Uflex: New opportunities unfolding with upcoming and new facilities

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Reasonable Q2 performance. Liquid and flexible packaging segments come to the rescue and compensated for the losses in the packaging films side

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Uflex | CRISIL has upgraded long term credit rating on company's loan facilities to AA- from A+, with stable outlook, and short term rating has been upgraded to A1+, from A1.

Highlights

- *Diversified product offering with widespread geographical reach*
- *Strong liquid packaging demand with solid earnings visibility*
- *High-energy cost impacts packaging film volume and margins*
- *Continued investments in building capacity*
- *Attractive valuation, justified on fast-paced packaging sector*

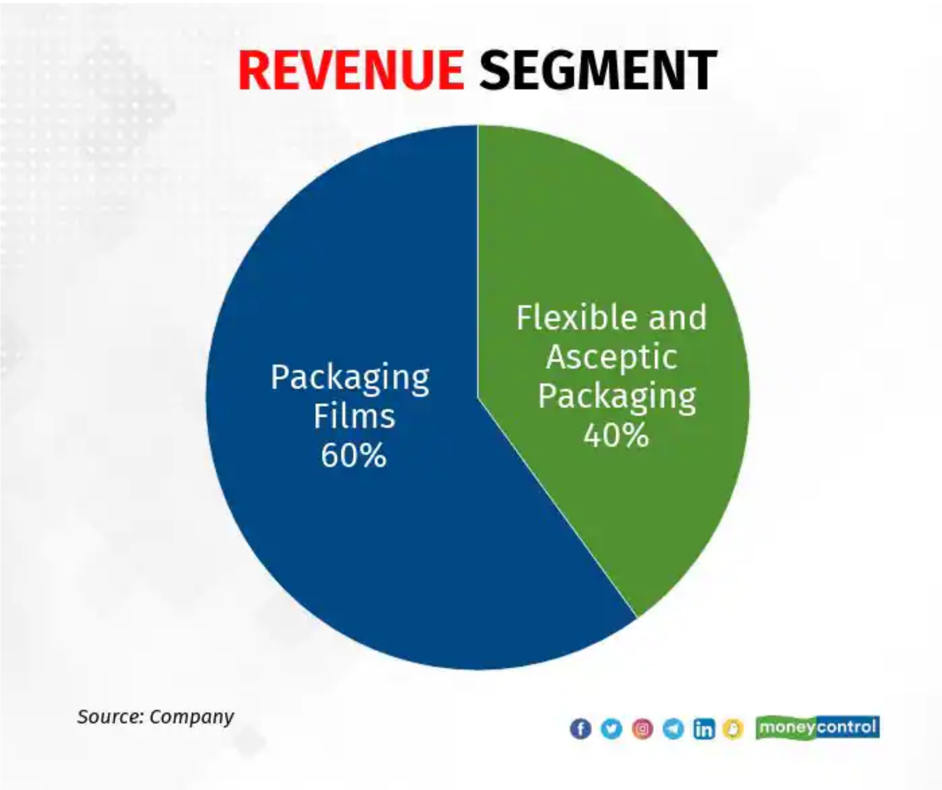
Uflex Ltd. (Uflex; CMP: Rs 592; M Cap: Rs 4,284 crore) has established itself as India's largest multi-national in the flexible packaging segment.

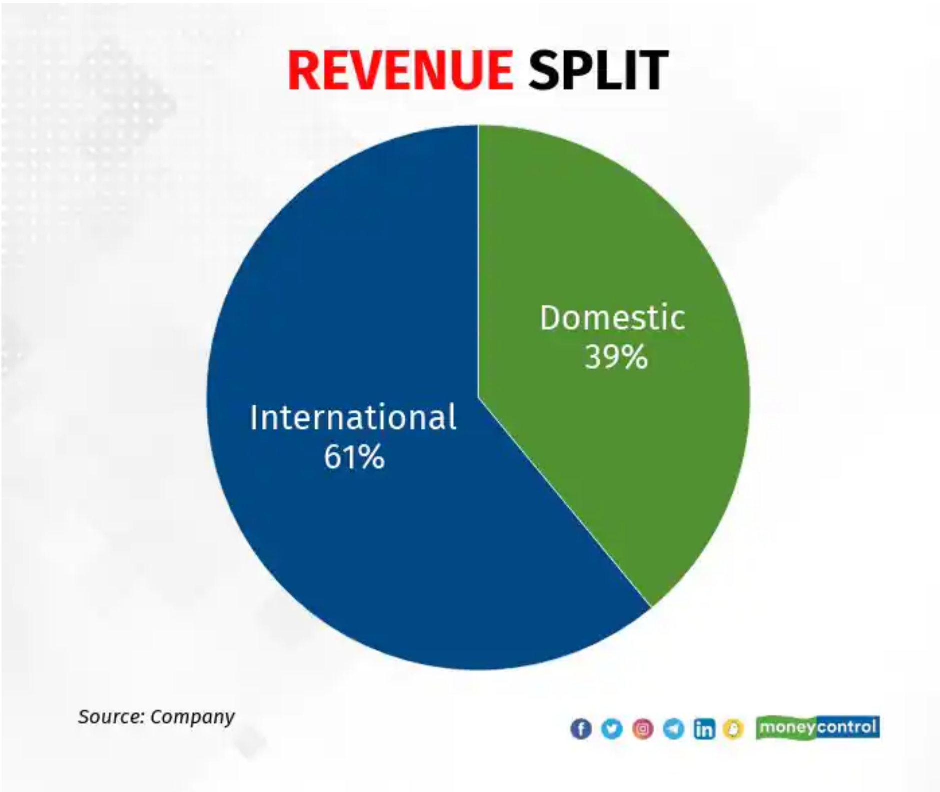
The company is a revered global leader, with a large array of products, coupled with a diversified packaging value chain, such as flexible packaging, packaging films, aseptic liquid packaging, holography, printing cylinders, and engineering and chemicals.

Asepto is the aseptic packaging brand of Uflex.

A decent performance was witnessed in the first half of the current fiscal (H1 FY23) on a year-on-year (YoY) basis. The performance of packaging films was impacted by the high global energy cost, which led to a decline in sales volume.

Continued investments in building capacity has enabled Uflex to sustain a healthy YoY revenue and profitability growth. Also, an improvement in capacity utilisation (90 percent) was driven by the highest-ever exports, led by the aseptic and chemical business in Q2FY23.





SEGMENT BREAK UP

Segments Overview	Main Products	Key Customers	B2B- End Use	Competitor
Packaging Films	BOPET, BOPP, CPP Films, etc.	Printpack, Flexipack, GlaxoSmithKline	FMCG, Electric Insulation, Graphics Arts	Taghleef Industries, Toray, SRF, Jindal PolyFilms
Flexible Packaging	Flexible Laminates, Pouches, Bags, Flexi -Tubes & Liquid	Mondelez, Radico Khaitan, Nestle, Britannia	FMCG - edible items, pet foods, medicines, cosmetics, paints, cements etc.	Huhtamaki, Amcor, Essel Propack,
Aseptic Liquid Packaging: Asepto	Brick, Pillow & Trio Packs, Holography Packs, Foil Stamping Packs, Embossing Packs,	Coca Cola, Amul, UPM	Dairy, Beverage Pharma	Tetra Pak

Source: Company

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Q2FY23: Key highlights

Although sequential contraction in EBITDA margins was seen (down 119 bps QoQ in Q2FY23) in the quarter, Uflex had a healthy growth in key parameters on a YoY basis.

Sales volume growth was muted on a YoY basis in Q2FY23 and the sharp fall in EBITDA margins was primarily attributed to seasonal factors, decline in packaging films sales volume and higher energy cost that largely impacted the segment.

Consequently, PAT declined by 49 percent, QoQ. The de-growth in PAT was a bit surprising after reporting the highest-ever PAT in Q1FY23.

Segments

The company's robust performance continued in the **aseptic packaging segment**, where sales volume grew by 130 percent YoY, while net revenue increased by 145 percent YoY.

In the **flexible packaging segment**, H1FY23 witnessed a decent net revenue growth of 24 percent YoY. Uflex expanded capacity of 7 billion packs in Q1FY23 and the enhanced capacity utilisation came in handy.

The global crisis affected operations in the **packaging films segment** in the form of high energy cost, especially in Europe. Despite the softening of raw material prices such as polyester and BoPET films (biaxially-oriented polyethylene terephthalate) in the domestic market, margins declined in the quarter.

The management believes that the demand in the packaging films segment will improve and expects a pick-up in margin from the next quarter.

Illustration for aseptic packaging

Source: Uflex, Moneycontrol Research

QUARTERLY SNAPSHOT

	Q2FY23	Q2FY22	YoY	Q1FY23	QoQ
Sales Volume (MTPA in 000)	1,49,737	1,47,150	2%	1,54,811	-3%
Net Revenue	3,849	3,036	27%	4,046	-5%
EBITDA	493	425	16%	725	-32%
PBT	242	215	13%	476	-49%
PAT	191	171	12%	374	-49%
EBITDA Margin (%)	12.80%	14.00%	-119 bps	17.9%	-510 bps
PAT Margin (%)	5%	6%	-67 bps	9%	-430 bps

in Rs. Crore, Source: Company

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FINANCIAL SNAPSHOT

	H1FY23	H1FY22	YoY
Sales Volume (MTPA in 000)	3,04,548	2,80,184	8%
Net Revenue	7,895	5,797	36%
EBITDA	1,218	927	31%
PBT	718	527	36%
PAT	565	435	30%
EBITDA Margin (%)	15.40%	16.00%	-56 bps
PAT Margin (%)	7%	8%	-35 bps

(in Rs crore), Source: Company

Outlook

Packaging films capacity, post Dharwad and Dubai expansion, will increase to 591,000 metric tonnes per annum (India: 155,000 MTPA; Overseas: 436,000 MTPA) from 510,000 MTPA currently.

Asepto has reached 90 percent capital utilisation. The improvement in capacity utilisation in Nigeria (71 percent) will also add to growth. The company is planning to expand the current capacity of 7 billion packs to 9 billion by January.

According to the management, the aseptic packaging market is growing at 18- 20 percent range annually, and offers a huge potential for growth. The revenue guidance for Asepto, with 8 billion packs capacity by January, is at Rs 1,500 crore.

Uflex has successfully commissioned its CPP plant in Q2FY23 (capacity of 18,000 MTPA) at Dharwad, Karnataka, and will commission BoPET films in the region, as well as in Dubai in FY23. According to the management, demand for packaging films in India is growing at over 10 percent, and so added capacity will boost the segment.

Also, the company is in the process of commissioning post-consumer recyclate (PCR) and multi-layered plastic (MLP) recycling facilities in Mexico and Poland. Over the years, Uflex took an aggressive positioning, ensuring sustainability with higher margins on account of enhanced recycling. The OCR and PLP facilities will enhance raw material security and are also cheaper to virgin raw materials.

The overall margin guidance for H2FY23 and FY23 is 17 percent and 16 percent, respectively. The margin guidance assumes volume coming from liquid packaging (19 percent margin in the lean quarters of Q2FY23). The margin guidance for Asepto is in the range of 15-17 percent for H2FY23, with new plant commissioning.

Moreover, value-added products, including coating machine investments in Egypt and Mexico, and PCR and MLP will add to the margin growth.

Valuation

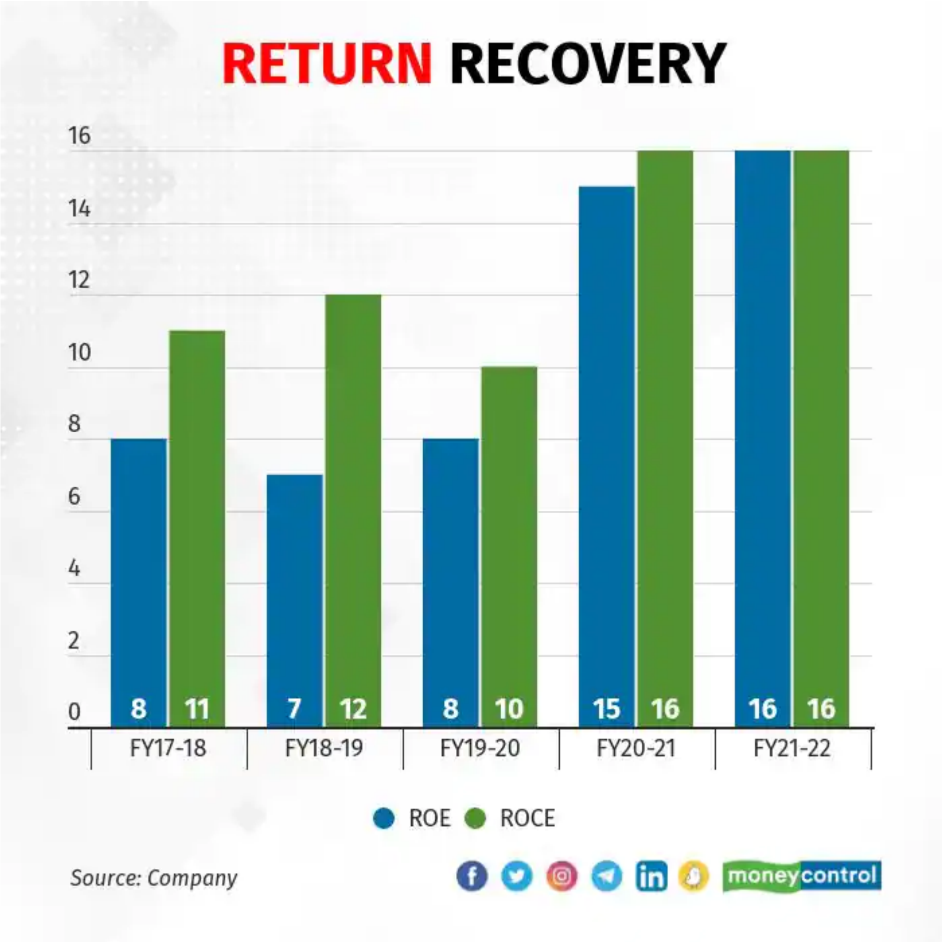
Uflex is trading at 3.1 times EV/EBITDA and 3.9 times P/E on FY24e earnings. This is attractive, considering the potential earnings growth and a healthy RoE of about 16 percent.

Uflex is well-positioned to catapult into the next growth phase, given the resilient end markets. The key catalyst to watch is the planned listing of the offshore subsidiary (Middle East), which might create value-unlocking opportunity. We advise investors to consider it as a long-term buying opportunity.

VALUATION SUMMARY

	FY22	FY23e	FY24e
Net operating revenue	13,127	15,753	17,013
% growth y-o-y	51%	20%	8%
EBITDA	2,280	2,520	2,892
EBITDA margin (%)	17%	16%	17%
Net Profit	1,099	1,103	1,191
Net Profit margin (%)	8.4%	7.0%	7.0%
Current Market capitalisation	4,660	–	–
Price- to-earnings ratio (x)	4.2	4.2	3.9
Enterprise Value	8,857	8,960	8,960
EV/EBITDA (x)	3.9	3.6	3.1
ROE	16%	14%	13%

(in Rs. Crore),
Source: Company & Moneycontrol Research



(in %)

Risks

The stock price might adversely react to elevated input costs, given the geopolitical crisis and high competition. Time and cost overruns of investment decision should be watched.

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