

Cosmo First Ltd. (Cosmo Films) – Investment BUY Call – 6 Months Horizon

Dear Bajaj Capital Investors,

New Stock Recommendations for BUY on 20 May 2026

CMP -> 798

Upside Potential-> 15%

Investment Horizon -> 6 Months

Target price -> 918

The company is entering a transformational phase, transitioning from a heavy investment cycle toward sustainable value creation and profitability improvement. Over the last three years, the company has undertaken strategic capital expenditure of more than INR1,200 crore, resulting in significant capacity expansion across key business verticals. Most of the planned capacities have already been commissioned, while future capital expenditure requirements remain limited, improving the company's financial flexibility. Supported by a strong operational ramp-up, the company delivered a healthy revenue CAGR of 19% and EBITDA CAGR of 38% during FY24–FY26. With operating cash flow improving sharply to INR397 crore in FY26 from INR166 crore in FY25, management has outlined a clear roadmap for further deleveraging, with net debt already reduced by INR75 crore since September 2025.

The company is steadily shifting its portfolio mix toward high-margin specialty products and value-added businesses, which is expected to improve profitability and return ratios over the medium term. The specialty films segment continues to grow at an estimated volume CAGR of around 10%, supported by increasing demand for premium packaging applications. In addition, the specialty chemicals business, focused on coatings, masterbatch and adhesives, has emerged as a high-ROCE vertical delivering over 25% EBITDA margins. During FY26, the company also launched high-margin consumer-oriented products such as Window Films and Paint Protection Films (PPF), positioning itself to capitalize on rapidly growing niche segments. The rigid packaging business under Cosmo Plastech is leveraging existing customer relationships from the films division to strengthen branded and specialty sales, thereby enhancing margin stability.

The company's diversified business structure provides strong long-term growth visibility across both B2B and consumer-facing verticals. The flagship films business remains India's largest flexible packaging film producer with a dominant specialty films market share and nearly 50% revenue contribution from exports. Supported by a strong R&D ecosystem with six patents already granted and eleven under development, the business benefits from cost leadership and technological innovation. Simultaneously, emerging verticals such as Cosmo Consumer and Zigly Petcare offer substantial long-term optionality. The Paint Protection Film industry in India is witnessing strong growth momentum of nearly 30% annually, while the petcare industry continues to expand at approximately 20% per annum, creating meaningful opportunities for future scale-up and value unlocking.

Financially, the company appears well positioned for a gradual improvement in leverage and balance sheet strength over the next two years. As of March 2026, net debt stood at INR1,159 crore, translating to 0.7x Net Debt-to-Equity and 2.4x Net Debt-to-EBITDA. Importantly, debt reduction was achieved despite the adverse impact of foreign currency loan revaluation arising from Indian Rupee depreciation. The management's continued focus on cash generation, improving capacity utilization and higher contribution from specialty businesses is expected to support further deleveraging and stronger return ratios. As the company moves closer to optimal utilization levels across its manufacturing facilities, operating leverage benefits are likely to drive margin expansion over the medium term.

Considering the completion of the major capex cycle, improving operating cash flows, rising contribution from high-margin specialty and consumer businesses and visible deleveraging plans, the company offers an attractive medium-term investment opportunity. The market appears to be undervaluing several of the company's emerging high-ROCE verticals, while the management's sum-of-parts assessment indicates intrinsic value potential higher than the current market capitalization. We believe the ongoing transition from an investment-heavy phase to a value creation phase could act as a key rerating trigger for the stock. Therefore, we recommend a "Buy" rating on the stock with a medium-term investment horizon of 6 months for investors seeking exposure to a diversified specialty manufacturing and consumer-focused growth platform.

Financial Performance in Q4FY26:

	YoY	QoQ	Mar 2026	Dec 2025	Mar 2025
Revenue Cr	36.9%	13.5%	1,021	899	746
Operating Profit Cr	^ 71.5%	77.3%	121	68	70
OPM %			11.8	7.6	9.4
PAT Cr	^ 36.2%	25.1%	37	30	27
NPM %			3.6	3.3	3.6
EPS ₹	36.0%	24.9%	14.2	11.4	10.5

Happy investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team