

Value added product drives sales

Time Technoplast reported ~11% YoY growth in Q1FY20 revenue (I-direct estimate: 13%) supported by moderate growth of 10% in the plastic business (contributes ~71% in topline). The value added product category (contributes ~21% in topline) grew ~14% YoY led by ~21% growth in the revenue of composite cylinder. Despite a strong order book (of ₹ 350 crore), the piping business faced challenges due to slowdown in industrial activity. The management has guided for strong revenue traction from the composite cylinder, pipes and mox films businesses in the quarters to come due to good order book position. While gross margin in Q1FY20 declined marginally on account of a change in product mix, the management guided for a revival in margin for FY20 supported by rising contribution of valued added products in sales. A slow pick-up in industrial activity coupled with rising contribution of pipes business would weigh on revenue and profitability of the company. We cut our revenue, earning estimate by 2%, 12% for FY20E and 3%, 13% for FY21E, respectively.

Macro headwinds weigh on demand of industrial

The lower industrial activities (including auto industry) weigh on performance of plastic division of the company. Though management has guided for a demand recovery in the plastic drums business (shift in Chinese trades towards India due to US-China trade issues, which would benefit domestic packaging companies). Also, apart from pipes, strong order book position in the composite cylinder, IBC business and mox films give revenue visibility for FY20E-21E. We model revenue CAGR of 11% (lower than management guidance of ~15%) for FY19-21E led by 18% growth in the revenue of valued added product categories.

Product mix weighs on margin

EBITDA margin at 14.6% in Q1FY20 came in on the back of lower gross margin. The lower gross margin was attributable to a change in product mix (plastic division is relatively low margin business). We believe a slow industrial activity coupled with rising contribution of pipe business would keep EBITDA margin in the range of 14-14.5%.

Valuation & Outlook

We cut our revenue, earnings estimates considering lower utilisation coupled with higher fixed cost. Also, debt at elevated level (due to capex and working capital requirements) would result in higher interest cost for FY20E-21E. This would result in PAT CAGR of 10% in FY19-21E. We maintain our stance on the stock with Hold rating and value the stock at FY21E 4x EV/EBITDA with revised target price of ₹ 70/share.



Particulars

Particular	Amount
Market Cap (₹ Crore)	1,492.6
Total Debt (FY19) (₹ Crore)	741.5
Cash & Inv (FY19) (₹ Crore)	49.1
EV (₹ Crore)	2,184.9
52 week H/L	164/ 62
Equity capital (₹ Crore)	22.6
Face value (₹)	1.0

Key Highlights

- Slowdown in the industrial activity weigh on overall performance
- Gross margin remained under pressure due to rising contribution of low margin products
- Management guided for 15% topline growth with VAPs expected to grow faster than overall growth
- Maintain HOLD on stock with revised target price of ₹ 70 per 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	3,921.5	4,405.3	11.2
EBITDA	404.2	473.1	523.5	553.1	628.1	9.5
EBITDA Margin (%)	14.7	15.2	14.7	14.1	14.3	
PAT	147.1	180.4	202.7	211.2	245.8	10.1
EPS (₹)	6.5	8.0	9.0	9.3	10.9	
P/E (x)	10.1	8.3	7.4	7.1	6.1	
Price/Book Value (x)	1.1	1.0	0.9	0.8	0.7	
EV/EBITDA (x)	5.1	4.5	4.2	4.0	3.5	
RoE (%)	11.1	12.2	12.1	11.5	11.9	
RoCE (%)	14.2	14.9	15.0	14.3	15.0	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Revenue	868.1	885.1	781.5	11.1	1,082.1	-19.8	Sales growth led by ~14% of volume growth during Q1FY19. However lower realisation attributable to change in product mix and passing on benefit of benign raw material prices
Other Income	0.3	0.5	0.5	-39.0	2.4	-87.7	
Raw Material Exp	604.9	619.6	539.5	12.1	765.7	-21.0	Change in product mix coupled with a sharp increase in sales of low margin products resulted in a decline in gross margin by ~61 bps YoY
Employee Exp	39.7	38.9	36.9	7.6	49.8	-20.3	
Other expenditure	97.2	96.0	84.7	14.7	97.0	0.2	
EBITDA	126.4	130.6	120.4	4.9	169.6	-25.5	
EBITDA Margin (%)	14.6	14.8	15.4	-85 bps	15.7	-112 bps	Decline in gross margin impacted EBITDA margin
Depreciation	39.4	39.5	39.2	0.4	38.4	2.5	
Interest	27.5	24.3	22.7	21.2	27.4	0.3	Higher debt level resulting increase in interest outflow
PBT	59.8	67.4	59.0	1.4	106.1	-43.7	
Total Tax	15.1	16.8	14.9	1.2	30.3	-50.1	
PAT	43.8	49.8	43.3	1.1	73.7	-40.6	Margin contraction coupled with higher interest cost takes toll on bottomline
Key Metrics							
Polymer products	615.8	627.8	555.2	10.9	781.5	-21.2	Polymer product category growth was largely driven plastic drums and MOX films which increased ~10% and ~11% YoY, respectively, However Pipes category growth remained subdued
Composite products	252.3	257.2	226.3	11.5	300.5	-16.0	Strong growth in composite products category largely driven by composite cylinders and IBC business wherein revenue grew ~21% and ~12% YoY, respectively

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	3,995.5	3921.5	(1.9)	4,531.3	4405.3	(2.8)	Tweaked revenue estimate considering current quarter performance
EBITDA	588.7	553.1	(6.0)	669.0	628.1	(6.1)	
EBITDA Margin %	14.7	14.1	-60bps	14.8	14.3	-54bps	We revised our EBITDA margin estimate downside due to rising contribution of PE pipes that is relatively low margin business (~12%)
PAT	239.6	211.2	(11.9)	283.6	245.8	(13.3)	Higher interest cost would weigh on PAT
EPS (₹)	10.6	9.3	(11.9)	12.5	10.9	(13.3)	

Source: Company, ICICI Direct Research

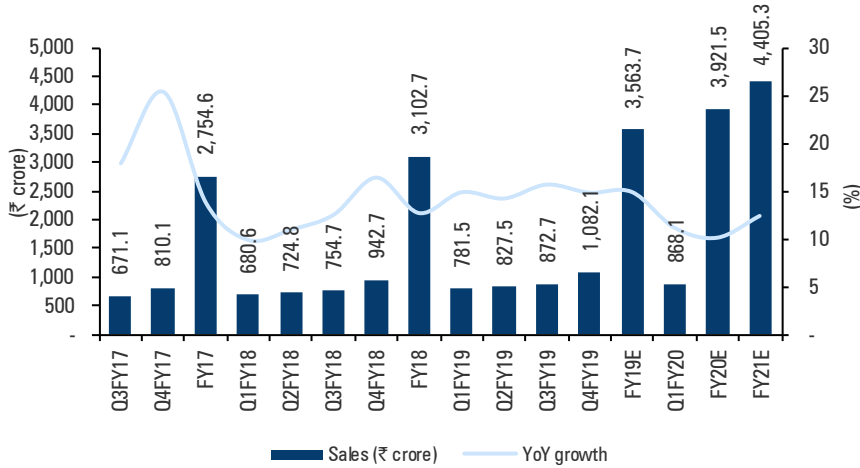
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY18	FY19E	FY20E	FY21E	FY20E	FY21E	
Established products	5.9	13.5	8.4	10.3	8.9	12.7	We revise EPs category sales CAGR to ~9% in FY19-21E (from earlier ~10%) supported by both plastic and PE pipe division
Value added Products	55.7	21.1	16.1	20.1	25.0	16.0	We model revenue CAGR of 18% in FY19-21E led by MOX films and composite cylinder category

Source: Company, ICICI Direct Research

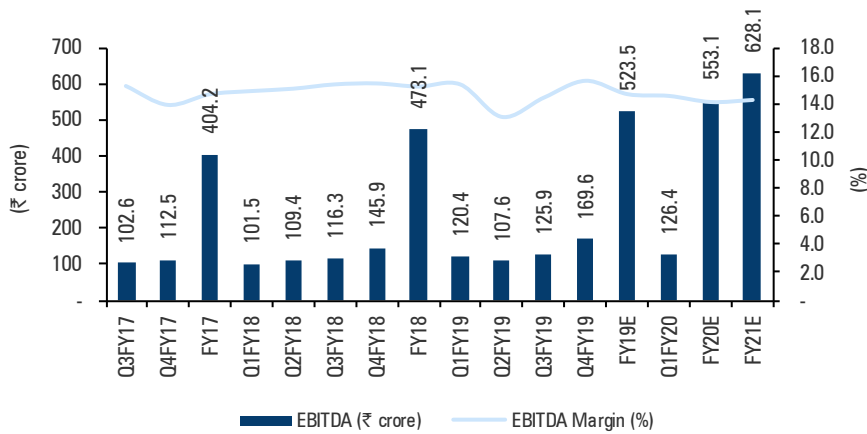
Financial story in charts

Exhibit 4: VAPs categories lead revenue growth



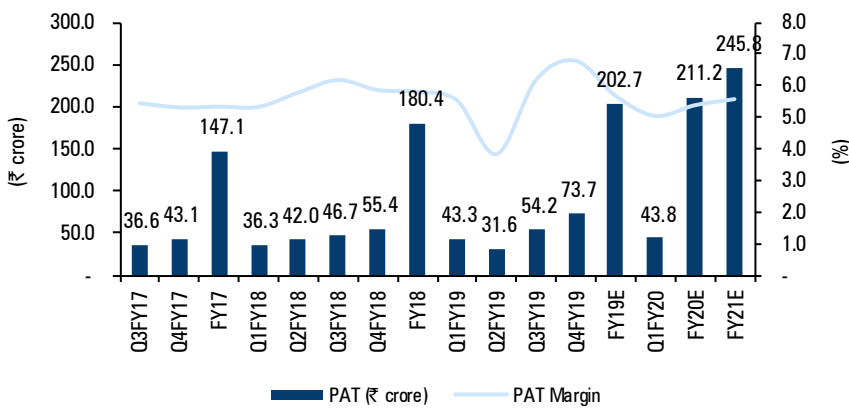
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



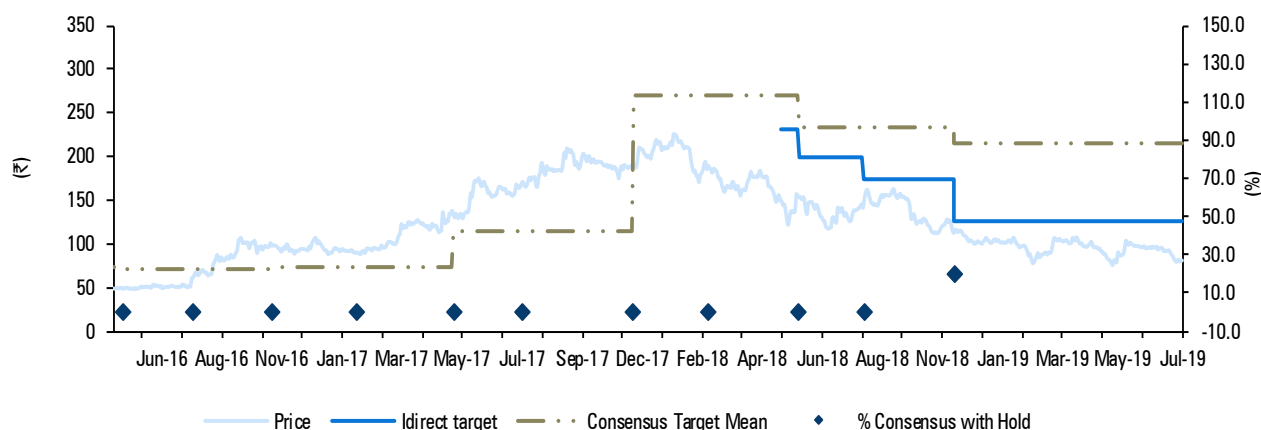
Source: Company, ICICI Direct Research

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.	30-06-2019	18.2%	41.18M	0
2	Vishwalaxmi Trading & Finance Pvt. Ltd.	30-06-2019	15.5%	35.10M	0
3	NTAsset (Cayman) Ltd.	30-06-2019	14.9%	33.74M	0
4	Time Exports Pvt. Ltd.	30-06-2019	9.7%	21.91M	0
5	HDFC Asset Management Co., Ltd.	30-06-2019	9.0%	20.34M	0
6	Grandeur Peak Global Advisors, LLC	30-04-2019	3.2%	7.20M	-0.18M
7	Kapitalforeningen Unipension Invest	30-06-2019	2.1%	4.64M	0
8	Jain (Naveen Mahendra Kumar)	30-06-2019	2.0%	4.56M	0
9	Thyagarajan (Raghupathy)	30-06-2019	2.0%	4.56M	0
10	Vageria (Bharat)	30-06-2019	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)
Dimensional Fund Advisors, Ltd.	+0.03M	+0.02M	Invest AD	-0.58M	-0.39M
Florida State Board of Administration	+0.03M	+0.02M	Grandeur Peak Global Advisors, LLC	-0.23M	-0.18M
Dimensional Fund Advisors, Ltd.	+0.03M	+0.02M	Dimensional Fund Advisors, L.P.	-0.02M	-0.02M
Florida State Board of Administration	+0.03M	+0.02M	Bessemer Trust Company, N.A. (US)	-0.01M	-0.01M
			BlackRock Institutional Trust Company, N.A.	-0.01M	-0.01M

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-18	Jun-19
Promoter	52.4	51.2	51.2	51.2	51.2
FII	26.4	28.3	21.8	21.8	20.3
DII	9.0	9.0	9.0	9.0	10.8
Others	12.2	11.6	18.0	18.0	17.7

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	3921.5	4405.3
Expenditure				
Raw material	2152.8	2511.3	2772.6	3106.2
Employee Expenses	145.1	163.9	180.1	204.1
Other Expenses	331.8	365.0	415.7	467.0
Total expenditure	2629.7	3040.2	3368.4	3777.2
EBITDA	473.1	523.5	553.1	628.1
Other income	2.1	3.2	3.3	3.6
EBITDA (incl. other income)	475.2	526.7	556.4	631.7
Depreciation	137.2	146.1	156.9	176.2
EBIT	338.0	380.6	399.6	455.5
Interest	87.5	98.6	107.4	127.7
PBT before Exc. Items	250.4	281.9	292.2	327.8
Less: Exc. Items	0.0	0.0	0.0	0.0
PBT after Exc. Items	250.4	281.9	292.2	327.8
Tax	65.2	73.4	76.4	79.9
PAT	180.4	202.7	211.2	245.8

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	1806.8	2038.5
Total Shareholder's Fund	1482.8	1669.2	1829.5	2061.1
Total Debt	685.1	741.5	841.5	861.5
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	2790.2	3041.8
Gross Block	2070.3	2295.8	2545.8	2795.8
Accumulated Depreciation	870.6	1016.8	1173.6	1349.8
Net Block	1199.7	1279.1	1372.2	1446.0
Capital WIP	94.1	98.3	98.3	98.3
Total Fixed Assets	1293.8	1377.4	1470.5	1544.3
Investments	22.0	27.4	27.4	27.4
Current Assets				
Inventory	640.9	737.3	805.8	893.1
Debtors	670.3	784.2	848.8	953.5
Other Current Assets	205.5	224.4	246.9	277.4
Cash	59.1	49.1	109.9	141.6
Total Current Assets	1575.8	1795.0	2011.4	2265.6
Current Liabilities				
Creditors	437.0	475.0	505.0	555.2
Provisions	8.3	9.2	9.7	10.7
Other current liabilities	179.8	185.7	204.4	229.6
Total Current Liabilities	625.1	669.9	719.1	795.5
Total Liabilities	2266.4	2529.9	2790.2	3041.8

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	211.2	245.8
Add: Depreciation & Amortization	137.2	146.1	156.9	176.2
Add: Interest Paid	87.5	98.6	107.4	127.7
CF bef working capital chg.	405.2	447.5	475.5	549.7
Net Increase in Current Assets	-205.8	-229.2	-155.6	-222.5
Net Increase in Current Liabilities	96.8	44.7	49.2	76.4
Net CF from operating act.	296.2	263.1	369.1	403.6
(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	100.0	20.0
Payment of Div & Div tax	-21.3	-14.2	-14.2	-14.2
Int. paid	-87.5	-98.6	-107.4	-127.7
Net CF from Financing act	-57.6	-58.6	-58.3	-121.9
Net Cash Flow	2.9	-10.0	60.8	31.7
Cash & Cash Equi at beg	56.2	59.1	49.1	109.9
Cash & Cash Equi at end	59.1	49.1	109.9	141.6

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios ₹ crore

Year end March	FY18	FY19E	FY20E	FY21E
EPS	8.0	9.0	9.3	10.9
Cash EPS	14.0	15.4	16.3	18.7
DPS	0.9	0.6	0.6	0.6
BV per share	65.6	73.8	80.9	91.1
Profitability Ratio				
EBITDA Margin	15.2	14.7	14.1	14.3
PAT Margin	5.8	5.7	5.4	5.6
Return Ratio				
RoCE	14.9	15.0	14.3	15.0
RoE	12.2	12.1	11.5	11.9
RoIC	14.6	14.7	14.2	14.9
Valuation Ratio				
P/E	8.3	7.4	7.1	6.1
EV/EBITDA	4.5	4.2	4.0	3.5
Mcap/Sales	0.5	0.4	0.4	0.3
Price to BV	1.0	0.9	0.8	0.7
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	1.5	1.6
Solvency Ratios				
Debt/Equity	0.5	0.4	0.5	0.4
Debt/Ebitda	1.4	1.4	1.5	1.4
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)	1,569	1,550	Hold	150,467	23.0	27.1	33.1	68.1	58.0	47.5	37.7	31.9	26.8	30.4	32.7	34.6	23.2	24.7	26.2
Astral Polytechnik (ASTPOL)	1,209	1,295	Hold	14,478	16.5	20.5	28.5	73.4	58.9	42.5	38.0	30.4	23.1	20.7	22.5	26.4	15.4	16.3	18.7
Bajaj Electricals (BAJELE)	374	320	Reduce	3,817	16.3	14.2	17.7	22.9	26.3	21.1	15.2	14.2	11.8	13.8	13.4	15.2	15.5	13.1	14.5
Havells India (HAVIND)	654	720	Hold	40,803	12.7	14.2	17.8	51.6	46.0	36.8	34.3	30.1	23.7	25.3	27.9	30.1	18.7	20.1	21.5
Kansai Nerolac (KANNER)	465	470	Hold	25,060	8.7	9.8	11.8	53.6	47.6	39.3	30.8	27.0	21.9	20.2	21.8	23.8	13.6	14.8	16.0
Pidilite Industries (PIDIND)	1,347	1,414	Hold	69,053	18.8	19.2	22.4	71.6	70.2	60.1	50.4	39.5	33.7	0.0	0.0	0.0	0.0	0.0	0.0
Essel Propack (ESSPRO)	104	95	Reduce	3,268	6.2	7.1	8.0	16.8	14.6	13.0	7.5	6.8	5.9	16.9	16.6	18.5	13.9	13.9	14.9
Supreme Indus (SUPIND)	1,083	1,215	Buy	13,757	35.3	38.9	47.0	30.7	27.9	23.1	17.3	14.9	12.5	25.0	27.8	29.6	18.7	21.4	22.4
Symphony (SYMLIM)	1,235	1,295	Hold	8,640	13.0	23.0	34.1	94.9	53.8	36.3	39.2	65.9	32.4	41.3	18.7	34.0	31.5	16.2	29.2
V-Guard Ind (VGUARD)	225	230	Hold	9,578	3.9	5.0	5.7	57.7	45.0	39.5	53.2	45.0	33.9	23.7	23.7	29.1	17.7	18.4	22.1
Voltas Ltd (VOLTAS)	594	645	Hold	19,646	15.5	27.2	23.8	38.2	21.8	25.0	28.1	29.4	14.9	19.8	17.3	27.4	14.8	12.7	21.0
Time Techno (TIMTEC)	66	70	Hold	1,493	9.0	9.3	10.9	7.4	7.1	6.1	4.5	4.2	4.0	14.9	15.0	14.3	12.2	12.1	11.5

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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