



# **INDEPENDENT EQUITY RESEARCH**

**Jumbo Bag Ltd**

**Q2FY11 Result Update**

**Enhancing investment decisions**

## 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) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation 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 Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (- 10-25% from CMP)
1/5	Poor fundamentals	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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# Jumbo Bag Ltd

## Disappointing streak continues

Fundamental Grade 2/5 (Moderate fundamentals)  
Valuation Grade 1/5 (CMP has strong downside)

Industry Containers and packaging

Jumbo Bag Ltd's (Jumbo's) Q2FY11 revenues were in line with CRISIL Equities' expectations but profitability was lower than expected due to lower EBITDA margins and a higher interest outlay. Based on this and sales of recently added low-margin traded polymers, we have revised our earnings estimates for FY11 and FY12 downwards. We maintain our fundamental grade of '2/5'.

### Q2FY11 result analysis

- Jumbo's Q2 revenues grew 62% y-o-y to Rs 246 mn. This includes Rs 52 mn sales from Jumbo's new segment of traded polymers. The company is marketing polymers in the domestic market on its own, in addition to trading of polymers under the contract with Indian Oil Corporation (IOC). The IOC order entails marketing of polymers on its behalf, an agreement which is expected to only marginally augment profits.
- Jumbo maintained its EBITDA margin y-o-y at 7.9%, despite sales of low-margin traded polymers due to a reduction in power cost. However, margins continue to be much lower than the average EBITDA margin of 9.4% recorded over the past three years. Overall EBITDA for Q2FY11 grew by 62% to Rs 19 mn in line with sales.
- PAT margins continue to be thin at 0.6% in Q2FY11. Higher interest outlay suppressed PAT to Rs 2 mn.

### Valuations: Current market price has strong downside

We continue to value Jumbo based on the discounted cash flow method. Due to the downward revision of earnings estimates, our fair value estimate for Jumbo is revised to Rs 35 from Rs 38. At the current market price, this translates into a valuation grade of 1/5 against the previous 2/5.

### KEY FORECAST

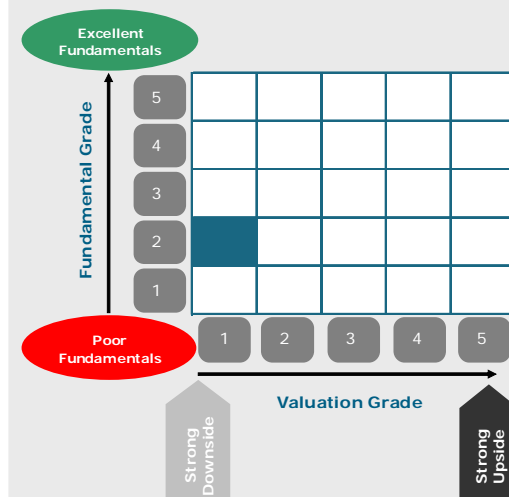
(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	568	706	633	859	1,045
EBITDA	60	66	52	63	84
Adj PAT	14	14	6	8	16
Adj EPS-Rs	2.1	2.1	0.7	1.0	2.0
EPS growth (%)	31.7	0.9	-64.2	32.8	98.4
Dividend yield	1.4	5.7	0.0	0.0	0.0
RoCE(%)	11.7	12.6	8.1	9.5	12.3
RoE(%)	11.0	9.9	3.6	4.5	8.4
PE (x)	20.2	6.9	42.8	48.9	24.7
P/BV (x)	2.1	0.7	1.5	2.2	2.0
EV/EBITDA (x)	8.7	5.1	9.7	10.6	8.5

Source: Company, CRISIL Equities estimate  
NM: Not meaningful; CMP: Current Market Price

December 06, 2010

Fair Value Rs 35  
CMP Rs 50

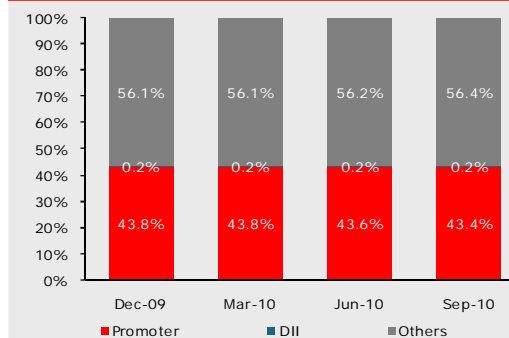
### CFV MATRIX



### KEY STOCK STATISTICS

NIFTY	5992
NSE ticker	JUMBO
Face value (Rs per share)	10
Shares outstanding (mn)	8
Market cap (Rs mn)/(US\$ mn)	394/9
Enterprise value (Rs mn)/(US\$ mn)	644/14
52-week range (Rs) (H/L)	78.1/27.6
Beta	1.6
Free float (%)	56.6
Avg daily volumes (30-days)	1,54,030
Avg daily value (30-days) (Rs mn)	10.5

### SHAREHOLDING PATTERN



### PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
JUMBO BAG LIMITED	-1%	4%	36%	39%
NIFTY	-3%	9%	17%	17%

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## Q2FY11 Result Summary

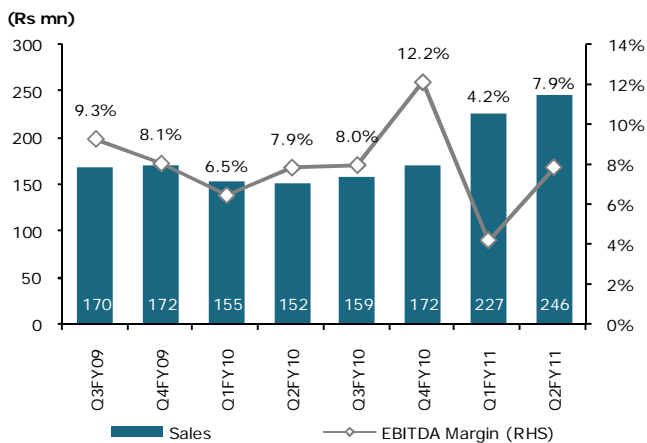
(Rs mn)	Q2FY11	Q1FY11	Q2FY10	q-o-q (%)	y-o-y (%)
Net sales	246	227	152	8.6	61.9
Raw materials cost	174	173	98	0.6	77.1
Raw materials cost (% of net sales)	70.8%	76.4%	64.7%	(563)bps	607bps
Employees cost	10	14	9	(22.9)	21.7
Other expenses	42	30	33	38.6	27.1
EBITDA	19	10	12	102.5	62.1
EBITDA margin	7.9%	4.2%	7.9%	366bps	1bps
Depreciation	5	5	4	14.4	19.4
EBIT	14	5	8	180.4	86.2
Interest and finance charges	11	6	7	87.3	61.2
Operating PBT	3	(1)	1	(369.9)	413.0
Other Income	(0)	2	1	n.m.	n.m.
Extraordinary Income/(expense)	0	0	(0)	n.m.	n.m.
PBT	2	1	1	141.5	73.5
Tax	1	0	1	142.3	44.3
PAT	2	1	1	141.2	94.8
Adj PAT	2	1	1	141.2	68.6
Adj PAT margin	0.6%	0.3%	0.6%	34bps	2bps
No of equity shares (mn)	8.0	8.0	8.0	0.0	0.0
Adj EPS (Rs)	0.2	0.1	0.1	141.2	68.6

**Sales higher by 62% y-o-y supported by traded polymers sales of Rs 52 mn**

**PAT margins leave little room for safety at 0.6%**

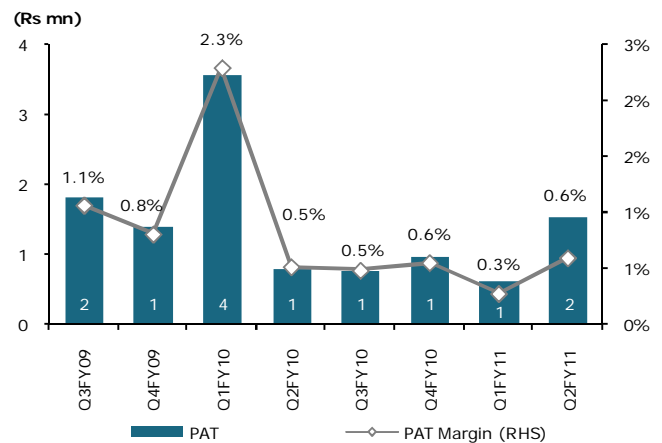
Source: Company, CRISIL Equities

### Quarterly sales in line, EBITDA disappoints



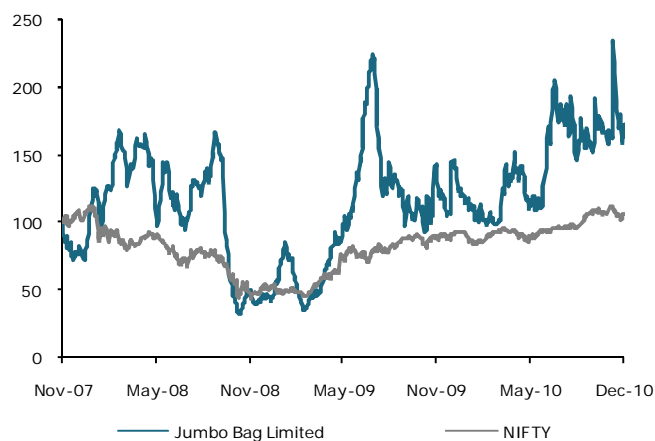
Source: Company, CRISIL Equities

### So also quarterly PAT and PAT margin



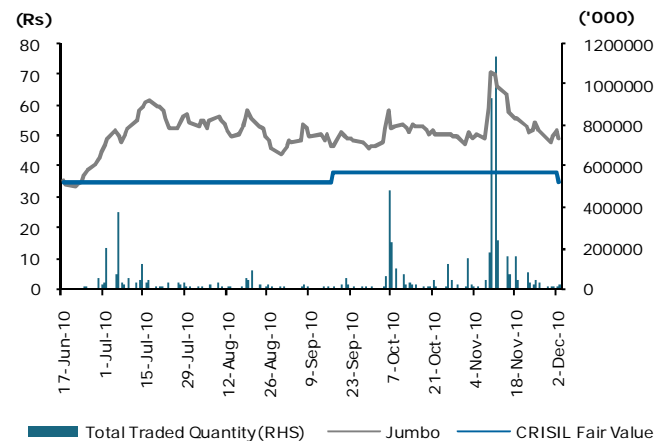
Source: Company, CRISIL Equities

### Share price movement



Source: NSE, CRISIL Equities

### Fair value movement since initiation



Source: NSE, CRISIL Equities

## EARNINGS ESTIMATES REVISED DOWNWARDS

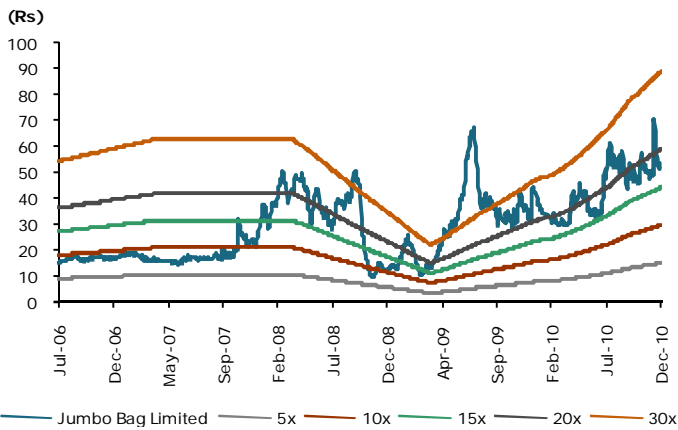
Particulars	Unit	FY11E			FY12E		
		Old	New	% change	Old	New	% change
Revenue	(Rs mn)	1,316	859	-34.7%	1,591	1,045	-34.3%
EBITDA	(Rs mn)	68	63	-7.1%	96	84	-13.2%
EBITDA margin	%	5.2	7.4	219 bps	6.0	8.0	195 bps
PAT	(Rs mn)	14	8	-42.8%	25	16	-35.5%
PAT margin	%	1.1	0.9	13 bps	1.6	1.6	3 bps
EPS	Rs	1.8	1.0	-42.8%	3.2	2.1	-35.5%

- Top-line estimates lowered since the company will not route sales under the IOC contract through its own books (Rs 600 mn and Rs 750 mn in FY11 and FY12, respectively, as per our previous update). This, despite unchanged estimates for sale of manufactured goods and addition of traded polymers' sales to the top line.
- EBITDA estimates lowered due to sales of low-margin traded polymers and underperformance of the manufacturing segment.
- PAT estimates also lowered following a disappointing Q2FY11.

## VALUATION

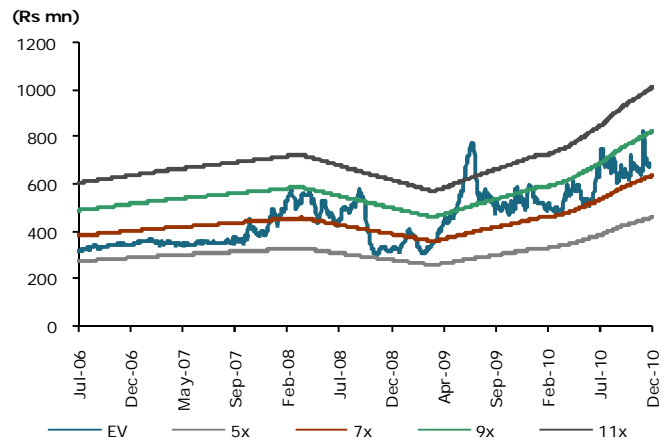
We continue to value Jumbo using the discounted cash flow method. Due to disappointing Q2FY11 numbers and expectations of only a marginal recovery in the subsequent quarters, our fair value estimate for Jumbo is revised to Rs 35 from Rs 38. At this value, the implied P/E multiples are 34.6x FY11E and 17.0x FY12E EPS.

### One-year forward P/E band



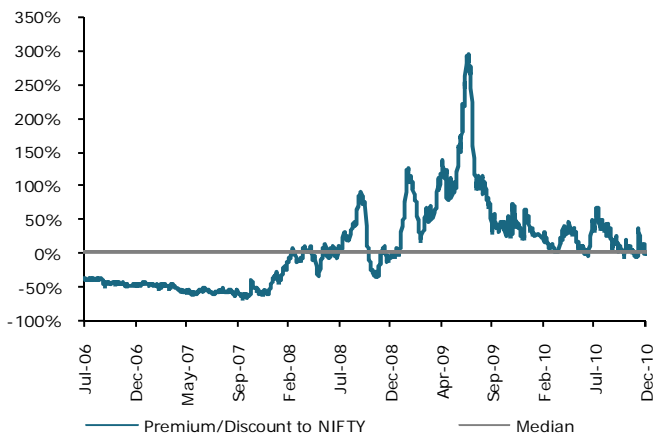
Source: NSE, CRISIL Equities

### One-year forward EV/EBITDA band



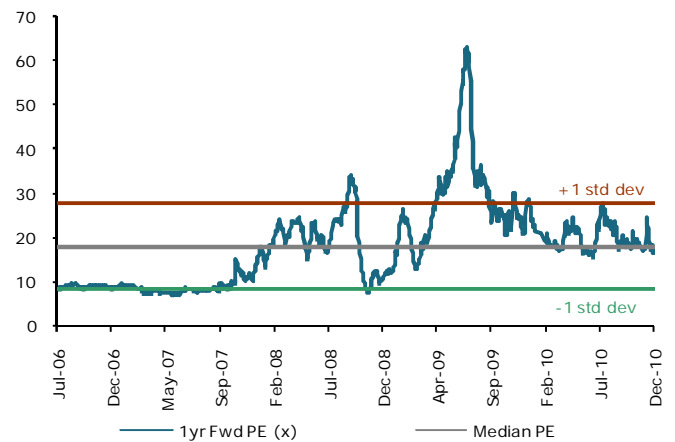
Source: NSE, CRISIL Equities

### P/E-premium/discount to NIFTY



Source: NSE, CRISIL Equities

### P/E movement



Source: NSE, CRISIL Equities

### CRISIL IER reports released on Jumbo Bag Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
17-June-10	Initiating coverage*	2/5	Rs 35	3/5	Rs 36
17-Sept-10	Q1FY11 result update	2/5	Rs 38	2/5	Rs 47
06-Dec-10	Q2FY11 result update	2/5	Rs 35	1/5	Rs 50

\* For detailed initiating coverage report please visit: [www.ier.co.in](http://www.ier.co.in)

CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

## FINANCIALS

### Income statement

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
<b>Operating income</b>	<b>568</b>	<b>706</b>	<b>633</b>	<b>859</b>	<b>1,045</b>
<b>EBITDA</b>	<b>60</b>	<b>66</b>	<b>52</b>	<b>63</b>	<b>84</b>
<b>EBITDA margin</b>	<b>10.6%</b>	<b>9.3%</b>	<b>8.2%</b>	<b>7.4%</b>	<b>8.0%</b>
Depreciation	16	17	18	21	22
<b>EBIT</b>	<b>44</b>	<b>49</b>	<b>33</b>	<b>43</b>	<b>61</b>
Interest	29	31	28	34	38
<b>Operating PBT</b>	<b>15</b>	<b>18</b>	<b>5</b>	<b>9</b>	<b>23</b>
Other income	4	4	5	3	1
Exceptional inc/(exp)	0	0	0	0	0
<b>PBT</b>	<b>19</b>	<b>22</b>	<b>11</b>	<b>12</b>	<b>24</b>
Tax provision	4	7	5	4	8
Minority interest	0	0	0	0	0
<b>PAT (Reported)</b>	<b>14</b>	<b>14</b>	<b>6</b>	<b>8</b>	<b>16</b>
Less: Exceptionals	0	0	0	0	0
<b>Adjusted PAT</b>	<b>14</b>	<b>14</b>	<b>6</b>	<b>8</b>	<b>16</b>

### Ratios

	FY08	FY09	FY10	FY11E	FY12E
<b>Growth</b>					
Operating income (%)	16.6	24.4	(10.4)	35.8	21.6
EBITDA (%)	13.8	9.7	(21.2)	22.2	31.9
Adj PAT (%)	23.8	0.7	(58.8)	36.3	98.4
Adj EPS (%)	23.8	0.7	(64.8)	36.3	98.4
<b>Profitability</b>					
EBITDA margin (%)	10.6	9.3	8.2	7.4	8.0
Adj PAT Margin (%)	2.5	2.0	0.9	0.9	1.5
RoE (%)	11.0	9.9	3.6	4.5	8.4
RoCE (%)	11.7	12.6	8.1	9.5	12.3
RoIC (%)	12.8	13.0	9.7	10.3	11.3
<b>Valuations</b>					
Price-earnings (x)	20.2	6.9	42.8	48.9	24.7
Price-book (x)	2.1	0.7	1.5	2.2	2.0
EV/EBITDA (x)	8.7	5.1	9.7	10.6	8.5
EV/Sales (x)	0.9	0.5	0.8	0.8	0.7
Dividend payout ratio (%)	27.8	38.6	0	0	0
Dividend yield (%)	1.4	5.7	0	0	0
<b>B/S ratios</b>					
Inventory days	71.0	78.0	97.5	86.1	85.6
Creditors days	53.3	43.2	48.6	52.0	53.0
Debtor days	71.3	39.6	54.6	45.7	44.7
Working capital days	98.0	85.0	110.2	96.0	91.6
Gross asset turnover (x)	1.7	2.0	1.7	2.2	2.4
Net asset turnover (x)	2.4	2.9	2.6	3.5	4.0
Sales/operating assets (x)	2.3	2.8	2.5	3.4	4.0
Current ratio (x)	2.8	2.9	3.4	2.9	2.8
Debt-equity (x)	1.7	1.6	1.5	1.6	1.6
Net debt/equity (x)	1.7	1.6	1.4	1.5	1.6
Interest coverage	1.5	1.6	1.2	1.3	1.6

### Per share

	FY08	FY09	FY10	FY11E	FY12E
Adj EPS (Rs)	2.1	2.1	0.7	1.0	2.0
CEPS	4.5	4.6	3.1	3.6	4.8
Book value	20.4	22.1	21.8	22.8	24.8
Dividend (Rs)	0.6	0.8	0	0	0
Actual o/s shares (mn)	6.8	6.8	8.0	8.0	8.0

### Balance Sheet

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
<b>Liabilities</b>					
Equity share capital	68	68	80	80	80
Reserves	71	83	94	102	118
Minorities	0	0	0	0	0
<b>Net worth</b>	<b>139</b>	<b>151</b>	<b>174</b>	<b>182</b>	<b>198</b>
Convertible debt	0	0	0	0	0
Other debt	239	244	258	288	323
<b>Total debt</b>	<b>239</b>	<b>244</b>	<b>258</b>	<b>288</b>	<b>323</b>
Deferred tax liability (net)	37	38	39	39	39
<b>Total liabilities</b>	<b>415</b>	<b>433</b>	<b>471</b>	<b>509</b>	<b>560</b>
<b>Assets</b>					
Net fixed assets	244	238	244	253	268
Capital WIP	7	16	7	7	0
<b>Total fixed assets</b>	<b>251</b>	<b>254</b>	<b>251</b>	<b>260</b>	<b>268</b>
<b>Investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Current assets</b>					
Inventory	95	130	147	179	215
Sundry debtors	121	82	101	118	140
Loans and advances	33	52	57	78	94
Cash & bank balance	5	10	8	9	8
Marketable securities	0	0	0	0	0
<b>Total current assets</b>	<b>254</b>	<b>274</b>	<b>313</b>	<b>383</b>	<b>457</b>
<b>Total current liabilities</b>	<b>90</b>	<b>95</b>	<b>93</b>	<b>134</b>	<b>165</b>
<b>Net current assets</b>	<b>164</b>	<b>179</b>	<b>220</b>	<b>249</b>	<b>292</b>
<b>Intangibles/Misc. expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total assets</b>	<b>415</b>	<b>433</b>	<b>471</b>	<b>509</b>	<b>560</b>

### Cash flow

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Pre-tax profit	19	21	11	12	24
Total tax paid	(2)	(6)	(4)	(4)	(8)
Depreciation	16	17	18	21	22
Working capital changes	(13)	(11)	(42)	(28)	(45)
<b>Net cash from operations</b>	<b>19</b>	<b>21</b>	<b>(17)</b>	<b>1</b>	<b>(6)</b>
<b>Cash from investments</b>					
Capital expenditure	(18)	(20)	(16)	(30)	(30)
Investments and others	0	0	(0)	0	0
<b>Net cash from investments</b>	<b>(18)</b>	<b>(20)</b>	<b>(16)</b>	<b>(30)</b>	<b>(30)</b>
<b>Cash from financing</b>					
Equity raised/(repaid)	0	0	23	0	0
Debt raised/(repaid)	(8)	5	14	30	35
Dividend (incl. tax)	(4)	(6)	0	0	0
Others (incl extraordinary)	9	3	(6)	0	(0)
<b>Net cash from financing</b>	<b>(2)</b>	<b>2</b>	<b>31</b>	<b>30</b>	<b>35</b>
Change in cash position	(0)	4	(1)	1	(1)
Closing cash	5	10	8	9	8

### Quarterly financials

(Rs mn)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
<b>Net Sales</b>	<b>152</b>	<b>159</b>	<b>176</b>	<b>227</b>	<b>246</b>
Change (q-o-q)	-2%	5%	10%	29%	9%
<b>EBITDA</b>	<b>12</b>	<b>13</b>	<b>21</b>	<b>10</b>	<b>19</b>
Change (q-o-q)	19%	7%	64%	-54%	103%
<b>EBITDA margin</b>	<b>7.9%</b>	<b>8.0%</b>	<b>11.9%</b>	<b>4.2%</b>	<b>7.9%</b>
PAT	1	1	1	1	2
<b>Adj PAT</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>
Change (q-o-q)	-74%	-1%	21%	-42%	141%
<b>Adj PAT margin</b>	<b>0.6%</b>	<b>0.6%</b>	<b>0.6%</b>	<b>0.3%</b>	<b>0.6%</b>
<b>Adj EPS</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>

Source: Company, CRISIL Equities estimate

Note: All ratios are computed on adj. PAT

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