

Time Technoplast (TIMTEC)

₹ 115

Higher input cost dents margin...

- TTL recorded consolidated sales growth of ~14% YoY led by volume growth of ~9% YoY in Q2FY19. Value added product categories (VAPs) recorded sales growth of ~21% YoY led by sharp growth in revenue (1.8x jump) of Mox films. Also, established products (EPs) category (topline contribution ~80%) recorded sales growth of ~12% YoY driven by sales growth of ~11% and ~27% YoY in the plastic product and PE pipes category, respectively. Under the established product category, the performance of the piping segment recorded strong revenue growth after a settlement of GST related issues with clients. According to the management, there is strong traction in demand for piping products (backed by government orders) and Mox films
- Higher raw material prices (polymer prices up ~7% YoY in H1FY19) coupled with depreciation in rupee value (by ~7% YoY) had impacted gross margins negatively by ~250 bps YoY. As a result, PAT declined ~24% YoY. According to the management, margin recovery is possible, going forward, supported by passing on the inflationary pressure to customers coupled with stability in the currency movement

Banking on valued added products...

VAPs category includes composite cylinders, Mox films, IBCs and DWCs wherein Mox films and DWC are newly introduced products for the domestic market. Revenue contribution of VAPs in consolidated sales has increased to 20% in H1FY19 vs. 11% in FY15. VAPs category recorded revenue CAGR of ~34% vs. consolidated revenue CAGR of ~8% (excluding divested business) during FY15-18. We believe VAPs category will record revenue CAGR of ~22% in FY18-20E supported by a) capacity addition of composite cylinder (by ~2x in FY17-20) and IBCs by ~12% in FY17-20E and b) launch of new products like DWC pipes and MOX films in FY18. We believe increase in revenue contribution of VAPs would also help drive consolidated sales CAGR of ~12% in FY18-20E.

Better utilisation, stable raw material prices to help drive profitability

Lower penetration of polymer drums in the Asia Pacific region coupled with TTL's plan to increase utilisation of overseas plants (from average ~67% to in line with utilisation of Indian operation of ~80%) would benefit the company in the long run. Further, stable raw material prices and rising contribution of VAPs in topline would benefit the company in terms of rising EBITDA margin, going forward. The VAPs category commands ~300 bps higher EBITDA margin compared to EPs category. Also, lower interest outgo (compared to historical average) would help drive PAT CAGR of ~19% in FY18-20E. Going forward, that would drive return ratios to elevated levels.

Uncertainty in crude prices and lower utilisation to weigh on valuation

We cut our earnings estimate by 21%, 12% for FY19E, FY20E, respectively, considering lower utilisation and higher input cost (including the negative impact of rupee depreciation). As a result, the working capital requirement may push up overall leverage, going forward. We also cut revenue growth estimate of value added product to 22% in FY18-20E (from earlier 30%) owing to lower utilisation of IBC products and lower-than-expected growth in the composite cylinder category. We revise the rating from BUY to **HOLD** and ascribe an EV/EBITDA multiple of 6x FY20E EBITDA to arrive at a revised target price of ₹ 125/share.

Rating matrix		
Rating	:	Hold
Target	:	₹ 125
Target Period	:	12 months
Potential Upside	:	9%

What's Changed?	
Target	Changed from ₹ 175 to ₹ 125
EPS FY19E	Changed from ₹ 10.0 to ₹ 8.0
EPS FY20E	Changed from ₹ 12.5 to ₹ 11.1
Rating	Changed from Buy to Hold

Quarterly Performance					
	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	827.5	724.8	14.2	781.5	5.9
EBITDA	107.6	109.4	-1.6	120.4	-10.6
EBITDA (%)	13.0	15.1	-208bps	15.4	-240bps
PAT	32.0	42.0	-23.8	43.2	-26.0

Key Financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Net Sales	2,755	3,103	3,357	3,881
EBITDA	404.2	473.1	492.7	610.7
Net Profit	147.1	180.8	179.8	250.4
EPS (₹)	6.5	8.0	8.0	11.1

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	17.7	14.4	14.5	10.4
Target P/E	19.2	15.6	15.7	11.3
EV / EBITDA	7.9	6.8	6.7	5.4
P/BV	2.0	1.8	1.6	1.4
RoNW (%)	11.1	12.2	11.2	13.6
RoCE (%)	14.2	14.9	13.7	16.2

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	2,510.2
Total Debt (FY18) (₹ Crore)	685.1
Cash & Invest. (FY18) (₹ Crore)	59.5
EV (₹ Crore)	3,135.8
52 week H/L	233/ 109
Equity capital (₹ Crore)	22.6
Face value (₹)	1.0

Price performance (%)				
	1M	3M	6M	12M
Time Technoplast	-10.9	-21.7	-11.3	-40.6
Mold Tech Pack	-6.1	-15.4	-24.3	-17.7
Essel Propack	-6.2	-16.3	-32.4	-40.3

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Variance analysis

	Q2FY19	Q2FY19E	Q2FY18	YoY (%)	Q1FY19	QoQ (%)	Comments
Revenue	827.5	813.5	724.8	14.2	781.5	5.9	Sales were largely driven by ~9% growth in volume during Q2FY19. We believe value added product category grew ~21% YoY led by strong performance of Mox films
Other Income	0.5	0.5	0.5	10.0	0.4	36.0	
Raw Material Exp	592.7	577.6	501.2	18.3	539.5	9.9	Higher raw material prices coupled with adverse currency movement resulted in a decline in gross margin by ~250 bps YoY
Employee Exp	37.8	36.6	34.3	10.1	36.9	2.6	
Other expenditure	89.4	87.9	79.9	11.8	84.7	5.4	
EBITDA	107.6	111.4	109.4	-1.6	120.4	-10.6	
EBITDA Margin (%)	13.0	13.7	15.1	-208 bps	15.4	-240 bps	Decline in EBITDA margin was mainly led by lower gross margin
Depreciation	39.7	35.0	32.5	22.5	39.2	1.3	
Interest	23.9	22.6	20.8	14.9	22.7	5.2	
PBT	44.5	54.4	56.6	-21.4	58.9	-24.4	
Total Tax	11.2	13.8	13.4	-16.2	14.9	-24.8	
PAT	32.0	40.0	42.0	-23.8	43.2	-26.0	Decline in EBITDA coupled with higher depreciation and tax provisioning led to a decline in PAT
Key Metrics							
Polymer products	579.8	NA	508.1	14.1	555.2	4.4	Polymer product category growth was largely driven by strong performance of Mox films category (revenue up by ~1.8x) and PE pipe category (revenue up ~22% YoY) on a lower base
Composite products	247.7	NA	216.7	14.3	226.3	9.5	Strong growth in composite products category largely driven by strong sales growth in composite cylinder

Source: Company, ICICI Direct Research,

Change in estimates

₹ Crore)	FY19E			FY20E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	3,577.0	3356.8	(6.2)	4,093.2	3881.4	(5.2)	We tweak our revenue estimate downside to 12% CAGR in FY18-20E (from 15% earlier) considering the slow pick-up in demand of plastic packaging products (includes plastic drums and IBCs)
EBITDA	549.4	492.7	(10.3)	643.2	610.7	(5.1)	
EBITDA Margin %	15.4	14.7	-72bps	15.7	15.7	3bps	We revise our margin estimates downside for FY19E considering the delay in passing on higher raw material prices. Margin may come back to 15.5% in FY20E supported by higher utilisation of newly commenced plants and rising contribution of VAPs in sales
PAT	227.0	179.8	(20.8)	283.4	250.4	(11.7)	
EPS (₹)	10.0	8.0	(20.8)	12.5	11.1	(11.7)	

Source: Company, ICICI Direct. Research

Assumptions

	Current			Earlier		Comments
	FY18	FY19E	FY20E	FY19E	FY20E	
Established products	5.9	4.3	14.7	11.1	11.6	We revised EPs category sales CAGR to ~9% in FY18-20E (from earlier ~11%) mainly due to lower utilisation of packaging product category.
Value added Products	55.5	25.3	19.2	33.6	24.8	We lower our revenue growth estimates from 30% to 22% in FY18-20E considering slower growth in the IBC category.

Source: Company, ICICI Direct. Research

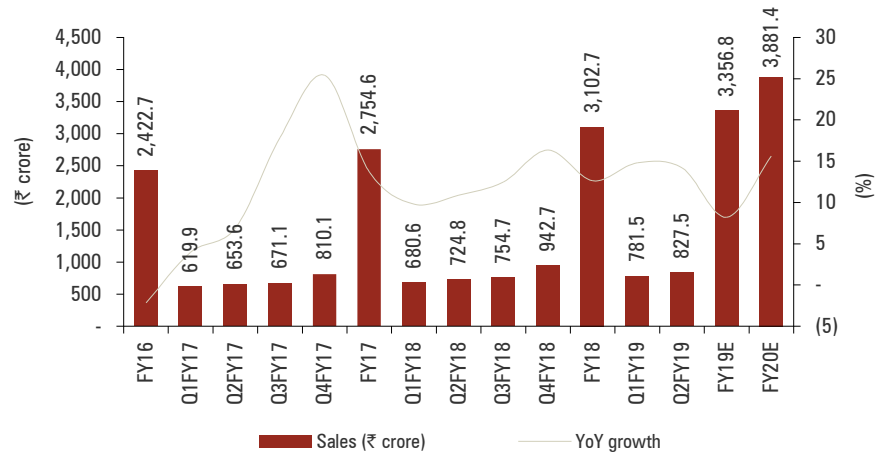
Company Analysis

We model ~12% revenue CAGR for FY18-20E supported by ~22% revenue CAGR of VAPs. We believe established product category (topline contribution ~80% YoY) will record revenue CAGR of ~9% in FY18-20E

EBITDA margin expansion would be on the back of rising proportion of VAPs in the topline. The share of value added products has been 20% of total sales during H1FY19 against 18% in FY18

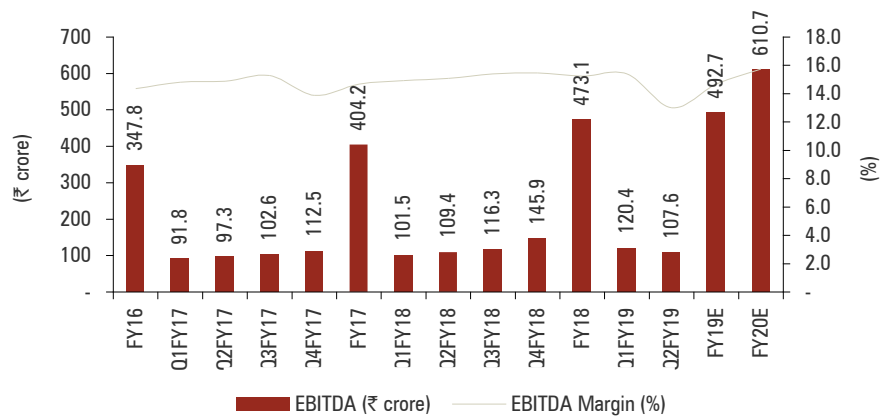
PAT growth would be largely driven by sharp growth in valued added product categories in the topline. This coupled with lower tax rate and better margin would aid PAT growth

Exhibit 1: Quarterly net sales trend



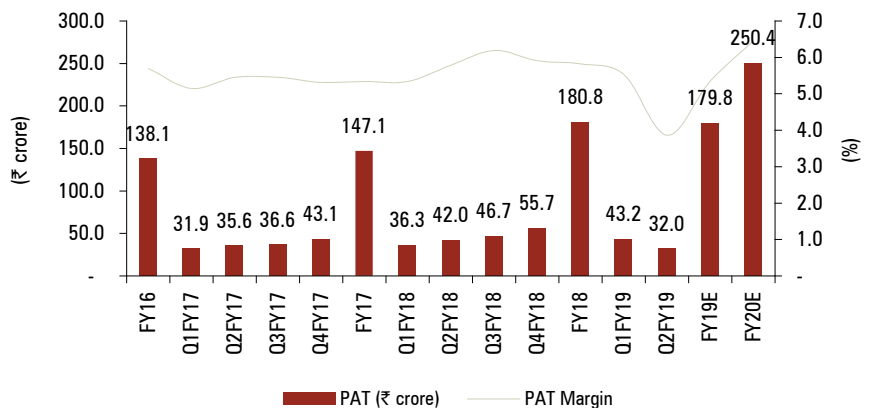
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA and EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 3: PAT and PAT margin movement



Source: Company, ICICI Direct Research

Key conference call takeaways

- Volume growth in India and overseas was ~9% each during Q2FY19
- Higher raw material cost (owing to ~6% YoY decline in the value of rupee against US\$), and higher transportation cost, which was up ~0.5% due to rising fuel cost
- For H1FY19, revenue growth was ~14% led by India where revenue grew 15% YoY while the overseas business recorded growth in revenue by 13% YoY. Volume growth during the same period was 11% at the company level led by overseas business where volume growth was 12% YoY against ~11% YoY volume growth recorded in the domestic business
- Value added products grew 25% YoY in H1FY19. The share of value added products is 20% of total sales in H1FY19 against 18% in H1FY18. The company's focus remains on increasing the share of value added products in its turnover
- Increase in spending in the infrastructure sector led good demand traction in the piping segment. The current order book is at 20,000 MT (worth ₹ 260 crore). The supply of new generation multilayer PE pipe has started for the requirement of power and communication cable. Pipe and ducts has substantial business potential in India, especially in the development of small cities
- Total debt in H1FY19 is at ₹ 823 crore against ₹ 777 crore in FY18. The RoCE of the company during H1FY19 was at 13.02% ~14.24% in the same period last year. Lower RoCE is attributable to lower profitability and higher debt level in H1FY19. However, the company is aiming to clock RoCE of ~16.5% in FY19
- The company has started passing on higher raw material and transportation costs to its customers. It further expects a recovery in the margin in H2FY19 on account of stabilising polymer prices and a slight recovery in the value of rupee against US dollar
- For H1FY19, the company has clocked turnover of ₹ 63 crore and ₹ 140 crore in the Mox films and piping business, respectively. The company is aiming to clock revenue turnover of ₹ 120 crore in Mox films and ₹ 340 crore in piping business for FY19

Recommendation history vs. consensus



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
Jun-15	Decides to sell its 50% stake in Chinese JV to Mauser due to lower-than-expected performance of JV in China
Jun-15	Sets up 50:50 JV with local partner in Egypt for manufacture of drums, Jerrycans and pails at Suez in Egypt
Dec-16	TTL's subsidiary NED Energy Ltd, ties up with one of the largest and reputed technology based (Japanese) automotive battery manufacturer in Indonesia
May-17	Launches its highly technical and innovative MOX film (multi layer multi axis oriented cross laminated film) under brand 'Techpaulin'
May-17	Launches full range of structured wall plastic piping system (PE/PP double wall corrugated pipes) up to 800 mm dia mainly for application in sewerage and drainage collection and disposal system, sewerage/effluent treatment plants in the industrial areas, ducting, etc
Jun-17	For the first time Reliance Gas launches LPG in TTL manufactured composite cylinders "Lite Safe" in Pune (Maharashtra)
Jun-17	TTL announces successful trial production and testing of carbon fibre based composite cylinders for CNG for automotive applications
Jan-18	TTL announces setting up of a production facility, for tight head and open top steel drums, up to 220 litre (55 gallons) capacity, for the ever-growing petro-chemical & chemical industries in UAE
Jun-18	Time Technoplast and Gavenplast, SA, Venezuela enter into an understanding for offering composite cylinders in South America and Caribbean
Jun-18	Launches a new generation multilayer pipes for power/communication cable ducts with silicone in lining

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Last filing date	%O/S	Position (m)	Change (m)
1	Time Securities Services Pvt. Ltd.	30-Sep-18	18.2	41.2	-1.0
2	Vishwalaxmi Trading & Finance Pvt. Ltd.	30-Sep-18	15.5	35.1	-1.0
3	NTAsset (Cayman) Ltd.	30-Sep-18	14.3	32.4	3.9
4	Time Exports Pvt. Ltd.	30-Sep-18	9.7	21.9	-0.5
5	HDFC Asset Management Co., Ltd.	30-Sep-18	9.0	20.3	0.0
6	Grandeur Peak Global Advisors, LLC	30-Sep-18	2.3	5.3	0.0
7	Kapitalforeningen Unipension Invest	30-Sep-18	2.1	4.6	0.0
8	Jain (Naveen Mahendra Kumar)	30-Sep-18	2.0	4.6	0.0
9	Thyagarajan (Raghupathy)	30-Sep-18	2.0	4.6	0.0
10	Vageria (Bharat)	30-Sep-18	2.0	4.6	0.0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoter	52.55	52.5	52.42	52.42	51.18
FII	26.46	26.32	26.44	26.37	28.25
DII	9.15	9.09	9.05	9.01	9.0
Others	11.84	12.09	12.09	12.2	11.57

Recent Activity

Buys			Sells		
Investor name	Value(m)	Shares(m)	Investor name	Value(m)	Shares(m)
NTAsset (Cayman) Ltd.	6.9	3.9	Vishwalaxmi Trading & Finance Pvt. Ltd.	-1.8	-1.0
BlackRock Institutional Trust Company, N.A.	0.0	0.0	Time Securities Services Pvt. Ltd.	-1.8	-1.0
BlackRock Asset Management Ireland Limited	0.0	0.0	Time Exports Pvt. Ltd.	-0.9	-0.5
Indian Direct Equity Advisors Pvt. Ltd.	0.0	0.0	BNY Mellon Asset Management North America Corporation	-0.2	-0.1
Sanjaya (Shaila Kulkarni)	0.0	0.0	Kacholia (Ashish)	-0.2	-0.1

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
Year end March	FY17	FY18	FY19E	FY20E	
Net sales	2754.6	3102.7	3356.8	3881.4	
Expenditure					
Raw material	1919.4	2152.8	2355.3	2696.0	
Employee Expenses	133.2	145.1	146.3	163.2	
Other Expenses	297.8	331.8	362.5	411.4	
Total expenditure	2350.4	2629.7	2864.1	3270.7	
EBITDA	404.2	473.1	492.7	610.7	
Other income	2.2	2.5	2.8	3.1	
EBITDA (incl. other income)	406.5	475.6	495.4	613.8	
Depreciation	115.5	137.2	154.4	178.5	
EBIT	291.0	338.4	341.0	435.2	
Interest	90.1	87.5	94.4	91.8	
PBT before Exc. Items	200.9	250.8	246.7	343.4	
Less: Exc. Items	0.0	0.0	0.0	0.0	
PBT after Exc. Items	200.9	250.8	246.7	343.4	
Tax	49.4	65.2	63.1	89.1	
PAT	147.1	180.8	179.8	250.4	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
Year end March	FY17	FY18	FY19E	FY20E	
Profit/(Loss) after taxation	147.1	180.8	179.8	250.4	
Add: Depreciation & Amortization	115.5	137.2	154.4	178.5	
Add: Interest Paid	90.1	87.5	94.4	91.8	
CF bef working capital chg.	352.7	405.5	428.6	520.7	
Net Increase in Current Assets	-190.5	-205.8	-134.6	-171.1	
Net Increase in Current Liabilities	-7.0	96.8	6.8	44.4	
Net CF from operating act.	155.2	296.5	300.8	394.0	
(Purchase)/Sale of Fixed Assets	-211.1	-243.7	-250.0	-250.0	
Others	96.8	7.9	0.0	0.0	
Net CF from Investing act.	-114.2	-235.7	-250.0	-250.0	
Pro/(Rep) of debt	29.9	54.1	100.0	-40.0	
Payment of Div & Div tax	-14.2	-21.3	-14.2	-14.2	
Int. paid	-90.1	-87.5	-94.4	-91.8	
Net CF from Financing act	-49.0	-57.6	-47.4	-146.0	
Net Cash Flow	-8.0	3.2	3.4	-2.0	
Cash & Cash Equi at beg	64.2	56.2	59.5	62.9	
Cash & Cash Equi at end	56.2	59.5	62.9	60.9	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
Year end March	FY17	FY18	FY19E	FY20E	
share capital	22.6	22.6	22.6	22.6	
Reserve and Surplus	1303.9	1460.5	1587.3	1823.5	
Total Shareholder's Fund	1326.5	1483.1	1609.9	1846.1	
Total Debt	631.0	685.1	785.1	745.1	
Deferred Tax liability	47.1	58.1	58.1	58.1	
Minority Interest	38.4	40.5	40.5	40.5	
Total Assets	2043.0	2266.8	2493.6	2689.8	
Gross Block	1833.8	2070.3	2320.3	2570.3	
Accumulated Depreciation	733.4	870.6	1025.0	1203.6	
Net Block	1100.4	1199.7	1295.3	1366.7	
Capital WIP	86.9	94.1	94.1	94.1	
Total Fixed Assets	1187.4	1293.8	1389.4	1460.8	
Investments	16.8	22.0	22.0	22.0	
Current Assets					
Inventory	547.3	640.9	689.8	691.2	
Debtors	578.2	670.3	726.5	840.1	
Other Current Assets	185.5	205.5	235.0	291.1	
Cash	56.2	59.5	62.9	60.9	
Total Current Assets	1367.2	1576.2	1714.2	1883.3	
Current Liabilities					
Creditors	345.7	437.0	423.0	489.2	
Provisions	17.0	8.3	20.9	24.1	
Other current liabilities	165.6	179.8	188.0	163.0	
Total Current Liabilities	528.4	625.1	631.9	676.3	
Total Liabilities	2043.0	2266.8	2493.6	2689.8	

Source: Company, ICICI Direct Research

Key ratios		FY17	FY18	FY19E	FY20E
Year end March					
EPS		6.5	8.0	8.0	11.1
Cash EPS		11.6	14.1	14.8	19.0
DPS		0.6	0.9	0.6	0.6
BV per share		58.7	65.6	71.2	81.6
Profitability Ratio					
EBITDA Margin		14.7	15.2	14.7	15.7
PAT Margin		5.3	5.8	5.4	6.5
Return Ratio					
RoCE		14.2	14.9	13.7	16.2
RoE		11.1	12.2	11.2	13.6
RoIC		14.0	14.6	13.4	16.0
Valuation Ratio					
P/E		17.7	14.4	14.5	10.4
EV/EBITDA		7.9	6.8	6.7	5.4
Mcap/Sales		0.9	0.8	0.8	0.7
Price to BV		2.0	1.8	1.6	1.4
Activity Ratios					
Inventory Days		72.5	75.4	75.0	65.0
Debtors Days		76.6	78.9	79.0	79.0
Creditors Days		45.8	51.4	46.0	46.0
Gross Block Turnover		1.5	1.5	1.4	1.5
Solvency Ratios					
Debt/Equity		0.5	0.5	0.5	0.4
Debt/Ebitda		1.6	1.4	1.6	1.2
Current Ratio		3.6	3.4	3.7	3.6
Quick Ratio		2.1	2.0	2.2	2.2

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Consumable)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Asian Paints (ASIPAI)	1,307	1,180	Hold	125,341	21.9	22.8	28.1	59.8	57.4	46.5	33.9	31.4	25.7	31.6	30.0	32.2	24.4	23.5	25.0
Astral Polytechnik (ASTPOL)	1,011	1,125	Hold	12,107	14.7	17.7	26.4	68.9	57.0	38.4	39.2	30.9	23.1	22.9	23.4	26.3	17.2	16.4	19.8
Bajaj Electricals (BAJELE)	504	545	Hold	5,143	8.2	16.0	20.9	61.5	31.6	24.1	20.1	18.0	13.5	18.1	15.0	17.9	13.7	16.2	18.0
Havells India (HAVIND)	675	650	Buy	42,113	11.4	13.3	17.1	59.1	50.6	39.4	34.7	29.4	22.7	25.2	28.6	30.7	18.8	21.3	22.7
Kansai Nerolac (KANNER)	420	390	Hold	22,635	9.6	10.1	11.1	43.8	41.6	37.8	24.5	22.9	18.7	24.5	24.4	26.1	16.5	16.6	16.3
Pidilite Industries (PIDIND)	1,124	1,096	Buy	57,621	18.8	19.6	24.3	59.6	57.4	46.2	35.9	31.2	25.7	33.6	31.0	33.6	27.0	22.6	24.3
Essel Propack (ESSPRO)	88	94	Hold	2,765	5.5	6.0	7.4	15.9	14.6	11.9	7.0	6.5	5.5	18.0	17.8	19.9	15.2	15.2	16.9
Supreme Indus (SUPIND)	985	1,075	Hold	12,512	33.9	38.9	43.0	29.0	25.3	22.9	16.4	15.1	12.9	27.9	28.0	29.0	22.7	22.0	22.5
Symphony (SYMLIM)	968	830	Hold	6,772	27.5	20.5	27.6	35.2	47.2	35.0	27.2	34.7	24.2	41.3	27.3	35.2	31.5	24.2	30.7
V-Guard Ind (VGUARD)	192	168	Hold	8,173	3.1	3.7	4.8	61.3	52.4	40.1	39.6	33.9	26.0	23.7	26.0	28.4	17.7	19.7	21.6
Voltas Ltd (VOLTAS)	567	560	Hold	18,753	17.5	17.3	21.8	32.4	32.8	26.0	25.8	24.3	19.3	19.8	21.9	23.6	14.8	16.0	17.7
Time Techno (TIMTEC)	115	125	Hold	2,601	8.0	8.0	11.1	14.4	14.5	10.4	6.8	6.7	5.4	14.9	13.7	16.2	12.2	11.2	13.6

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct Research endeavours to provide objective opinions and recommendations. ICICI Direct Research assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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