Weekend
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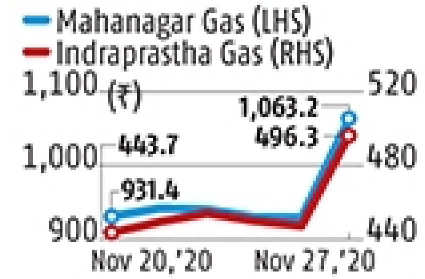
The Smart Investor

QUICK TAKE: CITY GAS DISTRIBUTORS GAIN ON NEW NORMS



Stocks of city gas distributors (CGD) Mahanagar Gas and Indraprastha Gas rose 11-14% on Friday after the government's CGD open access norms disallowed OMCs' existing outlets that sell CNG to compete with these firms. Lower competitive threat, volume growth, and pricing power are positive for the stocks

"NIFTY at 13,000 is nothing. It will cross 20,000–some day in the future. I firmly believe this"

SAMIR ARORA
Founder, Helios Capital

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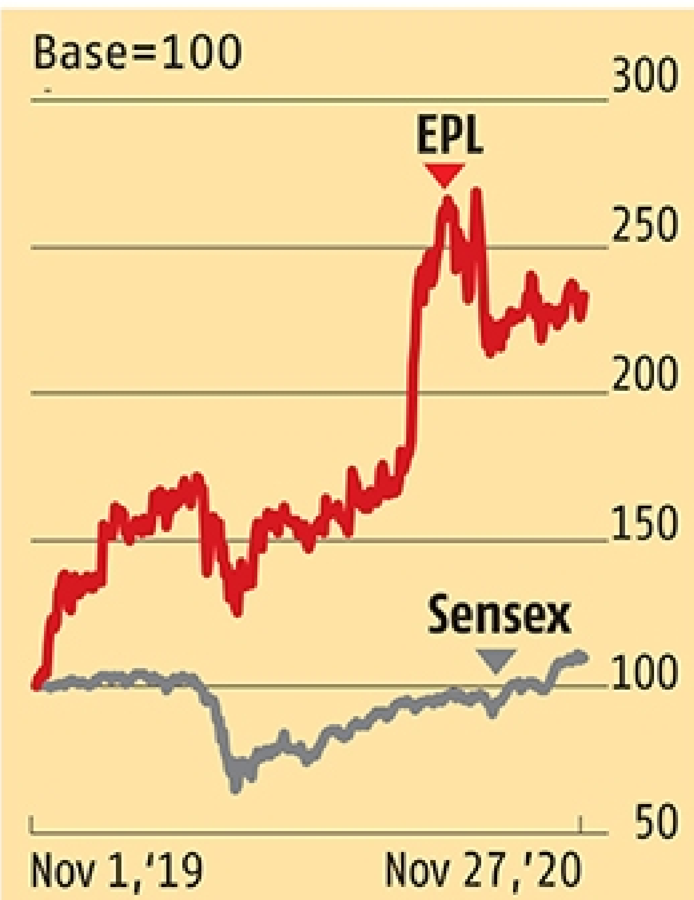
THE COMPASS

FMCG, pharma to unbox potential of packaging firms

Larger companies expected to gain from consolidation



Compiled by BS Research Bureau

RAM PRASAD SAHU

Listed packaging companies have been among the big gainers over the past six months, rising between 50 per cent and 100 per cent.

The gains came on the back of increasing demand for packaged food and products, especially from fast-moving consumer goods (FMCG) and pharmaceutical companies.

While EPL, Huhtamaki India, and Mold-Tek Packaging have gained 48-76 per cent, Uflex has doubled in value over this period. In addition to higher demand from the consumption segments, the organised segment is expected to gain market share.

Larger, organised players, according to PhillipCapital (India), are well-placed. The sector is moving towards consolidation, with smaller players facing supply chain and working capital issues.

The overall flexible packaging sector is expected to grow 10 per cent annually to hit the ₹64,000-crore mark by 2022-23, from ₹37,000 crore in FY18.

The largest listed player by market capitalisation is Blackstone-controlled EPL (erstwhile Essel Propack). The company recently acquired plastic tube maker Creative Stylo Packs for an enterprise value of ₹250 crore.

The acquisition, made at 8x the company's 2019-20 (FY20) enterprise value-to-operating profit, is expected to be earnings accretive; margins of the acquired company are at 30 per cent, while EPL's FY20 margins stood at 20 per cent.

In addition to augmenting its capacity and production presence, it is expected to boost EPL's share in the beauty/cosmetic and pharma segments. Given the robust balance sheet and the management's focus on capital-efficient growth, analysts at Edelweiss Research expect the company's earnings to grow 20 per cent annually over the FY20-22 period.

Another company the Street is bullish on is Huhtamaki India, which gets 80 per cent of its revenues from the FMCG sector and about half from the food segment.

Deepak Agarwal of PhillipCapital expects the company's margins and return ratios to improve on the back of rising FMCG demand, new product launches, and higher wallet share of customers.

Mold-Tek Packaging and Uflex, too, are expected to grow, driven by higher volumes and double-digit earnings growth over the next few years.

FMCG, pharmaceutical segments to drive sales of packaging companies

Larger players such as Blackstone-owned EPL are expected to gain from the ongoing consolidation

Topics
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Ram Prasad Sahu
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