

Company Details:

Ticker	COSMOFIRST
Exchange	NSE & BSE
Industry	Flexible Packaging
Current Price	Rs 758
Upside Potential	90%
Valuation	Attractive
Expected EBITDA Growth	Nearly 11% (5 yr CAGR)
CareEdge ESG Score	Good

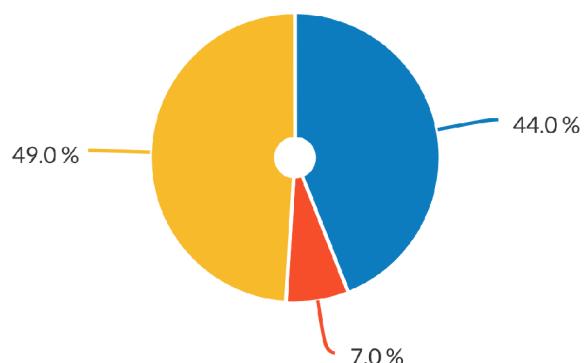
Company Description:

Formed in 1981, Cosmo First Limited, formerly known as Cosmo Films, has emerged as one of the in-demand global brands. Offerings of the company include biaxially oriented polypropylene (BOPP) films, cast polypropylene (CPP) films, biaxially oriented polyethylene terephthalate (BOPET) films.

Shareholding Pattern:

(as of June 30, 2022)

● Promoter ● Institutional ● Non Institutional



Leadership Position

Cosmo First is global leader in some speciality segments:

- world's largest producer of thermal lamination films.
- globally second largest player in specialty label films.
- world's largest supplier of Industrial Application Films.

The company is foraying into several new speciality products.



Capacity Expansion

To tap opportunities of the CAGR of double-digit growth expected during 2022-2027 in the Indian flexible packaging industry, the company targets a 70% capacity increase over the next three years in phases.



Capital Expenditure

A planned Capex of Rs 940 crores in Cosmo Films segment over the next few years is expected to result in an operating EBITDA of about Rs 1,000 crores annually.

Company Highlights



Historically, the company recorded strong profits, steady sales, consistently reduced debt, with a robust cash position. The trend is expected to continue riding on management's outlook and the company's growth prospects.



Cosmo First could be close to net debt free position after three years.



Cosmo Speciality Chemicals will generate sales worth Rs 200 crore for FY 2023. Also, the top line between Rs 500 crore to Rs 600 crore is forecasted in the next four years.



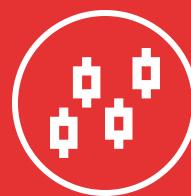
The company reported one of the finest ROCE ratio across the industry over the past three years. The trend is expected to continue.



ESG and Sustainability Initiatives involve an initial investment of Rs 10 crore.



Zigly, the pet care segment, to reap the benefits of the expanding industry size. Interestingly, the company plans to have 15 stores by the end of March 2023 and expand to 150 stores in the next four years. It targets Rs 250-300 crores from Zigly in FY27.



The stock is hovering near its 52-week low favoring investors with a "buy the dip" strategy.



The company's sound dividend policy makes it an attractive investment.

Management Outlook for Segments:



(four-decade-old global business organization founded by Ashok Jaipuria)

The Indian flexible packaging industry is likely to record a CAGR of double-digit growth during 2022-2027.



To tap those opportunities, the company targets a 70% capacity increase over the next three years in phases. Planned Capex on Rs 940 crores. EBITDA was close to Rs 600 crore for FY22, post-expansion could rise to over Rs 1,000 crore annually.



Masterbatch and textile chemicals went into production in FY22, while adhesive is expected to be launched in the second half of FY23. The company expects this to be a margin accretive exercise.

The company expects this newly minted segment to generate sales worth Rs 200 crore for FY23. This business could touch a top line between Rs 500 crore to Rs 600 crore in the next four years period. Expects Rs 50 crore capex in the next three years.



The pet care market in India is booming with the industry size expected to touch Rs 15000 crore from Rs 5100 crore in 2020.

Launched six stores across India. Plans to expand to 150 stores in the next four years. Expects capex of Rs 100 crores and annual sales up to Rs 300 crore from Zigly by FY27.

The company plans to eventually demerge the unit by roping in a PE player. Potential listing of the unit is also on cards within next two years. Based on past deals in the segment, valuations could be at 8x of annual revenue. We see a value of above Rs 2000 crores in the event of divestment.

Particulars	Mar'21	Mar'22	Mar'23E	Mar'24E	Mar'25E	Mar'26E	Mar'27E
Sales revenue	2,285	3,038	3,387	3,880	4,364	5,119	5,457
Gross Margin	30.5%	30.7%	28.3%	28.1%	28.0%	27.7%	27.5%
EBIDTA	430	620	590	693	809	987	1,057
Operating Margin	18.8%	20.4%	17.4%	17.9%	18.5%	19.3%	19.4%
EBIT	370	556	517	611	720	881	951
PAT	237	400	358	424	506	618	673
Net Profit Margin	10%	13%	11%	11%	12%	12%	12%
ROCE	22%	28%	22%	22%	21%	23%	21%
Cash Balances	322	507	680	783	1,128	1,643	2,214
Net Debt	438	303	247	72	Debt Free	Debt Free	Debt Free

Sales are expected to grow fueled by planned capacity expansion with volumes expected to nearly double in the financial year 2027 from last year.

Gross margin is expected to fall slightly as raw material costs rises. However, a shift from commodity to specialty will mitigate this impact. Contribution per kg from commodity film is Rs 25, while that from speciality is over Rs 60.

EBITDA to rise in tandem with higher sales

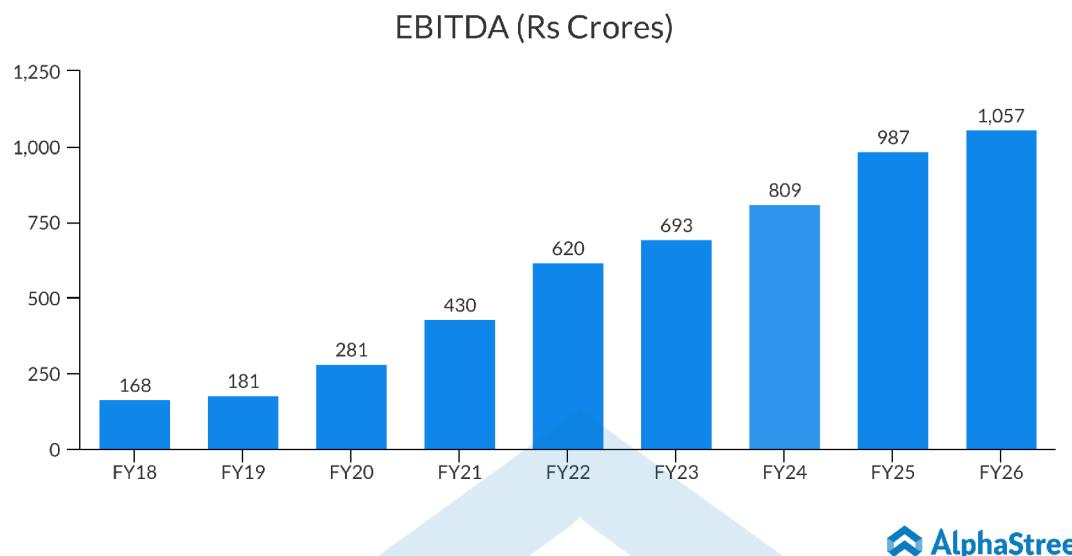
Better fixed cost efficiencies to aid operating margin

ROCE remains stable and healthy at over 20% mark. The slight fall is owing to excess cash generated from operations being recognized as retained earnings, thereby boosting shareholders' equity.

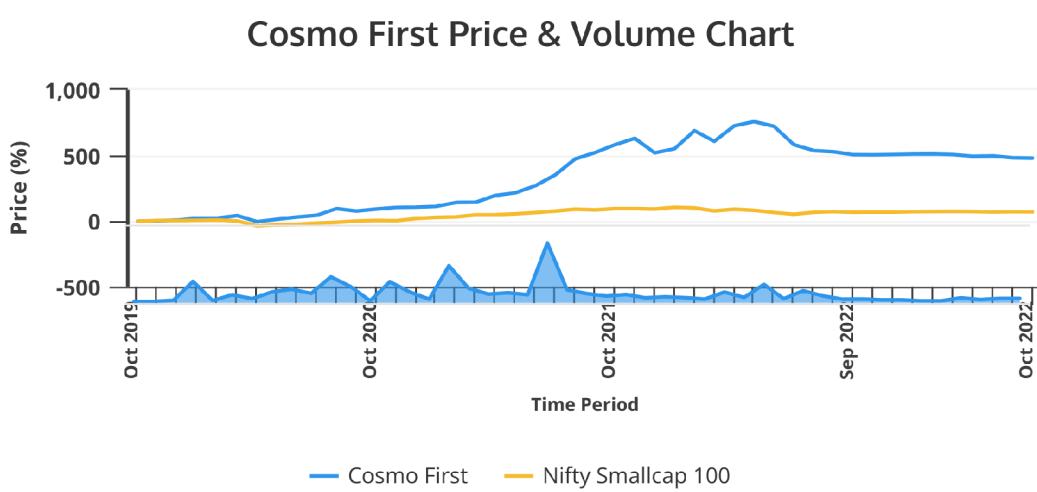
The company is expected to be close to net debt-free position after three years.

What is Behind Cosmo First's Attractive Valuation?

Forecasted EBITDA Growth: Post planned expansion of BOPET line (already commissioned), CPP line (March 2024) and BOPP line (March 2025), operating profit will cross Rs 1,000 crore annually.



Outperformance Vs Nifty Smallcap 100: Cosmo First recorded a three-year return of nearly 465% as compared to the Nifty Smallcap 100 return of 73%.



Company vs peers: The company competes with Jindal Poly Films, Uflex and Polyplex in the Indian packaging industry. As compared to its larger peers, it has a smaller market capital of Rs 2,082 crore. However, Cosmo First has a strong dividend yield of nearly 3.1%, and is well-positioned to continue its growth in the future.

Peer Comparison

Company Name	Market Cap (Rs Cr)	TTM P/E	P/B	Dividend yield (%)
Cosmo First	2,082	5.15	1.91	3.07
Jindal Poly Films	3,690	2.88	0.98	0.59
Uflex Ltd	5,203	21.63	1.94	0.46
Polyplex Corp	5,481	9.30	7.48	3.27

Source: BSE data

Rising Appetite For ESG Investments Globally: Investors are paying nearly a record premium for shares of companies with the best ESG scores over the ones with the worst ratings.

The appetite for ESG data will only increase from here. It is a global phenomenon. It is now also required for regulatory reporting, including SFDR, EU Taxonomy, UK Taxonomy, TCFD and MiFID II. The market has immense potential.

The entity Cosmo Foundation was formed in 2008 as the philanthropic arm of Cosmo First to start the company's CSR initiatives. Through this firm, Cosmo First aims to strengthen mainstream education in rural areas with skill-based courses, running environmental programs, and eliminating local & social issues through awareness programs.

Cosmo First enjoys a "GOOD" EGS score from CareEdge Research. "CFL's ESG performance is primarily driven by moderately strong performance on social and governance parameters exhibiting strong framework of policies along with compliance with key regulatory requirements."

Cosmo First has planned Rs 10 crore initial investment to reduce environmental impact by putting its focus on reducing greenhouse gas emissions, green energy at plants, waste reduction, water treatment, and other green initiatives.



Environment

*Rs 5+ crores capital investment to reduce environment impact.

*Already entered into agreements that almost two-third of its power consumption in India will be from renewable sources.

*First company in the flexible packaging industry to do so.



Social

*The company is investing actively into CSR activities.

*Sponsor more than 50,000 students education and their midday meal.

*working on improving gender diversity in the workforce.



Governance

*67% independent directors.

*initiated non-financial disclosures.

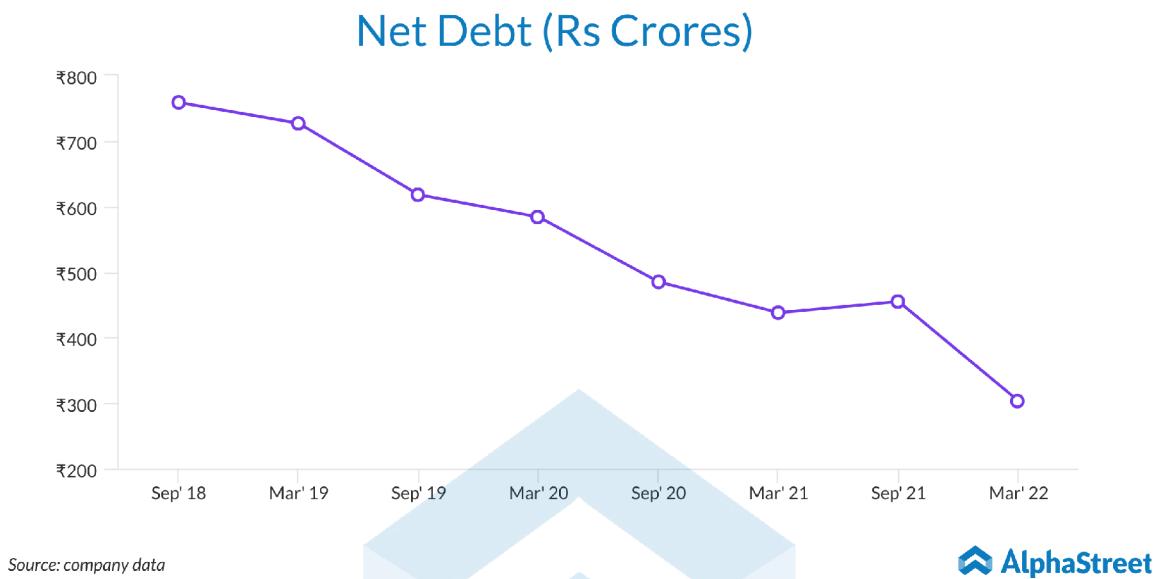
*whistle blower mechanism in place.

*adheres to the best practices in relation to corporate governance.

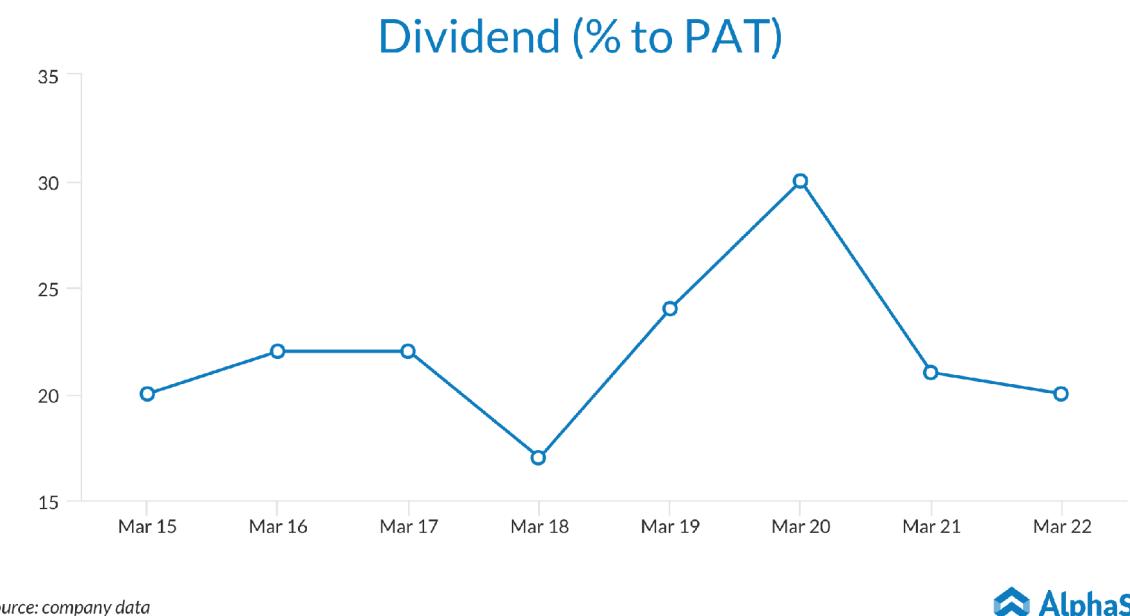
Could Be Debt-Free In Few Years: Cosmo First's overall debt should remain range bound and is not expected to increase significantly over the next 2-3 years.

In fact, the company could be close to net debt free position after three years. It expects to fund Capex with cash flows. Cosmo First has a strong cash position with Rs 507 crores of cash and cash equivalents including liquid investments. It generated EBITDA of around Rs 600 crores last FY, while interest costs, tax and dividends stood at around Rs 40 crores, Rs 100 crores and Rs 60 crores, respectively. It will have more cash in hand as the EBITDA rises towards the targeted Rs 1000 crores.

The net debt-equity ratio remains at a lower level of less than 0.5 times. These metrics indicate a sound liquidity position of the company.



Attractive Dividend Policy: Over the last five years, the company has increased its dividend per share from Rs 6 to Rs 35 in FY22. Such efforts reflect the company's commitment to return value to its shareholders, along with its robust cash generation capabilities. Also, with a low-debt level, capital-deployment activities seem sustainable for the long term.



Planned Capital Expenditure To Fuel Growth: Plans capex of Rs 940 crores in Cosmo Films segment to generate EBIDTA of about Rs 1,000 crores by FY26. Around Rs 200 crores has already been spent by March 2022. So, the remaining Rs 740 crores is expected to be spent over the next three years.

In the pet care segment, the company plans to invest about Rs 100 crores in the next four years to open around 150 stores across the country.

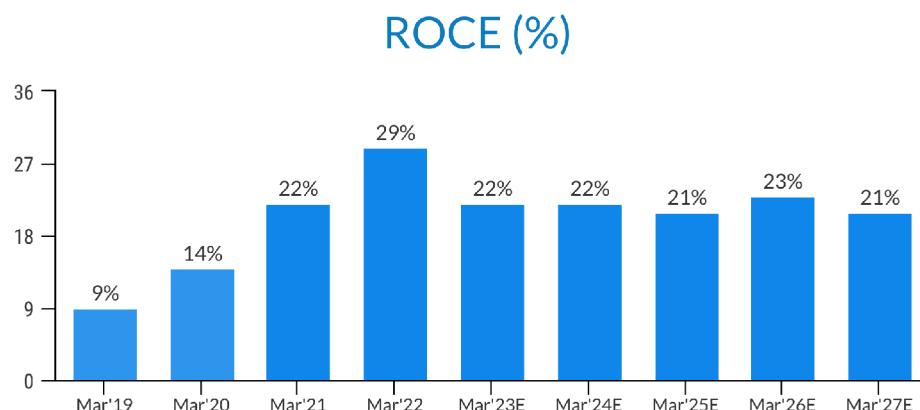
In the specialty chemical, the asset turnover is 6 to 7 times. So, the company plans a capex of up to Rs 100 crores. Out of this, Rs 50 crores is already done.

Planned Capex - Rs 940 Crores

Capex Project	Estimated Capex (Rs Crs)	Estimated Commercial Production
Specialised BOPET Line with Value add assets	450	2H23
BOPP Line	350	1H26
CPP Films Line	140	FY25

Source: company data

Strong Financials: Cosmo First has strong financials with double-digit Return on Capital Employed (ROCE) reported over last three years. As of March 31, 2022, ROCE was 29%, one of the highest in the industry. Therefore, such a trend attracts investors. The company expects to sustain these levels.



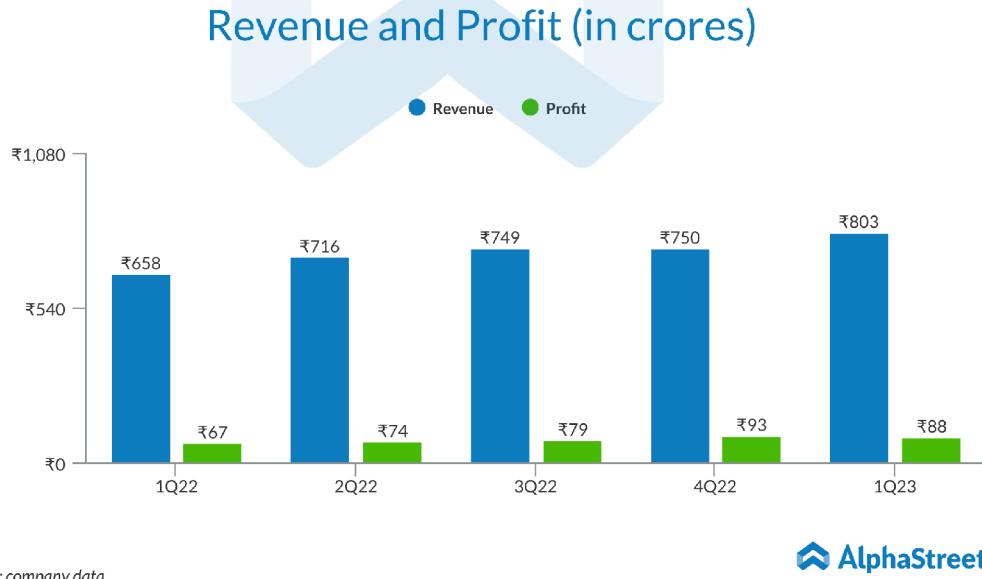
Source: company data and forecasts

Recent Financial Highlights:

In August 2022, Cosmo First reported its financial results for the quarter ended June 30, 2022. On a standalone basis, the company recorded total revenues of Rs 803 crore, up 22.1% YoY. Total expenses stood at Rs 686 crore, up 21.9% on a YoY basis.

Net profit after tax jumped 30.2% YoY to Rs 88 crore on higher revenues. Earnings per share came in at Rs 31.80 compared to Rs 24.72 in the prior-year quarter.

Following the results, management commented, "Our sustained focus on speciality films (65% volume) in the last 2-3 years and ongoing improvement of internal efficiencies helped achieving higher EBITDA despite the margin pressure. The demand supply balance should get restored over the next few quarters with strong organic growth in domestic demand and geopolitical normalcy returning in Europe.



Historical revenue and profit trends: Cosmo First has recorded a five-year (FY2018-FY2022) CAGR of 13.3% in total sales. Notably, the speciality film sales have risen continually and recorded a growth rate of 18% over the last three years, contributing two-thirds of total sales. Also, the pet care business is rising due to dynamic changes in society. Continuation of the trend is likely to aid the top-line expansion of the company further.

The company has more than a six-fold jump in its earnings over the last five years. Despite logistic challenges, the company succeeded in capitalizing on the strong demand for flexible packaging as awareness levels about hygiene and cleanliness heightened post-pandemic. Cosmo First has increased its return on equity from 5% in FY18 to 19% in FY22.

The company has experienced a rising trend in expenses over the past few quarters on the increasing cost of materials due to macroeconomic issues. The continuation of such a trend might hinder bottom-line expansion to some extent.

Our View:

Cosmo First has consistently provided higher returns on capital employed compared to its peers. As a result, based on the company's fundamentals, low debt level, higher returns, strong future growth plans, and steady dividend policy among other factors, investors can consider adding Cosmo First to their portfolio at current levels for long-term gains.



Financial Data:

Income Statement Summary (in INR Cr)

	Mar'20	Mar'21	Mar'22	Mar'23E	Mar'24E	Mar'25E	Mar'26E	Mar'27E
Total Revenue	2,223	2,322	3,053	3,402	3,910	4,434	5,259	5,687
Operating Revenues	2,204	2,285	3,038	3,387	3,880	4,364	5,119	5,457
Other Income	19	38	15	15	30	70	140	230
Operating Expenses	148	267	314	358	396	413	432	441
Operating Profit	261	430	620	590	693	809	987	1,057
Depreciation	65	59	63	72	82	89	105	106
Interest	53	42	40	41	46	47	60	57
Profit Before Tax	163	329	517	476	565	673	822	894
Tax	49	92	117	118	140	167	203	221
Net Profit	113	237	400	358	424	506	618	673

Balance Sheet Analysis

	Mar'20	Mar'21	Mar'22	Mar'23E	Mar'24E	Mar'25E	Mar'26E	Mar'27E
Total Shareholders funds	741	854	1,191	1,514	1,893	2,353	2,926	3,554
Total Non current liabilities	480	294	205	264	291	318	369	388
Total Current Liabilities	690	467	605	662	564	700	611	505
Fixed assets	1,039	1,025	1,252	1,438	1,532	1,760	1,703	1,637
Total non current assets	1,123	1,126	1,380	1,566	1,660	1,888	1,831	1,765
Total current assets	787	672	866	915	1,010	1,098	1,228	1,289
Total assets	1,910	1,777	2,224	2,659	2,964	3,585	4,117	4,656



Bay Area, San Francisco, CA