

July 14, 2022

Industry: Specialty Chemicals

CMP: Rs.206

PICK OF THE MONTH

Plastiblends India Limited

TARGET PRICE: Rs.247

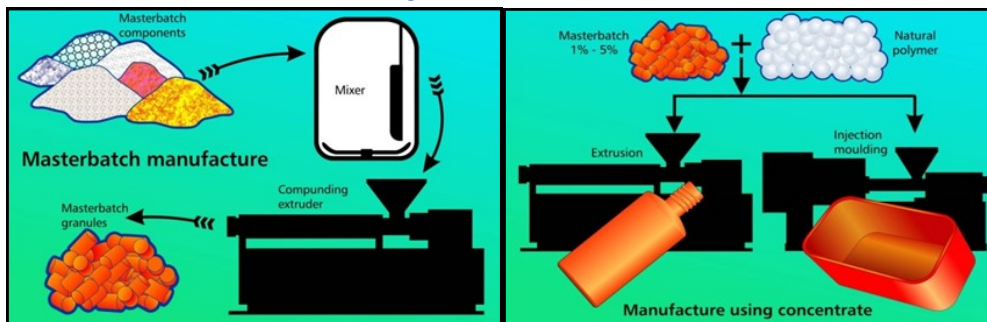
VOL-8, NO-11

BUY

TIME : 12 months

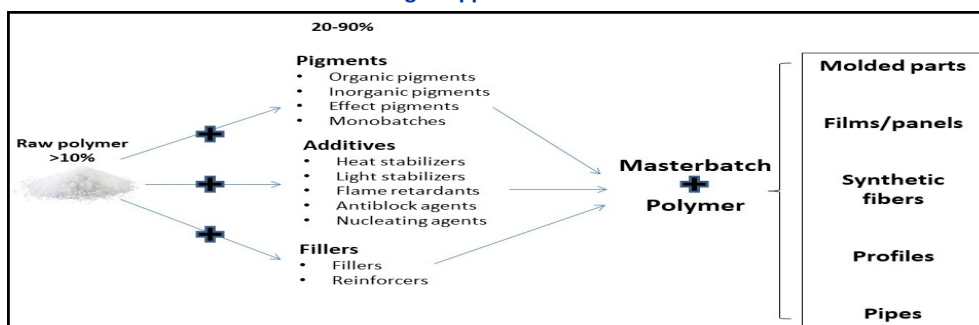
About the Industry: Masterbatch is a solid additive used for coloring plastics (color masterbatch) or imparting other properties to plastics (additive masterbatch). Masterbatch is a concentrated mixture of pigments and/or additives encapsulated during a heat process into a carrier resin which is then cooled and cut into a granular shape. Masterbatch allows the processor to colour raw polymer economically during the plastics process. The **global masterbatch** market size is estimated to be USD11.1bn in 2020 and projected to reach USD14.3bn by 2025, at a CAGR of 5.1% between 2020-2025. The **India masterbatch market** was valued at USD1.07bn in 2020 and is expected to reach USD2.22bn by 2027 at a CAGR of 11% during the forecast period on the back of growing demand from packaging and automotive industries in the country. The masterbatch industry is highly fragmented with the presence of a large number of small to medium-scale companies across the globe. The manufacturers are focusing on developing new technologies and enhancing their service portfolios to cater to the growing demand for masterbatches. Increasing penetration of masterbatch in industries such as packaging, agriculture, healthcare, aerospace, electronics, automotive, consumer goods, etc., is a major factor driving growth of India masterbatch market. Expanding manufacturing sector coupled with rising awareness associated with usage of environment friendly products is expected to augment demand through 2025E. Further, the expanding real estate sector has generated large demand for wiring and cable applications across commercial set ups and this is in turn fueling demand for masterbatch in India. Additionally, launch of various government schemes such as 'Smart City Plan' and 'Make in India' campaigns are boosting masterbatch production in the country. **Packaging industry** is anticipated to continue dominating the India masterbatch market, on account of increasing preference for flexible packaging. Use of biocompatible masterbatch for healthcare applications, nanoparticle based masterbatches is trending in the India masterbatches market. Launch of innovative high performance products and novel foam enhancement technology are the key developments in the Indian masterbatches market.

Exhibit 01: Masterbatch Manufacturing Process



Source: vibron.com.au/preparation-of-concentrates

Exhibit 02: Masterbatch Manufacturing & Applications



Source: hkc-mb.com/en/masterbatch/?ckattempt=1, Progressive Research

| SNAPSHOT | | | | |
|--|--------------|---------------|--------|--------|
| 52 week H / L | | Mcap (INR mn) | | |
| 306/177 | | 5,345 | | |
| Face value: 5 | | | | |
| BSE Code | | NSE CODE | | |
| 523648 | | PLASTIBLEN | | |
| Annual Performance | | | | |
| (Rs mn) | FY20 | FY21 | FY22 | FY23E |
| Total Revenue | 6,059 | 5,773 | 7,176 | 8,592 |
| EBITDA | 674 | 686 | 612 | 747 |
| EBITDA (%) | 11.1 | 11.9 | 8.5 | 8.7 |
| Other Income | 26 | 35 | 69 | 70 |
| Interest | 15 | 30 | 31 | 34 |
| Depreciation | 171 | 159 | 161 | 151 |
| PBT | 515 | 532 | 490 | 633 |
| PAT | 372 | 373 | 367 | 500 |
| Equity (Rs mn) | 130 | 130 | 130 | 130 |
| EPS (INR) | 14 | 14 | 14 | 19 |
| Quarterly Performance | | | | |
| Parameters (Rs mn) | Sept-21 | Dec-21 | Mar-22 | Jun-22 |
| Sales (Net) | 1,714 | 1,741 | 2,188 | 2,042 |
| EBITDA | 110 | 201 | 173 | 160 |
| EBITDA (%) | 6.4 | 11.5 | 7.9 | 7.8 |
| Other Income | 12 | 11 | 29 | 25 |
| Interest | 6 | 6 | 9 | 8 |
| Depreciation | 40 | 40 | 39 | 40 |
| PAT | 55 | 121 | 124 | 100 |
| Equity (Rs mn) | 130 | 130 | 130 | 130 |
| Ratio Analysis | | | | |
| Parameters (Rs mn) | FY20 | FY21 | FY22 | FY23E |
| EV/EBITDA (x) | 8.5 | 8.2 | 9.3 | 7.6 |
| EV/Net Sales (x) | 0.9 | 1.0 | 0.8 | 0.7 |
| M Cap/Sales (x) | 0.9 | 0.9 | 0.7 | 0.6 |
| M Cap/EBITDA (x) | 7.9 | 7.8 | 8.7 | 7.2 |
| Debt/Equity (x) | 0.22 | 0.14 | 0.13 | 0.13 |
| ROCE (%) | 16.6 | 16.4 | 13.2 | 14.9 |
| Price/Book Value (x) | 1.9 | 1.6 | 1.4 | 1.3 |
| P/E (x) (TTM) | 11.0 | 21.6 | 13.9 | 10.7 |
| Shareholding Pattern as on 30th June, 2022 | | | | |
| Parameters | No of Shares | | % | |
| Promoters | 1,66,07,990 | | 63.90 | |
| Institutions | 3,96,930 | | 1.53 | |
| Public | 89,84,280 | | 34.57 | |
| TOTAL | 2,59,89,200 | | 100 | |

Source: Annual Report, Progressive Research

Note: Data is calculated as on 13th July, 2022

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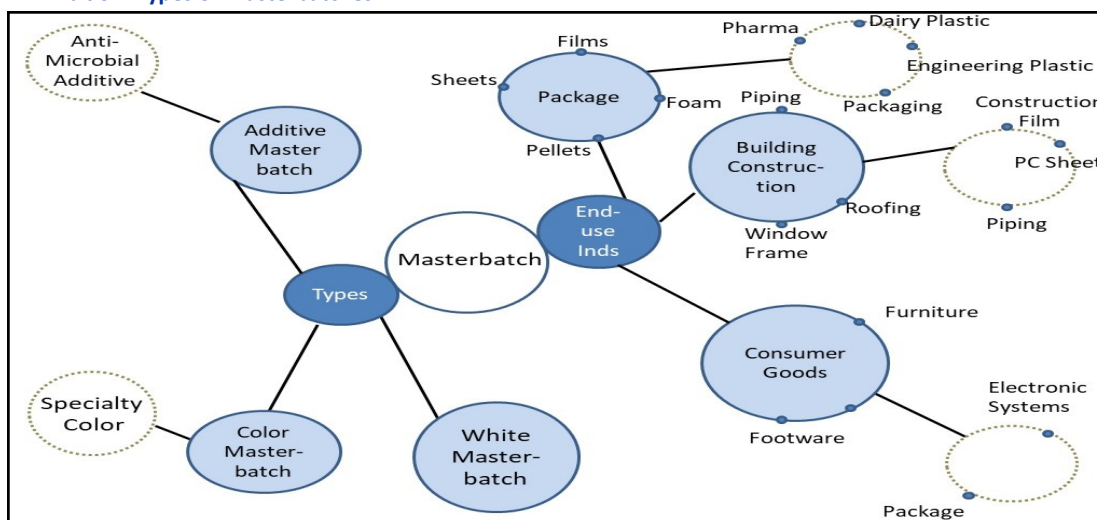
About the Industry (contd.): The raw materials for masterbatch production include pigments, carrier, dispersant and some additives. Amongst the product type, **white masterbatch** dominates the Indian market and will also continue further on account of its ability to provide opacity and base colour to plastic. White masterbatches are used to provide transparency and brightness to the final synthetic product and can be composed of ~75% titanium dioxide. They are being used extensively in food & beverage (F&B) and pharmaceutical industries. **Black masterbatch**, used as black pigments in various plastic applications, has ~50% black component in its composition. It is used for its UV protection, jets, conductivity, etc. The preference for this masterbatch comes from its high surface areas, which increase with the decrease in particle sizes. Black masterbatches are used in injection molding, blow molding, monofilaments and HDPE pipes. **Color masterbatch** is used in the production of plastics for automobiles, electronic appliances, flexible packaging for F&B and medicine packaging. Color masterbatch is used to colour the final plastic products along with light fastness and thermal stability. These are used in blow molding of bottles, injection molding household items and insulation of cables. **Additive masterbatch** is the fastest growing segment, with applications in customised plastic products in industries such as automotive, electronic appliances, textiles, pharmaceuticals packaging and F&B packaging. Additive masterbatch is used to improve the property of the polymer to offer better-finished products. Additive masterbatch is segmented into seven sub types, namely, antimicrobial, antioxidant, flame retardant, UV stabilizers, foaming agents, optical brightener and nucleating agent. Antimicrobial additive masterbatch restrains the growth of microorganisms and enhances freshness & hygiene in the plastic products. Antioxidant additive masterbatch prevents thermal degradation and oxidation at high temperature. It has a wide range of applications such as pipes, BOPP films, tapes, cables, geotextiles, injection & blow molded parts, and rotomolded tanks.

Exhibit 03: Bifurcation of MasterBatches

| Bifurcation Through Product/Polymer/End Use Types | |
|---|---|
| by Product Type | • White • Black • Color • Additive |
| by Polymer Type | • Polyethylene • Polypropylene • Others |
| by End Use Type | • Packaging • Building & Construction • Automotive • Others |

Source: Industry data, Progressive Research

Exhibit 04: Types of Masterbatches



Source: marketsandmarkets.com/Market-Reports/masterbatches-market-168014686.html, Progressive Research

Industrial Usage: Among the end-user industries; packaging accounts for the largest share of the masterbatch market. F&B manufacturers' increasing interest in enhancing packaging colours is also driving demand. Growing end user markets such as packaging, automobiles and healthcare are boosting the demand for masterbatches, as is increasing demand for plastics for construction and luxury goods packaging. The **packaging industry** is forecasted to remain the major end user for masterbatch in India. Increase in the trend of innovative and environmentally friendly packaging from F&B and pharmaceutical sectors is expected to drive sales of masterbatch for manufacturing packaging materials in India. **Automobile segment** is to gain growth owing to the manufacturing of lightweight vehicle and trending composite material fabrication. The increase in consumption of plastics in automotive applications will drive growth of the masterbatch market. Masterbatch, especially color and additive, is widely used in coloring automotive plastics for use in the interior and exterior components of vehicles. Hence, companies produce customized masterbatch for their vehicles. **Engineering plastics are widely used in the automotive application for various components such as steering wheel, airbags, seatbelts, bumpers, and dashboards.** The reduction in the weight of vehicles will increase the fuel efficiency of the vehicle. In addition, plastics offer better design, safety and environmental sustainability than those of metals. Automotive and airplane manufacturers utilize lightweight plastics such as Polypropylene and Polycarbonate for windows, hood and interior applications.

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About the Industry (contd.):

Industrial Usage (contd.):

Technological advancements in the plastic industry have positively influenced the development of masterbatches as well as engineering plastics, thereby modifying vehicle designs and replacing conventional metal parts such as fuel tanks. Automotive manufacturers are using plastic components to reduce production costs and vehicle weight, compelling polymer manufacturers to enhance their production capacities. LDPE (low density polyethylene) & LLDPE (linear low-density polyethylene) is estimated to have the second largest share in the global masterbatch market. The segment growth is accelerated by the low cost of production and the increased use of LDPE & LLDPE in various applications, such as packaging, consumer goods and medical & healthcare. LLDPE is characterized as low-density polymers with good tear strength, flexibility and resilience. LLDPE has an advantage over LDPE because its polymerization conditions are less energy-intensive and its properties can be altered by changing its chemical composition. As traditional plastics take years to degrade, masterbatches are used to enhance the degradation of plastic products while providing enticing color to the product. The key players in the market include Avient Corporation (US), LyondellBasell (US), Ampacet Corporation (US), Cabot Corporation (US), Plastika Kritis S.A. (Greece), Plastiblends India Ltd. (India), Hubron International (UK), Tosaf Group (Israel), and Penn Color, Inc. (US).

Challenge to Growth:

Masterbatch that is currently used in recycled plastics is harmful to the environment, as they are mixed with certain additives such as stabilizers, flame retardants and coloring agents. Recycled plastics are non-biodegradable, imposing a challenge on the manufacturers of plastic products. Moreover, there are certain regulations related to the use of plastics. For instance, Europe has already imposed a ban on single-use of plastics due to wastes and pollution occurring due to plastic recycling. This will impact the use of plastics in high growth applications such as packaging.

Exhibit 05: Masterbatches v/s Pigments

| Masterbatches | Pigments |
|---|--|
| Masterbatches are more advanced. They are encapsulated by a polymer and feature specific concentrations of additives and pigments | Pigments are solid and dry coloring substances. They are usually suspended in a liquid solution to create dyes, ink and paint |
| They are easy to store, move and manipulate as they come in pellet form | They are difficult to manage because they are in powdered form |
| There exists no contamination risk | There is a high risk of pigments becoming airborne during the manufacturing process which can contaminate adjacent manufacturing lines |
| They are engineered and designed for optimal dispersion in a polymer matrix and imparts excellent color distribution to the final product | Pigments do not disperse well on its own |
| It is easy to match the binding agent used within the masterbatch for a better melting process | The binding feasibility is lower in the case of pigments |
| The amount of pigment housed in a masterbatch is less | The amount of pigment required for a product increases when they are in their raw and powdered form |
| They offers excellent color consistency to the products | They offers lower color consistency to the products |

Source: plastivision.org/blog/10-practical-reasons-to-choose-masterbatch-over-raw-pigment/, Progressive Research

About the Company:

Plastiblends India Limited (Plastiblends) is one of India's leading manufacturers of colour & additive masterbatches and thermoplastic compounds for the plastic processing industry. Being market leader in organized market company enjoys strong position to cater its clients with number of product it has in its portfolio. Plastiblends is a part of Kolsite Group of Companies (been in business for more than 60 years) and was formed in 1991 by members of the Kabra family. The masterbatches are marketed under the trade names Polyclear, Polynuc, Polyultra, Antimicrobial, Polyrodent, PolyFR, and Anti-fibrillation. Headquartered in Mumbai, the company has world class manufacturing, product development and application facilities located in Daman. It has two more manufacturing units in Roorkee, Uttarakhand and Palsana in Surat-Gujarat with an annual manufacturing capacity of more than 1,20,000MT per annum commanding a substantial share of the organized segment. It is the first masterbatch company with the status of an Export House by Government of India. The company produces masterbatches for Polyolefin's including BOPP, PET, PBT, ABS, HIPS, EVA. It exports to more than 40 countries with strong presence in European, African, South American & Asian markets. The company has in-house R&D facility registered with the Department of Scientific and Industrial Research. Shri. Satyanarayan G. Kabra is the Chairman & Managing Director of the company.

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Investment Rationale:
(A) Scope Through Plastics:

Plastiblends is optimistic about the future growth considering that per capita consumption of plastic products in India is quite low at 11kg as compared to global average of 30kg. Plastics industry market size is expected to grow at a CAGR of 8-10% until 2025. Global plastic industry is expected to grow at a CAGR of 3.4% till 2028. The Indian chemical and petrochemical industry, (of which plastics is a part), is expected to attract investment worth Rs8lk-cr by 2022 (FICCI). The packaging industry is the biggest consumer of various kinds of plastics constituting almost ~59% of total usage, building and constructing consuming around ~13% followed by agriculture with around ~9% and then by household and automotive consuming around ~7% each. The plastic packaging market size is expected to grow at a CAGR between 3-4% and is expected to cross USD325bn by 2027E. Global e-commerce plastic packaging market is expected to reach USD28.6bn by 2027E, growing at a CAGR of 14.6%. Indian plastic consumption which is one-tenth of what is consumed by per person in developed countries, has huge potential for growth. Various government initiatives like *Atmanirbhar Bharat*, *Make in India*, *Pradhan Mantri Krishi Sinchayee Yojana*, *Smart City Project*, establishment of Plastic Parks, production linked incentives (PLI) are expected to further boost demand in plastics industry. The plastic packaging industry is the major user of masterbatches, accounting for 50-60% of total production, followed by plastic products. With an increase in disposable income and more nuclear families, the spending on processed food is likely to grow at a healthy pace. Also, increased growth in organised retailing is driving the demand for packaged food. This will lead to higher demand for plastic packaging and eventually translate into higher demand for masterbatches, leading to higher growth for Plastiblends.

(B) Robust Operations:

(i) **Strong Market Position:** Plastiblends is amongst the largest manufacturers of masterbatches in India, accounting for ~10-12% of the organised domestic industry. The company's units manufacture a diverse product portfolio catering to domestic as well as overseas markets. It has a strong network of over 100 dealers in India and abroad. Although the company's products are in the nature of commodities, it has maintained a better operating margin which is better than its peers owing to its strong market position and the ability to develop value-added/customised products.

(ii) **Diverse Product Portfolio:** Plastiblends has a strong and diverse product portfolio which includes white, black as well as colour and additive masterbatches (which not only to provide colour to plastic but also provide additional properties such as strength and making the surface smoother). The company also provides anti-fibrillation masterbatches used in the woven sack industry, which has seen healthy growth in the past few years. Given the domain expertise of its promoters in chemical combinations and a customer-focused approach; the company has steadily innovated and widened its product base. The company has a strong client base including well-known names such as JBF Industries Ltd, Rachana Polymers Pvt. Ltd, Radha Madhav Corporation, Welpack Industries Ltd, Bombay Dyeing, Chem-I-Plast Pty Ltd etc. The strong relationship with its clients enables Plastiblends to get repeat business backed by superior quality and variety of products. Also, the client base is high and there is low dependency on few customers.

(iii) **The Key Industry- Plastics:** Polymer is the major raw material required to manufacture plastic and its prices are directly co-related with international crude prices. The company's raw material cost is ~72.3% as a % of the total sales. Hence, lower crude prices would favour the improvement in margins. Masterbatches are one of the vital components of the plastics industry worldwide, which consists of pigments and additives used for imparting required color and characteristics to the end products. It is a concentrated mixture of pigments and additives encapsulated during a heat process into a carrier resin, which is then cooled and cut into a granular shape. It imparts various properties like ultraviolet light resistance, flame retardation, anti-fouling, anti-static, lubrication, anti-slip, anti-microbial, anti-oxidant etc. to end products. Use of masterbatches in production process offers many benefits like cost-effectiveness, easy to use, helps achieve the desired color and ensures a dirt-free production environment. The company is a leader in manufacturing of masterbatches and has presence in practically all segments of Masterbatch i.e. White, Black, Colour, Additive, Polywhite (filler) unlike most of other competitors who are not present in all segments.

(iv) **Preferred Vendor:** Plastiblends has been rewarded as a DCA for polymer (polyethenes/polypropylenes) supplies to **HPCL-Mittal Energy Limited (HMEI)**. The company undertakes production of petroleum and petrochemical products. It went through capacity expansions and business contribution is anticipated to start by H2FY23 primarily in the form of commissions for selling the polymers.

(C) New Venture and Focus:

The company has last year ventured into engineering plastic extending innovation for value-adds and new product addition. This is under the brand name **Engitech**. There is a series of products offered across different molecules like Polyamide-66/Polyamide-6/PP compounds/ABS compounds/Polyester/PBT/PET etc. Each of the compounds has their salient feature which is imparted to the masterbatch as per requirements. The company is pretty optimistic of this segment which currently is less than a percent contribution to the revenues, but with the increasing demand for the properties of the varied offerings it should gradually become a significant contributor to revenues.

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Investment Rationale (contd.):
Exhibit 06: The Range of Engitech Products

| Series | Compound | Applications | Properties |
|-------------------|---|---|--|
| ENGITECH A SERIES | PA 66 compounds | provide a broad range of solutions for industrial and automotive applications | high heat resistance, high strength and stiffness, chemical resistance, wear resistance, shock resistance and lubricity |
| ENGITECH B SERIES | PA 6 compounds | formulated individually to obtain balance by mixing appropriate additives to the backbone of PA without sacrificing the flow characteristic and the properties required for final application | heat resistance to stiffness required |
| ENGITECH C SERIES | Polyester Compounds, PBT, PET and Alloy | suited in automotive industry and electrical and electronic sector | high strength and rigidity with excellent processing characteristics |
| ENGITECH D SERIES | ABS Compounds | used in both industrial as well as household appliances | combining strength, lightness and aesthetics |
| ENGITECH E SERIES | PC ABS Compounds | items that require high heat distortion temperature (HDT) and excellent toughness at low temperature. Special grades for specific applications such as surface finishing by electroplating and metallisation. Has properties suitable for appliances, automotive, electrical, consumer products, medical, electronics, IT | flame-retardant, reinforced and non-reinforced grades |
| ENGITECH F SERIES | PP Compounds | automotive exterior (bumper), interior components and non automotive industrial and house hold appliances | Ultra Stiff and high modulus, tough & high impact, Hi-flow, enhancing molding cycle time, Low shrinkage and warpage, Scratch, light and thermal resistance |

Source: Plastiblends India website, Progressive Research

(D) Other Growth Sectors: There is increasing demand for lightweight, durable and environment friendly materials by end user industries like packaging, construction, agriculture, automotive etc. and Plastiblends has already been catering to these.

(i) Agriculture: The agriculture industry is a major consumer of plastic with a diverse array of applications covering the entire value chain from soil conditioning to packaging of foodstuffs. Plastiblends has a variety of products catering to this industry like anti-fog masterbatches, polycolor masterbatches, polyultra stabilizers and quenchers, anti-oxidant masterbatches & polymer processing aids. Hence, the company is poised for strong growth due to contribution from the agriculture sector.

(ii) Automotive Sector: Plastic materials are an essential requirement for the automotive industry, on the exterior of vehicle, components such as bumper fascia's, claddings, rocker panels, body side while in the interior of vehicle, plastic parts such as door trim, instrument panels, seat belts, consoles, armrests, grip handles, seat backs, public transport seats, dashboards, upholstery and knee bolsters are required. Polymers are used to enhance design flexibility, streamline manufacturing processes, and improve fuel efficiency, safety and durability. Whether one needs to improve the functionality of the car's exterior components, enhance fuel economy, or add a luxurious feel to the interiors, there is a range of products available that will provide optimal-performance in the form of masterbatches and conductive compounds. Continuous developments in this industry to enhance light stability and surface appearance will have a positive influence on the masterbatch market share in the automotive sector. The company has a variety of products to deal with the demand of this industry like anti-microbial masterbatches, anti-static masterbatches, flame retardants masterbatches etc. It excels in all the technical and quality standards required for the Auto industry. Thereby, Plastiblends has a balanced portfolio of products with all regulatory requirements/standards in place to post stable growth in sales for next few years.

(iii) Electronic & Telecommunication: Plastiblends is a leading supplier of specialized polymer materials with expertise in thermoplastic compounds and performance additives. Electrical devices like TV sets, computer, home appliances and many other electronic devices consist of many plastic components that need masterbatches to achieve the right functionality. Growing internet penetration and considerable investments in the consumer electronics are the major factors propelling the market growth.

(iv) Pipes and Fittings: Global pipes and fittings market is expected to grow at a CAGR of 7% to USD20.47bn by 2027E propelled by increasing infrastructure growth and growing demand of plastic pipes in replacement of traditional metal pipes. Plastic pipe extrusion accounts for the largest volume of plastic used in the building and construction industry.

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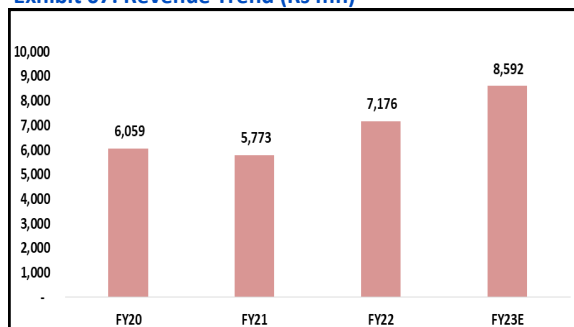
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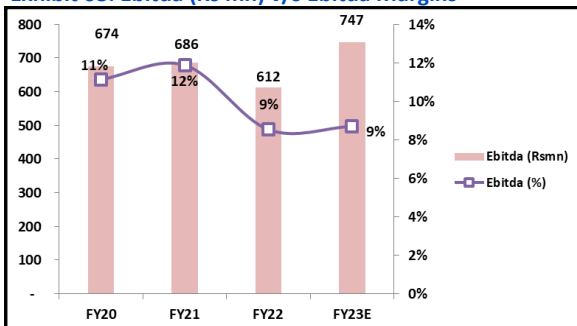
Financials: The company has been range bound in terms of the revenues in the peak Covid years followed by a comeback in FY22, clocking growth of 24.3% y-o-y. Increased utilization and shift of focus towards **value-added products** should lead to better realizations going ahead. The operating margins have also been maintained despite the volatility across the raw material/input, the key impact of which is reported in FY22 margins (8.5% reported due to lower gross margins). These are expected to slowly get back to normalcy with softening of crude and other raw material costs. The company has indicated of **no major capex** going forward as the capacities are enough for meeting the requirements over the next 2-3 years. Even if any capex is done that will be through the internal accruals. The financial risk profile remains strong, backed by **low debt level and healthy network**. Prudent debt management and stable operational performance are expected to support the financial risk profile over the medium term. As the overall debt is negligible for the company; it intends to become **debt free by FY23E** coupled with healthy and good cash flows ahead.

Exhibit 07: Revenue Trend (Rs mn)



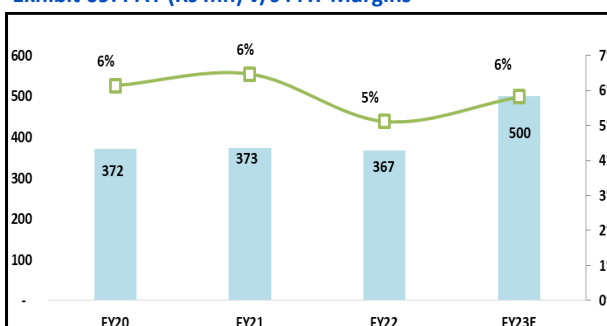
Source: Plastiblends India AR, Progressive Research

Exhibit 08: Ebitda (Rs mn) v/s Ebitda Margins



Source: Plastiblends India AR, Progressive Research

Exhibit 09: PAT (Rs mn) v/s PAT Margins



Source: Plastiblends India AR, Progressive Research

In **Q1FY23**, the company has reported decent growth on the topline, being the highest ever Q1 revenues in the history of performance. The growth momentum has continued in the last few quarters despite the macro challenges. The company has indicated of volume growth in the domestic business despite the inflationary pressure. But, the Ebitda margins are impacted due to lower gross margins. The profits have clocked growth of 47.9% y-o-y. Last year, the company ventured into **Engineering Plastics Compounds** and has developed various grades for vivid applications in automobile, electrical & electronics, furniture industry etc. Approvals from several OEM and tier-1 manufacturers have been received and many are under process. The current macroeconomic headwinds world-wide, if continued for a longer period may cause near term disturbance. However, once the overhang of pandemic and geopolitical issues settle, the company is well geared to tap the growth curve. The Make In India and *Atmanirbhar Bharat* initiative supported by PLI will help several sectors to grow substantially to whom Plastiblends is serving.

Exhibit 10: Quarterly Performance

| Quarterly Result (Rs mn) | Jun-22 | Jun-21 | y-o-y | Mar-22 | q-o-q | FY22 | FY21 | y-o-y |
|--------------------------|--------|--------|---------|--------|---------|------|------|---------|
| Total Income | 2042 | 1533 | 33.3% | 2188 | (6.7%) | 7176 | 5773 | 24.3% |
| EBITDA | 160 | 128 | 25.0% | 173 | (8.0%) | 612 | 686 | (10.7%) |
| Other Income | 25 | 18 | 42.0% | 29 | (13.3%) | 69 | 35 | 97.6% |
| Interest | 8 | 10 | (20.1%) | 9 | (6.8%) | 31 | 30 | 2.7% |
| Depreciation | 40 | 42 | (3.3%) | 39 | 3.3% | 161 | 159 | 1.4% |
| Exceptional Item | 0 | 0 | - | 0 | - | 0 | 0 | - |
| Tax | 36 | 26 | 40.2% | 31 | 18.0% | 123 | 158 | (22.5%) |
| Net Profit | 100 | 67 | 47.9% | 124 | (19.3%) | 367 | 373 | (1.7%) |

Source: Plastiblends India AR, Progressive Research

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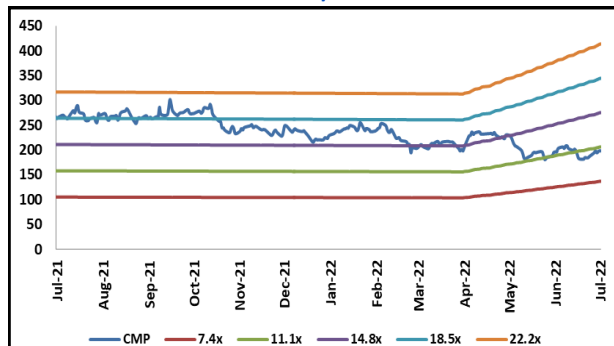
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Risk and Concerns:

The major raw materials used in manufacturing masterbatches are polymers, titanium dioxide and calcium carbonate. Polymers (which act as a medium through which colour pigments are administered) constitute around 50% of the total manufacturing cost are derivatives of crude oil which invites volatility. The polymer market is dominated by large players such as Reliance, IOC and ONGC who have the power to pass on an increase in crude oil prices to their customers; on the other hand, players like Plastiblends have **zero bargaining power with suppliers** and do not have the capacity to pass on increased costs to their clients given the high degree of competition in the masterbatches industry. This exposes them to the risk of **volatility in polymer prices** and constrains their margins, thereby impacting profitability. There is a **strong negative correlation** between crude oil prices and Plastiblends' margins which is pretty evident through the Ebitda margin profile of the company. The masterbatch industry in India is characterised by the presence of a large, unorganised sector, accounting for almost 50% of the market share. This, coupled with the commoditised nature of the product, results in **intense competition in the industry**, limiting product differentiation and pricing power for Plastiblends. The masterbatches industry is **highly competitive** due to low entry barriers as the industry is less capital intensive and there is no major technology involved leading to entry of many players in the industry. Although there are organised players who offer superior quality products, a large number of players cater to local customers. Given the competitive landscape of the industry, the bargaining power of players with clients is low thereby resulting in **vulnerability to fluctuation in raw material prices**. The plastic processing industry faces a **regulatory risk** in case of environmental issues relating to the disposal of plastics. India has implemented ban on the manufacturing, import, stocking, distribution, sale and use of identified single-use plastic items, which have low utility and high littering potential, all across the country from July 1, 2022. *Single-use plastic is those items that are used only once and discarded. Ear buds with plastic sticks, plastic sticks for balloons, plastic flags, candy sticks, ice-cream sticks, polystyrene (Thermocol) for decoration, plastic plates, plastic cups, plastic glasses, plastic cutlery such as forks, spoons, knives, straw, trays, wrapping or packing films around sweet boxes, invitation cards, cigarette packets, plastic or PVC banners less than 100 micron, stirrers etc.* This could have some business risk for Plastiblends however, limited exposure to the same.

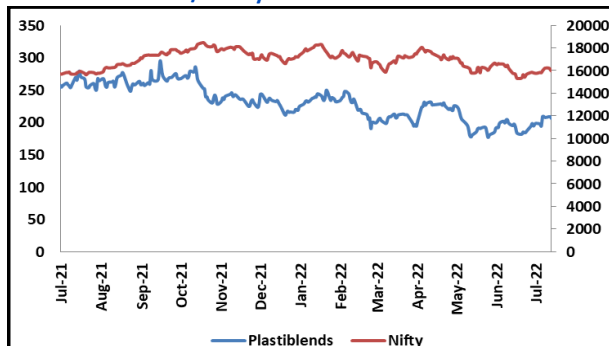
Outlook and Recommendations: Plastiblends is one of the key domestic players commanding a strong positioning in the masterbatches industry which enables the company to enjoy **higher economies of scale**. Also, while there is tremendous competition from small unorganised players, the larger players have an edge in terms of better offerings to the end-users. The company has been in the process of continuous enhancement of the product offerings coupled with a strong expanding client base with focus on delivering superior products. This allows Plastiblends to have a relatively better **bargaining power** to increase its realisations compared to its peers. The growth prospects through the end-user industries should drive the overall demand for masterbatches driven by the increase in disposable income via the plastic packaging industry or the food processing industry. It is not easy for the company to pass on the increase in costs of polymers to their clients and thus the company has started looking at value added products in the same category. Addition of value added products and maintaining the recall helps mitigate the above risk which is one of the objectives of the company. Despite the manufacturing process being less capital and technology intensive, many unorganised players are attracted to this segment where Plastiblends is able to fetch repetitive orders owing to its strong relationship with its clients. Overall, although the risk of any kind of ban on the plastic industry would hamper the prospects of the company; the product range that the company caters does have **some level of insulation** due to the demand and requirements. Plastiblends has been looking for avenues for segmental diversification but plastic still holds the major share. **Engineering plastic** is the key focus area for the company with strong developing prospects. Considering the growth plans and overall business outlook going forward, we are positive on the working of the company and thereby initiate Buy on the stock for a target of Rs247 over a 12 months horizon.

Exhibit 11: One Year Forward P/E



Source: Ace Equity, Progressive Research

Exhibit 12: Price v/s Nifty



Source: Ace Equity, Progressive Research

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