

BSE	532950	NSE	
Reuters	MANT.BO	Bloomberg	MTPL:IN

31 May 2010

Current Price (Rs.)	44
52 week High/Low (Rs.)	60/16
Volume/2W Avg Volume (#)	3,797 / 18,057

Buy at CMP	44
Target Price - 2 year	123

**Share Capital**

Market Capitalisation (Rs.Cr.)	59.4
Face Value (FV) (Rs.)	10
Shares Outstanding (Cr.)	1.35
Equity Capital (Rs. Cr.)	13.55
Foreign (FII) Shareholding (%)	0
Promoters Shareholding (%)	57.15
Govt./FI Shareholding (%)	0.74
Others Shareholding (%)	25.7
Corporate Shareholding (%)	16.41

Source: Company, ValuePickr Research

Key Ratios	FY09	Industry Median
Net Profit Margin (%)	7.08%	1.39
Operating Profit Margin (%)	16.20%	6.24
Asset Turnover (x)	1.19	1.31
Return on Assets (%)	8.43%	2.47
Financial Leverage (x)	1.49	1.69
Return on Equity (%)	12.60%	5.14
Debt to Equity (x)	0.62	0.69
Return on Capital Empl. (%)	14.27%	8.75
Interest Coverage (x)	10.23	1.65
Quick Ratio (x)	1.52	2.04
Current Ratio (x)	3.03	2.94
Debtor Days (#)	55	55.82
Inventory Days (#)	71	62.49

Source: Company, ValuePickr Research

Stock Research published by

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## Manjushree Technopack

### Packing growth in your portfolio

**STRONG BUY**

### A Microcap worthy of your attention

Manjushree Technopack has carved out its own niche in the PET bottling industry. It boasts of a marquee client list the likes of Coca Cola, Pepsico, Bisleri, P&G, GSK, Nestle, Cadbury and Unilever and has emerged as the supplier of choice. With two manufacturing units in Bangalore, installed capacity is 30,000 metric tones. Capacity utilisation is ~ 80% and we expect strong growth traction in 2010-11.

It commands industry beating margins and returns in the highly competitive plastics packaging industry.

### Growth Drivers

Although achieved on a small base, Manjushree Technopack has more than tripled its sales in last 5 years while earnings per share (EPS) has gone up 8x (on an adjusted basis) in the same period.

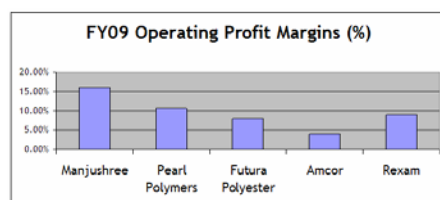
- Carbonated Soft Drinks beverages market is growing at 30% plus. Juices category is growing at a 50% CAGR, while newer categories of health drinks, lemonade such as Nimbooz are growing at a rapid pace. PET packaging with attractive designs and convenience of carrying is a contributing factor.
- Both Coke and Pepsi have announced huge investments for the Indian market. While Pepsi announced a Rs. 1000 Cr investment in FY09, Coke announced \$250 million investment for the Indian market in next 3 years. The beverage majors have installed 600 BPM (bottles per minute) up from 200 BPM machines at all major centers.
- PET Pre-forms - bring in enormous efficiencies in storage and transportation (1/5x fully blown shapes) and benefit both the packaging company and the beverage manufacturer. All major beverage manufacturers have installed Pre-form blowing machines at their bottling plants.

### Sources of Growth

- PET Pre-forms installed capacity stands at 22000 MT out of a total installed capacity of ~30000 MT. Pre-forms accounted for the bulk of capital expenditure in the last 2 years. Manjushree was early to spot this trend and has now emerged as the largest organised player in PET Pre-forms.
- Pre-forms segment is growing at over 30% CAGR per year. Packaged container business segment catering mainly to FMCG products is growing at a steady 15% CAGR.

Growing at over 30% CAGR, India has emerged as the fastest growing market for Pepsi & Coke

Fruit Juice category is growing at over 50% CAGR. Newer categories like lemonade (Nimbooz) have added to the fizz



Pepsi announced investments of Rs. 1000 Cr in 2009. Coke announced \$250 million investment spread over 3 years

Coke & Pepsi have installed 600 BPM (bottles per minute) machines at major centers, up from 200 BPM machines a year ago

- With a focus on quality and timely delivery, Manjushree has successfully leveraged on the strong customer relationships it enjoys with its marquee clients. Ramping up capacities at an aggressive pace and delivering on the growing demands in its 3rd year with Coke, it has emerged as its largest supplier.

### Quality of Growth

All this growth has been achieved judiciously. It has a healthy balance sheet, the best returns and margins in the business, beating even established global majors like Rexam, Plc and Amcor, Australia. Adequate liquidity and a good show on debtors and inventory management makes it compare very favourably with peers.

### **Manjushree Technopack**

Peer Comparison	Manjushree	Pearl	Futura	Amcor	Rexam
	FY09	FY09	FY09	FY09	FY09
Sales (Rs. Cr.)	105.75	153.72	378.88	41002.22	35558.60
Operating Margin (%)	16.20%	10.60%	7.95%	4.04%	8.86%
Net Margin (%)	7.08%	1.19%	-2.47%	2.71%	3.72%
Fixed Asset Turnover (x)	1.83	2.05	1.04	2.51	2.33
Total Assets Turnover (x)	1.19	1.42	0.90	1.13	0.64
Return on Assets (%)	8.43%	1.69%	-2.22%	3.06%	2.39%
Return on Equity (%)	12.60%	3.58%	-4.03%	8.59%	11.54%
Return on Capital Empl. (%)	14.27%	9.61%	2.96%	9.12%	9.95%
Financial Leverage (x)	1.49	2.12	1.82	2.80	4.83
Debt to Assets (x)	0.38	0.84	0.67	0.38	0.45
Debt to Equity (x)	0.49	1.12	0.82	0.69	1.59
Interest Coverage (x)	10.23	1.46	0.46	2.63	2.67
Current Ratio (x)	3.03	1.58	1.28	0.79	0.83
Quick Ratio (x)	1.52	1.18	0.56	0.45	0.52
Cash/Total Assets (%)	0.50%	6.69%	3.29%	2.23%	1.04%
Debtor days (#)	55	63	32	42	59
Inventory days (#)	71	51	591	44	71

Source: Company, ValuePickr Research

- Operating Profit Margin at 16% is a significant achievement in a very competitive industry as can be made out from the above chart. FY10 results show OPM has shot upto 19%.

### Sustainability of Competitive Advantage

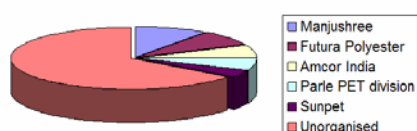
- ValuePickr finds that Manjushree can sustain/increase margins at these levels due to the product mix shifting in favour of Pre-forms. These are basically jobwork contracts with twin benefits. On one hand, raw material price volatility goes out of the way and they can focus on operational efficiencies under their control. On the other hand, raw material consumption as a percentage of sales keeps going down leading to increased margins.

## Beverages Market in India



Over 60% of Beverages market is concentrated in the South. Manjushree dominates this market

## PET Pre-forms market



Bulk requirements for PET Pre-forms (Beverages) can be met by only 4 players  
 Manjushree  
 Futura Polyesters  
 Amcor India  
 Parle (PET division)

## Manjushree Technopack

Growth Snapshot	FY 07	FY 08	FY 09
Sales (Rs. Cr.)	70.36	73.77	105.75
YoY Sales growth (%)	25.55%	4.85%	43.35%
3Yr. Sales growth (%)	30.64%	19.04%	24.58%
Long term Sales (%)			21.78%
PAT (Rs. Cr.)	2.82	4.40	7.49
Adjusted EPS (Rs.)	2.08	3.25	5.53
YoY EPS growth (%)	105.84%	56.03%	70.23%
3Yr. EPS growth (%)	47.48%	61.40%	77.37%
Long term EPS (%)			60.09%

Source: Company, ValuePickr Research

Bulk requirements for Containers (FMCG) can be met by only 2 players  
 Manjushree  
 Pearl Polymers

### Rising Market Share

With India emerging as the fastest growing market for Coke and Pepsi growing at over 30% CAGR, supply is nowhere near meeting demand - there is even room for more players. Increasing trends of urbanization, PET packaging convenience as carry-ins while on the move, and introduction of new categories such as juices, lemonade and health drinks make for very exciting times ahead.

- 60% of the Indian Beverages market is concentrated in the 4 southern states (Andhra, Karnataka, Tamilnadu & Kerala). Pearl Polymers is primarily a north India based player with factories in Gurgaon, Baddi, Pantnagar, Mahad and Bangalore. Futura Polyesters is based out of Chennai. Amcor's unlisted India subsidiary operates from Pune. The other significant player in the organised market Parle's PET division has plants in Silvassa and Orissa. Clients catering to the southern market depend on Manjushree, as freight costs become prohibitive. Currently Manjushree dominates this market.
- In the fastest growing Pre-forms segment, there are 4-5 organised players. Manjushree, Futura Polyesters, Amcor India subsidiary and Parle's PET division. Sunpet the other player is not present in the Carbonated Soft Drinks (CSD) segment but is strong in others. Pearl Polymers does not cater to the Pre-forms segment. Manjushree has emerged as the largest player in Pre-forms.
- For the Containers segment, there are 2 large players in the organised market - Manjushree and Pearl Polymers. Any major client with a requirement of more than 10 lakh units a month needs to come to either of the two.
- ValuePickr research on this sector points to significant entry barriers. It takes at least 1.5 to 2 years for the majors to evaluate a supplier's stability, products and sustained quality control measures. A 10 Cr investment in Husky machines (Pre-forms) may seem a small investment - but actually it's huge when compared with per unit cost of the product (a coke PET bottle, e.g.). It's not easy to get the volumes to justify that investment.

ValuePickr finds merit in Manjushree Management's confidence of growing at 30% CAGR for next 5 years.

### Management

- Founded in 1977 by technocrats, Manjushree started as a small umbrella manufacturing unit in Guwahati, Assam. In 1984 it forayed into manufacturing of Plastic Flexible packaging and came up with its IPO in 1995 to diversify into PET bottles manufacturing with a unit in Bangalore. Today it has two manufacturing units with over 300,000 sq. ft. in Bangalore, and employs some 550 people.
- Manjushree Technopack has sufficient management depth and expertise to grow organically over the next few years. Management is conservative, likes to grow in a stable, planned manner and committed to the goals it sets for itself. From its track record and past actions, comes off as high on ethics and corporate governance.

Salary & Perks	Pearl Polymers (Rs. Cr)	Futura Polyesters (Rs. Cr)	Manjushree Technopack (Rs. Cr)
MD & Chairman	0.43	0.11	0.15
Exec. Director	0.25	0.13	0.13
Sales (Rs Cr)	153.72	378.88	105.75
OPM (%)	10.60%	7.95%	16.20%
NPM (%)	1.19%	-2.47%	7.08%
RoE (%)	3.58%	-	12.60%

Source: Company, ValuePickr Research

#### Manjushree Technopack

Common size P&L statement	FY 07	FY 08	FY 09
Sales (%)	100.00%	100.00%	100.00%
Raw Material (%)	57.76%	54.30%	53.99%
COGS (%)	71.72%	68.34%	70.11%
Depreciation (%)	3.91%	4.55%	4.67%
Interest costs (%)	2.30%	2.70%	1.17%
Gross Margin (%)	28.28%	31.66%	29.89%
SG&A (%)	4.69%	11.75%	11.09%
Operating Margin (%)	12.35%	16.29%	16.20%

Source: Company, ValuePickr Research

#### Manjushree Technopack

Profitability Snapshot	FY 07	FY 08	FY 09
Operating Margin (%)	12.35%	16.29%	16.20%
Net Margin (%)	4.01%	5.96%	7.08%
Fixed Asset Turn (x)	3.42	2.33	1.83
Total Assets Turn (x)	2.29	1.10	1.19
Return on Assets (%)	9.16%	6.59%	8.43%
Fin. Leverage (x)	2.21	1.25	1.49
Return on Equity (%)	20.23%	8.22%	12.60%
RoCE (%)	19.37%	13.11%	14.27%
Debtor days (#)	49	70	55
Inventory days (#)	43	81	71

Oper CFlow (Rs. Cr.)	17.03	-6.71	8.76
Capex (Rs. Cr.)	8.68	14.46	31.22
Free CFlow (Rs. Cr.)	8.35	-21.17	-22.46
Free CFlow/Sales (%)	10.44%	-24.84%	-18.91%

Source: Company, ValuePickr Research

- Another indicator of the work ethos of Manjushree Management is apparent from the fact that it pays itself on a bare-bones basis. Managing Director & Executive Director take home a paycheck of between Rs. 13-15 lakhs a year. Contrasting this with its peers and the profitability they generate tells its own story.
- Manjushree has continuously focused on leading-edge technology, research & innovation. It has been the first to introduce new technology into the country - Multilayer containers, PP, Hot-Fill. Unlike others it has no retail presence and concentrates 100% on institutional sales. It has sought to do things differently in its industry.
- Promoter shareholding stands at 57 percent, with Corporates holding some 17 percent and others holding about 26 percent. No part of promoters' shareholding is pledged.

#### Investment Concerns

- Manjushree is a very small company operating in a highly competitive and fragmented industry. Execution risks will remain the biggest threat as Manjushree seeks to invest in business expansion and scale up to address the growing market.
- Significant Capital expenditure will need to be incurred in future. It remains to be seen how adept Manjushree proves in leveraging its balance sheet judiciously to meet such requirements. It must be noted that the track record so far has been good.
- Raw materials are dependent on petrochemical prices (in turn linked to crude)
- Entry of MNC players may pose challenges in the future
- Regulations & compliance concerns of regulatory bodies on plastics usage

#### Valuation

Manjushree Technopack is close to wresting overall market leadership position from Pearl Polymers. It touched Rs. 149 Cr in Net Sales for FY10, with Pearl Polymers still slightly ahead at Rs.171 Cr. Operating margins have improved to over 19% from 16% a year back.

We have seen earlier in the report Manjushree has the best returns and margins in the industry, a decent balance sheet, adequate liquidity, and good efficiency ratios. It has tripled its sales and EPS has gone up 8x in last 5 years. Management is confident of maintaining a steady 30% CAGR.

Valuation 31 May 2010	Current	Historical Average	Industry Median	Pearl Polymers	Futura Polyester
Price Close (Rs.)	44			16	7
Price to earnings TTM (x)	6.21			12.31	()
Price to earnings (x)	5.64	6.92	8.11	16.58	()
Price to sales (x)	0.40	0.38	0.44	0.22	0.10
Price to book value (x)	0.98	0.64	1.04	0.75	0.18
Dividend Yield (%)	2.71	3.89	0	0	0

Source: Company, ValuePickr Research

31 May 2010  
 Manjushree Technopack

Buy at CMP 44

Target Price - 2 year 123

Fair price of Rs. 123 with a 24-month horizon, on the basis of 9 times our FY12 estimates.

Valuation case stems from earnings CAGR of 32% for the period FY10-12 coupled with fair multiple assigned to a niche market leader.

We believe Manjushree Technopack is undervalued, by far. It has quietly grown into the dominant player in its niche and is the supplier of choice for bulk requirements in Beverages, FMCG and Pharma. Time for the broader market to sit up and take notice.

Projections	FY09	FY10E	FY11E	FY12E	FY13E
Sales (Rs. Cr.)	105.75	149.03	189.27	246.05	307.57
Operating Profit Margin (%)	16.20	19.13	19	19	18
Net Profit Margin (%)	7.08	7.09	7.5	7.5	7
Earnings per share (Rs.)	5.53	7.80	10.52	13.67	15.95
Asset Turnover (x)	1.19	1.5	1.7	1.4	1.6
Financial Leverage (x)	1.49	2.06	1.8	2.2	1.85
Return on Equity (%)	12.60	21.92	22.95	23.10	20.72
Price to Earnings (x)	7.96	5.64	4.18	3.22	2.76
Price to Sales (x)	0.56	0.40	0.31	0.24	0.19

Source: Company, ValuePickr Research

We arrive at a fair price of Rs. 123 for Manjushree Technopack with a 24-month time horizon, on the basis of 9 times our FY12 estimates. Time to accord it a fair valuation in line with peers and its market leadership position. Our valuation case stems from the earnings CAGR of 32% that the company is likely to post during the period FY10-12 coupled with fair multiple assigned to a market leader in its niche.

We believe the projected growth is achievable as existing capacity can meet growing demand and see the company through FY11. The financial health and past track record inspires confidence that raising debt to fund fresh capex in FY12 will not be difficult for the company.

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