%
Tax	42	67	33	51	-21%	-23%
PAT	146	169	114	132	-22%	-22%
EBITDA Margins	12.0%	12.7%	11.4%	12.2%	-5%	-4%
EBIT Margins	9.8%	10.7%	9.2%	9.8%	-6%	-8%
PAT Margins	6.4%	6.9%	5.6%	5.8%	-13%	-15%
ROE	23.4%	23.1%	18.7%	18.6%	-20%	-19%
ROCE	24.9%	28.6%	19.7%	21.1%	-21%	-26%

Financials Snap Shot

Income Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	1,621	1,587	2,046	2,258
Change (%)	-2%	-2%	29%	10%
Other Operating Income	-	-	-	-
EBITDA	191	158	234	275
Change (%)	83%	-17%	48%	18%
Margin (%)	11.8%	10.0%	11.4%	12.2%
Dep & Amortization	36	40	46	53
EBIT	156	118	187	222
Interest & other finance cost	30	30	50	48
Other Income	6	9	9	9
EBT	124	95	147	183
Exceptional Item	7	2	-	-
Tax	28	6	33	51
Minority Int & P/L share of Ass.	-	-	-	-
Reported PAT	96	89	114	132
Adjusted PAT	96	89	114	132
Change (%)	248%	-8%	28%	16%
Margin(%)	5.9%	5.6%	5.6%	5.8%

Key Ratios				
Y/E March	FY16	FY17	FY18E	FY19E
ROE	21%	16%	19%	19%
ROCE	23%	13%	20%	21%
Asset Turnover	1.4	1.1	1.3	1.3
Debtor Days	26	34	32	30
Inventory Days	39	55	45	40
Payable Days	36	45	40	35
Interest Coverage	5.16	3.91	3.77	4.61
P/E	6	8	8	8
Price / Book Value	1.2	1.3	1.5	1.4
EV/EBITDA	3.8	6.6	5.3	4.6
FCF per Share	71	(67)	26	63
Dividend Yield	4%	3%	3%	3%

Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Volumes (BOPP) (tones)	99,280	91,970	1,25,440	1,33,280
Volume (Speciality)(tones)	39747	43014	51063	53900
Realisations/kg (BOPP)	105	111	104	106
Realisations/kg (speciality)	175	173	170	172

Balance Sheet				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	19	19	19	19
Reserves	437	527	589	689
Networth	456	547	608	708
Debt	344	544	552	534
Other Non Current Liab	-	-	-	-
Total Capital Employed	800	1,091	1,160	1,243
Net Fixed Assets (incl CWIP)	644	830	954	1,022
Non Current Investments	31	28	28	28
Other Non Current Assets	-	-	-	-
Non Current Assets	736	995	1,076	1,127
Inventory	172	237	252	241
Debtors	117	147	179	181
Cash & Bank	32	28	26	61
Other Current Assets	0	6	6	6
Current Assets	406	496	542	568
Creditors	159	194	224	211
Provisions	5	7	10	11
Other Current Liabilities	99	88	114	122
Curr Liabilities	263	289	348	344
Net Current Assets	736	995	1,076	1,127
Total Assets	1,142	1,491	1,617	1,696

Cash Flow Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
PBT	124	95	147	189
(inc)/Dec in Working Capital	71	(69)	12	6
Non Cash Op Exp	61	72	96	101
Interest Paid (+)	25	30	50	48
Tax Paid	33	6	33	53
others	-	-	-	-
CF from Op. Activities	222	92	222	243
(inc)/Dec in FA & CWIP	(85)	(222)	(172)	(121)
Free Cashflow	138	(129)	51	122
(Pur)/Sale of Investment	5	3	-	-
others	1	(51)	21	14
CF from Inv. Activities	(79)	(269)	(150)	(107)
inc/(dec) in NW	76	91	61	103
inc/(dec) in Debt	(68)	200	8	(18)
Interest Paid	(27)	(30)	(50)	(48)
Dividend Paid (inc tax)	(32)	(23)	(27)	(33)
others	-	-	-	-
CF from Fin. Activities	(138)	147	(69)	(99)
Inc/Dec) in Cash	6	(30)	3	38
Add: Opening Balance	18	32	28	31
Closing Balance	25	2	31	69