

Non-core business drives performance

Time Technoplast's Q4FY19 performance was ahead of our estimate with revenue growth of ~15% YoY (I-direct estimate: 12%) supported by 4x jump in sales of piping business. The established product category (plastic division and PE Pipes) increased ~15% YoY led by strong government demand in the piping segment. Value added product (VAP) category grew ~18% YoY led by strong growth in the composite cylinder category. Gross margin remained under pressure mainly on account of a sharp rise in contribution of low margin products in the topline. However, EBITDA margin was higher at 15.7% (I-direct estimate: 14.7%) mainly due to saving in other expenditure. PAT growth came on the back of flattish depreciation (due to change in working of depreciation) and saving in tax outgo during Q4FY19. The management reiterated topline growth of ~15% but margin would remain in the range of ~14-15% owing to rising contribution of PE pipes.

Pipes & composite cylinders drives topline

Revenue growth of ~15% YoY driven by PE pipes and composite cylinders categories where topline grew 42% and 29% YoY, respectively. The management has reiterated strong order book position in these categories while the growth momentum would continue in FY20E. Plastic product category (contributes ~70% in topline) grew ~12% YoY led by a revival in demand of plastic drums from the chemical sector. We model revenue CAGR of ~13% in FY19-21E (lower than management guidance of 15%) led by ~20% and 10% revenue CAGR in the VAP and established product categories, respectively. We believe revenue contribution from VAP would increase from ~19% in FY19 to ~22% by FY21E.

EBITDA margin remains intact

EBITDA margin at 15.7% in Q4FY19 was supported by positive operating leverage on account of strong volume growth of ~18%. However, gross margin remained under pressure on account of higher contribution of low margin products (PE pipes business commands ~12% EBITDA margin as against consolidated EBITDA margin of ~15%). According to the management, prices of major raw materials like HDPE and LDPE (contributes ~90% of raw material) were relatively stable (at ~US\$1250/tonne in Q4) compared to a sharp decline PVC prices (decline of ~10% in March). Hence, the company did not witness any impact of inventory losses unlike other plastic players. According to the management, there is limited scope of expansion in EBITDA margin (would remain in the range of ~14-15%) owing to rising contribution of low margin products in the topline.

Valuation & Outlook

We roll over our valuation on FY21E and value the stock at FY21E 5x EV/EBITDA. We maintain **HOLD** on the stock with a revised TP of ₹ 110/share.



Particulars

Particular	Amount
Market Cap (₹ Crore)	2,306.7
Total Debt (FY19) (₹ Crore)	741.5
Cash & Inv (FY19) (₹ Crore)	49.1
EV (₹ Crore)	2,999.1
52 week H/L	165/ 74
Equity capital (₹ Crore)	22.6
Face value (₹)	1.0

Key Highlights

- Strong growth in the P/E pipes and composite cylinder categories drives topline growth
- Gross margin remained under pressure due to rising contribution of low margin products
- Management guided for 15% topline growth with VAPs expected to grow ~20% in FY20
- Maintain our **HOLD** recommendation on the stock with a revised target price of ₹ 110/share

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Key Financial Summary

₹ Crore	FY17	FY18	FY19E	FY20E	FY21E	CAGR (19-21E)
Net sales	2,754.6	3,102.7	3,563.7	3,995.5	4,531.3	12.8
EBITDA	404.2	473.1	523.5	588.7	669.0	13.0
EBITDA Margin (%)	14.7	15.2	14.7	14.7	14.8	
PAT	147.1	180.4	202.7	239.6	283.6	18.3
EPS (₹)	6.5	8.0	9.0	10.6	12.5	
P/E (x)	15.7	12.8	11.4	9.6	8.1	
Price/Book Value (x)	1.7	1.6	1.4	1.2	1.1	
EV/EBITDA (x)	7.1	6.2	5.7	5.2	4.5	
RoE (%)	11.1	12.2	12.1	12.9	13.3	
RoCE (%)	14.2	14.9	15.0	15.8	16.7	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	1,082.1	1,056.0	942.7	14.8	872.7	24.0	Sales growth led by ~18% of volume growth during Q4FY19. Strong volume growth largely driven by piping segment
Other Income	2.4	1.2	1.1	109.9	0.2	1,018.9	
Raw Material Exp	765.7	742.4	658.8	16.2	613.5	24.8	Change in product mix coupled with a sharp increase in sales of low margin products resulted in a decline in gross margin by ~90 bps YoY
Employee Exp	49.8	44.4	43.2	15.1	39.5	26.0	
Other expenditure	97.0	114.1	94.8	2.4	93.9	3.3	
EBITDA	169.6	155.2	145.9	16.2	125.9	34.7	
EBITDA Margin (%)	15.7	14.7	15.5	20 bps	14.4	125 bps	Negative impact of lower gross margin was partly offset by saving in other expenses, resulting in a increase in EBITDA
Depreciation	38.4	40.1	38.6	-0.4	28.7	33.8	Review of realistic useful life of plant & machineries including moulds, working of depreciation has been changed
Interest	27.4	30.6	24.7	10.8	24.6	11.2	
PBT	106.1	85.7	83.7	26.8	72.7	46.0	
Total Tax	30.3	29.2	26.7	13.6	17.0	78.5	
PAT	73.7	55.7	55.4	33.1	54.2	36.0	Better margin coupled with lower depreciation and tax outgo led to an increase in PAT
Key Metrics							
Polymer products	781.5		681.2	14.7	610.6	28.0	Polymer product category growth was largely driven by strong performance of PE pipes, which increased by 4.5x while MOX films revenue increased ~9% YoY, respectively
Composite products	300.5		261.5	14.9	262.1	14.6	Strong growth in composite products category largely driven by composite cylinders and IBC business wherein revenue grew ~22% and ~14% YoY, respectively

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	3,998.8	3995.5	(0.1)	4,495.1	4531.3	0.8	We model revenue CAGR of 13% in FY19-21E led by value added product segment revenue CAGR of 20% during the same period
EBITDA	588.8	588.7	(0.0)	663.8	669.0	0.8	
EBITDA Margin %	14.7	14.7	3bps	14.8	14.8	-4bps	We build EBITDA margin at FY19 level on account of a sharp increase in revenue contribution from PE pipes that is relatively low margin business (~12%)
PAT	245.3	239.6	(2.3)	286.2	283.6	(0.9)	
EPS (₹)	10.8	10.6	(2.3)	12.7	12.5	(0.9)	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier			Comments
	FY18	FY19E	FY20E	FY21E	FY20E	FY21E		
Established products	5.9	13.5	8.9	12.7	10.1	11.7		We revise EPs category sales CAGR to ~10% in FY19-21E (from earlier ~11%) supported by both plastic and PE pipe division
Value added Products	55.7	21.1	24.7	15.9	24.7	14.9		We model revenue CAGR of 20% in FY19-21E led by MOX films and composite cylinder category

*not adjusted with excise/GST

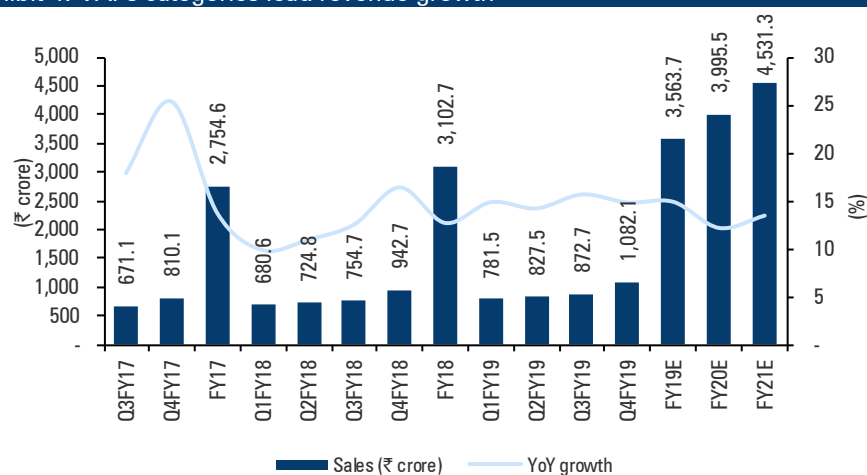
Source: Company, ICICI Direct Research

Conference call highlights

- India contribution in revenue is at 71% while the rest is contributed by overseas business
- Revenue growth in FY19 was at 15% YoY led by 15% YoY growth in India business while overseas business grew ~14% YoY. Volume growth was at ~15% YoY
- Indian business EBITDA margin declined 60 bps YoY to 14.9% in FY19 while overseas EBITDA margin declined 50 bps YoY at 14.4%
- The value added products grew 20% in FY19 compared to the previous year. The share of value added products is 19% of the total sales in FY19 against 18% in FY18. The company's focus remains on increasing the share of value added products in its revenue
- Capex in FY19 was at ₹ 230 crore. It is expected to be in the range of ~₹ 200-220 crore by the end of FY20E
- The company has a healthy order book of ₹ 400 crore (1.2x TTM sales) in the PE pipe segment
- Time Techno has signed an agreement with domestic LPG supplier for the supply of 300,000 composite cylinders
- Looking at strong traction in demand, the company is likely to increase the composite cylinder capacity from 1.4 mn to 2.1mn by the end of FY21
- The current capacity company can generate ₹ 200 crore revenue in the Mox films (recorded revenue of ₹ 100 crore in FY19E)
- According to the management, the chemical industry is likely to grow ~11-12%. Hence, the company's packaging business is likely to follow the trend
- The company has reiterated revenue growth of ~15% in FY20E led by strong growth of ~20% in VAP category
- Contribution of PE pipes is likely to remain higher in the topline, which would cap the expansion in EBITDA margin
- No immediate reduction in debt level owing to higher working capital requirement in the PE pipe business
- The company completed greenfield manufacturing project for manufacturing IBC Bottle in Chicago, US and commenced commercial sale (recorded revenue of US\$6 million). It launched a new range of next generation matting products in FY19. It is also likely to introduce composite CNG cylinder in the automotive segment in FY20

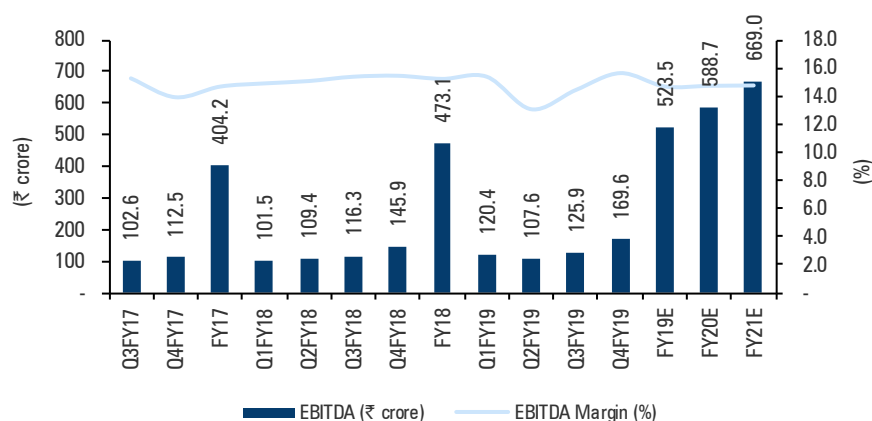
Financial story in charts

Exhibit 4: VAPs categories lead revenue growth



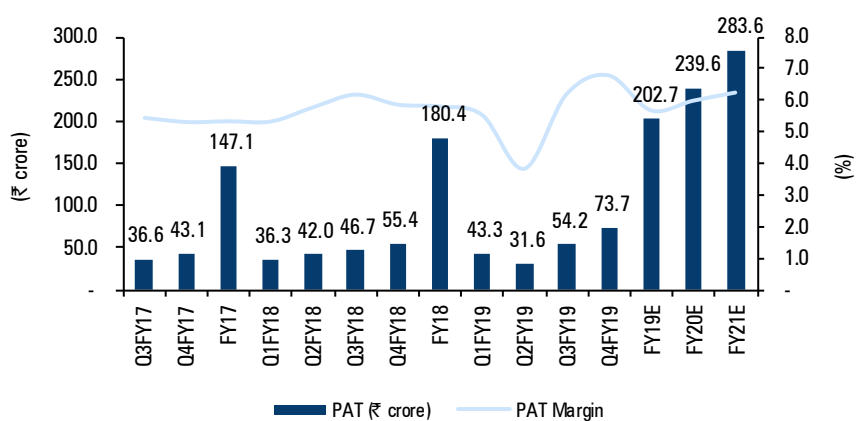
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



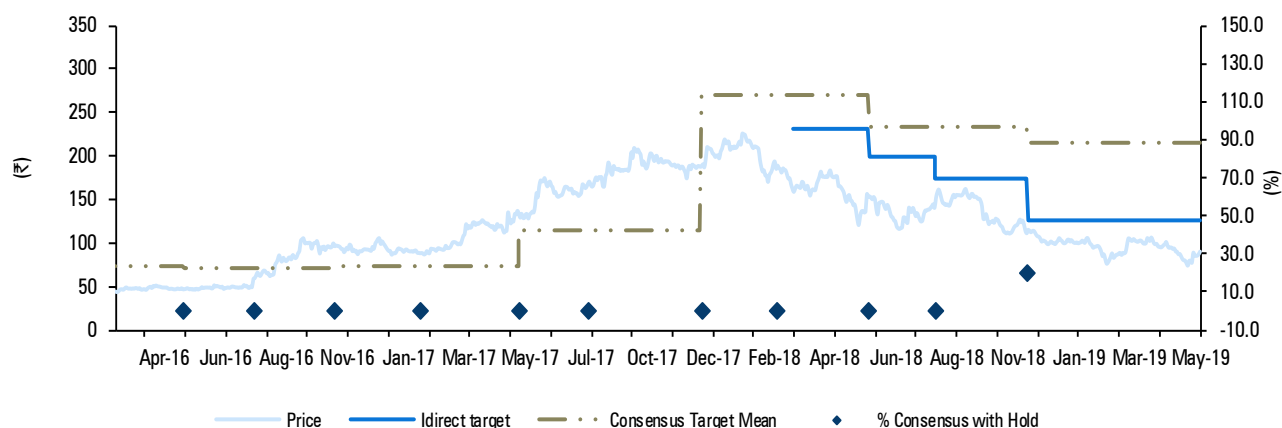
Source: Company, ICICI Direct Research

Exhibit 6: Sales growth lead PAT growth



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Last filing date	% O/S	Position (m)	Change (m)
1	Time Securities Services Pvt. Ltd.	31-03-2019	18.2%	41.18M	0
2	Vishwalaxmi Trading & Finance Pvt. Ltd.	31-03-2019	15.5%	35.10M	0
3	NTAsset (Cayman) Ltd.	31-03-2019	14.9%	33.74M	+16.03M
4	Time Exports Pvt. Ltd.	31-03-2019	9.7%	21.91M	0
5	HDFC Asset Management Co., Ltd.	31-03-2019	9.0%	20.34M	0
6	Grandeur Peak Global Advisors, LLC	31-01-2019	3.3%	7.38M	-0.07M
7	Kapitalforeningen Unipension Invest	31-03-2019	2.1%	4.64M	0
8	Jain (Naveen Mahendra Kumar)	31-03-2019	2.0%	4.56M	0
9	Thyagarajan (Raghupathy)	31-03-2019	2.0%	4.56M	0
10	Vageria (Bharat)	31-03-2019	2.0%	4.56M	0

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor name	Value(m)	Shares(m)	Investor name	Value(m)	Shares(m)
NTAsset (Cayman) Ltd.	+23.77M	+16.03M	Manulife Asset Management (Asia)	-1.02M	-0.71M
Kulkarni (Sanjaya Shrikishna)	+0.10M	+0.07M	Invest AD	-0.58M	-0.39M
BlackRock Institutional Trust Company, N.A.	+0.03M	+0.02M	Dimensional Fund Advisors, Ltd.	-0.30M	-0.20M
BlackRock Asset Management Ireland Limited	+0.02M	+0.01M	Grandeur Peak Global Advisors, LLC	-0.10M	-0.07M
			Bessemer Trust Company, N.A. (US)	-0.01M	-0.01M

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-18
Promoter	52.4	52.4	51.2	51.2	51.2
FII	26.4	26.4	28.3	21.8	21.8
DII	9.1	9.0	9.0	9.0	9.0
Others	12.1	12.2	11.6	18.0	18.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement ₹ crore				
Year end March	FY18	FY19E	FY20E	FY21E
Net sales	3102.7	3563.7	3995.5	4531.3
Expenditure				
Raw material	2152.8	2511.3	2807.5	3182.6
Employee Expenses	145.1	163.9	175.8	199.4
Other Expenses	331.8	365.0	423.5	480.3
Total expenditure	2629.7	3040.2	3406.8	3862.3
EBITDA	473.1	523.5	588.7	669.0
Other income	2.1	3.2	3.5	3.9
EBITDA (incl. other income)	475.2	526.7	592.3	672.9
Depreciation	137.2	146.1	155.8	167.7
EBIT	338.0	380.6	436.4	505.3
Interest	87.5	98.6	104.2	107.4
PBT before Exc. Items	250.4	281.9	332.3	397.8
Less: Exc. Items	0.0	0.0	0.0	0.0
PBT after Exc. Items	250.4	281.9	332.3	397.8
Tax	65.2	73.4	86.5	107.2
PAT	180.4	202.7	239.6	283.6

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore				
Year end March	FY18	FY19E	FY20E	FY21E
Profit/(Loss) after taxation	180.4	202.7	239.6	283.6
Add: Depreciation & Amortization	137.2	146.1	155.8	167.7
Add: Interest Paid	87.5	98.6	104.2	107.4
CF bef working capital chg.	405.2	447.5	499.6	558.7
Net Increase in Current Assets	-205.8	-229.2	-191.5	-247.4
Net Increase in Current Liabilities	96.8	44.7	62.8	85.6
Net CF from operating act.	296.2	263.1	370.9	396.9
(Purchase)/Sale of Fixed Assets	-243.7	-229.7	-250.0	-250.0
Others	7.9	15.2	0.0	0.0
Net CF from Investing act.	-235.7	-214.5	-250.0	-250.0
Pro/(Rep) of debt	54.1	56.4	40.0	0.0
Payment of Div & Div tax	-21.3	-14.2	-14.2	-14.2
Int. paid	-87.5	-98.6	-104.2	-107.4
Net CF from Financing act	-57.6	-58.6	-115.1	-121.6
Net Cash Flow	2.9	-10.0	5.9	25.3
Cash & Cash Equi at beg	56.2	59.1	49.1	55.0
Cash & Cash Equi at end	59.1	49.1	55.0	80.3

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore				
Year end March	FY18	FY19E	FY20E	FY21E
share capital	22.6	22.6	22.6	22.6
Reserve and Surplus	1460.1	1646.6	1835.3	2104.7
Total Shareholder's Fund	1482.8	1669.2	1857.9	2127.3
Total Debt	685.1	741.5	781.5	781.5
Deferred Tax liability	58.1	73.0	73.0	73.0
Minority Interest	40.5	46.3	46.3	46.3
Total Assets	2266.4	2529.9	2758.6	3028.0
Gross Block	2070.3	2295.8	2545.8	2795.8
Accumulated Depreciation	870.6	1016.8	1172.6	1340.2
Net Block	1199.7	1279.1	1373.2	1455.6
Capital WIP	94.1	98.3	98.3	98.3
Total Fixed Assets	1293.8	1377.4	1471.5	1553.9
Investments	22.0	27.4	27.4	27.4
Current Assets				
Inventory	640.9	737.3	821.0	918.7
Debtors	670.3	784.2	864.8	980.8
Other Current Assets	205.5	224.4	251.6	285.3
Cash	59.1	49.1	55.0	80.3
Total Current Assets	1575.8	1795.0	1992.3	2265.0
Current Liabilities				
Creditors	437.0	475.0	514.5	571.1
Provisions	8.3	9.2	9.9	11.0
Other current liabilities	179.8	185.7	208.2	236.2
Total Current Liabilities	625.1	669.9	732.7	818.3
Total Liabilities	2266.4	2529.9	2758.6	3028.0

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios ₹ crore				
Year end March	FY18	FY19E	FY20E	FY21E
EPS	8.0	9.0	10.6	12.5
Cash EPS	14.0	15.4	17.5	20.0
DPS	0.9	0.6	0.6	0.6
BV per share	65.6	73.8	82.2	94.1
Profitability Ratio				
EBITDA Margin	15.2	14.7	14.7	14.8
PAT Margin	5.8	5.7	6.0	6.3
Return Ratio				
RoCE	14.9	15.0	15.8	16.7
RoE	12.2	12.1	12.9	13.3
RoIC	14.6	14.7	15.4	16.2
Valuation Ratio				
P/E	12.8	11.4	9.6	8.1
EV/EBITDA	6.2	5.7	5.2	4.5
Mcap/Sales	0.7	0.6	0.6	0.5
Price to BV	1.6	1.4	1.2	1.1
Activity Ratios				
Inventory Days	75.4	75.5	75.0	74.0
Debtors Days	78.9	80.3	79.0	79.0
Creditors Days	51.4	48.6	47.0	46.0
Gross Block Turnover	1.5	1.6	1.6	1.6
Solvency Ratios				
Debt/Equity	0.5	0.4	0.4	0.4
Debt/Ebitda	1.4	1.4	1.3	1.2
Current Ratio	3.4	3.6	3.7	3.8
Quick Ratio	2.0	2.1	2.1	2.2

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY18E	FY19E	FY20E
Asian Paints (ASIPAI)	1,361	1,600	Buy	130,520	23.1	26.9	31.8	59.0	50.5	42.8	36.0	30.4	25.3	30.0	32.0	32.5	23.2	24.6	24.6
Astral Polytechnik (ASTPOL)	1,266	1,250	Hold	15,160	16.5	20.9	27.9	76.8	60.5	45.4	36.4	29.1	22.8	20.7	22.7	26.0	15.4	16.6	18.3
Bajaj Electricals (BAJELE)	543	525	Hold	5,541	18.9	21.4	26.3	28.8	25.3	20.7	14.8	13.0	11.5	17.2	17.8	19.5	18.5	17.9	18.5
Havells India (HAVIND)	716	800	Buy	44,671	14.1	17.3	20.4	50.9	41.3	35.1	37.2	28.8	24.0	29.4	31.0	31.1	22.2	22.7	22.5
Kansai Nerolac (KANNER)	445	455	Hold	23,982	8.7	9.7	11.3	51.3	46.0	39.3	29.5	25.7	22.0	20.2	21.8	22.9	13.6	14.6	15.4
Pidilite Industries (PIDIND)	1,252	1,335	Buy	64,183	18.5	22.0	26.1	67.7	56.8	48.0	42.2	38.6	32.5	33.6	29.6	31.4	27.0	21.7	22.8
Essel Propack (ESSPRO)	132	136	Hold	4,147	6.2	6.7	7.9	21.3	19.7	16.6	9.3	8.3	7.2	16.9	17.4	19.3	13.9	13.7	15.0
Supreme Indus (SUPIND)	1,070	1,075	Buy	13,592	35.3	39.3	44.8	30.3	27.2	23.9	16.6	14.0	12.4	25.0	28.6	28.6	18.7	21.5	21.5
Symphony (SYMLIM)	1,284	1,110	Hold	8,982	13.0	23.2	31.6	98.7	55.3	40.7	35.9	63.5	35.3	41.3	18.7	30.4	31.5	16.2	27.0
V-Guard Ind (VGUARD)	220	205	Hold	9,365	3.3	4.2	5.1	66.3	52.4	42.7	43.9	41.9	32.8	23.7	24.0	26.0	17.7	18.2	19.8
Voltas Ltd (VOLTAS)	582	605	Hold	19,249	15.5	18.3	21.9	37.5	31.8	26.6	27.5	28.8	22.7	19.8	17.3	19.9	14.8	12.7	15.1
Time Techno (TIMTEC)	101	110	Hold	2,284	9.0	10.6	12.5	11.3	9.5	8.1	6.2	5.7	5.2	14.9	15.0	15.8	12.2	12.1	12.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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