

Cosmo First Limited Outperformed the Indian Packaging Industry in Q2FY23 on the basis of EBIT margins and PAT margins.

Company Description: Cosmo First Ltd., established in 1981 as Cosmo Films Limited, is engaged in the manufacturing of specialty films for packaging, lamination, and labelling applications.

Speciality films are used for flexible packaging applications and include print and pouching films, barrier films, overwrap films, lidding films, etc.

Future Outlook: Cosmo First's Speciality Films is planning to expand its speciality and semi-specialty film portfolios. In FY22, 64% of the total volume was generated from the speciality and semi-specialty product segments, and the remaining 36% was generated by the commodity product segment.

The management is targeting 80% volume from the speciality and semi-specialty films by 2024. Over the last three years, specialty and semi-specialty product portfolios have grown at 19% CAGR.

The CPP Line of the speciality film business is expected to become operational by H1'FY25, and the BOPP Line is expected to become operational by H1'FY26.

The management expects 20% growth for the BOPET line of the speciality films business by H2'FY23. The estimated cost for the BOPET line is Rs. 450 crore with value added assets, and the estimated payback period of 4 years.

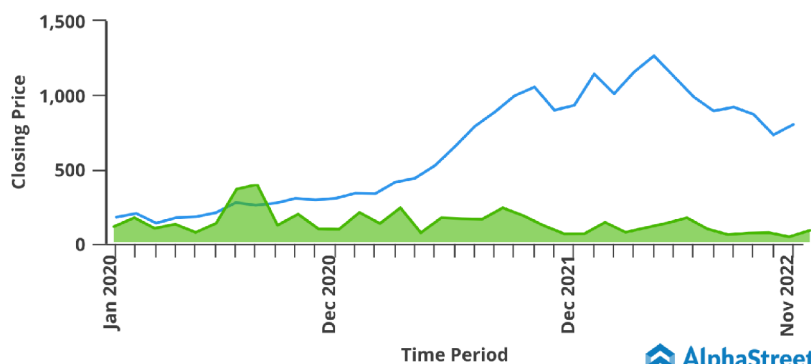
Cosmo First's speciality chemicals business is looking to expand its current capacity. The management has set a target of 25% ROCE and 7-8% of the company's consolidated revenue within the 3-5 years for the masterbatch, adhesives and textile chemical segment.

Cosmo First's pet care business currently has six experience centres in India (as of September 2022), and plans to open nine more by March 2023. The company has set a target of opening 150 experience centres in the next couple of years.

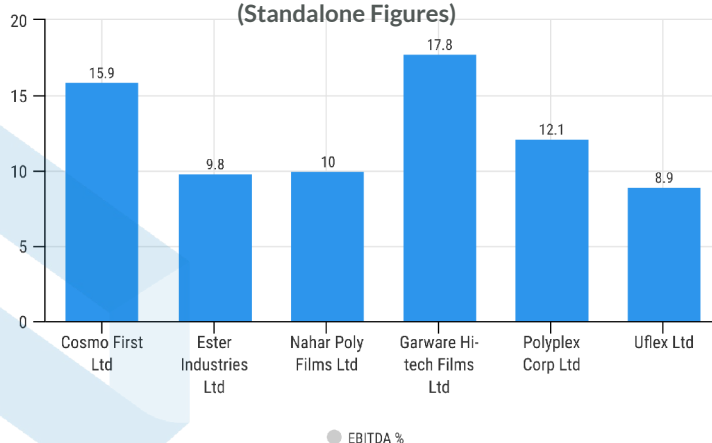
Financial Highlights: On a consolidated basis, the total revenue of the company rose by 2.8% from Rs. 767 crore in Sept. 2021 to Rs. 789 crore in Sept. 2022, and the total expenses of the company rose by 8.1% from Rs 639 crore in Sept. 2021 to Rs. 691 crore in Sept. 2022.

Cosmo First's Profit Before Tax (PBT) went down by 23.6% from Rs. 127 crores in Sept. 2021 to Rs. 97 crores in Sept. 2022, and earnings per share came in at Rs. 27 in Sept. 2022 as compared to Rs. 36 in Sept. 2021. The company has been able to outdo the peers as the margins were pretty much secured compared to other industry peers. Total assets of the company stood at Rs. 3027 crore, and total liabilities stood at Rs. 1670 crore.

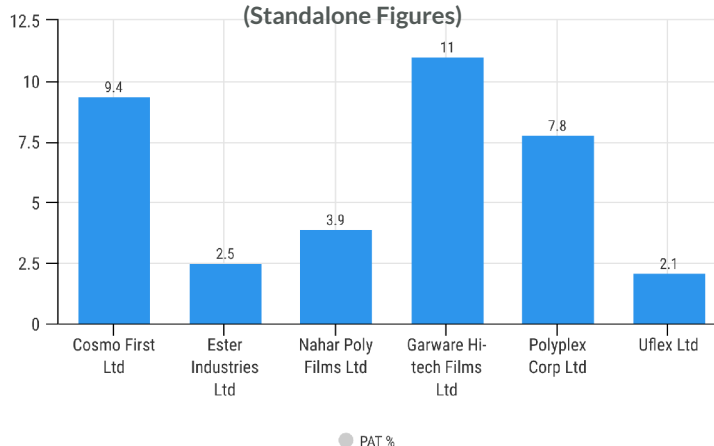
Cosmo First Price & Volume Chart



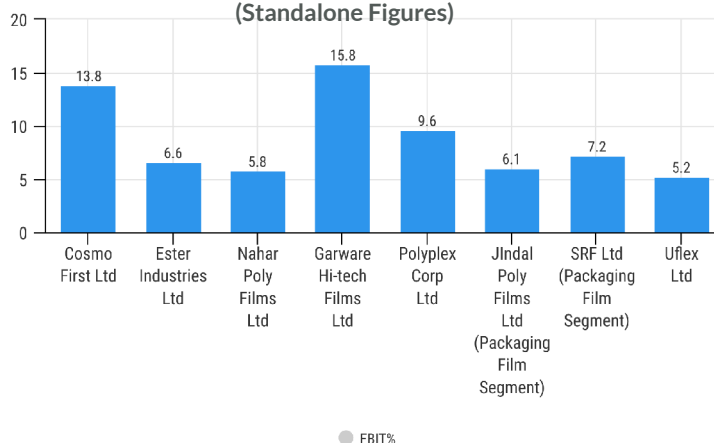
Packaging Industry EBITDA % for Q2FY23 (Standalone Figures)



Packaging Industry PAT % for Q2FY23 (Standalone Figures)



Packaging Industry EBIT% for Q2FY23 (Standalone Figures)



Key Highlights: The company’s board announced the buyback of 10 lakh equity shares at Rs. 1,070 per unit.

Cosmo First outperformed other packaging companies (like Polyplex Corporation Ltd., Ester Industries Ltd., etc.) on the basis of EBIT margin and PAT margin in Q2 FY23.

Cosmo First generated standalone revenue of Rs. 739 crore and secured EBITDA margin of 15.9% in Q2 FY23 and achieved EBIT margin of 13.8% in Q2 FY23. The company secured a PAT margin of 9.4%, which is one of the best margins in Indian packaging industry.

The main reason behind the stable and strong growth in EBITDA margin, EBIT margin, and PAT margin is the product portfolio of Cosmo First Ltd.

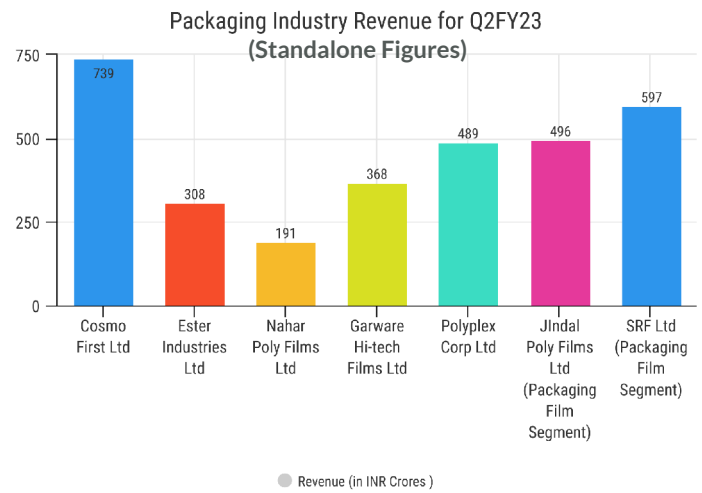
Cosmo First has created an amazing product portfolio where majority of their margins are secured by their speciality product portfolio (speciality films and semi-specialty films).

Specialty products accounted for 64% of the total volume in Q2 FY23. One major advantage of the specialty product segment is that it is immune to commodity price fluctuations and provides consistent EBITDA margin for Cosmo First; these stable margins were one of the main reasons why Cosmo First outperformed the Indian packaging industry in Q2 FY23, with commodity products accounting for the remaining 36% of the total volume.

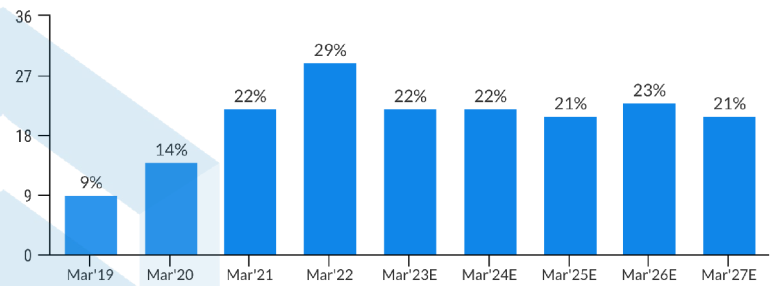
If we look at industry standards, majority of the packaging films companies have large exposure to commodity product segments (in some cases as much as 90%), which leaves their EBITDA margins completely exposed to the price fluctuations of the commodity market. Whereas in the case of Cosmo First, only a minority portion of their product portfolio is exposed to fluctuations in commodity prices, and this factor gives Cosmo First an edge over its competitors.

Our View: In Q2 FY23, Cosmo First outperformed the market environment and delivered great EBIT margin and PAT margin, which resulted in one of the best financial results in the Indian packaging industry.

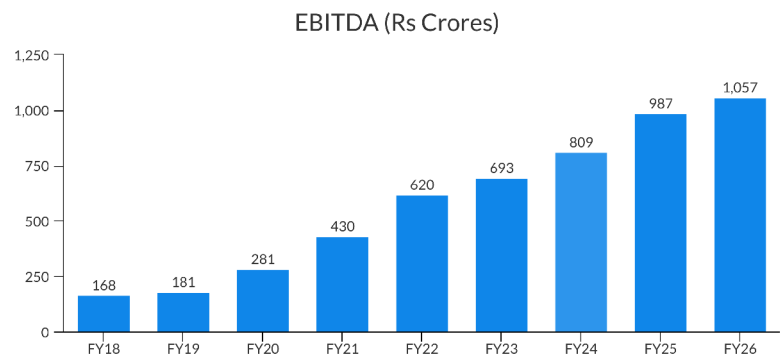
Cosmo First has consistently provided higher returns on capital employed compared to its peers. As a result, based on the company’s fundamentals, low debt level, higher returns, strong future growth plans, and steady dividend policy, among other factors, investors can consider adding Cosmo First to their portfolios at current levels for long-term gains. We at Alphastreet expect an upside potential of 81% from Cosmo First's current price levels. (Rs. 759 as of 29/12/2022).



Forecasted ROCE (%)



Forecasted EBITDA Growth (in Crores)



Ticker	COSMOFIRST
Exchange	NSE & BSE
Industry	Flexible Packaging
Current Price	Rs. 759
Upside Potential	81%
Valuation	Attractive
Expected EBITDA Growth	Nearly 11% (5 yr CAGR)
CareEdge ESG Score	Good