

### IPO Details

<b>Opening Date</b>	Sep 06, 2022
<b>Closing Date</b>	Sep 09, 2022
<b>Stock Exchange</b>	NSE SME
<b>Lot Size</b>	3000 Shares
<b>Issue Price</b>	Rs. 40 per share
<b>Issue Size</b>	28,50,000 Equity Shares
<b>Application Amount</b>	Rs. 1,20,000

### IPO Objective

Funding Working Capital Requirement  
General Corporate Purpose  
To Meet Issue Expenses

### Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	78,78,375	99.79%
Public	16,650	0.21%

### Promoter of the Company

1	M/s Channel Plastics Private Limited
2	Mr. Rakesh Sethia
3	Mr. Mohanlan Parakh
4	Mr. Hukum Chand Bothra

### Competitive Strengths

1	Organizational stability along with management expertise
2	Smooth flow of operations
3	Well-defined organizational structure
4	Existing Supplier Relationship
5	Wide Range of Products

### Company Background

- Company was established in the year 2003 in West Bengal.
- Company is primarily engaged in the business of manufacturing Leno Bags which is used for packaging of agricultural produces like potatoes, onions, garlic, coconuts, fruits and vegetables.
- In addition to Leno Bags, Company is also manufacturing Woven Fabric and Sutli (Fibrillated Twisted Thread).
- Company's manufacturing unit is situated at Sudha Ras Food & Poly Park (Industrial Park), Howrah in the state of West Bengal, India.
- Company's brands include Lenoflex, Kisan, Kisan Regular, Goldflex, Goldflex Lite, Tiger, Tiranga, Hena.
- As on the date of filing the prospectus, the company had 60 looms.
- As on 31<sup>st</sup> March 2022, the company had 148 employees on its payroll.

### Financial Summary

	(In Lacs)		
For the Period Ended	Mar-22	Mar-21	Mar-20
<b>Total Assets</b>	3,414.68	3,200.22	2,999.93
<b>Net Assets</b>	3,105.13	2,839.20	2,710.33
<b>Total Borrowings</b>	-	41.01	25.72
<b>Total Revenue</b>	4,739.16	3,108.53	3,343.16
<b>Profit After Tax</b>	265.93	128.87	219.85

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## Company Overview

Mega Flex Plastics Limited was incorporated in the year 2003 in West Bengal and is engaged in the business of manufacturing Leno Bags which are used to store and carry agricultural produces like potatoes, onions, garlic, coconuts, fruits and vegetables. Company also manufactures Woven Fabric and Sutli (Fibrillated Twisted Thread). The manufacturing unit is set up at Sudha Ras Food and Poly Park (Industrial Park), Howrah.

## Analysis

Company has a good track record of existence and has been into the plastic packing industry which is expected to grow at a CAGR of 8.01% from FY 21 to FY 27. The product segment of the company includes –

### Leno Bags



### Woven Fabrics



### Sutli ((Fibrillated Twisted Thread)



**Leno Bags** are considered as the latest and modern technology to store perishable goods such as fruits and vegetables as it provides good ventilation, hygiene and prevents fungus or insects.

**Woven Fabrics** are used in different industrial segments like Bag manufacture, Fertilizers, Cement, Polymers, Chemicals, Textiles, Machinery and Food grain packing. The plastic used in manufacturing of these fabrics is of low cost and can be easily manufactured.

**Sutli** are manufactured from Polypropylene Granules, which are in turn, manufactured in to making Sutli or Fibrillated Twisted Thread. This are mainly used for tying and stitching bags.

Though the company has three products in its segment, but the company majorly manufactures Leno Bags. In the year 2007, company had 27 Leno Looms with a production capacity of 23.08 million bags per year, but currently the company is operating with 60 looms with a capacity to produce 51.30 million bags per year. Company has been among the players who were in the market when the use of Leno Bags was getting less traction as Jute bags were more used then. But the problem with Jute bags were they were heavy and had water absorption feature with used to make perishable goods unusable to a greater extent. So with the innovation of Leno Bags, there is better hygiene and product longevity.

Apart from producing the above mentioned products, company also trades in Polypropylene Granules. A summary of the segment wise revenue has been given in the table below –

<b>Manufacturing</b>	<b>FY 22</b>	<b>FY 21</b>	<b>FY 20</b>
Leno Bags	4,099.66	2,784.41	3,075.77
Woven Fabrics	56.26	27.59	38.86
Sutli (Fibrillated Twisted Thread)	35.87	-	-
<b>Trading</b>			
Polypropylene Granules	430.64	115.84	9.09

The company has been operating currently at around 90% of its total capacity. The summary below in the table shows that the company operated at 98% of its capacity in 2020 and in 2021 the capacity utilization was only 84.58% mainly because of second wave of COVID-19 and therefore the Revenue saw a dip. Thereafter, in FY 22, although operating below the production capacity of FY 20, the company has been able to produce more revenue than that of 2020 and the reason for the same might be increase in sales price of the products.

(Nos. in lakhs)

<b>Particulars</b>	<b>FY 22</b>	<b>FY 21</b>	<b>FY 20</b>
<b>Production Capacity</b>	513.07	513.07	513.07
<b>Actual Production</b>	464.98	433.94	502.98
<b>% Utilised</b>	90.63%	84.58%	98.03%

To conclude, the company has good track record, stable industry growth, good strength in revenue but is operating at 90% of its total capacity.

**Industry Charts**

Exhibit 1: Sector Wise Indian Plastic Industry

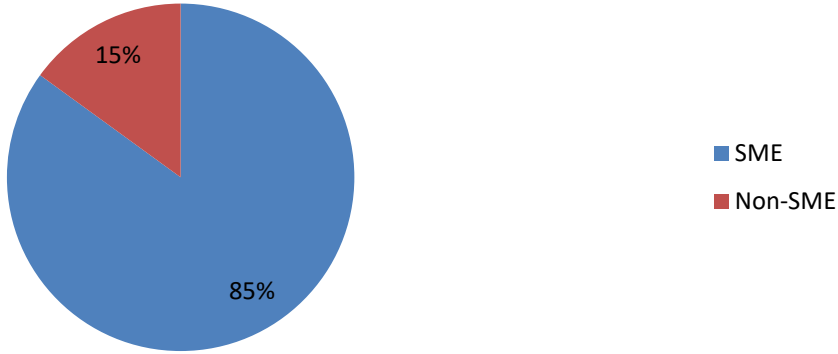


Exhibit 2: Indian Plastic Packing Industry to grow at a CAGR of 8.01% from FY 21 to FY 27.

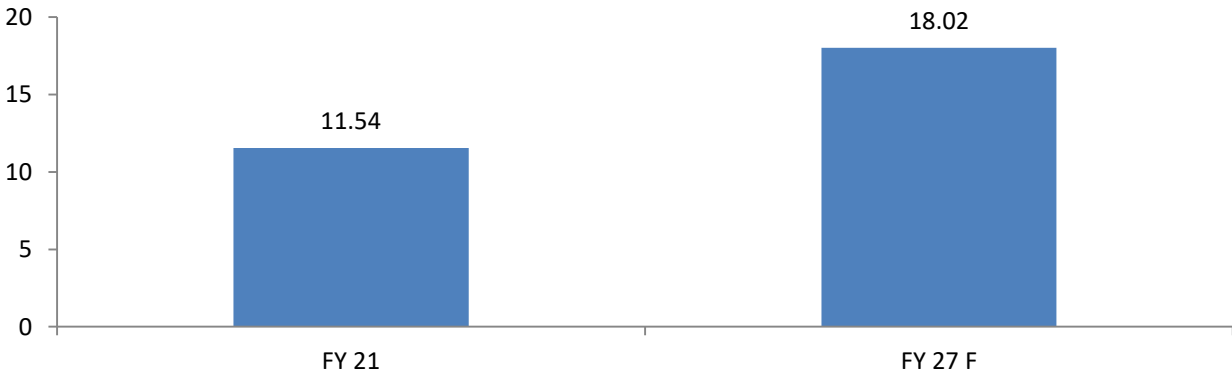
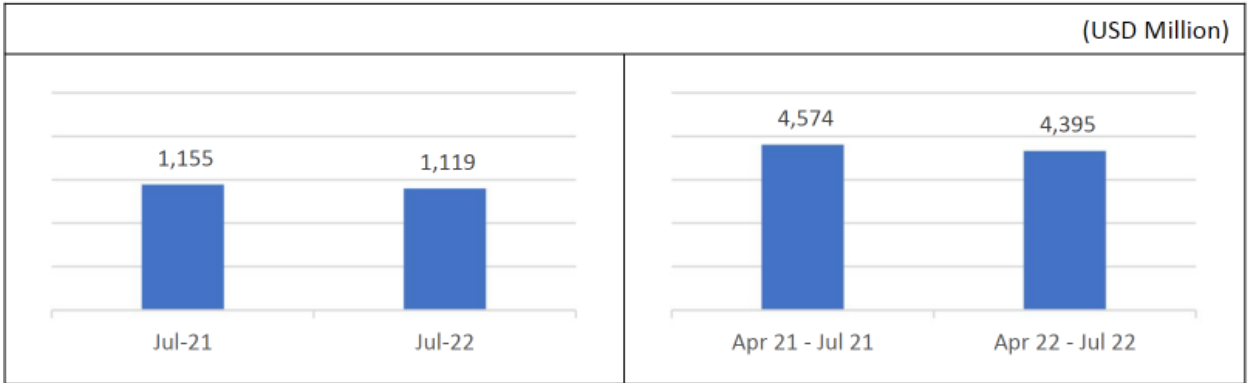


Exhibit 3: Key Trends in Indian Plastic Exports



(Source: ibef.org , plexconcil, techsciresearch)

## Investment Overview

### Plastic Industry

The Indian plastics industry made a promising beginning in 1957 with the production of polystyrene. Thereafter, significant progress has been made and the industry has grown and diversified rapidly. Currently, the Indian plastics industry is spread across the country, employing more than 4 million people and over 2,000 exporters. It operates more than 30,000 processing units, of which 85 per cent to 90 per cent are small and medium enterprises (SMEs).

India is one of the most promising exporters of plastics among developing countries. The Indian plastics industry produces and exports a wide range of raw materials, plastic moulded extruded goods, polyester films, laminates, moulded/soft luggage items, writing instruments, plastic woven sacks and bags, PVC leather cloth and sheeting, packaging, consumer goods, sanitary fittings, electrical accessories, laboratory/medical surgical ware and travel ware, among other products.

As manufacturers increasingly focus on customising products in accordance with end-user needs, the Indian plastics industry has also started developing specific items to suit customer requirements, including supplies to original equipment manufacturers (OEMs). The design, style, as well as the pattern, is decided according to the requirement of the customer in the export market.

India rigid plastic packaging market is expected to reach USD18.02 billion by 2027F, growing at a CAGR of 8.01% during the forecast period. India rigid plastic packaging market is mainly driven by rising GDP, increasing per capita income, surging sales through e-commerce, changing consumer perception, etc.

The market's expected growth can be attributed to the strong growth of the food and beverage industry, which is the primary end-user of rigid plastic packaging. In the food and beverage industry, rigid plastic packaging is in high demand to ensure food safety and shelf life. In addition, due to rising healthcare spending, the healthcare industry, which is another major end-user of rigid plastic packaging, has seen strong growth in the last decade. Moisture resistance, tamper-proof caps, light and chemical resistance, and other properties of rigid plastic packaging are gaining traction in the healthcare sector.

(Source: ibef.org , techsciresearch)

## **Addressable Market for Mega Flex Plastics Limited**

The company is currently supplying its products mainly to the domestic market. Company had also exported its product in FY 21 and FY 20 but did not export anything in FY 22. However, as mentioned in the prospectus, the company plans to target the export market as well in the near future.

## **Competition**

Company operates in a highly competitive environment. The industry is filled with various organized and unorganized players in the industry. There are no barriers to entry which makes the threat of new entrants very high. As a fragmented market the bargaining power of the company is also very low.

## **Peer Analysis**

As Mentioned in the prospectus, the company has no peers.



## Promoters' Profile and Management Analysis

### Mr. Mohan Lal Parakh



- **Mr. Mohan Lal Parakh** is the Promoter, Chairman and Whole Time Director of the Company.
- He is in the line of business for around 6 decades.
- He has been involved in widely diverse industries, namely, plastic processing, oil milling, hosiery, food processing, foundry etc.
- He has completed his matriculation.

### Mr. Hukum Chand Bothra



- **Mr. Hukum Chand Bothra** is the Promoter and Managing Director of the company.
- He is having more than 30 years of experience in the line of business.
- He is a qualified Chartered Account and holds a Bachelor's Degree in Commerce from University of Burdwan.

### Mr. Rakesh Sethia



- **Mr. Rakesh Sethia** is the Promoter and Executive of the company.
- He is having more than 30 years of experience in the field of Plastic Goods, manufacturing of Leno Bags, Rigid Plastic Containers and Card Board Box, Warehousing etc.
- He is a member of the Institute of Chartered Accountants of India and holds a Bachelor's Degree in Commerce from University of Calcutta.

### Channel Plastics Private Limited

- **Channel Plastics Private Limited** is the Corporate Promoter of the company.
- The company was incorporated on 11-04-1989.
- The Company is engaged in manufacturing of Plastic Containers of various sizes for Paints, Lubricants, Greases etc.



### **Analysis on the Company's Promoter and Board of Directors**

**Mr. Mohanlal Parakh** is Promoter, Chairman and Whole Time Director of the company. He is having around 6 decades of experience in the industry and plays a vital role in strategic decision making, identifying and implementing technology, maintaining full efficiency of plant & machineries, continuous improvement of product quality etc.

**Mr. Hukum Chand Bothra** is the Promoter and Executive Director of the company. He is a qualified Chartered Accountant and is having more than 3 decades of experience in plastic and packaging industry. He manages the day to day operations of the company.

**Mr. Rakesh Sethia** is the Promoter and Executive Director of the company and has more than 30 years of experience in the areas of Plastic Goods, manufacturing of Leno Bags, Rigid Plastic Containers and Card Board Box, Warehousing etc. He is a member of Institute of Chartered Accountants of India and looks after the day-to-day operations of the company, specially the newer growth areas. He is the son of the founder of the company, Late Anup Chand Sethia.

To conclude, the management of the company is highly experienced and are very well educated. The Chairman of the company, Mr. Mohanlal Parakh is around 77 years and so in long term and coming future his position might either be handled by Mr. Hukum Chand Bothra or Mr. Rakesh Sethia. The Independent Directors of the company are also well experienced and educated and could provide the company with some good insights. **Overall, the management outlook is good.**

**Financial Snapshot**

(Amount in Lacs)

Particulars	As at 31st March, 2020	As at 31st March, 2021	As at 31st March, 2022
<b>Profit and Loss</b>			
Revenue from operation	3,149.64	2,949.23	4,646.83
Other income	193.52	159.30	92.33
Total Revenue	3,343.16	3,108.53	4,739.16
Expenses	2,895.64	2,770.98	4,268.58
Depreciation and Amortisation Cost	69.57	54.53	47.42
Finance Cost	12.75	3.87	2.48
Total Expenses	2,977.96	2,829.38	4,318.48
PBT	365.20	279.15	420.68
PBT Margin	11.59%	9.47%	9.05%
EBITDA	447.52	337.55	470.58
EBITDA Margin	14.21%	11.45%	10.13%
Net Profit	219.85	128.87	265.93
Net Profit Margin	6.98%	4.37%	5.72%
<b>Balance Sheet</b>			
Total Borrowings	25.72	41.01	-
Net Worth	2,710.33	2,839.20	3,105.13
Fixed Assets	600.92	557.01	565.11
Net Working Capital	1422.33	1351.14	1562.51
<b>Financial Measures</b>			
Inventory Turnover Ratio	5.15	4.29	5.92
Receivables Turnover Ratio	369.24	39.85	84.73
Payables Turnover Ratio	35.57	247.95	202.29
Fixed Assets Turnover Ratio	5.24	5.29	8.22
Return on Capital Employed	13.47%	9.66%	13.60%
Return on Equity	8.11%	4.54%	8.56%
Debt-Equity Ratio	0.01	0.01	-

(The data has been taken and calculated from the financials given in the prospectus)

### **Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)**

The EBITDA of the company has grown from Rs. 447.52 lacs in 2020 to Rs. 470.58 lacs in 2022. The EBITDA margin in FY 20 was 14.21%, in FY 21 was 11.45% and in FY 22 was 10.13% showing some inconsistency. The margin in 2021 had fallen because of the impact of COVID-19 in the first half of 2021 as explained by the management in the prospectus. However, in the year 2022, the margins have improved but is still lagging behind the levels of 2020.

### **Net Profit**

The net profit of the company has grown from Rs. 219.85 lacs in 2020 to Rs. 265.93 lacs in 2022. The net profit margin in in FY 20 was 6.98%, in FY 21 was 4.37% and in FY 22 was 5.72% showing some inconsistency. The reasons and analysis of the same is again similar to that of EBITDA margin as the margins had been affected due to the impact of COVID-19.

### **Finance Cost.**

The company has incurred finance cost mainly on the secured loans availed from banks but the company has no borrowings as on 31.03.2022 showing that the company would not incur any finance cost in near future (if it does not take any further loan).

### **Financial Measures/Ratios**

RoCE of the company in 2022 was 13.60 vs 9.66% in 2021 and 13.47% in 2020. The dip in the RoCE in 2021 was due to dip in the EBIT in the same year because of COVID-19. After that the company has been able to manage its operating expenses as compared to capital employed. As the loans have been repaid and profit in absolute terms has increased, the RoCE has been better in 2022. But with the new capital being raised from IPO the RoCE is expected to fall.

ROE of the company up in 2022 was 8.56%, 4.54% in 2021 and 8.11% in 2020. The reason for dip in 2021 and the expectations in coming years could be set forth as that of RoCE.

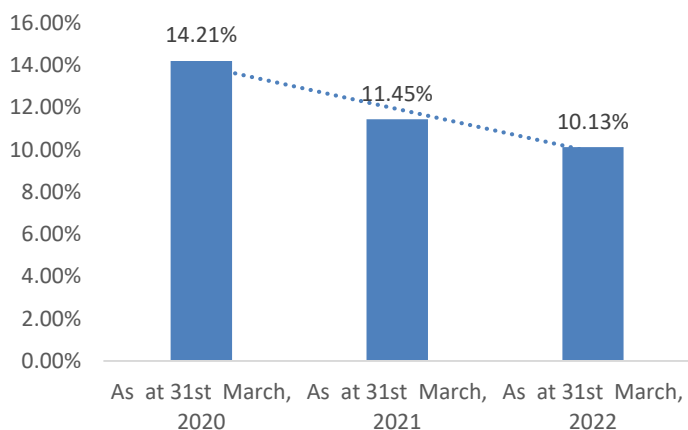
The Company's Turnover Ratios have been fluctuating and no proper trend could be identified. However, in relation to 2021, company has managed its Inventory, Receivables and Payables efficiently.



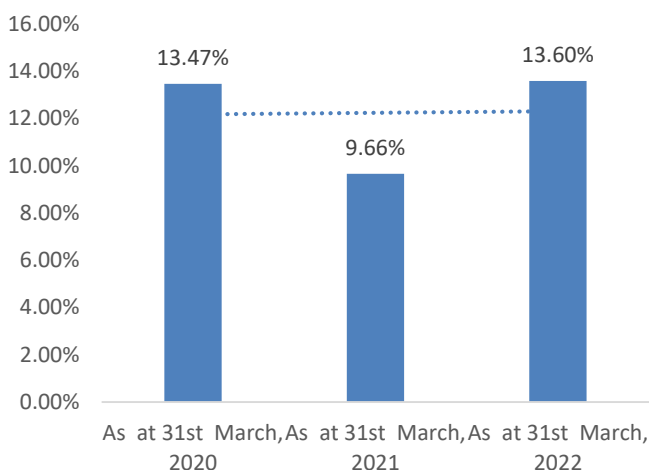
Company's Debt-Equity Ratio has been NIL in 2022. The company has been operating at 90% capacity, it would require to increase its capacity in coming time and for that the company might have to take new loan or might also use its internal accruals.

**Financial Charts**

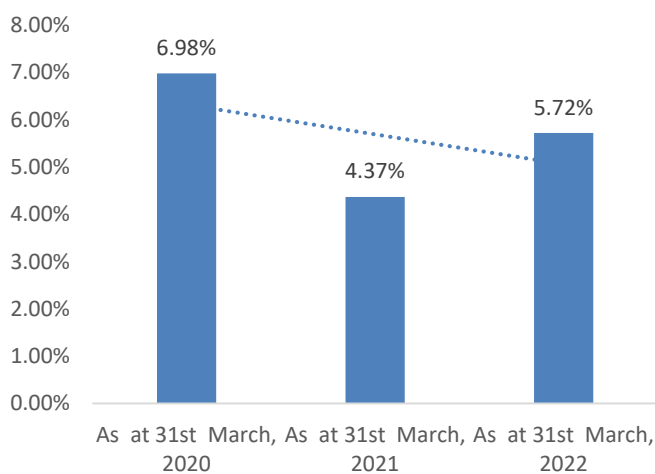
**EBITDA Margin**



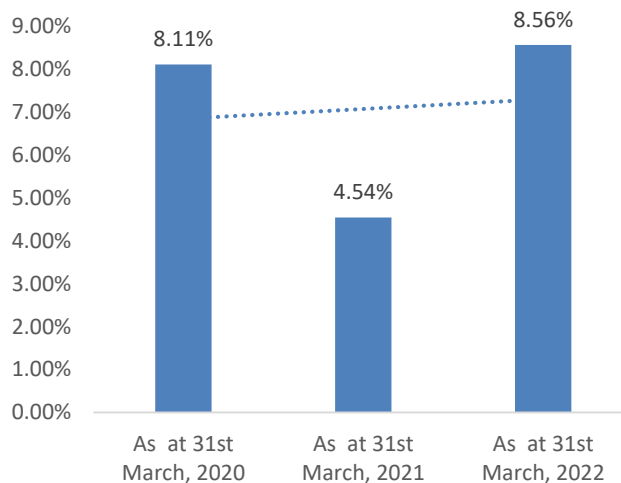
**Return on Capital Employed**



**Net Profit Margin**



**Return on Equity**



## Key Risk Factors

1. Company and Group Company are involved in certain litigations including tax related litigations totalling to an amount of Rs. 44.88 lacs, which if determined against them, can affect financial conditions of the company.
2. Company has around Rs. 1,718.47 lacs as contingent liability and if it goes against the company, it might affect the profitability of the company.
3. The product segment of the company is mainly plastic and government has already banned certain plastic products. Although, Leno Bags are not one time use and can be used for multiple times, the innovation of an alternate product is a big threat for the company.
4. The company's top 10 suppliers contribute more than 90% venue showing higher dependency on them.
5. The company's Revenue majorly depends upon Leno bags and is operating majorly in West Bengal and any geographical, political or demographical change might adversely affect the company.

## Track Record of Lead Manager

The lead manager to the issue is Finshore Management Services Limited and the previous issue details have been taken from the Prospectus. A table has been set below highlighting the details of the IPO of some of the companies handled by the Lead Manager in recent times –

Sr. No	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing date	CMP#
1.	ICL Organic Dairy Products Ltd.	4.08	20/-	17/02/2020	21.50
2.	DJ Mediaprint & Logistics Ltd.	2.40	20/-	13/04/2020	72.40
3.	Promax Power Ltd.	1.60	10/-	12/10/2021	25.00
4.	Dynamic Services & Security Ltd.	24.13	51/-	13/10/2021	16.60
5.	Destiny Logistics & Infra Limited	5.39	20/-	13/10/2021	17.60
6.	Timescan Logistics (India) Limited	4.81	51/-	12/01/2022	85.50
7.	Safa Systems & Technologies Ltd.	4.00	10/-	09/02/2022	9.70
8.	Shigan Quantum Technologies Limited	22.70	50/-	11/03/2022	103.10
9.	Swaraj Suiting Limited	10.68	56/-	28/03/2022	47.35
10.	Fone4 Communications (India) Limited	6.80	10/-	06/05/2022	6.57
11.	Scarnose International Limited	6.60	55/-	27/06/2022	53.20
12.	Healthy Life Agritech Limited	10.00	10/-	26/07/2022	8.61
13.	Agni Green Power Limited	5.25	10/-	01/08/2022	38.25
14.	Upsurge Seeds of Agriculture Limited	22.81	120/-	11/08/2022	201.35
15.	Naturo Indiabull Limited	10.92	30/-	02/09/2022	26.25

### #CMP is taken as on 02<sup>nd</sup> September 2022

This is the 29th IPO of the Lead Manager, out of the last 10 listings, 1 opened at discount, 2 opened at par and rest at premium.



## Recommendation

Being incorporated in the year 2003, the company has good track record of existence. The product segment of the company has decent expected growth of around 8.01% in coming times.

The revenue of the company has shown steady growth with the profit margins being slightly beaten down. Also, since the company is operating in a competitive market, the margins are expected to be around the same levels. The company is operating at 90% of its capacity, so it might go for Capex in the near future.

The management outlook of the company is positive. The management is experienced and well educated.

The major threat to the company is the ban on single time use plastics by government. However, the Leno Bags which the company produces are not for single use and the company has presently consent from the West Bengal Pollution Control Board to operate till 30<sup>th</sup> September 2024 (the validity can be increased)

To conclude, company has good experience in its product segment, the management outlook is positive, the margins have narrowed down, a major threat with regards to ban on plastic or innovation of an alternate product etc. leads us to have mixed reviews and makes it a risky investment. **So risk averse should avoid and risk seekers may apply in the IPO.**

## Disclaimer

We are not SEBI registered and not a certified Research Analyst. The information provided here is for education purposes only. We will not be responsible for any of your profit/loss with these suggestions. Consult your financial advisor before taking any decisions.

**We believe an SME company needs 2-3 years to show its true potential and therefore our recommendations are for Long-term investment and not for listing gains.**