

# Independent Equity Research

Enhancing investment decisions



In-depth analysis of the fundamentals and valuation

**Jumbo Bag Limited**

# CRISIL Independent Equity Research Team

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- IPO Grading
- White Labelled Research
- Valuation on companies for use of Institutional Investors, Asset Managers, Corporate

**Other Services by the Research group include**

- CRISINFAC Industry research on over 60 industries and Economic Analysis
- Customised Research on Market sizing, Demand modelling and Entry strategies
- Customised research content for Information Memorandum and Offer documents

## Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade)

### Fundamental Grade

CRISIL's Fundamental Grade represents an overall assessment of the fundamentals of the company graded in relation to other listed equity securities in India. The grade facilitates easy comparison of fundamentals between companies, irrespective of the size or the industry they operate in. The grading factors in the following:

- Business Prospects: Business prospects factors in Industry prospects and company's future financial performance
- Management Evaluation: Factors such as track record of the management, strategy are taken into consideration
- Corporate Governance: Assessment of adequacy of corporate governance structure and disclosure norms

The grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals)

CRISIL Fundamental Grade	Assessment
5/5	Excellent fundamentals
4/5	Superior fundamentals
3/5	Good fundamentals
2/5	Moderate fundamentals
1/5	Poor fundamentals

### Valuation Grade

CRISIL's Valuation Grade represents an assessment of the potential value in the company stock for an equity investor over a 12 month period. The grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Valuation Grade	Assessment
5/5	Strong upside (>25% from CMP)
4/5	Upside (10-25% from CMP)
3/5	Align (+-10% from CMP)
2/5	Downside (negative 10-25% from CMP)
1/5	Strong downside (<-25% from CMP)

### Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

### Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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## List of companies under coverage

17-June-2010

Sl. No.	Report Date	Company Name	Sector	CMP	M. Cap (Rs. Mn)	Initiating Coverage		Last Update	
						Fair value	Fundamental grade	Fair value	Fundamental grade
1	02-Feb-10	Aarti Industries	Chemicals	49	3,757	56	3/5	56	3/5
2	04-Jun-10	ABG Shipyard	Shipping	253	10,286	242	3/5	259	3/5
3	01-Feb-10	Apollo hospitals	Hospitals	764	46,956	642	4/5	724	4/5
4	01-Jun-10	Beardsell Limited	Packaging/Expanded Polystyrene	60	228	54	3/5	54	3/5
5	04-Jun-10	Dhanuka Agritech Ltd	Pesticides	388	3,561	283	3/5	365	3/5
6	07-Jun-10	DLF	Real Estate	264	450,067	356	3/5	356	5/5
7	01-Jun-10	Dolphin Offshore	Oil & Gas	293	4,629	315	3/5	370	3/5
8	05-Feb-10	EID Parry	Sugar	348	30,050	394	4/5	395	4/5
9	31-May-10	Everest Kanto	Manufacturing	132	13,257	270	4/5	146	4/5
10	11-May-10	GKB Ophthalmics Ltd	Ophthalmic Lens	48	199	52	2/5	-	-
11	14-May-10	Havells India Ltd	Capital Goods	607	36,522	614	4/5	614	4/5
12	22-Apr-10	Hero Honda	Automobiles	1,889	377,240	1,747	5/5	1937	5/5
13	24-May-10	Hindusthan National Glass & Industries Ltd.	Packaging/Glass	208	14,533	314	4/5	314	4/5
14	13-May-10	Hydro S&S Industries Ltd.	Petrochemicals   Plastic Compounds	71.5	465	32.5	3/5	-	-
15	11-Feb-10	Indiabulls Securities	Financial Services	31	7,932	60	4/5	48	4/5
16	16-Jun-10	JBF Industries	Textiles	139	8,651	119	3/5	154	3/5
17	01-Jun-10	JM Financial	Financial Services	38	28,604	57	4/5	50	4/5
18	17-Jun-10	Jumbo Bag Limited	Bulk Packaging	36	245	35	2/5	-	-
19	18-May-10	KKCL	Fashion and apparels	274	3,370	336	3/5	336	3/5
20	10-Jun-10	KLRF	Flour milling, yarn spinning, castings	27	136	35	2/5	31	2/5
21	02-Jun-10	KRBL	Agriculture/Rice	24	5,789	34	3/5	34	3/5
22	04-Jun-10	KSE Limited	Animal Feed	218	698	200	3/5	200	3/5
23	31-May-10	Lakshmi Energy and Foods Ltd	Agriculture/Rice	102	6,445	145	3/5	-	-
24	02-Jun-10	MBL Infrastructure Ltd	Infrastructure/Construction	209	3,660	260	3/5	-	-
25	21-May-10	NTPC	Power	201	1,764,537	228	5/5	231	5/5
26	29-Jan-10	Pantaloon Retail (India)	Retail	406	77,282	*	4/5	*	4/5
27	06-May-10	Phoenix Mills	Real Estate	208	30,128	160	2/5	192	2/5
28	09-Jun-10	Plethico Pharmaceuticals Ltd	Pharmaceuticals	380	12,945	458	3/5	-	-
29	22-Apr-10	Polaris Software	Information Technology	186	18,407	247	4/5	-	-
30	07-Jun-10	Responsive Industries Ltd	PVC Products	845	18,425	853	3/5	-	-
31	01-Jun-10	Sangam (India) Ltd	Textiles	37	1,380	46	3/5	46	3/5
32	03-Feb-10	UTV Software	Media and Entertainment	498	17,066	548	3/5	538	3/5
33	14-Jun-10	Zylog System	Information Technology	456	7,494	530	3/5	-	-

CMP - Current Market Price (as on date of respective report)

M Cap - Market Capitalisation (as on date of respective report)

\*NA - Not Applicable (Company has requested for a fundamental grading only)

# Independent Research Report – Jumbo Bag Ltd

**Precarious profitability despite a jumbo opportunity**

**Industry:** Bulk Packaging  
**Date:** June 17, 2010

Chennai-based Jumbo Bag Ltd (Jumbo) is a mid-sized player in flexible intermediate bulk containers (FIBCs), which are polypropylene bags used in bulk packaging. We assign Jumbo a fundamental grade of 2/5, indicating that its fundamentals are 'moderate' relative to other listed securities in India. We assign it a valuation grade of '3/5', indicating that the current market price is 'aligned' with our one-year fair value.

## Good times for FIBC manufacturers

The Indian FIBC output is expected to grow at 13-15% over the next five years led by: (a) strong end-user demand and increased acceptance of FIBCs over other forms of packaging in the domestic market; and (b) ability of Indian manufacturers to strengthen their hold over the large and growing export market.

## Jumbo is well-placed to ride the growth wave

The company is one of the first FIBC players in India. CRISIL Equities believes that Jumbo will be able to successfully bag future orders and execute them since it has long-standing relationships with resellers in the exports market and an established presence in the domestic market (18% market share in the eastern and southern Indian markets).

## Very low PAT margins leave little room for safety

Jumbo's operating margins are low because of the undifferentiated nature of FIBCs. Further, the inability to pass on currency and raw material price fluctuations historically has led to a downward trend in operating margins. In FY10, margins declined to 8.7% from 9.3% in FY09 due to the above reasons. This was accompanied by a sharp dip in Jumbo's PAT margins, which stood at a low 1.0%. Given the low level of profitability, it leaves little room for safety.

## Success of margin-protection measures remains a key monitorable

To stabilise and improve margins, Jumbo is; a) pushing for a price variation clause in the contracts encompassing both raw material prices and currency fluctuations; and b) increasing the share of high value-added products in sales. However, given the fairly undifferentiated nature of the product, margins are expected to continue to be range-bound. Also, the company's ability to push for a price variation clause in a significant number of its contracts remains a key monitorable.

## Power, labour and rupee appreciation could impact profitability

Tamil Nadu is a power deficient state and the industries have to rely on gensets, which increases the cost of power. Also, labour shortage prevented Jumbo from participating in the recovery in the FIBC industry in 2HFY10. Further, with exports accounting for more than 50% of Jumbo's revenues, rupee appreciation could impact its cost competitiveness in the overseas markets.

## Revenues to grow; margins to remain range-bound

Led by higher capacity utilisation and higher realisations, revenues are expected to grow at a two-year CAGR of 19% to Rs 1.1 bn in FY13. While PAT margin is expected to increase to 2.7% in FY13 vs. 1% in FY10, it is expected to continue to be in line with historical levels. RoE is forecast at 14.8% in FY13, while EPS is expected to be Rs 3.6 in FY13.

## Current market price is aligned with our one-year fair value

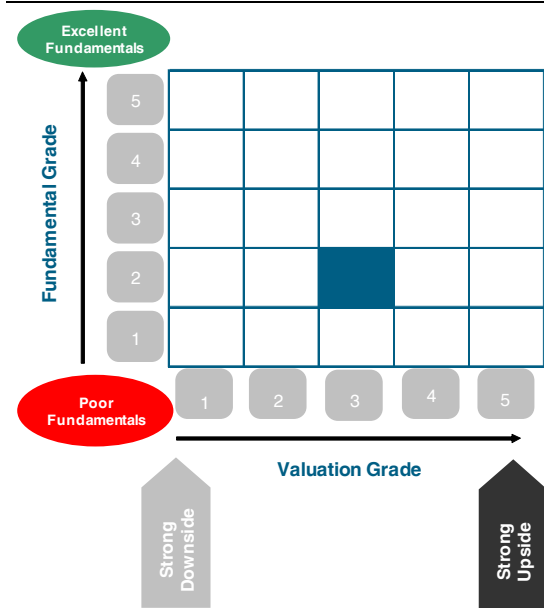
CRISIL Equities has assigned a valuation grade of '3/5', indicating that the current market price of Rs 36 (as on June 15, 2010) is 'aligned' with our fair value. Our one-year fair value for the stock is Rs 35 based on the discounted cash flow method.

## Key forecast

(Rs mn)	FY08	FY09	FY10E	FY11E	FY12E	FY13E
Operating income	568	706	639	786	931	1,074
EBITDA	60	66	56	76	99	111
EPS-Rs	2.1	2.1	0.8	2.1	3.2	3.6
EPS growth (%)	31.7	0.9	(65.1)	177.4	55.3	13.1
PE (x)	20.2	6.9	44.7	17.5	11.3	10.0
P/BV (x)	2.1	0.7	1.8	1.7	1.6	1.4
RoCE (%)	11.7	12.6	9.6	13.3	15.8	16.3
RoE (%)	11.0	9.9	4.2	10.1	14.5	14.8
EV/EBITDA (x)	8.7	5.1	9.1	7.1	5.8	5.3

**Source: Company, CRISIL Equities estimate**

## CFV Matrix



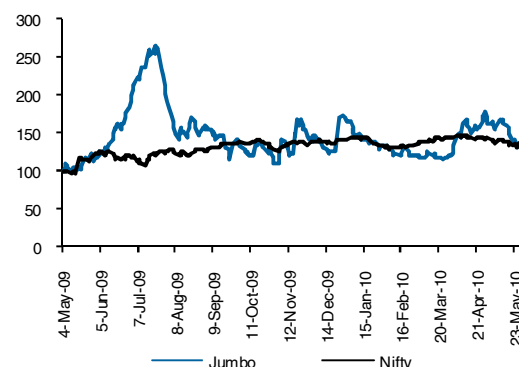
- Fundamental grade of '2/5' indicates moderate fundamentals
- Valuation grade of '3/5' indicates fair value is aligned w.r.t. CMP

## Key stock statistics

NSE Ticker	JUMBO
Fair value (face value Rs 10)	35
Current market price (Rs per share)*	36
Shares outstanding (mn)	6.8
Market cap (Rs mn)	245
Enterprise value (Rs mn)	480
52-week range (Rs) (H/L)	69/25
P/E on EPS estimate (FY11E)	17.5
Beta	1.60
Free float (%)	56.2%
Average daily volumes	109,019

\* as on June 15, 2010

## Share price movement



- Indexed to 100

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**Business Environment**


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<b>Parameter</b>	<b>FIBC industry</b>
<b>Product offering</b>	Polypropylene bags used in bulk packaging
<b>End market</b>	Petrochemicals, minerals, polymers, chemicals
<b>Exports as a % of revenues in FY10</b>	49%
<b>Estimated global industry size</b>	\$3 bn
<b>Geographic Presence</b>	<b>Domestic</b> Eastern and southern India <b>Exports</b> USA (50% of exports), Middle East (25%), Australia (20%), Europe (5%)
<b>Current market position</b>	4.5% in the total FIBC production in India 7% in total domestic consumption
<b>Key competitors</b>	Shankar Packaging (Baroda), Flexituff (Indore) and Karur-KCP (Tuticorin)
<b>Sales growth forecast (FY10-13)</b>	19%
<b>Demand drivers</b>	<b>Domestic</b> Growth in end-use industries Growing acceptance of FIBC over other forms of packaging <b>Exports</b> Increasing competitiveness of Indian exporters

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## Grading Rationale

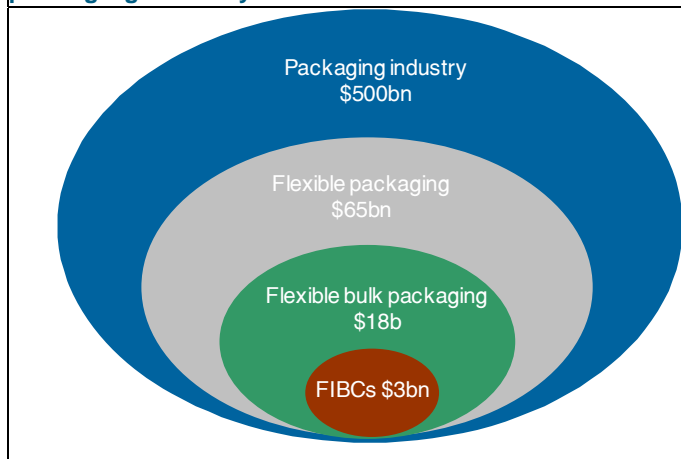
### Jumbo is a focused FIBC player with a 4.5% share in domestic production

FIBC is the technical name for PP (polypropylene) bags used for bulk packaging of petrochemicals, minerals, polymers, chemicals and other commodities that are in powder, flake or granular form.

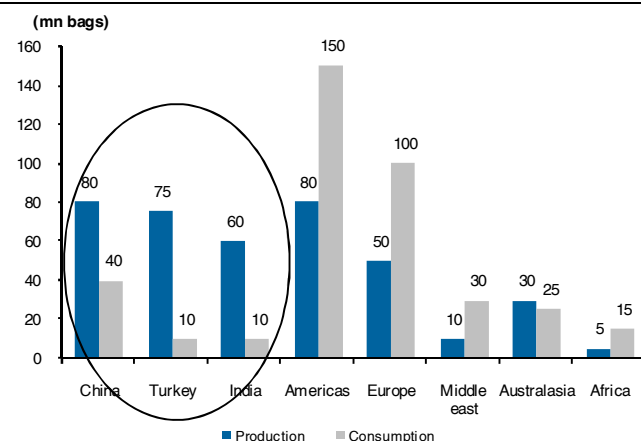
*Jumbo caters to 7% of the domestic demand*

The \$500 bn global packaging industry is a multi-technology, multi-product and multi-process industry. Jumbo is a focused player in the \$3 bn FIBC segment, a small sub-set of the overall packaging industry. The company's sales are split equally between the domestic and export markets. With a 4.5% share of the domestic FIBC production of 134,000 tonnes in FY10, Jumbo caters to 7% of the domestic demand. Locally, it supplies mainly to the eastern and southern regions, and internationally to the USA, Middle East and Australia.

#### Globally, FIBCs are a small sub-set of the overall packaging industry



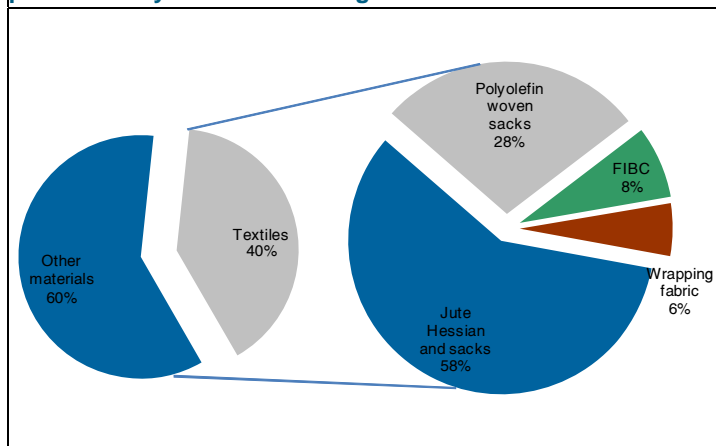
#### Low-cost producers - China, India and Turkey - were the top three exporters of FIBCs in 2010



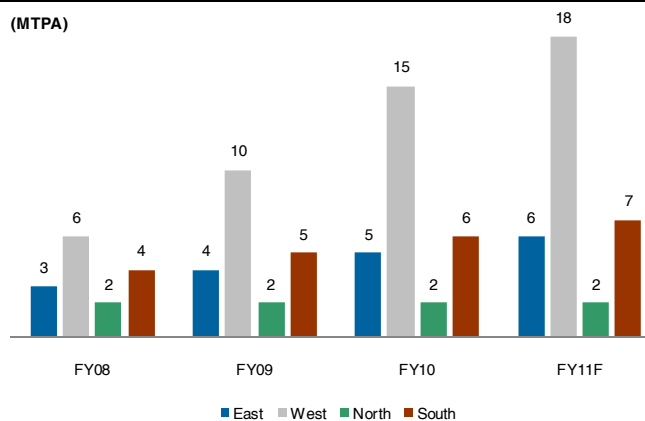
Source – Indian Flexible Bulk Container Association (IFIBCA)

Source – IFIBCA

#### Of the Rs 350 bn packaging industry in India, Jumbo is present only in the FIBC segment



#### With a production of 6,000 TPA, Jumbo is a dominant player in eastern and southern India



Source – Office of the textile commissioner

Source – Office of the textile commissioner

**Demand for FIBCs to grow at 13-15%**

**Flexible packaging industry is in a growth phase**

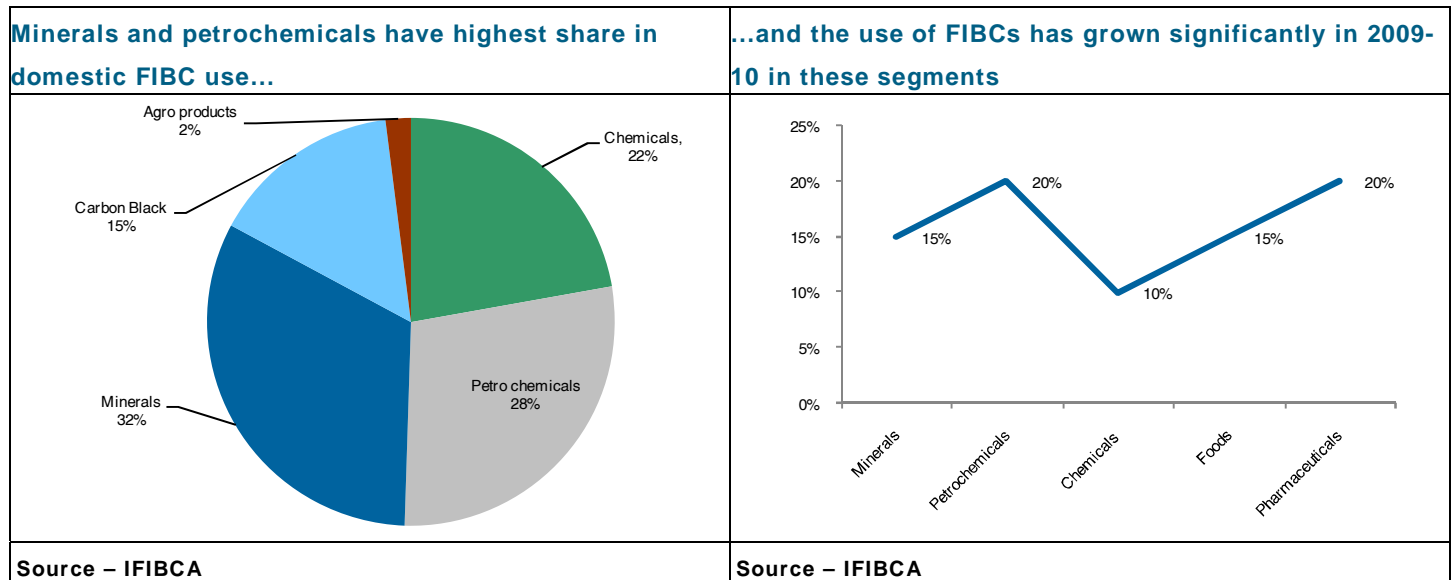
Jumbo's fortunes ride on the demand for FIBC in the domestic as well as export markets. India's FIBC output is set to grow at about 13-15% p.a. over the next four-five years on account of a rise in domestic demand for FIBCs due to:

- Growth in end-use industries and
- Growing acceptance of FIBC over other forms of packaging.

This, along with the strengthening of India's position as an export hub is expected to spell good times for the industry.

**Demand from end-use industries to grow significantly**

The petrochemical and mineral industries constitute 60% of the domestic FIBC demand. The key FIBC consumers include Indian Oil and Mitsui for PTA, Vedanta for alumina, Reliance Industries for PET chips, and Continental Carbon/HiTech Carbon for carbon black, and large chemical companies such as Birla Cellulosic, Lion Chemicals and Gujarat Heavy Chemicals.



**Switch to FIBCs due to convenience and cost benefit**

The petrochemical industry, which constitutes 40% of Jumbo's sales, is expected to be one of the fastest growing end-use segments for FIBCs. Jumbo is likely to benefit from the commissioning of Mitsubishi's PTA plant at Haldia and the subsequent ramp-up of operations since it has a strong presence in the eastern region.

**FIBC is being preferred to other forms of packaging**

Packing materials made from textiles include wrapping fabric, polyolefin woven sacks, hessian (commonly known as jute) bags and FIBCs. Industries that predominantly use packaging textiles are increasingly switching to FIBC as it offers benefits over the hessian bags, such as lower cost, better protection of contents, ease in procurement of the required polymer grades and more convenient handling.

Further, FIBCs are finding newer applications such as UN bags (for hazardous goods) and clean room bags (used for food products such as milk powder, starch, spices and bulk drugs). These are a small but growing proportion of the total domestic FIBC consumption.

The domestic demand is slightly constrained because of the JPMA (Jute Packaging Materials Act), which mandates the use of jute for packaging certain commodities such as sugar and foodgrains. However, the recent shortage of hessian bags has worked in favour of the FIBC industry. The domestic market for FIBC is expected to grow at a CAGR of 7-8% till FY12.

### India's position as an export hub to strengthen

India is the third largest producer of FIBCs in the world, after Turkey and China. It is the second largest exporter of FIBCs thanks to low-cost labour, assured supply and superior quality. Although FIBCs are exported to mature markets with GDP growth rates of 2-3%, a rising market share of Indian players over Turkish and Chinese players is expected to translate into a demand growth rate of about 15-17% for Indian exporters.

*Jumbo is in the right place....*

Country	Net exports (Mn bags)	Strengths	Weakness
China	40	Price advantage	<ul style="list-style-type: none"> <li>Lack of consistency in supply quantity and quality</li> <li>Lack of familiarity with English</li> </ul>
India	50	<ul style="list-style-type: none"> <li>Consistent supply and quality</li> <li>Cheaper (except China)</li> <li>Language (English)</li> </ul>	Price vis-à-vis China
Turkey	65	Proximity to EU market	Cost inflation leading to erosion of price competitiveness

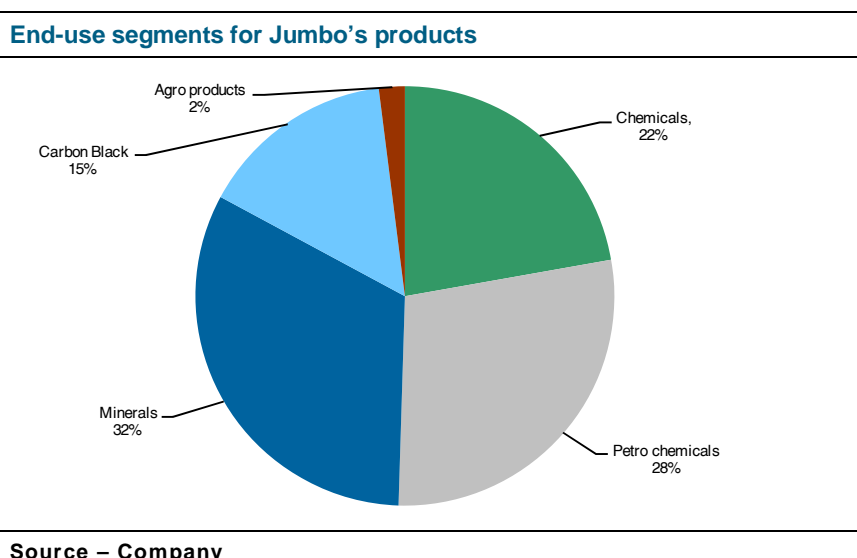
Source – CRISIL Research

### Jumbo is well-placed to benefit from industry growth

Jumbo, with a capacity of 6,000 TPA (expected to expand to over 7,300 TPA by FY11), is well-positioned to ride on the industry's growth. The company's dominance in the eastern and southern markets, and presence in the fastest growing segments of FIBC use, such as petrochemicals, position it well to ride on the industry's growth.

However, since FIBC manufacturing is a low-margin activity, Jumbo's ability to bag orders and execute them will be the key to future growth.

*....at the right time*



**Dominant position in southern and eastern domestic markets:** Domestic demand for FIBCs is estimated at 28,000 tonnes per annum, of which southern and eastern regions represent 11,000 tonnes. Jumbo has a combined market share of 18% in these regions. On a pan-India basis, it has a market share of 7%. This positions it well to benefit from the petrochemical capacity coming on stream in these regions.

**Direct sales strategy in export markets:** Sales in the export market are carried out through resellers, who were earlier into the manufacturing of bags and enjoy a good relationship with the clients. The bags normally carry Jumbo's name on an attached tag, since the printing on the bag is reserved for the contents and other specifications.

Jumbo is the only player in the industry with domestic and export sales split equally in the sales mix; the company intends to maintain the sales split. In order to garner a larger slice of the growing export pie, Jumbo has identified selling to the end-users directly as a strategy. The company is expected to leverage its long-standing presence in the export markets in regions where the resellers do not have a presence. It has already set up a marketing office in the US. CRISIL Equities believes this is a sound strategy – one that will lead to margin improvement as well.

#### **Order book strength and plant modernisation to drive volume growth**

Jumbo currently has an order book amounting to eight-week's sales. The company recently bagged a huge order from a leading PTA player; this order will engage about 25% of Jumbo's existing capacity.

Over the past three-four years, the company has invested in upgradation and debottlenecking of its facilities. It now plans to upgrade its tapeline, which will increase its capacity by 20% to over 7,300 TPA. To overcome the labour problems that it has faced in the past, it has started employing people from Bihar and other northern states. Also, it has earmarked Rs 3-4 cr for additional gensets to circumvent the power shortage in Tamil Nadu. We believe that these capex initiatives will support Jumbo's growth over the next three-four years.

**Undifferentiated product with little competitive advantage****Weak competitive strength due to undifferentiated product**

FIBC is an undifferentiated product where branding does not play a vital role. However, players enjoy varying operating margins depending on the market segment they cater to. India has a mix of both large and small players. Large players such as Essel Propack and Sintex Industries have a diversified portfolio of both rigid and flexible packaging products, in which FIBCs constitute a small share. Since FIBC manufacturing is a lower-margin, low value-adding activity, it is carried out by smaller players located throughout the country. Jumbo's peers in the FIBC space include Shankar Packaging (Baroda), Flexituff (Indore) and Karur-KCP (Tuticorin). Some of these players are focused only on the domestic market, while some are focused on the export market. Many players are also present in the low-end builder bags used for transporting sand in the construction industry; Jumbo is not present in this segment. The undifferentiated nature of the product offers little price or cost advantage.

**Key monitorable - increasing share of value-added products**

Jumbo aims to raise the share of higher value-added products, such as UN and clean room bags, in order to improve margins. To this end, Jumbo installed a clean room facility towards the end of FY08. Accordingly, in FY09 the share of value-added products increased to 10% of its revenues, but decreased to 2% in FY10 on account of the industry downturn. Since the company is currently in the market-testing phase for its value-added products we remain cautious about their contribution to margins. The value-added products typically have a PAT margin of ~8-10% as against 2-4% for Jumbo's regular products.

**Volatility in margins cause for concern****Raw material and exchange rate volatility lead to thin PAT margins**

In FY10, Jumbo's EBITDA margins dipped to 8.7% from 9.3% in FY09 due to global slowdown, volatile raw material prices, currency fluctuations and shortage of labour. Jumbo's PAT margin has been at 2.0-2.5% levels since FY06. The demand slump in FY10 caused PAT margins to be 1.0%. At these low levels, margins are quite susceptible to volatility. Significant movement in exchange rates or raw material prices can adversely impact profitability.

## Key risks

**Prices of raw materials** – The main raw material used in the manufacture of FIBC is polypropylene, which is a crude derivative, and subject to price fluctuations. This was especially evident in FY09 when y-o-y EBIDTA margins dropped from 10.6% to 9.3%

**Labour shortage** - FIBC manufacturing is a labour-intensive activity. Semi-skilled labour required for stitching of bags tends to find the apparel industry more attractive since it involves less manual labour than handling bags weighing 2-3 kgs and, therefore, leads to less fatigue.

**Availability of power** – Chennai and other parts of Tamil Nadu are reeling under severe power cuts. Companies do not get power for three hours daily during the peak hours. Over and above that, they need to choose between: (a) 60% power of the allotted KVA; or (b) eight days power cut during a month. CRISIL Research expects the power deficit to continue beyond FY12. This may affect the company's ability to scale up operations.

**Rupee appreciation could limit margin expansion:** Jumbo's margins have been impacted in the past due to exchange rate fluctuations. Although the import of 40% of raw materials provides a natural hedge to 50% of its export sales, margins are susceptible to variations exchange rate. In case the company has inadequate protection through a price variation clause, strengthening of the rupee could adversely impact margins.

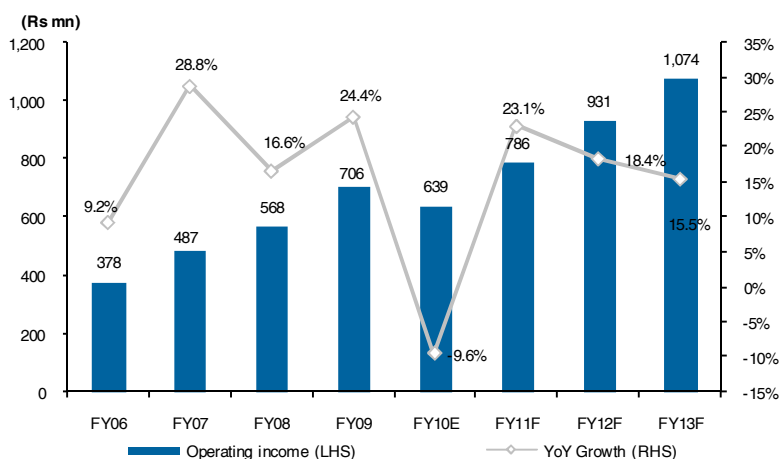


### Financial Outlook

We expect Jumbo to register a revenue growth of 19% to Rs 1.07 bn by FY13. Revenues declined in FY10 on account of lower demand (1HFY10) and shortage of labour (2HFY10). The subsequent revival in demand is evident in the company's order book, which is currently eight week's sales as against six weeks historically.

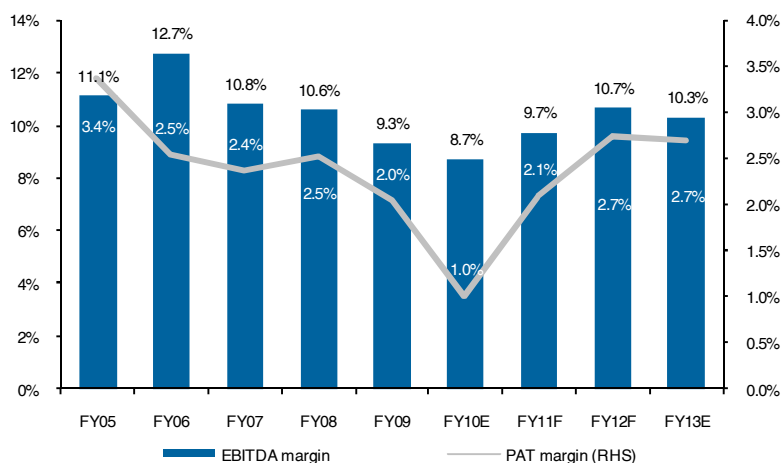
Jumbo's EBIDTA margins have decreased since FY05 on account of fluctuation in prices of raw materials and exchange rates. Since FY09, the company has been able to push for a price variation clause encompassing both raw material prices and exchange rates. Such contracts currently constitute about 10-15% of sales. Sustained efforts in this direction along with a higher proportion of value-added products are expected to stabilise EBIDTA margins from 8.7% in FY10 to 10.3% in FY13.

#### Revenues to grow at a CAGR of 19%



Source: Company, CRISIL Equities estimate

#### EBIDTA and PAT margins to stabilise; PAT margins to be 2.7% in FY13 vs. 1.0% in FY10



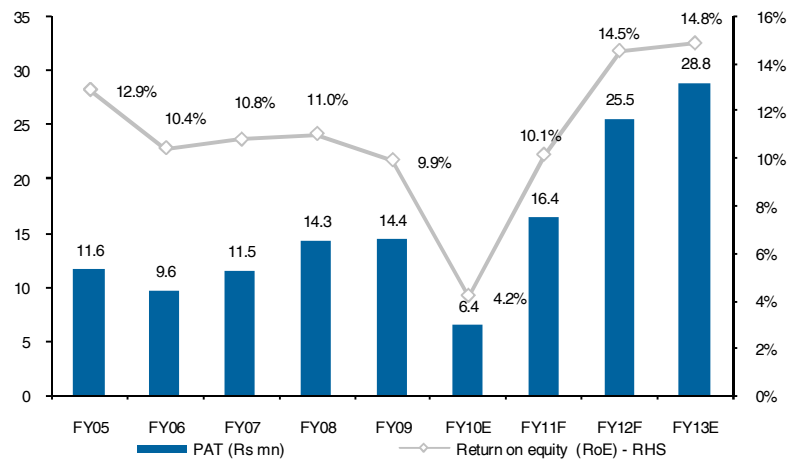
Source: Company, CRISIL Equities estimate

*Robust demand and higher capacity to increase revenues at a CAGR of 19% over FY10-13*

*Higher proportion of value-added products and mitigation of raw material price and exchange rate risk to stabilise PAT margins*

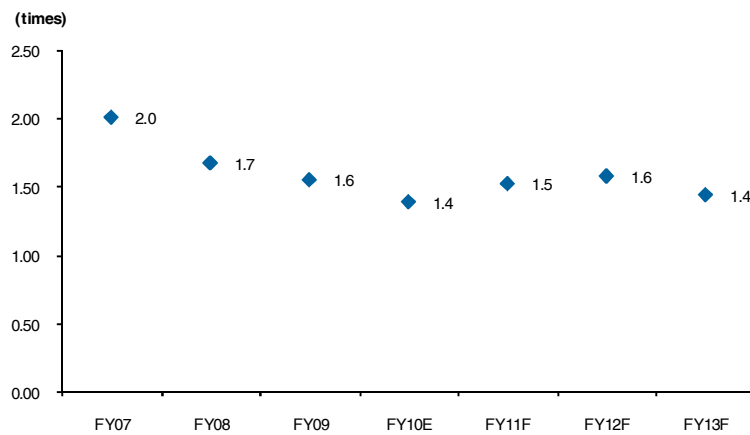


### After a slump in FY10, PAT to grow at a CAGR of 65%



Source: Company, CRISIL Equities estimate

### Gearing to remain at historical levels



Source: Company, CRISIL Equities estimate

## Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance.

### Business is largely family driven

The chief decision-making powers are vested with the family. Mr G. Sudhakar and Mr G.P.N. Gupta are brothers, the first-generation promoters responsible for setting up of Jumbo Bag Ltd. Their sons Mr G. S. Anil Kumar and Mr G. P. Ramraj, who form the second line of management, have assumed complete responsibility of the finance and marketing divisions.

### Jumbo is a focused, well-established player

Jumbo was among the first group of players to usher into India the concept of FIBC as a superior alternative to jute bags in the early 90s. Originally manufactured for export markets, FIBCs gained acceptance in the domestic market as well, thanks to the awareness created for the product by players such as Jumbo. Since then, the company has maintained its focus on FIBCs and successfully carved a niche in the domestic as well as international markets as a mid-level player. The management has rightly identified moving into higher value-added bags as a strategy for growth and has ensured that it has the right production and marketing machinery for the same. Further, the management is cognizant of the risks arising out of exchange rate and raw material price fluctuations, and is increasingly entering into sales agreements with in-built price variation clauses.

### Second line of management

Jumbo's day-to-day activities are efficiently handled by the promoters' sons and they are assisted by professionals.

*Established,  
business with focus on FIBCs  
only*      *family-driven*

## Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. CRISIL Equities also analysed the company's shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also served as useful inputs while assessing corporate governance.

### Scope for higher involvement of independent directors

The board comprises 11 directors, six of whom are independent, four are family members and one is a whole-time director. Mr N. D. Prabhu, 79 years, is the non-executive chairman of the board. He is ex-chairman of Canara Bank. The extent of involvement of independent directors leaves room for improvement.

### Board processes slightly weak

The prescribed corporate governance standards are reflected in the board's constitution. Audit and other committees are in place. However, the board and corporate governance practices have scope for improvement.

### Group company in similar line of business

Stanpacks (India) Limited is a group company engaged in the manufacture of bags. Although a majority of bags produced by this company are smaller in size and do not compete directly with Jumbo's products, the absence of a formal non-compete agreement can lead to a potential conflict of interest.

*Jumbo is a promoter-driven company managed by two brothers*

**Valuation Grading**
**Grade: 3/5**

We have valued Jumbo's business using the discounted free cash flow to firm method (DCF). Based on the DCF method, we believe the fair value of Jumbo's businesses is Rs 35 per share. We initiate our coverage on Jumbo with a valuation grade of **3/5**. This grade indicates that Jumbo's current market price of Rs 36 (as on Jun 15, 2010) is aligned with the fair value of the stock.

The following are the key factors in our valuation:

- We have considered discounted free cash flows from FY10 to FY16.
- We have assumed a target debt-equity ratio of 0.5.
- We have assumed terminal growth rate of 3%, equity risk premium of 6% and risk-free rate of return of 7%.

Below is the sensitivity table of fundamental value to assumptions of WACC and terminal growth rate:

WACC	Terminal growth rate				
	1.0%	2.0%	3.0%	4.0%	5.0%
10.5%	39	46	56	68	84
11.5%	31	37	44	53	65
12.5%	25	30	<b>35</b>	42	51
13.5%	20	24	28	33	40
14.5%	16	19	22	27	32

## Company and business overview

Jumbo Bag Ltd started production with an initial capacity of 720,000 jumbo bags (FIBCs). The company now has the capacity to manufacture over 3.6 mn bags per annum. It has manufacturing facilities in Chennai, Tuticorin and Mumbai.

Production of FIBCs involves the conversion of PP granules to long tapes and later woven, cut to size, printed and stitched to be used. Jumbo has an installed capacity of 6,070 tonnes per year. It is a part of the Rs 980 mn BLISS Group of companies.

### About BLISS Group

The Chennai-based BLISS Group started operations as a finance company. It entered the packaging industry following the takeover and revival of a sick packaging unit in 1966 as part of a bad debt settlement proceeding. It has a presence in many segments of industrial packaging. FIBC manufacturing is carried out through Jumbo Bags (for large bags) and another listed entity, Stanpacks (India) Limited (for smaller bags). The promoters of the BLISS Group developed FIBC bags using Jute in 1984. As the industry evolved with packing technology, the bags were developed using HDPE fabric in 1986, which was more cost effective. The concept of FIBC was ushered into India by players such as Jumbo, which was then set up as a separate company in 1991. As a first mover, the company has also played a crucial role in creating awareness for the product.

The group has various companies, mainly in the production of industrial packaging products which can handle capacities ranging from 2 kgs to 2,000 kgs. Besides, the group has interests in financing, farming and materials movement.

### Jumbo's portfolio

Jumbo's portfolio comprises of different designs of FIBCs (circular, U-panel, baffles), hygiene bags, multi-trip bags, tabular and form-ft liner bags. FIBCs are available in Type A, B, C, D, UN Bags and 20-40-foot container liners, and addresses applications that are custom-made for industrial purposes.

**Annexure: Financials**
**Income Statement**

<b>(Rs Mn)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>
Net sales	568	704	626	784	928	1,071
<b>Operating Income</b>	<b>568</b>	<b>706</b>	<b>639</b>	<b>786</b>	<b>931</b>	<b>1,074</b>
<b>EBITDA</b>	<b>60</b>	<b>66</b>	<b>56</b>	<b>76</b>	<b>99</b>	<b>111</b>
Depreciation	16	17	18	22	26	29
Interest	29	31	30	31	36	39
Other Income	4	4	4	1	1	1
<b>PBT</b>	<b>19</b>	<b>21</b>	<b>11</b>	<b>24</b>	<b>38</b>	<b>45</b>
<b>PAT</b>	<b>14</b>	<b>14</b>	<b>6</b>	<b>16</b>	<b>25</b>	<b>29</b>
No. of shares	7	7	8	8	8	8
<b>Earnings per share (EPS)</b>	<b>2.1</b>	<b>2.1</b>	<b>0.8</b>	<b>2.1</b>	<b>3.2</b>	<b>3.6</b>

**Balance Sheet**

<b>(Rs Mn)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>
Equity capital (FV - Rs 10)	68	68	68	68	68	68
Reserves and surplus	71	83	88	99	116	136
Debt	239	244	222	270	307	312
Current Liabilities and Provisions	90	95	81	108	134	160
Deferred Tax Liability/(Asset)	37	38	38	38	38	38
<b>Capital Employed</b>	<b>505</b>	<b>528</b>	<b>498</b>	<b>584</b>	<b>663</b>	<b>715</b>
Net Fixed Assets	244	238	230	268	302	303
Capital WIP	7	16	16	16	16	16
Loans and advances	33	52	47	47	47	54
Inventory	95	130	118	140	166	191
Receivables	121	82	84	99	117	135
Cash & Bank Balance	5	10	4	14	16	16
<b>Applications of Funds</b>	<b>505</b>	<b>528</b>	<b>498</b>	<b>584</b>	<b>663</b>	<b>715</b>

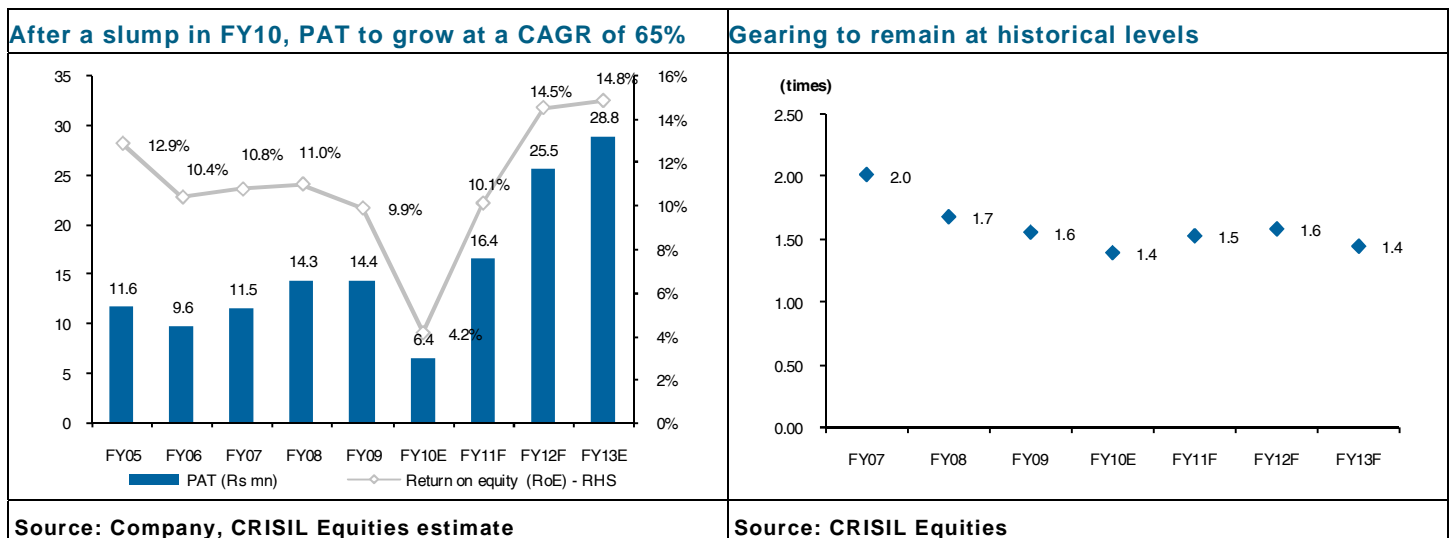
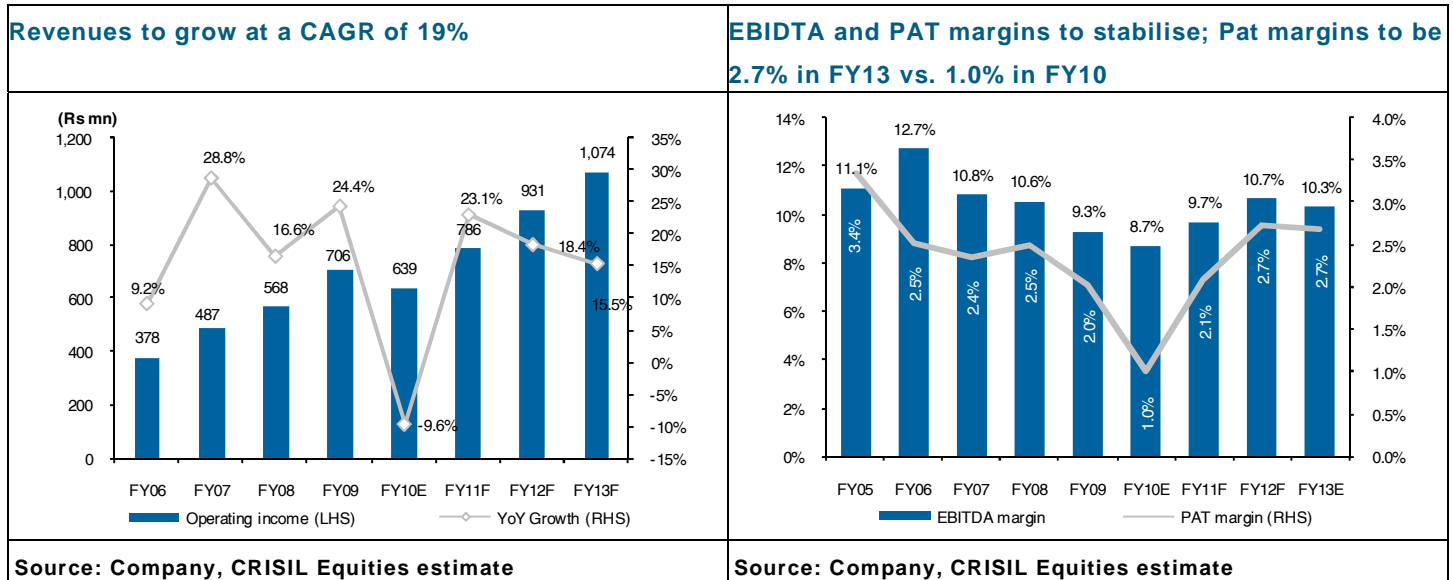
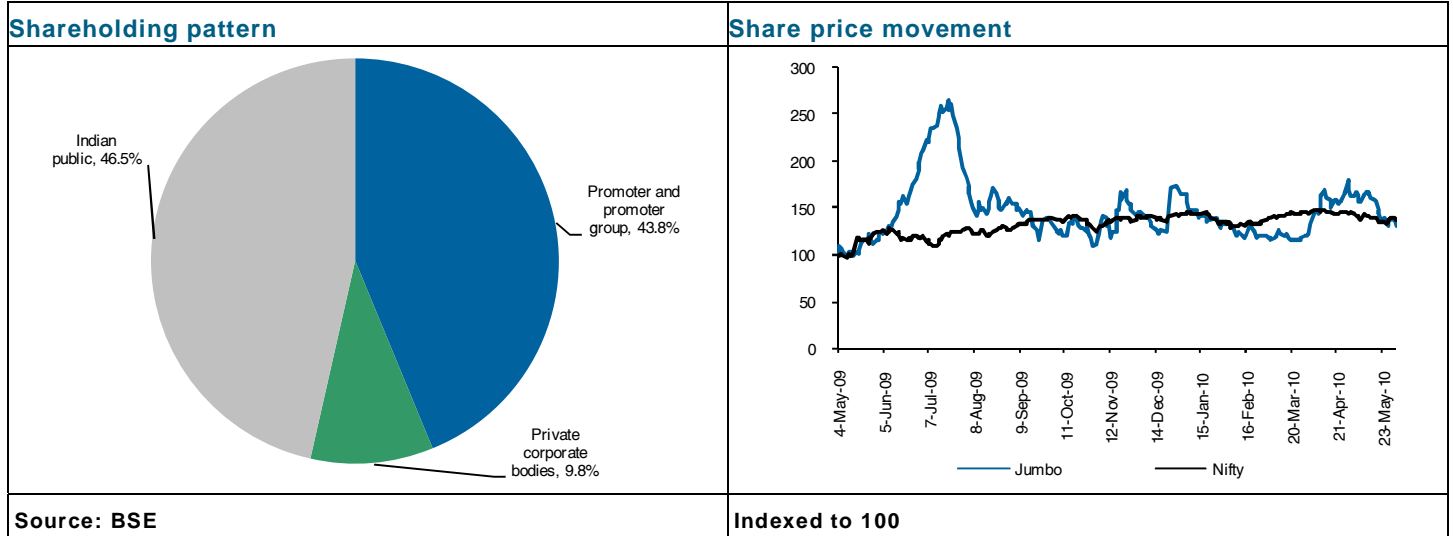
Source: Company, CRISIL Estimates

<b>Cash Flow</b>						
<b>(Rs Mn)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>
Pre-tax profit	19	21	11	24	38	45
Total tax paid	(2)	(6)	(5)	(8)	(13)	(16)
Depreciation	16	17	18	22	26	29
Change in working capital	(13)	(11)	2	(10)	(18)	(24)
<b>Cash flow from operating activities</b>	<b>19</b>	<b>21</b>	<b>27</b>	<b>29</b>	<b>34</b>	<b>33</b>
Capital expenditure	(18)	(20)	(10)	(60)	(60)	(30)
<b>Cash flow from investing activities</b>	<b>(18)</b>	<b>(20)</b>	<b>(10)</b>	<b>(60)</b>	<b>(60)</b>	<b>(30)</b>
Debt raised/(repaid)	(8)	5	(22)	48	37	5
Dividend (incl. tax)	(4)	(6)	-	(6)	(9)	(11)
Others (incl extraordinary)	9	3	(1)	0	0	3
<b>Cash flow from financing activities</b>	<b>(2)</b>	<b>2</b>	<b>(23)</b>	<b>42</b>	<b>28</b>	<b>(3)</b>
<b>Change in cash position</b>	<b>(0)</b>	<b>4</b>	<b>(6)</b>	<b>11</b>	<b>2</b>	<b>0</b>
Opening Cash	6	5	10	4	14	16
Closing Cash	5	10	4	14	16	16

<b>Ratios</b>						
	<b>FY08</b>	<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>
<b>Growth ratios</b>						
Sales growth (%)	16.6	24.4	(9.6)	23.1	18.4	15.5
EBITDA growth (%)	13.8	9.7	(15.5)	37.5	29.8	11.8
EPS growth (%)	31.7	0.9	(65.1)	177.4	55.3	13.1
<b>Profitability Ratios</b>						
EBITDA Margin (%)	10.6	9.3	8.7	9.7	10.7	10.3
PAT Margin (%)	2.5	2.0	1.0	2.1	2.7	2.7
Return on Capital Employed (RoCE) (%)	11.7	12.6	9.6	13.3	15.8	16.3
Return on equity (RoE) (%)	11.0	9.9	4.2	10.1	14.5	14.8
<b>Dividend and Earnings</b>						
Dividend per share (Rs)	0.6	0.8	0.0	0.6	1.0	1.2
Dividend payout ratio (%)	27.8	38.6	0.0	30.0	30.0	33.4
Dividend yield (%)	1.4	5.7	-	1.7	2.7	3.3
Earnings Per Share (Rs)	2.1	2.1	0.8	2.1	3.2	3.6
<b>Efficiency ratios</b>						
Asset Turnover (Sales/GFA)	1.7x	2.0x	1.8x	2.0x	2.0x	2.1x
Asset Turnover (Sales/NFA)	2.4x	2.9x	2.7x	3.2x	3.3x	3.6x
Sales/Working Capital	3.7x	4.3x	3.8x	4.5x	5.0x	5.2x
<b>Financial stability</b>						
Net Debt-equity	1.7	1.6	1.4	1.5	1.6	1.4
Interest Coverage	1.5	1.6	1.3	1.8	2.0	2.1
Current Ratio	2.8	2.9	3.1	2.8	2.6	2.5
<b>Valuation Multiples</b>						
Price-earnings	20.2x	6.9x	44.7x	17.5x	11.3x	10.0x
Price-book	2.1x	0.7x	1.8x	1.7x	1.6x	1.4x
EV/EBITDA	8.7x	5.1x	9.1x	7.1x	5.8x	5.3x

Source: Company, CRISIL Estimates

Focus Charts



## About CRISIL Limited

CRISIL is India's leading Ratings, Research, Risk and Policy Advisory Company

## About CRISIL Research

CRISIL Research is India's largest independent, integrated research house. We leverage our unique, integrated research platform and capabilities spanning the entire economy-industry-company spectrum to deliver superior perspectives and insights to over 600 domestic and global clients, through a range of subscription products and customised solutions.

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