

Manjushree Technopack

# Packaging Profits

Manjushree Technopack has been registering impressive topline and bottomline growth. The company is also going for capacity expansion, but the equity dilution seems to be a major issue. **Prasanna Bidkar** looks into how much it has in store for the investors.

**R**emember Reliance Power's IPO and its after-effects? The kind of downfall the market witnessed immediately after such a large-sized IPO? So what has that got to do with our current pick i.e. Manjushree Technopack? To some extent it is true that there exists no direct relationship between the two. But what they do have in common is that both these companies hit the primary market floor in January 2008. Also, it was immediately after Reliance Power's IPO that Manjushree Extrusion hit the primary market. Despite the negative sentiments in the market, the issue managed to sail through. However, the listing on February 28, 2008 was quite miserable as on the very next day it closed below the offer price and the scrip remained there for the next 19 months. It was only on December 31, 2009 the stock traded above its offer price, yet, the price remained in the narrow range. Recently, though, the scrip is witnessing an upward movement.

The management has announced expansion plans and also changed the company's name to Manjushree Technopack (MTL). The financial performance has been very good with

growth in topline over six consecutive quarters on a QoQ basis. A similar performance was witnessed at the operating level also. So, considering the increased investor activity in the counter, expansion plans, improving financial performance, and change of name, we decided to meet the management and analyse the company for

## POINTS TO NOTE

- MTL is basically into the manufacturing of PET bottles and caters to industries such as FMCG, pharmaceuticals, beverages, and chemicals.
- With capacity utilisation almost touching 90 per cent, the management is pitching for expansion.
- Continuous topline and bottomline growth since last seven years

our investors who would undoubtedly be curious to know whether there still exists any steam in the counter.

## Understanding The Business

MTL is basically into the manu-

facturing of PET bottles and caters to industries such as FMCG, pharmaceuticals, beverages, and chemicals. Informs Vimal Kedia, Managing Director, MTL: "We are basically a packaging solution provider in rigid plastics. We are the only company providing a total packaging solution starting from design to commercialisation. We enjoy a market share of 10 per cent cater to the leaders in the industry with our top five clients being Nestle, Cadbury, Coca Cola, Pepsi, and Unilever."

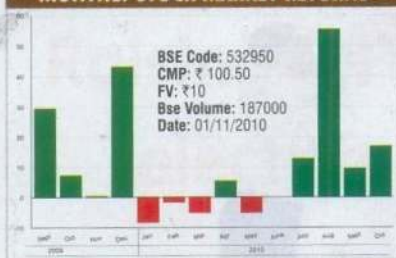
As regards the production capacity, it is divided into two elements viz. preforms and containers. Currently the company has a total capacity of 29,000 tonnes per annum (TPA), divided into 19,000 TPA of preforms and 10,000 TPA of containers. The products are sold only to OEMs and 80 per cent of the business comes from the FMCG and pharmaceutical sectors. "Given the defensive nature of our clients, our business was not impacted at the time of the recession," informs Kedia.

## Expansion Plans

With capacity utilisation almost touching a high of around 90 per cent, the management is pitching for expansion, with the total capacity increasing to 36,000 TPA. "Expansion in preforms will be on the higher side in view of the increasing demand," Kedia explains. The capex is estimated at ₹20 crore to be funded through debt and



## MONTHLY STOCK MARKET RETURNS



## Financial FY10 (₹/Cr)

|                        |        |
|------------------------|--------|
| Sales (₹Crore)         | 171.58 |
| Percentage Change      | 36.27  |
| NP (₹Crore)            | 13.16  |
| Percentage Change      | 57.98  |
| Equity (₹Crore)        | 13.55  |
| EPS (₹)                | 9.71   |
| Dividend Per Share (₹) | 1.00   |
| Dividend Yield (%)     | 1.05   |
| RONW (%)               | 18.00  |
| CMP                    | 100.50 |
| P/E (x)                | 10.35  |
| EV (₹ Crore)           | 215.00 |
| EV/EBDIT               | 6.25   |

the capacity will go on stream from December 2011.

"We have another larger expansion plan to set up two state-of-the-art capacities totalling 50,000 TPA. We have already acquired land and the total investment required would be of ₹140 crore, including the current expansion," he adds. But here the management has clarified that the total capacity after this expansion mode will be 65,000 TPA as some of the

machines from the old plants will be moved to the new facilities. The capacities are likely to go on stream in the next two years and will be operational from Q4FY12 to Q1FY13. With MTL financing ₹20 crore through debt, the rest of the amount shall be raised in the form of ₹70 crore from debt and ₹50 crore from equity. Equity dilution is therefore expected going ahead.

## Impact of Dilution

Although the management refrained from providing the exact dilution figure, the estimates are at around 27 per cent of the expanded equity (around 50-55 lakh equity shares). There will also be the additional debt burden to take into account. Hence we are of the opinion that while the company is expected to grow in terms of revenues and earnings, the equity dilution along with additional debt burden will not provide much scope to the scrip for upward movement.

## Financial Performance

The company's financial performance has been very good with continuous topline and bottomline growth since the last seven years. This momentum has been carried forward in Q1FY11 with topline of ₹57.09 crore and bottomline of ₹5.25 crore. As regards the FY11 revenues, the management expects the topline at ₹200-210 crore while the bottomline is estimated at ₹18 crore. But we feel that the realisation per tonne declined



VIMAL KEDIA, Managing Director, MTL

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during the last year and hence the earning growth will be lower than the estimates.

On the valuation front, EPS on expanded equity works out at ₹9.70 with a P/E of 10.35x. Also, the current EV/EBITDA of 6.25x seems to be placed well. So, considering the factors like the company has posted a strong financial performance and is planning to expand, we recommend the investors to buy the scrip at every dip.

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