

CMP: INR 168

Rating: Positive

Stock Info

| | |
|-------------------------|-------------|
| NSE | CGRAPHICS |
| Sector | Engineering |
| Face Value (INR) | 10 |
| Equity Capital (INR Mn) | 24.3 |
| Mkt Cap (INR Mn) | 4120 |
| 52w H/L (INR) | 332/140 |

Shareholding Pattern %

(As on Sep 2024)

| | |
|-----------------|--------|
| Promoters | 68.08% |
| FII | 2.22% |
| DII | 2.00% |
| Public & Others | 27.72% |

Investment Rationale

Scalability and pacing growth in Flexographic Business: Flexography printing is the growing preference for eco-friendly packaging. Creative Graphics is the leading in flexography (helps in printing on various materials). Company uses advance technology to produce high precision flexographic plates.

Company has recently added 10% additional capacity (with Kodak Flexcel NX) which has capacity to handle larger plates and consume 20% lower cost. This will assist the company in meeting the rising demand domestically as well as internationally and enter newer regions.

Its current capacity utilization of 50–60% gives it plenty of leeway to expand operations without having to make large capital expenditures.

Company anticipates that the share of flexographic printing market in India will rise significantly, from 15–18% to more than 50%. Prime customers like Unilever, PepsiCo, Tata Chemicals, and other major FMCG companies highlight the business's strong market position. Currently, the company has eight production facilities across India and is the leader in flexographic printing plate industry.

WAHREN to lead the performance with high quality pharma packaging solutions: Wahren provides packaging solutions to the pharma industry. The company has ramped up sales exponentially (incorporated in 2023) and has made itself export ready (started securing orders). At present, company is supplying to over 230 clients. One of the major reasons for its rapid growth is the anti-counterfeiting feature that it provides.

Due to the rising demand, company has decided to expand the capacity to 20,000 tonnes (from 8,000 tonnes). As on July 2024, company had already achieved 50% capacity utilization (on 8,000 tonnes capacity) and aims to reach optimum capacity utilization in a few months.

We believe, with the increase in capacity and anticipated utilization, company will deliver multifold growth along with margin expansion in coming years.

The demand for high quality packaging films is expected to reach 5,000 tonnes. The new machines (from Italy) have been ordered and will generate higher profitability due to newer tech. The new machines will be delivered by end of FY25.

Company is also setting up a warehouse in North East to be closer to clients. Current clientele includes Cadila, Ajanta, Zydus while business with some of the clients like Sun Pharma, Lupin, Alkem is yet to start (facility audits completed).

Besides just alu-alu and blister foils, company is also exploring other synergistic products (PVC/PVDC).

Premedia Division to offer synergistic services: The Premedia Division of the company specializes in providing 3D CGI marketing services and design services to esteemed customers like Marico and ITC. Several new clients have been signed recently (Pernod Ricard, Mars Wrigley, HUL, Del Monte). The Premedia division works as a synergistic offering.

Despite being very small, this niche market is very lucrative and essential to the company's offerings. Utilizing cutting-edge technologies and creative know-how, the division not only improves client interaction but also solidifies the business's standing as a leading premedia service provider.

Outlook: At present, the company is firing on all the cylinders. All the three segments are having humongous growth opportunities. Company was recently listed and 75% of the IPO proceeds are unutilized; which can be utilized for working capital requirements or to fund inorganic opportunities. We believe the company is going to be on a high growth path from here with margins improving substantially. **Moreover, the changes in packaging norms from 2026 will lead to exponential growth.** At CMP, company trades 32.4x TTM EPS but based on our preliminary calculations, company trades at 6.94x FY27EEPS. **We are bullish on the company and are working on detail numbers.**

Abhishek Jain

abhishek.jain@arihantcapital.com

022 4225 4872

Miraj Shah

miraj.shah@arihantcapital.com

Natasha Singh

natasha.singh@arihantcapital.com

| INR (Mn) | FY21 | FY22 | FY23 | FY24 |
|---------------|------|------|------|-------|
| Revenue | 480 | 687 | 918 | 1,316 |
| EBITDA | 52 | 100 | 162 | 186 |
| EBITDA Margin | 11% | 15% | 18% | 14% |
| PAT | 22.8 | 46.5 | 86.4 | 108.0 |
| PAT Margin | 5% | 7% | 9% | 8% |

About the company: Creative Graphics Solutions specializes in manufacturing flexographic printing plates, catering to diverse applications such as labels, multi-wall bags, paper containers, folding cartons, and more. Its product portfolio includes Digital Flexo Plates, Conventional Flexo Printing Plates, and specialized plates like Letter Press and Coating Plates. The company has expanded its value chain through subsidiaries such as Creative Graphics Premedia Pvt Ltd, offering design customization services, and Wahren India Pvt Ltd, focused on pharmaceutical packaging solutions. Strategic acquisitions, including Color Dot Madras Pvt Ltd (2017) and Bwin Digiflex (2018), have strengthened its regional footprint in southern and northern India, respectively, enhancing market presence and operational capabilities.

Management Meet Highlights

- Beneficial trends in its core categories continue to fuel the company's extremely optimistic industry outlook. Flexographic printing's advantages in cost-effectiveness and sustainability are driving its growing usage.
- Blister foils can also benefit greatly from India's status as a center for pharmaceutical manufacturing. High obstacles to entry in all markets, such as demanding quality standards, long-term client connections, and sophisticated technical needs, provide established competitors a competitive advantage.
- The company intends to use an IPO to earn INR 54.4 crore to fund development goals, debt payments, and working capital requirements.
- Over the next two to three years, management is confident that growth in its flexographic and pharmaceutical packaging businesses will double sales and improve profit margins.
- An intense attention on execution. Strong execution that prioritizes export prospects, inorganic development, and capacity expansion sets up the business for long-term success.
- Price pass-through methods are an efficient way to handle the volatility of raw material prices, even though it is still a problem. Nonetheless, one important area to keep an eye on is possible new competition in the flexographic printing plates portion.
- The company is strategically positioned to capitalize on key industry trends and expand its footprint in both domestic and international markets.
- Flexographic printing, known for its ability to deliver high-quality, cost-effective, and sustainable packaging solutions, continues to gain traction across various industries.
- As global and local brands increasingly adopt eco-friendly practices, the demand for flexographic printing plates and solutions is expected to rise, further solidifying the company's market position.
- Export Markets: The company's main export markets include Africa, Thailand, Qatar, Kuwait, and Nepal, and exports currently account for 6% of its total income. The business is deliberately focused on growing its export contributions, especially in the highly sought-after pharmaceutical packaging sector, as it recognizes the substantial growth potential in global markets. It seeks to meet international standards and satisfy a range of customer demands by utilizing its cutting-edge production facilities and expanded capacity. In addition to being in line with its overarching objective of diversifying its sources of income, this growth puts the business in a competitive position globally, allowing it to take advantage of new opportunities in underdeveloped areas and enhancing its presence all over the world.

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park
 Building No. 10, 1st Floor
 Andheri Ghatkopar Link Road
 Chakala, Andheri (E)
 Mumbai – 400093
 Tel: (91-22) 42254800
 Fax: (91-22) 42254880

Registered Office

6 Lad Colony
 Y.N Road
 Indore - 452003, (M.P.)
 Tel: 0731-4217100
 Fax: (91-731) 3016199

Stock Rating Scale**Absolute Return**

| | |
|------------|-------------|
| BUY | >20% |
| ACCUMULATE | 12% to 20% |
| HOLD | 5% to 12% |
| NEUTRAL | -5% to 5% |
| REDUCE | -5% to -12% |
| SELL | <-12% |

**Research Analyst
 Registration No.**

Contact**Website****Email Id**

SMS: 'Arihant' to 56677

www.arihantcapital.comresearch@arihantcapital.com

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Arihant Capital Markets Ltd.
 1011, Solitaire Corporate park, Building No. 10, 1st Floor,
 Andheri Ghatkopar Link Road, Chakala, Andheri (E)
 Tel. 022-42254800 Fax. 022-42254880