

On recovery path amid challenging conditions...

Time Technoplast reported an improved QoQ performance in Q2FY21 and ~85% sales recovery YoY. Despite sporadic lockdowns in domestic, international markets the volume recovery was at 87% of the same period last year. The domestic segment volume recovery was 88% while overseas business volume recovery was at 87% YoY. On the product front, composite cylinder and plastic business (i.e. industrial packaging) segments saw a relatively better recovery at 91% and 88% YoY, respectively, while piping segment sales recovery was delayed due to slow execution of government orders. The management commentary suggests an accelerated recovery in H2FY21 post ease in lockdown restrictions and better labour availability. On the profitability front, lower operating leverage weighed on EBITDA margin, which fell ~155 bps YoY to 12%. We believe improved plant utilisation would further help a better EBITDA margin, going forward. This, along with the company's focus on debt reduction (through improved cash flow operations) is encouraging, which led to saving in interest cost by ~12% YoY in Q2FY21. We believe a recovery in economic activity would help drive revenues, EBITDA margin from FY21E onwards. We also expect a rationalisation of capex plans coupled with comfortable D/E (0.4x in FY20) to help the company to pass through the challenging phase in FY21E.

Focus on increasing contribution from value added products

Consolidated revenue fell 15% YoY to ₹ 744 crore, largely due to polymer products (led by pipe segments), which fell 16% YoY to ₹ 510 crore. The composite products segment reported ~10% YoY fall in revenue. Further, revenue contribution from valued added product categories increased to 21.8% in Q2FY21 (vs. 20.8% in Q2FY20). While demand for other products saw a recovery, piping segment demand stayed sluggish due to lower government spending various restrictions amid lockdowns. We expect a continued demand recovery in domestic and overseas business supported by improved industrial/infrastructure spending by governments.

Lower operating leverage drags margin

Gross margin in Q2FY21 were down ~73 bps mainly due to adverse product mix. This, along with lower operating leverage dragged overall EBITDA margin down 154 bps YoY (up 100 bps QoQ) to 12.4%. However, the company guided for rationalisation of fixed costs, going forward, to safeguard margins.

Valuation & Outlook

We believe improved demand in H2FY21 along with focus on increasing contribution of value added products would help better profitability, going forward. Further, marginal debt reduction via positive CFO would keep overall D/E below 0.5x. We maintain **HOLD** rating on the stock with a revised target price of ₹ 43 (valuing at 3x EV/EBITDA FY22E).



Particulars

Particular	Amount
Market Cap (₹ Crore)	882.0
Total Debt (FY20) (₹ Crore)	762.4
Cash&Inv (FY20) (₹ Crore)	82.5
EV (₹ Crore)	1,561.9
52 week H/L	66/ 23
Equity capital (₹ Crore)	22.6
Face value (₹)	1.0

Key Highlights

- Overall volume de-growth at 13% led by overseas business volume de-growth of 13%
- Change in mix, lower operating leverage drags margin
- Expect demand recovery from H2FY20 with pick-up in economic activity
- Maintain HOLD with revised target price of ₹ 43/share

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Key Financial Summary

₹ Crore	FY18	FY19E	FY20E	FY21E	FY22E	CAGR (20-22E)
Net sales	3,102.7	3,563.7	3,578.0	3,049.9	3,839.6	3.6
EBITDA	473.1	523.5	498.9	378.8	551.5	5.1
EBITDA Margin (%)	15.2	14.7	13.9	12.4	14.4	
PAT	180.4	202.7	169.1	90.1	205.0	10.1
EPS (₹)	8.0	9.0	7.5	4.0	9.1	
P/E (x)	4.9	4.4	5.2	9.8	4.3	
Price/Book Value (x)	0.6	0.5	0.5	0.5	0.5	
EV/EBITDA (x)	3.2	3.0	3.1	4.3	2.8	
RoE (%)	12.2	12.1	9.3	5.0	10.7	
RoCE (%)	14.9	15.0	12.5	8.0	13.2	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Revenue	743.7	870.5	-14.6	475.2	56.5	Volume recovery was ~87% in Q2FY21
Other Income	0.5	0.5	10.0	0.3	115.8	
Raw Material Exp	523.5	606.4	-13.7	328.5	59.3	Gross margin slightly lower by ~70 bps YoY mainly led by adverse product mix
Employee Exp	38.3	39.6	-3.3	34.7	10.4	
Other expenditure	90.1	103.6	-13.0	58.0	55.2	
EBITDA	91.9	120.9	-24.0	53.9	70.3	
EBITDA Margin (%)	12.4	13.9	-154 bps	11.4	100 bps	Higher fixed drags margin during Q2FY21
Depreciation	42.4	39.8	6.5	37.5	13.1	
Interest	23.9	28.0	-14.5	25.3	-5.3	
PBT	26.1	53.6	-51.4	-8.6	-403.9	
Total Tax	5.7	13.6	-57.9	3.0	90.2	
PAT	20.1	38.6	-47.8	-11.7	-272.4	Lower operating performances and interest cost drags bottomline
Key Metrics						
Polymer products	510.0	610.3	-16.4	333.4	53.0	Recovery in polymer product category led by ~82% recovery in the industrial packaging product. However, PE piping recovery was delayed due to slow execution of government projects
Composite products	233.7	260.2	-10.2	141.8	64.8	Recovery in composite cylinder much better compared to other products

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY21E			FY22E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	2,820.8	3049.9	8.1	3,869.2	3839.6	(0.8)	Factoring in current quarter performance, we estimate demand recovery from H2FY21 onwards
EBITDA	357.8	378.8	5.9	555.8	551.5	(0.8)	
EBITDA Margin (%)	12.7	12.4	-28bps	14.4	14.4	-4bps	EBITDA margin may see an improvement with recovery in sales, going forward
PAT	76.5	90.1	17.8	211.7	205.0	(3.1)	
EPS (₹)	3.4	4.0	17.8	9.4	9.1	(3.1)	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

Growth (%)	Current				Earlier		Comments
	FY19E	FY20E	FY21E	FY22E	FY21E	FY22E	
Established products	13.5	0.0	-14.7	23.9	-22.2	36.4	We believe demand for industrial products and PE pipes would recover along with recovery in economic activities
Value added Products	21.1	1.7	-15.2	33.9	-17.0	40.1	Value added category growth would largely be supported by new orders in the composite cylinders and IBCs categories

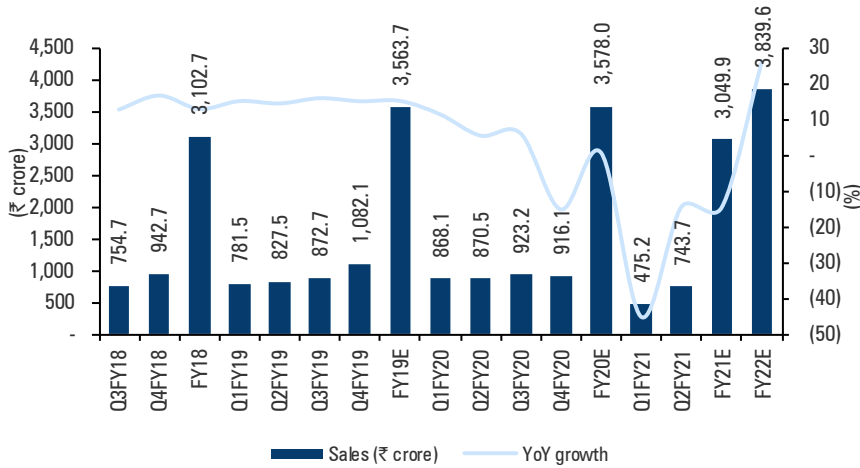
Source: Company, ICICI Direct Research

Conference call highlights

- For H1FY21, revenue recovered by ~70% led by volume recovery of 72%. The Indian business revenue recovery was 66% while overseas business revenue recovery was slightly better at 79%
- The share of value added products is 21.6% of total sales in H1FY21 against 20.5% in H1FY20
- Total debt in H1FY21 was at ₹ 816 crore down from ₹ 832 crore from FY20
- Net cash from operating activities in H1FY21 was ₹ 56 crore
- Total capex in H1FY21 was ₹ 36 crore of which capex for established products (capacity expansion, reengineering and automation) was at ₹ 21 crore. The capex for value added products was at ₹ 15 crore
- The company is likely to incur capex of ₹ 64 crore in H2FY21 brownfield expansion in India and overseas location
- In Q2FY21, capacity utilisation was at 55% (India 50% and overseas 60%)
- The company has commenced industrial packaging operations at its Iowa (US) plant. TTPL has incurred a capex of US\$15 million and expects ~2x asset turnover over the next two to three years
- Fully wrapped carbon fibre reinforced Type-IV composite cylinder for CNG Cascades is ~ ₹ 600 crore opportunity for the company. The composite cylinder would replace the metal cylinder thereby helpful in significant improvement in the efficiency of heavy vehicles
- The pipes segment business segment recovery was delayed due to lower government expenditure. However, the order book was at ~₹ 300 crore by the end of Q2FY21
- The company also witnessed increased inquiries from various chemical MNCs for packaging products in India, after a rise of geopolitical tensions between India and China
- TTPL is looking to rationalise various costs (such as rent, logistics, salary, etc) to optimise its operating performance, going forward, along with more focus on value added product categories
- The promoter entity has repaid debt (against which Time Technoplast's shares has been pledged amounting to ₹ 70 crore) by ₹ 20 crore, correspondingly the pledge is likely to get reduce

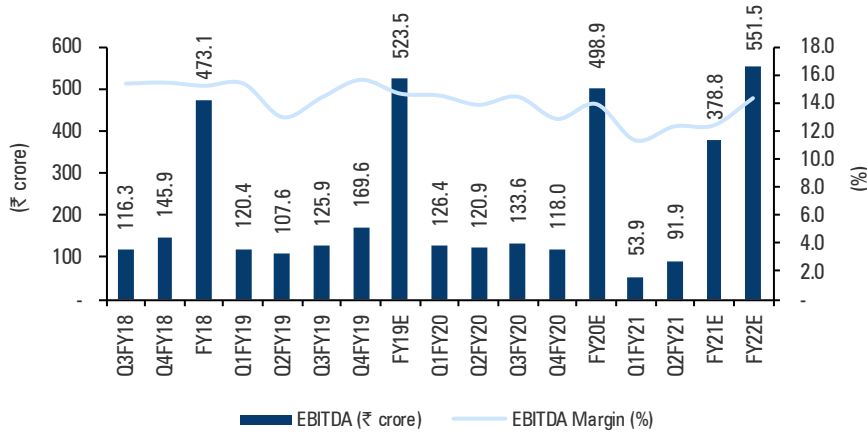
Financial story in charts

Exhibit 4: Revenue trend



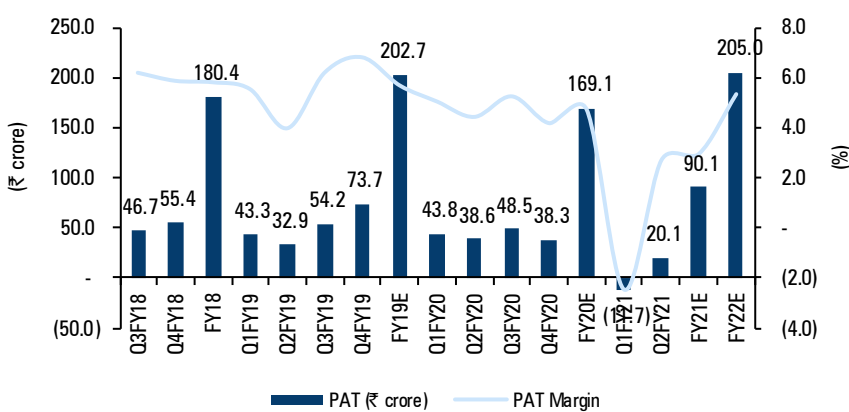
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin trend



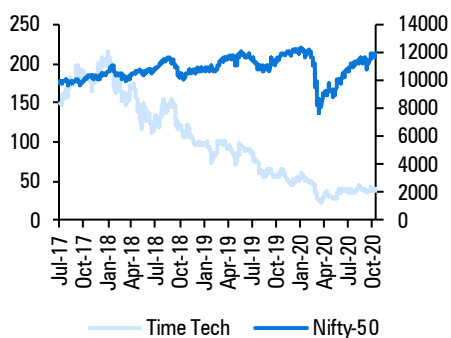
Source: Company, ICICI Direct Research

Exhibit 6: PAT trend



Source: Company, ICICI Direct Research

Exhibit 7: Historical price chart



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Shareholding pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	51.2	51.2	51.3	51.3	51.3
FII	19.8	18.3	17.8	17.1	15.6
DII	10.7	11.6	11.6	10.4	10.4
Others	18.4	18.9	19.3	21.2	22.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement ₹ crore

Year end March	FY19	FY20	FY21E	FY22E
Net sales	3563.7	3578.0	3049.9	3839.6
Expenditure				
Raw material	2511.3	2504.4	2128.8	2662.5
Employee Expenses	163.9	170.4	161.0	168.7
Other Expenses	365.0	404.4	381.2	456.9
Total expenditure	3040.2	3079.1	2671.1	3288.1
EBITDA	523.5	498.9	378.8	551.5
Other income	3.2	2.3	2.4	2.7
EBITDA (incl. other income)	526.7	501.2	381.2	554.2
Depreciation	146.1	156.2	161.6	180.5
EBIT	380.6	344.9	219.6	373.8
Interest	98.6	108.2	97.3	91.5
PBT before Exc. Items	281.9	236.7	122.3	282.3
Less: Exc. Items	0.0	0.0	0.0	0.0
PBT after Exc. Items	281.9	236.7	122.3	282.3
Tax	73.4	61.7	31.0	70.9
PAT	202.7	169.1	90.1	205.0

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement ₹ crore

Year end March	FY19	FY20	FY21E	FY22E
Profit/(Loss) after taxation	202.7	169.1	90.1	205.0
Add: Depreciation & Amortization	146.1	156.2	161.6	180.5
Add: Interest Paid	98.6	108.2	97.3	91.5
CF bef working capital chg.	447.5	433.5	349.1	477.0
Net Increase in Current Assets	-211.7	-94.1	1.7	-229.5
Net Increase in Current Liabilities	44.7	-72.5	-92.0	130.9
Net CF from operating act.	280.6	266.9	258.7	378.3
(Purchase)/Sale of Fixed Assets	-229.7	-208.8	-100.0	-140.0
Others	15.2	68.2	-20.0	0.0
Net CF from Investing act.	-214.5	-140.6	-120.0	-140.0
Pro/(Rep) of debt	56.4	20.9	10.0	-20.0
Payment of Div & Div tax	-14.2	-25.3	-72.0	-80.0
Int. paid	-98.6	-108.2	-97.3	-91.5
Net CF from Financing act	-58.6	-110.5	-198.1	-191.4
Net Cash Flow	7.5	15.9	-59.4	46.9
Cash & Cash Equi at beg	59.1	66.6	82.5	23.1
Cash & Cash Equi at end	66.6	82.5	23.1	70.0

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet ₹ crore

Year end March	FY19	FY20	FY21E	FY22E
share capital	22.6	22.6	22.6	22.6
Reserve and Surplus	1646.6	1792.5	1771.8	1896.9
Total Shareholder's Fund	1669.2	1815.1	1794.4	1919.5
Total Debt	741.5	762.4	772.4	752.4
Deferred Tax liability	73.0	79.2	79.2	79.2
Minority Interest	46.3	52.2	52.2	52.2
Total Assets	2529.9	2766.9	2736.3	2841.4
Gross Block	2295.8	2522.4	2622.4	2762.4
Accumulated Depreciation	1016.8	1173.0	1334.6	1515.1
Net Block	1279.1	1349.4	1287.8	1247.3
Capital WIP	98.3	80.5	80.5	80.5
Total Fixed Assets	1377.4	1430.0	1368.3	1327.9
Investments	27.4	29.4	29.4	29.4
Current Assets				
Inventory	737.3	757.7	818.9	841.6
Debtors	784.2	820.7	793.8	946.8
Other Current Assets	206.8	244.1	208.1	262.0
Cash	66.6	82.5	23.1	70.0
Total Current Assets	1795.0	1905.0	1843.9	2120.3
Current Liabilities				
Creditors	475.0	443.5	376.0	473.4
Provisions	9.2	10.6	7.3	9.1
Other current liabilities	185.7	143.2	122.1	153.7
Total Current Liabilities	669.9	597.4	505.4	636.2
Total Liabilities	2529.9	2766.9	2736.3	2841.4

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios ₹ crore

Year end March	FY19E	FY20E	FY21E	FY22E
EPS	9.0	7.5	4.0	9.1
Cash EPS	15.4	14.4	11.1	17.0
DPS	0.6	1.1	3.2	3.5
BV per share	73.8	80.3	79.3	84.9
Profitability Ratio				
EBITDA Margin	14.7	13.9	12.4	14.4
PAT Margin	5.7	4.7	3.0	5.3
Return Ratio				
RoCE	15.0	12.5	8.0	13.2
RoE	12.1	9.3	5.0	10.7
RoIC	14.8	12.5	7.9	13.0
Valuation Ratio				
P/E	4.4	5.2	9.8	4.3
EV/EBITDA	3.0	3.1	4.3	2.8
Mcap/Sales	0.2	0.2	0.3	0.2
Price to BV	0.5	0.5	0.5	0.5
Activity Ratios				
Inventory Days	75.5	77.3	98.0	80.0
Debtors Days	80.3	83.7	95.0	90.0
Creditors Days	48.6	45.2	45.0	45.0
Gross Block Turnover	1.6	1.4	1.2	1.4
Solvency Ratios				
Debt/Equity	0.4	0.4	0.4	0.4
Debt/Ebitda	1.4	1.5	2.0	1.4
Current Ratio	3.6	4.0	4.8	4.2
Quick Ratio	2.0	2.3	2.6	2.5

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Asian Paints (ASIPAI)	2,181	2,440	Buy	2,09,158	29.0	28.9	35.9	75.3	75.6	60.8	47.9	45.8	37.4	27.4	24.2	27.3	30.5	28.1	31.7
Astral Polytechnik (ASTPOL)	1,240	1,260	Hold	18,682	16.6	15.0	23.3	74.8	82.9	53.3	36.1	39.3	27.8	20.5	17.0	23.1	16.6	13.1	17.9
Amber Enterprises (AMBEN)	2,262	2,600	Buy	7,113	52.2	23.7	75.1	43.3	95.3	30.1	22.9	33.2	14.7	14.3	7.2	17.0	14.5	5.3	14.3
Bajaj Electricals (BAJELE)	533	585	Buy	6,060	-0.9	11.8	17.1	NM	45.0	31.2	31.4	22.1	16.9	8.0	10.8	14.7	-0.8	8.3	13.0
Berger Paints (BERPAI)	650	675	Hold	63,128	6.8	7.8	9.7	96.2	83.6	67.3	59.6	52.2	44.0	26.6	26.9	30.3	24.7	23.8	25.7
EPL (ESSPRO)	255	270	Buy	8,045	6.7	7.0	9.5	38.0	36.3	26.9	13.6	12.4	10.5	15.6	16.5	19.4	14.3	13.9	16.3
Havells India (HAVIND)	815	835	Buy	50,848	11.7	14.1	16.4	69.4	57.8	49.7	42.5	32.7	28.4	19.6	21.5	24.4	17.0	18.5	20.0
Kansai Nerolac (KANNER)	520	605	Buy	28,024	9.9	10.3	12.0	52.3	50.7	43.2	35.6	33.2	29.3	17.6	18.4	19.6	14.1	14.3	15.1
Pidilite Industries (PIDIND)	1,571	1,850	Buy	79,775	22.1	22.7	27.8	71.1	69.3	56.5	50.6	49.7	40.9	31.0	28.2	30.9	26.1	23.2	24.9
Polycab India (POLI)	928	1,040	Buy	13,816	51.4	58.4	62.9	18.0	15.9	14.8	11.4	11.2	9.5	26.5	21.4	23.2	20.0	18.2	18.0
Supreme Indus (SUPIND)	1,407	1,695	Buy	17,873	36.8	44.9	47.8	38.2	31.3	29.4	22.5	20.1	19.4	22.5	23.3	22.5	20.7	22.3	21.2
Symphony (SYMLIM)	828	960	Buy	5,792	26.0	17.3	29.1	31.8	47.8	28.4	26.6	35.4	22.7	28.8	22.2	35.7	29.0	21.1	34.3
Time Techno (TIMTEC)	39	43	Hold	882	7.5	4.0	9.1	5.2	9.8	4.3	3.1	4.3	2.8	12.5	8.0	13.2	9.3	5.0	10.7
V-Guard Ind (VGUARD)	168	210	Buy	7,195	4.3	3.7	5.3	38.9	45.4	31.7	28.2	31.0	22.9	24.8	20.1	25.2	18.6	15.1	19.4
Voltas Ltd (VOLTAS)	753	845	Hold	24,904	15.8	12.3	22.6	47.8	61.2	33.3	36.0	53.8	29.0	19.5	12.8	20.1	13.0	9.1	15.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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