Equity Research

October 4, 2020

BSE Sensex: 38697

ICICI Securities Limited is the author and distributor of this report

Initiating coverage

Plastic

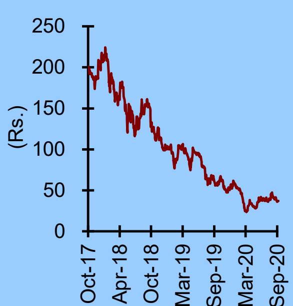
Target price: Rs84

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	51.2	51.3	51.3
Institutional investors	29.9	29.4	27.6
MFs and others	10.6	10.5	9.5
Insurance Cos.	0.9	0.8	0.8
Banks & FIs	0.1	0.1	0.1
FIIs	18.3	18.0	17.2
Others	18.9	19.3	21.1

Source: CMIE

Price chart



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INDIA

Time Technoplast

BUY

A rerating candidate

Rs37

We expect Time Technoplast (TIME) one of the largest Indian polymer processors to sustain its growth momentum (FY08-FY20: revenue CAGR of ~15%) with demand and margin levers in place for both its A) established products: i) Asia (ex-China) gradually becoming a manufacturing hub for chemicals which would offer incremental growth opportunities to TIME which has plants spread across Asia and ii) strong order book position in its plastic piping segment and B) value-added products (VAP): i) Incremental revenue from recent commissioning of its plants (manufacturing IBCs) in USA, ii) expected growth traction in its LPG Composite Cylinders (CC) and MOX films segment, and iii) incremental revenues from its expected new product launches. Besides sustaining the growth momentum, selling of non-core assets and revocation of pledge could be another catalyst for further rerating. Initiate coverage with a BUY. Key risks to upside: sustained higher capex and capital allocation.

- **Initiate with a BUY and target price of Rs84.** We expect TIME's revenue/EBITDA/PAT to grow at CAGR of 1.3%/3.3%/6% over FY20-FY22E, respectively. The major overhang for TIME's benign valuations we believe is the market's concerns on 1) its sustained capex drive to the tune of Rs2-2.5bn p.a., 2) Higher debt on books, 3) capital allocation woes and 4) promoters pledge. With some of these issues likely to be addressed by the company in the form of: 1) lower capex to the tune of Rs1-1.5bn p.a. over the next two years, 2) likely debt repayment driven by higher FCF generation and selling of non-core assets and 3) revocation of pledge, we assign a 10x PE multiple to TIME and arrive at a target price of Rs84.
- **Established products - new growth opportunities emerge for plastic drums.** TIME is already the biggest (in size) plastic drums manufacturer worldwide. Apart from the conventional growth opportunity w.r.t. conversion of steel drums to polymer drums, we expect a new growth opportunity to emerge in the form of Asia (ex-China) gradually becoming a manufacturing hub for chemicals sector. With the operations of TIME spread across Asia, it may be one of the prime beneficiaries of this shift. Besides traction in its core polymer drum segment, TIME may also sustain its growth momentum in plastic piping segment with its existing robust orderbook in place.
- **Value-added products to sustain growth momentum.** TIME's VAP portfolio has seen strong revenue CAGR of 23.6% over FY15-20 with the company materially scaling up its products like CC and MOX films successfully. In CC, it already has a decent orderbook while it continues to get incremental orders from new customers (particularly exports). In MOX films, new applications and export opportunities are likely to be growth drivers for future growth. In IBC, too, the company has been able to clock a decent growth in the past and with new plants in USA, TIME can generate revenue of US$35-40mn at full capacity utilisation in the next three years.
- **New VAP development paves way for future long-term growth**: TIME has a proven track record of developing niche products and scaling it successfully in the past led by its strong R&D capabilities. It is currently in the process of launching a number of niche value-added products (namely CNG Type-4 cylinders, CNG cascade, Composite Air Tanks, DEF Tanks, Composite Leaf Springs and PU based CC) which are under different stages of approval. These new products may generate incremental demand and drive incremental margins post FY22.

Market Cap	Rs8.4bn/US$115mn
Bloomberg	TIME.BO/TIME IN
Shares Outstanding (mn)	226.1
52-week Range (Rs)	67/24
Free Float (%)	40.0
FII (%)	17.2
Daily Volume (US$'000)	320
Absolute Return 3m (%)	0.3
Absolute Return 12m (%)	(34.7)
Sensex Return 3m (%)	9.9
Sensex Return 12m (%)	2.2

Year to Mar	FY19	FY20	FY21E	FY22E
Net Revenue (Rs mn)	35,637	35,780	28,150	36,700
Net Profit (Rs mn)	2,027	1,691	605	1,900
Dil. EPS (Rs)	9.0	7.5	2.7	8.4
% Chg YoY	12.4	(16.6)	(64.2)	214.2
P/E (x)	4.2	5.0	13.9	4.4
CEPS (Rs)	15.4	14.4	9.9	16.2
EV/EBITDA (x)	2.8	2.9	3.9	2.4
Dividend Yield (%)	1.4	2.6	2.1	2.4
RoCE (%)	15.9	13.0	7.0	13.0
RoE (%)	12.5	9.4	3.3	9.9

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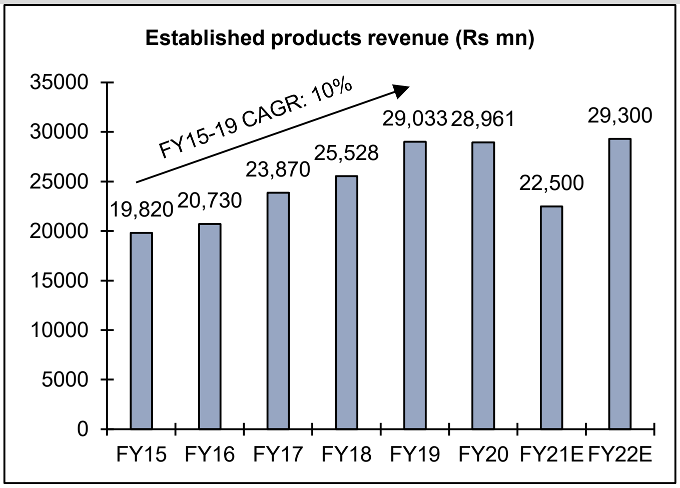
Story in charts

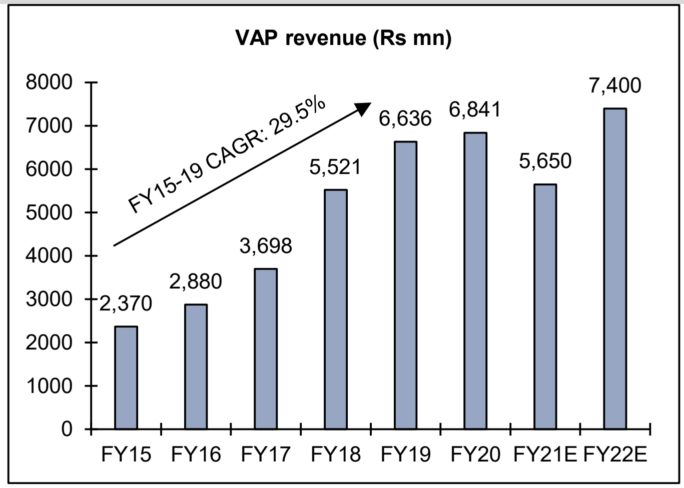
Revenue growth in established products

Established products revenue CAGR of 10% over FY15-19 was mainly driven by higher single digit (8.8% CAGR) growth in plastic products and 22.5% CAGR in its pipes segment.



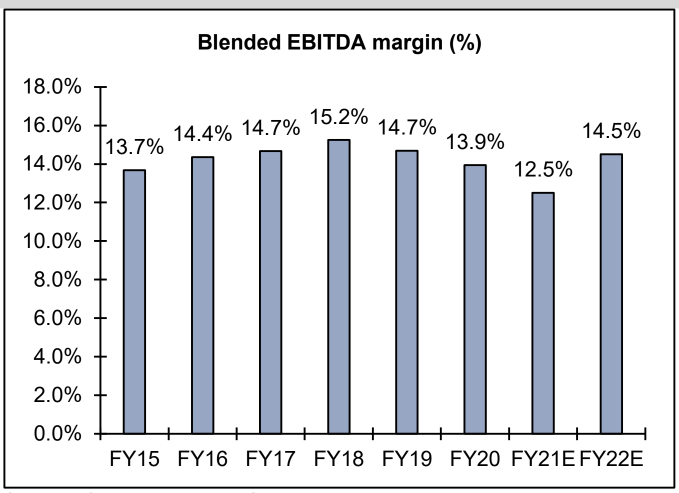
Increase in VAP

VAP remains the major revenue driver with robust growth in CC and MOX films.



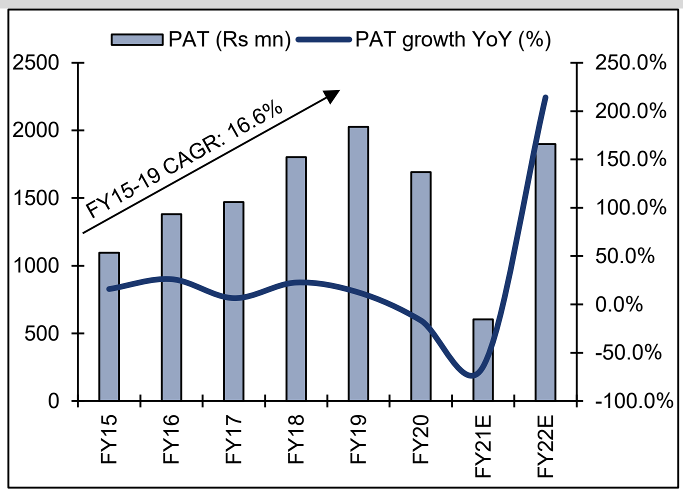
Higher EBITDA margin trajectory with increasing VAP mix

Firm margins in the range of 14-15% largely driven by increasing share of VAP revenues.



Decent profitability generation led by better operating performance

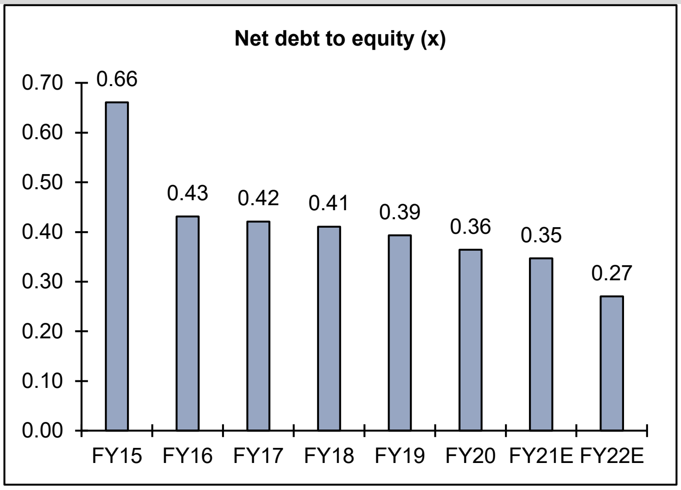
Decent profitability CAGR of 16.6% over FY15-19 led by higher VAP revenue growth.



Source: Company data, I-Sec research

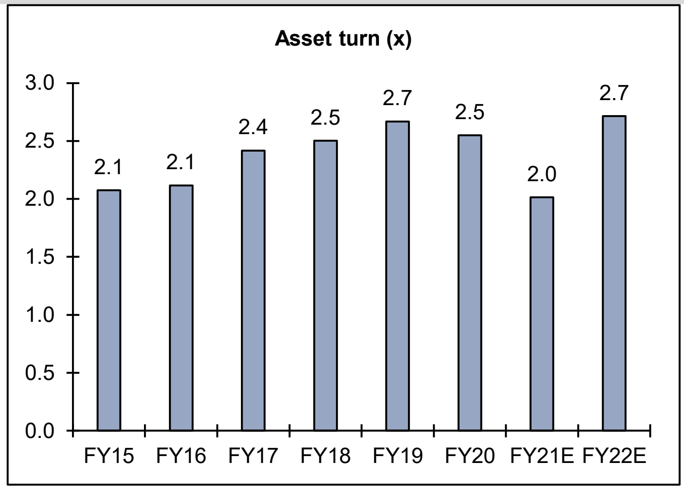
Lower net debt to equity

TIME is gradually reducing debt with higher profitability.



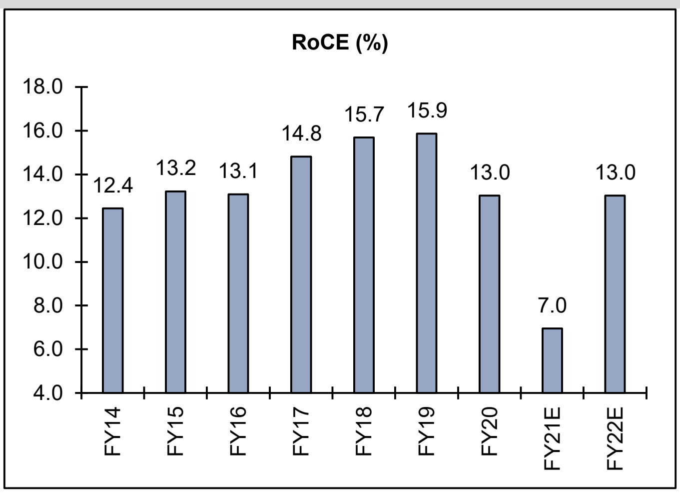
Asset turn

Higher mix of VAP enabling improvement in its asset turn ratio.



RoCE

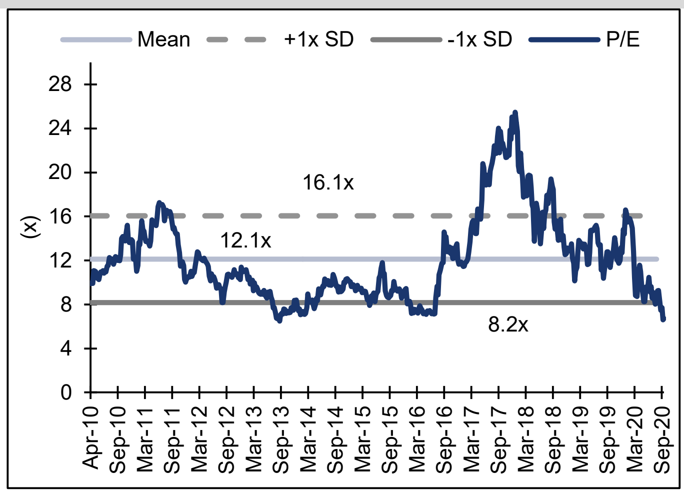
With higher focus on VAP, the company has been able to maintain its RoCE in the range of 13-15%.



Source: Company data, I-Sec research

P/E Chart

Trading at 4.4x, FY22E EPS is significantly lower than the 10-year mean PE multiple of 12.2x despite improving financials.



Growth levers to continue in established products

Established products (81% of revenue) comprise packaging products like **Industrial Packaging** (polymer drums, Jerry cans and pails), **PE Pipes**, **Technical & Lifestyle products** (turf & matting, disposable bins, auto products) and **Energy storage devices** (batteries). The company is the biggest (in size) plastic drums manufacturer worldwide. TIME has reported established products revenue at Rs29bn in FY20.

Market share & competition: TIME is the market leader in polymer drums in India with **market share of 60%**. The second largest player with 15% market share in India is Balmer Lawrie, which is in JV with Greif, whereas the rest 25% is unorganised market.

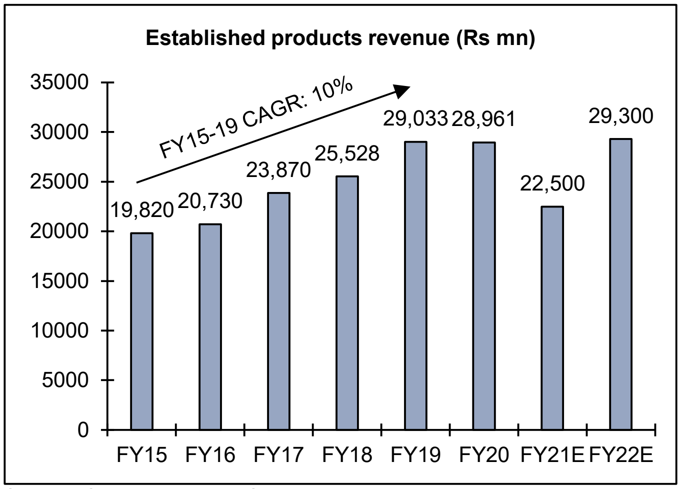
Selling non-core plastic business to focus on core in future: TIME has put on block its slow moving non-core products like energy storage devices, medical moulds and moulded furniture which will help increase focus on its core established products portfolio (industrial packaging products in particular) and sustain its growth momentum.

User industry of packaging products: The company caters to varied sectors like chemicals, paints and pigments, food and beverage, petroleum, industrial coatings, agricultural, pharmaceutical, mineral, packaging, automotive and building products under its industrial packaging segment. Since TIME caters to majority of essential product industry, the impact of Covid-19 pandemic will be lesser and will be able to recover at a faster pace.

Chart 1: Established products

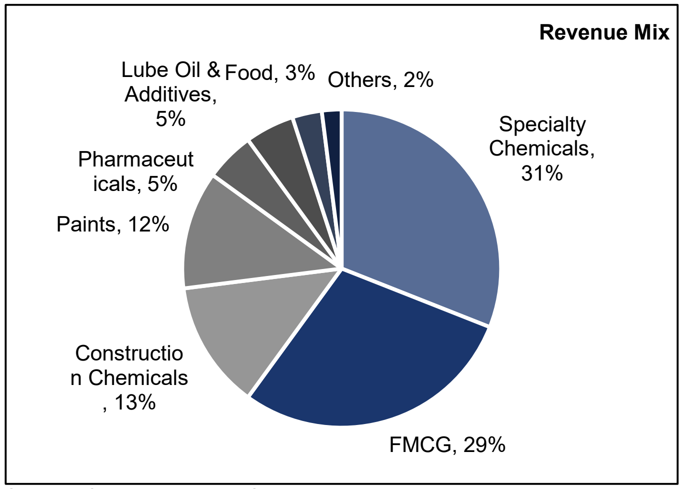
Source: Company data, I-Sec research

Chart 2: Revenue growth in established products



Source: Company data, I-Sec research

Chart 3: User industry contribution in TIME's Industrial Packaging revenue



Source: Company data, I-Sec research

A) Shift in business from China to other Asian countries for packaging material to boost revenue growth over medium-long term

Factors leading to shift from China to other Asian countries: 1) Recently, due to Covid-19 pandemic arising from China, globally, countries who used to source materials or have a manufacturing base in China have started to shift their business to other Asian countries especially for chemicals sector. 2) Trade war with USA has led to a shift of business by USA importers from China to other Asian countries and 3) shutdown of chemical plants by China due to environmental concerns.

Indian chemical Industry: One of the biggest beneficiaries of the shift

With an estimated size of US$178bn, Indian chemical and petrochemical industry is the third largest in Asia and sixth largest in the world. It contributes 3.4% to the global chemical industry, 1.34% to India's gross value added and employs more than 2 million people. The industry is vastly diversified and provides building blocks to over 80,000 registered products, which can be categorised as bulk chemicals, specialty chemicals, agrochemicals, petrochemicals, polymers and fertilisers.

The Indian chemicals industry is projected to reach US$304bn by 2025. Demand of chemical products may grow at approximately 9% p.a. over the next five years.

Although Covid-19 has impacted the demand-supply ecosystem, it has also opened up excellent opportunity for the Indian specialty chemical industry to assert its dominance at the global level. This is driven by various factors such as growing domestic demand and low crude prices.

Factors benefiting India: 1) Domestic availability of raw materials - OMCs shifting focus to petrochemical intermediates, 2) accelerated capital expenditure to build product development capabilities and backward integration resulting in better profitability and 3) investment in research & development (R&D), which would allow these companies to step up their position in speciality chemicals manufacturing value chain to become 'proprietary chemical producers'.

TIME is one of the prime beneficiaries of the shift: TIME has its plants spread across Asia except China and it is the largest producer of polymer drums globally. It has recently received lot of queries to supply its packaging material to customers. We believe this will not only bring higher revenue in short term but also in long term.

The key growth accelerator would be the company's readiness in responding to the strong demand from key global markets who want to de-risk their supply chain by diversifying their base beyond China.

B) Shift from steel drums to polymer drums will continue going forward

As polymer drums have their own advantages against steel drums, various industries have started shifting to polymer drums gradually from steel drums as can be seen from the following table and the shift still has a long way to go at global level.

Advantage of being the largest polymer drums producer worldwide: TIME, being the largest producer of polymer drums, has a huge opportunity in this segment over long term. TIME has the highest presence in Asia where maximum growth can be seen with lot of business shifts from West to East globally due to operational efficiency. Hence, we believe, TIME will continue to be one of the biggest beneficiaries of this shift.

Table 1: Top ranking global players in polymer drums

Company	Polymer Drums
TIME Technoplast	1
Mauser	2
Schutz	3
Greif	4

Source: Company data, I-Sec research

Table 2: Polymer drums market size worldwide

	Asia (mn units)							
	India				Rest of Asia			
	2011	2016	2020	2011-20 CAGR	2011	2016	2020	2011-20 CAGR
Packaging products								
Steel Drums	7.5	10.0	11.0	4.3%	90.5	121.0	131.0	4.2%
Polymer Drums	7.5	12.0	15.0	8.0%	5.5	13.0	18.0	14.1%
Total	15.0	22.0	26.0	6.3%	96.0	134.0	149.0	5.0%
Penetration								
Steel Drums	50%	45%	42%		94%	90%	88%	
Polymer Drums	50%	55%	58%		6%	10%	12%	

	Global (mn units)							
	Asia				Rest of World			
	2011	2016	2020	2011-20 CAGR	2011	2016	2020	2011-20 CAGR
Packaging products								
Steel Drums	98.0	131.0	142.0	4.2%	100.0	117.0	127.0	2.7%
Polymer Drums	13.0	25.0	33.0	10.9%	16.0	23.0	28.0	6.4%
Total	111.0	156.0	175.0	5.2%	116.0	140.0	155.0	3.3%
Penetration								
Steel Drums	88%	84%	81%		86%	84%	82%	
Polymer Drums	12%	16%	19%		14%	16%	18%	

Source: Company data, I-Sec research

Note: As can be seen from the above table India has the highest mix of polymer drums as against the world, the primary reason for the same is that in India steel drums are expensive then Polymer drums due to higher steel prices with anti-dumping duty (ADD) in place for the imported steel in India.

While outside India the shift is happening gradually with higher advantage of the Polymer drums over steel drums.

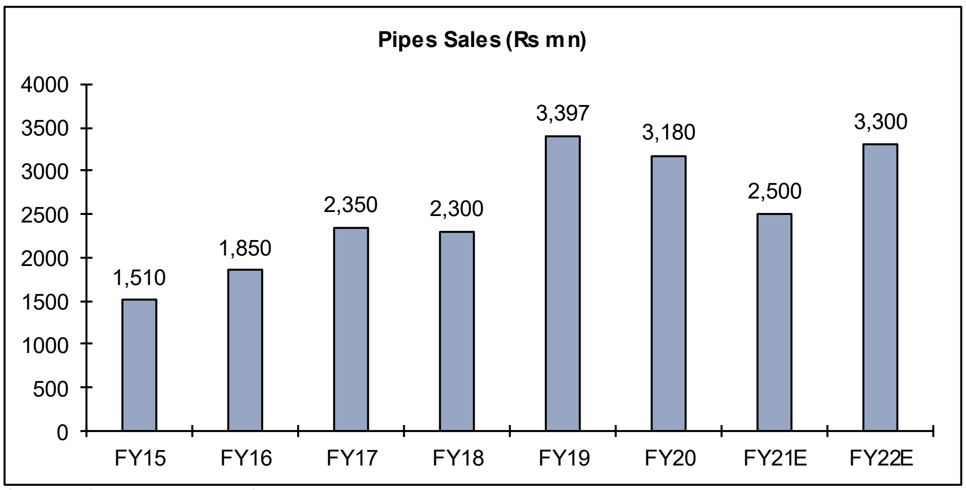
C) Robust orderbook in fast growing PE pipes segment

TIME's revenue in PE pipes segment between FY15-20 has grown at 16.1% CAGR with FY20 revenue at Rs3.2bn from Rs1.5bn in FY15. It has under its portfolio HDPE pipes and DWC pipes with a capacity of 53,000MTPA. These pipes have seen strong demand from infrastructure industry. TIME has robust orderbook of Rs3.25bn in this segment currently. FY18 was impacted due to GST-related issues while FY20 got impacted due to lockdown at the end of Q4FY20.

Currently, the segment is facing headwinds amid Covid-19 pandemic due to slow payment from the government to contractors. Hence, sales in FY21 may get impacted negatively. We believe as soon as the pandemic ends the segment is likely to put up a strong come back in FY22 with healthy orderbook in place.

TIME has recently launched a new generation multilayer pipes for power / communication cable ducts with silicon in-lining. The pipes / ducts have substantial business potential especially in development of Smart Cities.

Chart 4: Pipes sales over FY15-22



Source: Company data, I-Sec research

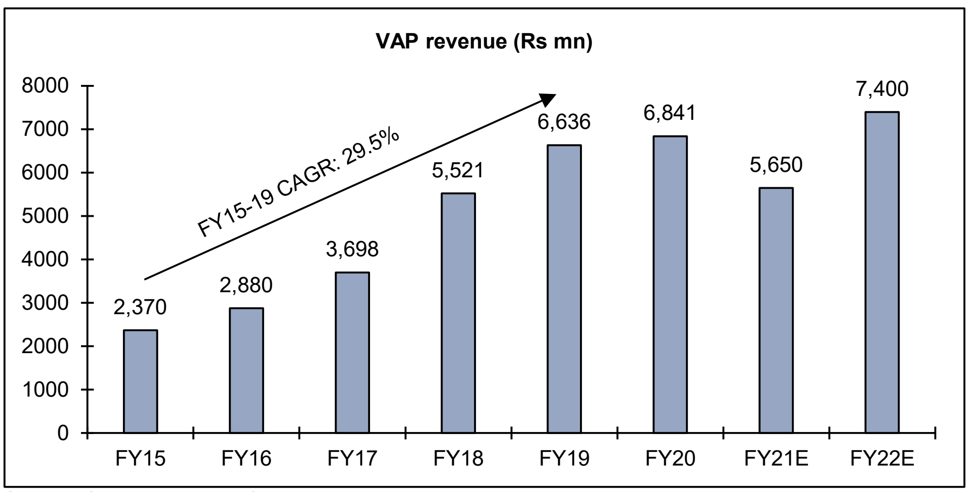
Value-added products will continue to grow at a faster pace post Covid-19

VAP (19% of revenue) comprises Composite IBCs, Composite Cylinders (CC) and MOX films. For TIME, VAP has grown at revenue CAGR of 23.6% over FY15-20 with the introduction of CC in FY13 while MOX films was launched in FY18.

Chart 5: Value-added products

Source: Company data, I-Sec research

Chart 6: VAP revenue will continue to grow at healthy pace



Source: Company data, I-Sec research

A) Composite Cylinders (CC): Composite cylinders are superior alternatives to traditionally used metal cylinders. These cylinders are extremely lightweight, attractive in colour & shape, rust & corrosion proof, UV resistant and most importantly are 100% explosion proof.

CC revenue has grown multifold for TIME and **it has increased its revenue from Rs180mn in FY15 to Rs1.9bn in FY20 and has grown at a CAGR of 60% from FY15-20.** Company earns EBITDA margin upwards of 20% from this product.

Capacity & competition: The company is supplying to more than 33 countries now and **TIME is the second largest producer of CC in the world with a capacity of 1.4mn units p.a.** after Hexagon Ragasco based out of Norway with a capacity of 2mn units p.a. In India, the closest competitor for TIME is Supreme

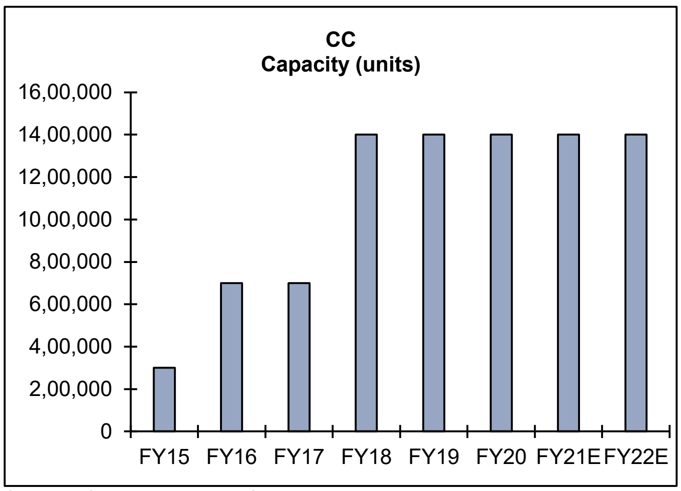
Industries that has a manufacturing capacity of ~0.5mn cylinder p.a. The company continues to increase its market penetration of LPG composite cylinders.

Company sells world's largest range of CC from 2kg-22kg and for varied applications.

Major customers (countries): Bangladesh forms a significant part of CC sales followed by Somalia, Maldives, Russia, Kenya, Philippines, Italy, Greece, Croatia and South Korea.

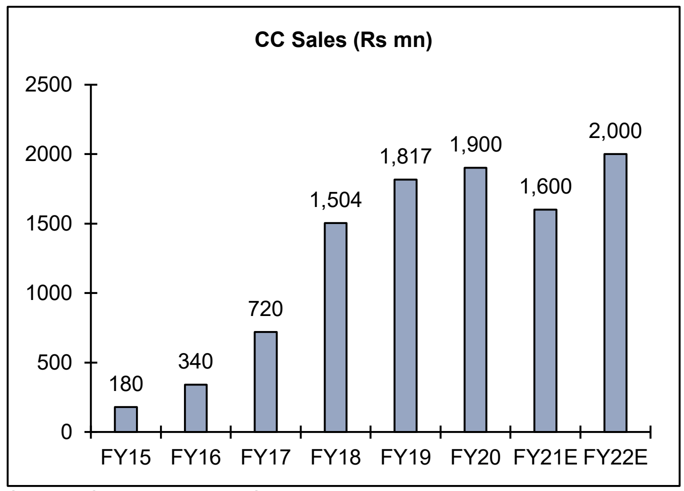
Growth levers: With 1) healthy orderbook in place from the existing customers, 2) increasing customers from different geographies and 3) business from newly developed PU based CC, management expects to continue its growth momentum in CC segment.

Chart 7: CC capacity



Source: Company data, I-Sec research

Chart 8: CC sales over FY15-22



Source: Company data, I-Sec research

Chart 9: CC of different sizes

Source: Company data, I-Sec research

B) **MOX films:** TIME launched MOX films (multi-layered multi axis oriented cross laminated Film) in FY18 in India with brand name **'Techpaulin'**. It appointed over 25 super distributors across the country and organised dealer meets in more than 15 states to build the brand. **It contributed 3.3% to consolidated revenue at Rs1.2bn in FY20.**

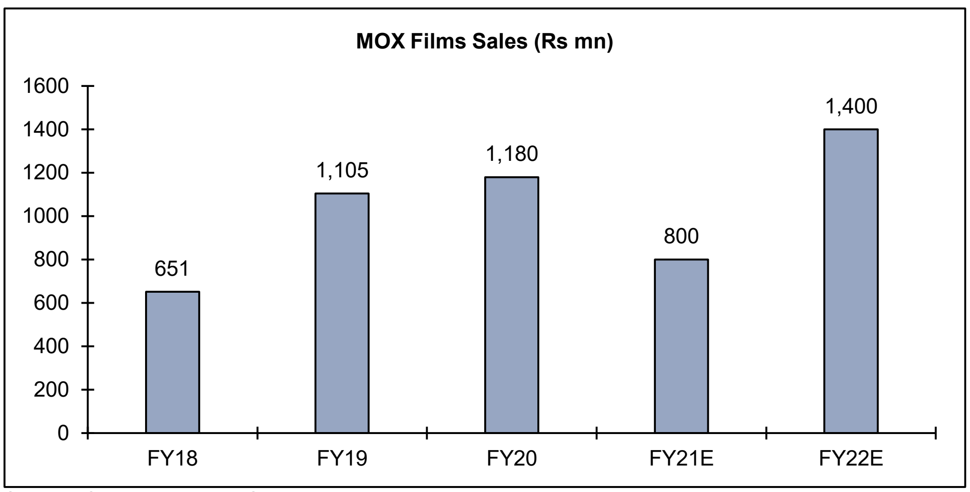
Competition: The segment took off fast and with large unorganised segment and lack of big brands except Supreme Industries helped the company build the sales fast by offering quality product.

Capacity: It has a capacity of 12,000MTPA currently and ranges from 35GSM to 320GSM thickness. It is used in various industries like agriculture, infrastructure, packaging, commercial vehicles, etc.

New offerings: The company is innovating new applications of MOX films. The company is launching new products in the market like truck covers, pond liners and mulching film & poly house films.

Exports: Exports form 15-20% of overall MOX films revenue mainly from US & EU. The company is also focusing on new export markets i.e. Thailand, Malaysia, Germany and UK. Hence, it expects to continue its growth momentum going forward in MOX films.

Chart 10: MOX films sales



Source: Company data, I-Sec research

Chart 11: Different applications of MOX films

Source: Company data, I-Sec research

C) **Intermediate Bulk Containers (IBC):** TIME is the **third largest manufacturer of IBCs worldwide** with brand name 'GNX'. It's a packaging container with size of 1000 ltr, which can be reused as well.

Capacity: It has an overall capacity of 1.23mn units p.a. with capacity of 0.27mn units p.a. in India and 0.96mn units p.a. overseas.

Opportunity and advantages of IBCs: A clear trend towards IBC (bulk packaging from small packaging) is visible, which is correlated with growing demand for reconditioning solutions mainly in developed regions. Bulk transportation reduces logistics and shipping costs, too. IBCs are designed for efficient performance even in rugged terrains and rough handling and are estimated to save about 75% of storage and transportation costs as compared to drums.

The adoption of HDPE IBC for storage and transportation of corrosive chemicals is increasing owing to their environmental stress cracking resistance. Composite rigid IBCs are projected to dominate the rigid IBC market in terms of market value share owing to highly durable and efficient handling systems.

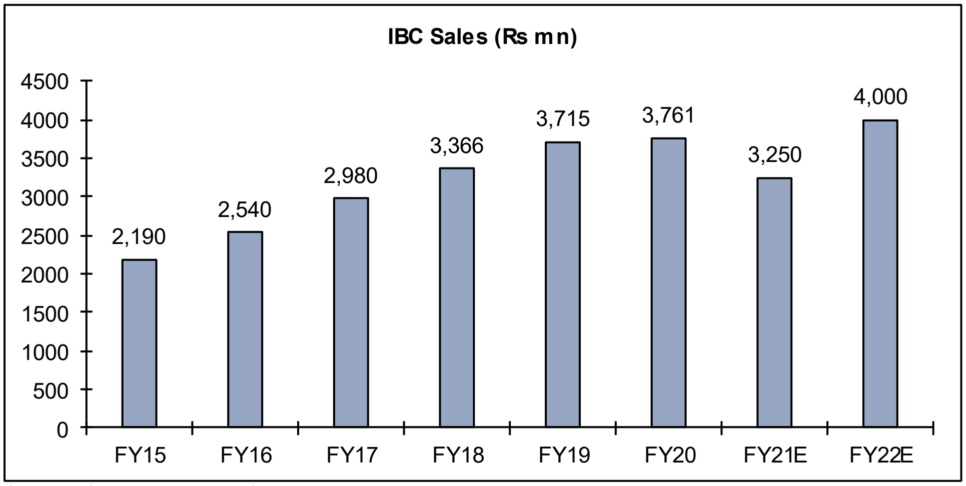
New plants in USA to aid growth in IBC segment: TIME has recently, in the last one year, commissioned three plants in USA with capex of US$15mn for selling IBCs and **expects to garner revenue of US$35-40mn at full capacity in next three years from these facilities**.

Natural shift of business from developed countries to Asian countries. With chemical manufacturing shifting towards Asia, there is a huge opportunity for TIME to scale up. Asia currently contributes only 16% to the overall market of IBCs worldwide.

Chart 12: IBC components

Source: Company data, I-Sec research

Chart 13: IBC sales over FY15-22



Source: Company data, I-Sec research

Table 3: IBC market worldwide

Packaging products	Asia (mn units)							
	India				Rest of Asia			
	2011	2016	2020	2011-20 CAGR	2011	2016	2020	2011-20 CAGR
IBCs	0.06	0.2	0.3	19.6%	0.9	1.6	1.9	8.1%

Packaging products	Global (mn units)							
	Asia				Rest of World			
	2011	2016	2020	2011-20 CAGR	2011	2016	2020	2011-20 CAGR
IBCs	1.0	1.8	2.2	9.2%	8.0	10.2	11.5	4.1%

Source: Company data, I-Sec research

Sustainable product development through R&D

- Dedicated team of more than 30 people for R&D
- 1% of total turnover spending on research and development activities
- Dedicated lab with state of the art incubation centre at Daman for prototype development and testing
- **Product re-engineering:** Continuous efforts towards reduction in material and energy consumption
- **Process re-engineering**: Making processes more energy efficient and using optimised manpower. Further automation is being introduced wherever necessary

Product development till date:

- Composite cylinders
- MOX films
- Antistatic drums and IBCs
- Polymer fuel tanks and de-aeration tanks for commercial vehicles
- Anti-spray mats
- GNX IBCs
- Multilayer IBCs/drums/tanks
- Type – IV composite cylinder for CNG cascade
- Many more in pipeline

Process development till date:

- Gas assisted injection moulding for foldable crates
- Auto de-flashing and unloaders for blow moulding machines.
- Continuous optimisation in cycle time and product weights
- Continuous injection molding
- Multilayer blow molding
- Multilayer extrusion
- Non-permeating polymers

Machine & moulds development till date:

- Indigenously developed blow moulding machines including multi-layer machine
- Assembly line for composite cylinders and IBCs
- Designing blow/injection moulds with reduced cycle TIME and proprietary ejection systems for auto fall feature
- Machine for MOX films

New products developments – The future long-term growth potential

- TIME has an extensive R&D facility enabling it to develop new innovative products as a **replacement for metal products** by using polymers and employing technologies of plastic processing (blow, injection & extrusion).
- New products under development such as **CNG composite cylinders, leaf springs, smart cans, propeller shaft, etc.** should provide the company additional growth momentum.
- The advantages of shifting to composite products will **provide significant savings in weight like 65-70% to customers** and it will improve the efficiency especially for products used by automobile sector.
- TIME has **proven track record of developing new products (composite cylinder/MOX films/IBCs)** and scaling it successfully in the past. Hence, we expect similar boost for the above mentioned new products in the next 3-4 years.

Table 4: Comparison between metal and composite cylinders

Particulars	Criteria	Metal	Composite
Cylinder for LPG (for all sizes)	Price	X	1.30 X
	Weight	X	0.40 X
Cylinder for CNG cascade (for all sizes)	Price	X	1.50 X
	Weight	X	0.30 X
Cylinder for on-board application in Automotive Industry (for all sizes)	Price	X	1.35 X
	Weight	X	0.35 X

Source: Company data, I-Sec research

1) CNG Type-4 carbon wrapped composite cylinders/CNG cascade for CNG distribution companies (incremental revenue of Rs800mn p.a. from FY23 onwards)

Company had been working for the last three years for developing fully-wrapped Carbon Fibre Reinforced Wrapped Type-IV Composite Cylinder (no metal) for CNG cascades. It has recently successfully developed and finally received coveted approval from Petroleum and Explosives Safety Organization (PESO) and Bureau Veritas under International Standard ISO: 11119-3:2013 as applicable. This is the first time in India that locally produced Type-IV CNG Cylinder has been accorded this approval for CNG cascades. This puts TIME amongst top five manufacturers worldwide (nearest South Korea and Norway) who have the necessary approval for Carbon Fibre Type-IV Composite Cylinders for CNG cascades.

It is estimated that the present market for CNG cascades in India is around Rs6-8bn per year with high double-digit growth. With PESO approval in hand, the company will aggressively participate to tap significant market share in India and explore large export potential.

Advantages of Type-4 composite cylinder and CNG cascades over steel cylinders:

- Light weight
- Explosion proof

- No corrosion/rusting (long life)
- CNG cascades can carry 2x of steel cylinder cascades
- Operating cost will be less than half per cascade due to larger carrying capacity and overall reduction in weight

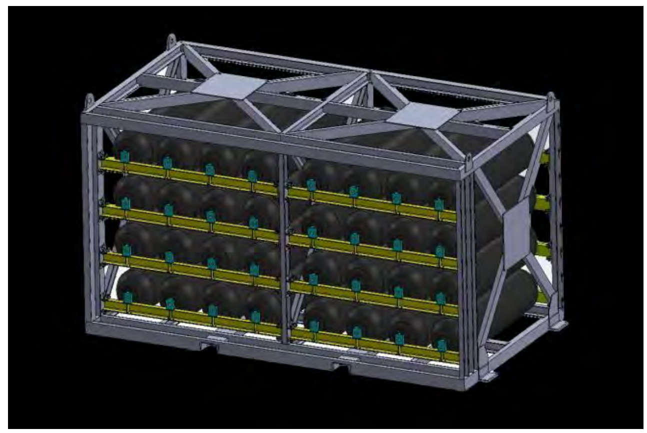
Opportunity for TIME:

- Company expects this market to reach Rs30bn in next 4 years with higher usage of CNG in India and aims to garner 30% market share from it.
- Capex of Rs800mn for 80,000units p.a. in two phases to start from FY23. The capacity can be up and running in just six months.
- It expects to generate revenue of Rs3bn out of the above capex with higher asset turns and return ratios

Chart 14: CNG CC

Source: Company data, I-Sec research

Chart 15: CNG cascade



Source: Company data, I-Sec research

2) CNG cylinders for on-board application for automotive sector

Company has received the PESO approval for CNG cascade as mentioned above but it is yet to get approval for on-board application for automotive sector (cars, trucks, buses, three-wheelers etc.).

TIME has successfully developed CNG Composite Cylinders for on-board application and has internally passed all the necessary tests under ISO: 11439-2013. The cylinders are in an advanced stage of formal testing / approval by Petroleum and Explosives Safety Organization (PESO) and Bureau Veritas. The company is expecting the necessary approval to be in hand during FY21.

Several automotive companies have evinced interest in Carbon Fibre Reinforced Type-IV Cylinders as a replacement for steel cylinders owing to several technical and operational advantages.

Table 5: CNG CC different sizes and application in auto sector

Sr. No.	Cylinder (Ltr)	Suitable for
1	30	Auto Rickshaw (On Board)
2	60	Car (On Board)
3	65	Car (On Board) & Cascade
4	75	Bus (On Board) & Cascade
5	156	Bus (On Board) & Cascade

Source: Company data, I-Sec research

3) Composite air tanks for automotive sector

- Composite air tanks by TIME is vehicle air brake system for commercial vehicles
- This tanks are constructed with thermoplastic resin matrices that form the pressure vessel that can be used without stress-crack propagation
- The impact-resistant tank is 60% lighter than its metallic counterpart
- They are corrosion proof and have been specially designed with a unique condensation residue drain feature
- Trial of this product has been done already with Tata Motors and this tanks meet international standards.

Chart 16: Composite air tank

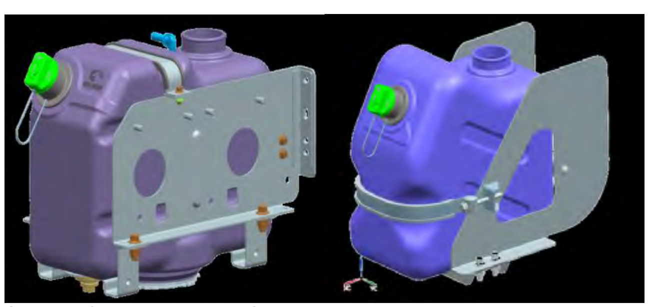
Source: Company data, I-Sec research

4) DEF (Urea) tanks

DEF dispenser tanks are now offered from blow mould process for commercial vehicle segment as against rotational moulding technology which will increase turnaround time and can meet large volume.

- Diesel Exhaust Fluid (DEF) dispenser tanks are designed to ward off the harmful impact of corrosion.
- The tank pumps are made from durable stainless steel that can withstand the most challenging operating conditions.
- The tanks also enable safe bulk storage of diesel exhaust fluids.
- Company already has 33 ltr capacity tanks but has now developed 27 ltr and 19 ltr capacity tanks with blow mould technology.

Chart 17: DEF tanks

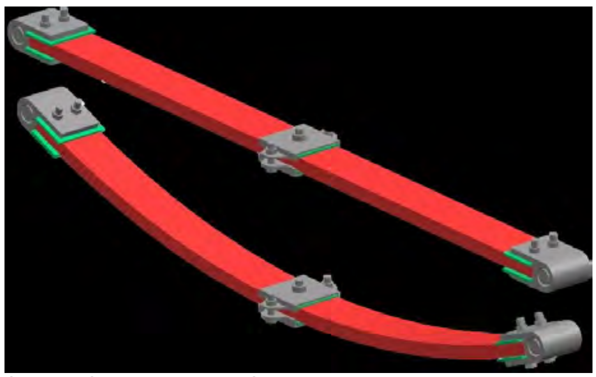


Source: Company data, I-Sec research

5) Composite leaf springs and composite propeller & drive shafts

- Company has brought a replacement of metallic leaf springs for commercial vehicles with polymer based composite leaf springs, which will reduce the weight of the product and the vehicles.
- It will be used in small & light commercial vehicles, medium commercial vehicles (set and combinations), heavy commercial vehicles (set and combination).
- Similarly, it has brought up propeller and drive shafts for passenger cars and commercial vehicles.
- The carbon fibre (composite) drive shafts have a torsional spring rate a little less than aluminium and about half that of steel. The total weight savings in shaft would be 65%.

Chart 18: Composite leaf springs



Source: Company data, I-Sec research

Chart 19: Composite propeller shaft

Chart 20: Metal propeller shaft

Source: Company data, I-Sec research

6) New generation PU cylinders

- The new LPG cylinder is TYPE IV composite cylinder with PU (Polyurethane) casing.
- With a brand-new compact design, the LiteSafe Elite Cylinder is known for its reliability & durability.
- It will come in capacities of 5,6 and 10kgs cylinders.
- It will have wide applications like in a barbeque, camping, caravans, generators, room heaters, lawn mowers and adventure sports.

- The difference between standard composite cylinder for LPG and composite cylinder with PU (Polyurethane) casing for LPG is 10%.

Chart 21: PU CC

Chart 22: PU CC

Source: Company data, I-Sec research

7) Tech pack: Smart Can

- Smart Can is an innovative technology that enables the transition from larger traditional rigid containers to flexible packaging options
- It is flexible packaging from TIME who has historically made rigid packaging
- It will come in 5-10 ltr capacities
- It will be used for edible and non-edible packaging

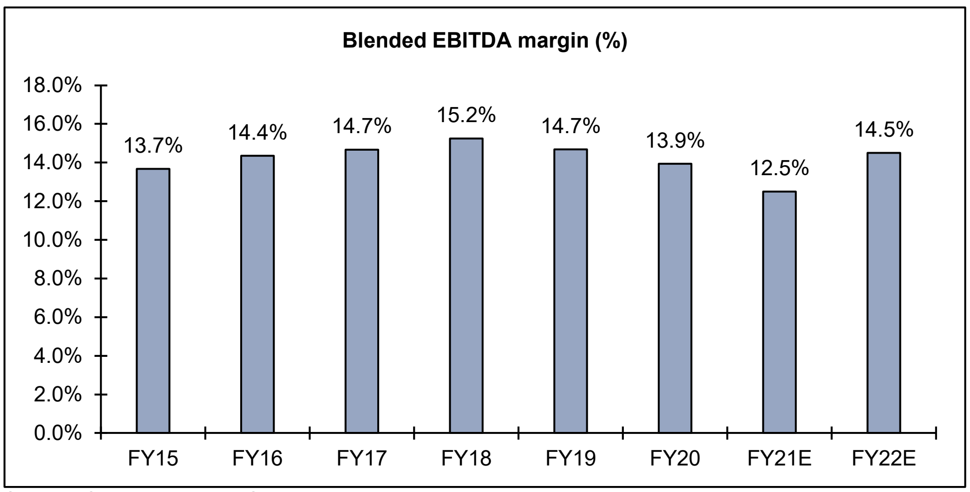
Chart 23: Tech packs

Source: Company data, I-Sec research

Higher focus on VAP to increase EBITDA margin

- TIME has over the last 4-5 years increased its mix of VAP, which has helped the company improve its blended EBITDA margin from 13.7% in FY15 to 14.7% in FY19 while FY20 EBITDA margin was marred by lockdown amid Covid-19 pandemic.
- The above improvement in performance was despite increasing mix of low EBITDA margin in plastic piping segment, which has grown at 22.5% CAGR over FY15-19.
- VAP products revenue has grown at a CAGR of 23.6% over FY15-20 while established products revenue has grown at a CAGR of 10% over the same period.
- While VAP EBITDA margin is in the range of 15-20% for products like IBC, CC and MOX films, established products EBITDA margin has been lower than 15%.
- TIME has been continuously focusing on increasing its mix of VAP and hence, we believe post Covid-19 pandemic, EBITDA margin will continue to move in upward trajectory over long term.

Chart 24: Consolidated EBITDA margin trend

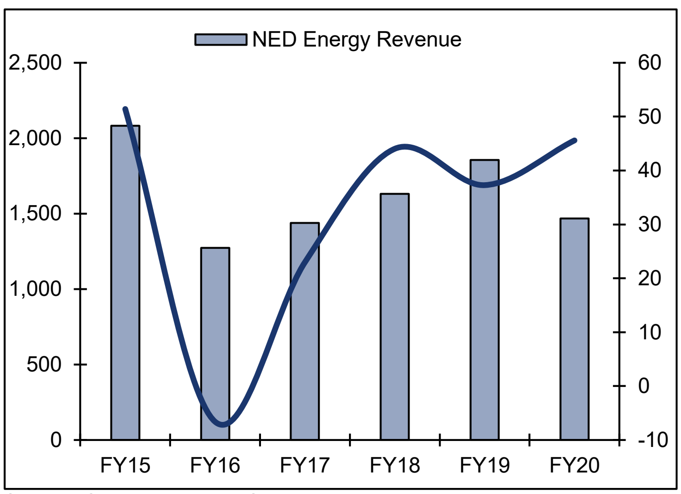


Source: Company data, I-Sec research

Selling non-core assets/business to improve balance sheet

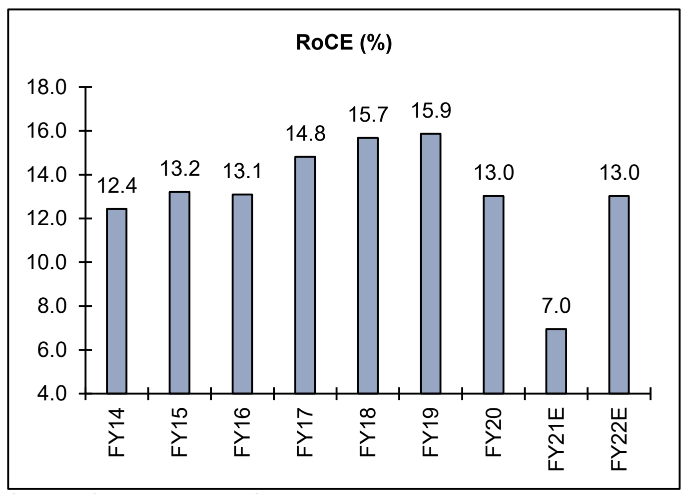
- TIME has focused on improving its RoCE time and again and one can observe the same based on the businesses/segments it has entered in the last 3-4 years, which are RoCE accretive and whenever given an opportunity, it has sold/discontinued the operations which are not RoCE accretive.
- In Dec'19, the company appointed E&Y for advising it to evaluate, advise on strategic alternatives to enable focus on core strengths.
- Alternatives include consolidation of business activities including hiving off/disposal/induction of partner in some business activities.
- The report from E&Y is likely to be presented to the management in H2FY21.
- However, irrespective of the report, TIME has mentioned that it would like to hive off businesses like battery, medical moulds and moulded furniture, where RoCE is less than 10%.
- We believe cashflow generation from the selling of non-core assets/businesses would help in reduction of debt and improve RoCE as the company would spend more on VAP, which will help improve its profitability.

Chart 25: Battery business (likely to be hived off) revenue & PAT



Source: Company data, I-Sec research

Chart 26: RoCE continues to improve



Source: Company data, I-Sec research

Chart book: Improving financials

Chart 27: Net sales and sales growth trend

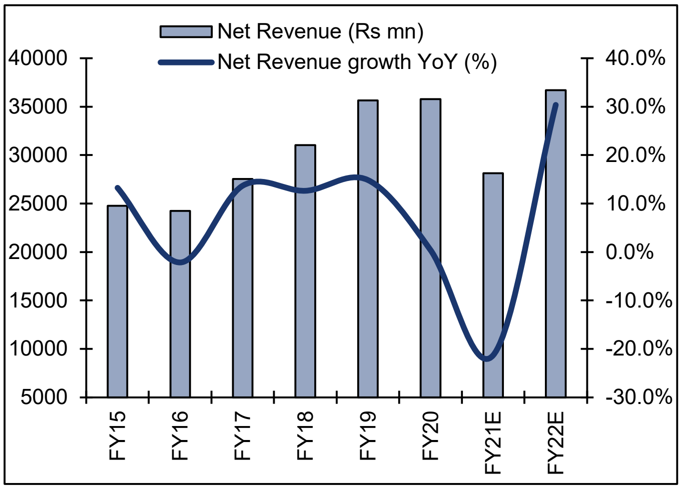


Chart 28: EBITDA and EBITDA growth trend

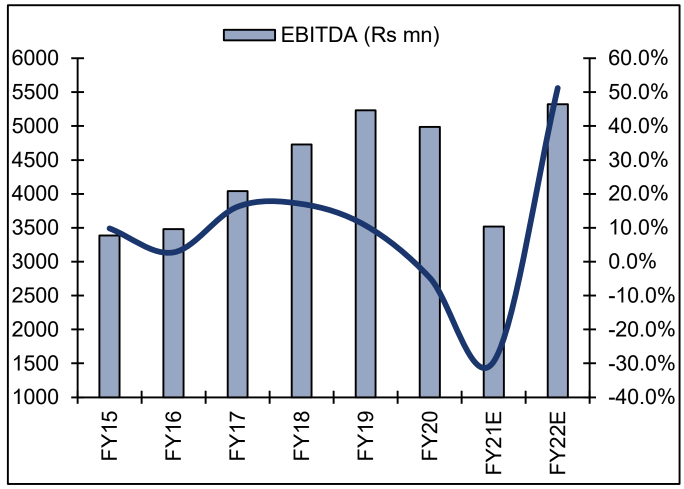


Chart 29: EBITDA margin trend

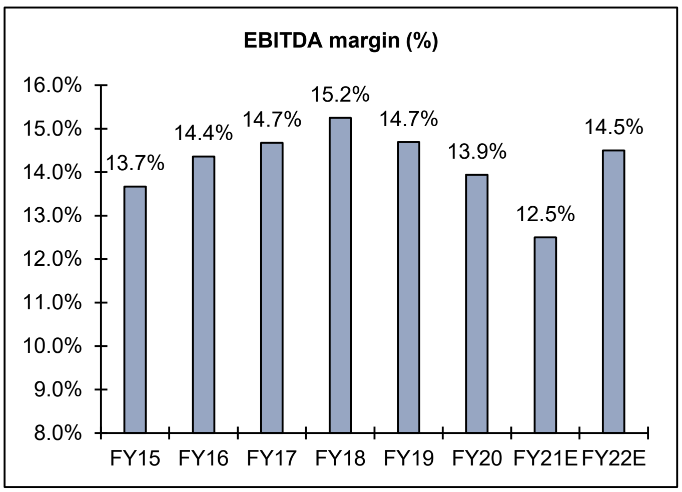


Chart 30: PAT and PAT growth trend

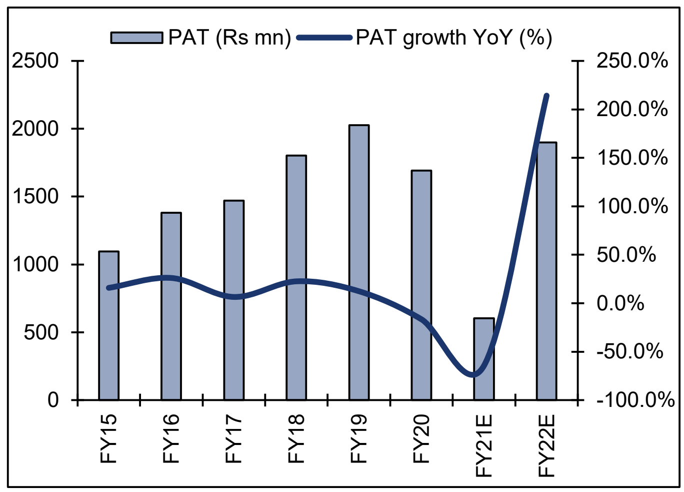


Chart 31: Net debt/equity trend

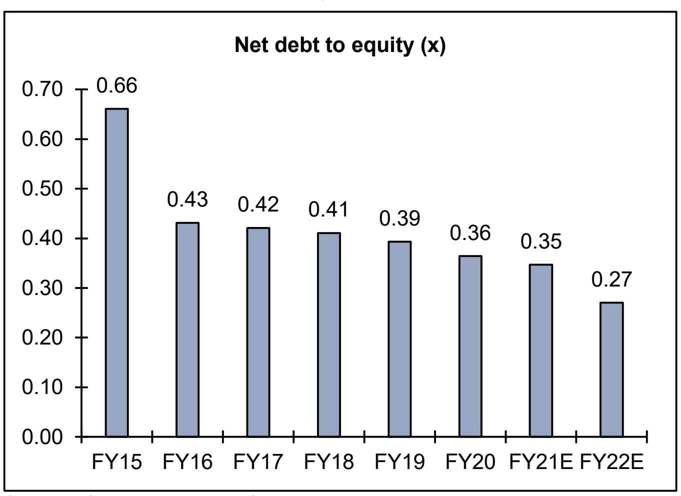
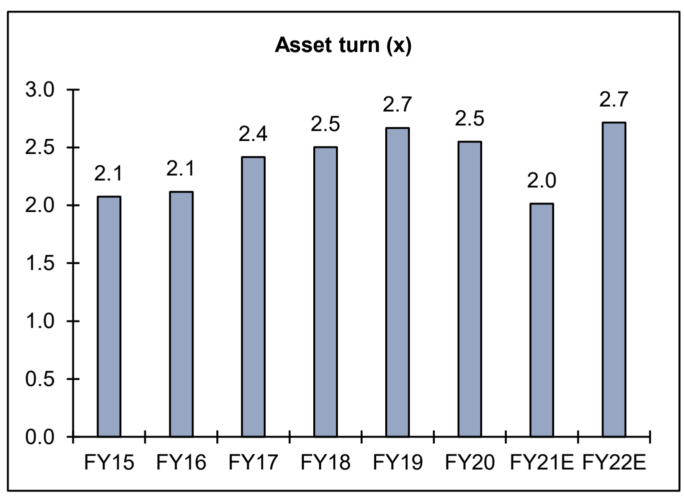
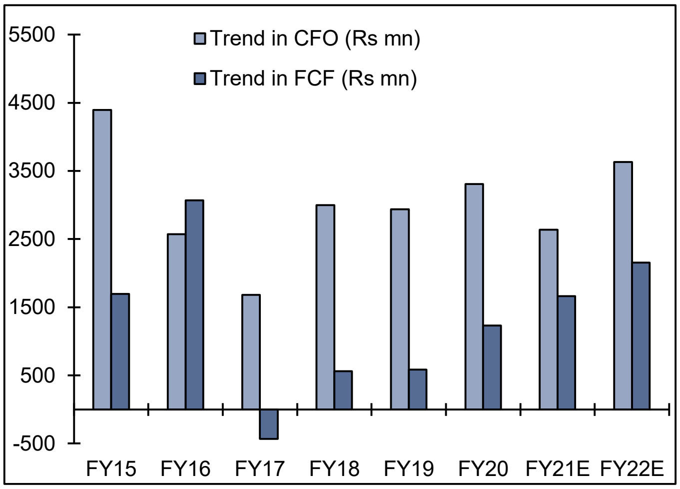


Chart 32: Asset turnover trend



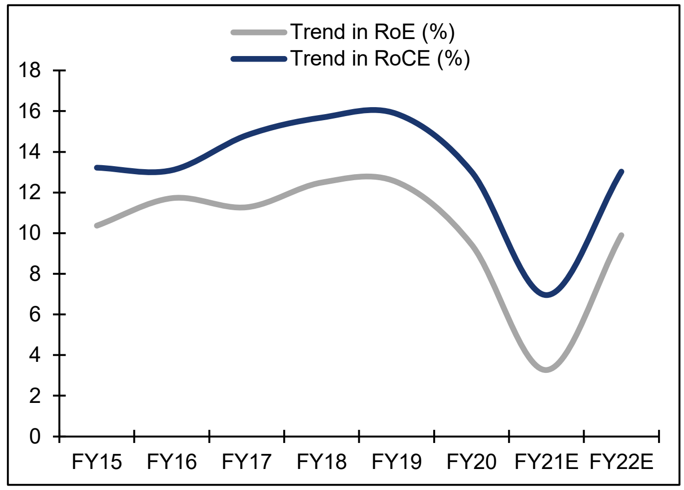
Source: Company data, I-Sec research

Chart 33: Trend in CFO and FCF



Source: Company data, I-Sec research

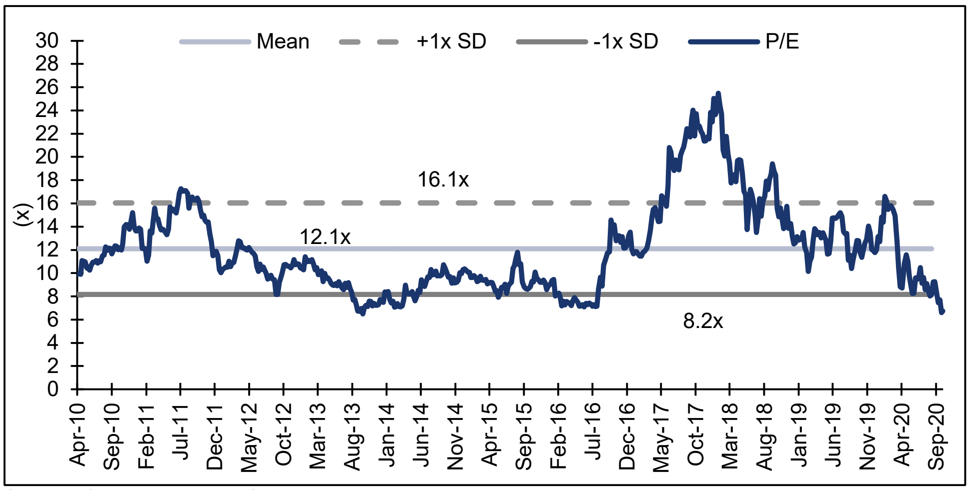
Chart 34: Trend in RoE and RoCE



Valuation & recommendation

Initiate coverage with a BUY: We expect TIME revenue/EBITDA/PAT to grow at CAGR of 1.3%/3.3%/6% over FY20-FY22E, respectively. TIME has, in past 4-5 years, increased its focus on RoCE with higher mix of VAP and has been successful in increasing RoCE from 12.4% in FY14 to 15.9% in FY19. With continuous focus on high margin VAP and incremental revenue visibility from new VAPs over long term, we expect TIME to reach its target of 20% RoCE over long term. Apart from above, selling of non-core assets and revoking pledge will further boost confidence in the counter and aid rerating.

Chart 35: P/E Mean and Standard deviation



Source: Company data, I-Sec research

TIME has over the last 10 years traded at an average PE of 12.2x while currently it is available at 4.4x FY22E EPS of Rs8.4. The major overhang for TIME's benign valuations we believe is the market's concerns on 1) its sustained capex drive to the tune of Rs2-2.5bn p.a., 2) Higher debt on books, 3) capital allocation woes and 4) promoters pledge. With some of these issues likely to be addressed by the company in the form of: 1) lower capex to the tune of Rs1-1.5bn p.a. over the next two years, 2) likely debt repayment driven by higher FCF generation and selling of non-core assets and 3) revocation of pledge, we assign a 10x PE multiple to TIME and arrive at a target price of Rs84.

Key risks & concerns

- **Raw material availability:** The principal raw material for all business segments is PE granules, which are derivative products of oil and natural gas. The company imports majority (60%) of its raw materials from nearby countries and the balance is purchased from local manufacturers. It satisfies most of the needs through purchases on the open market or under short-term and long-term supply agreements. The world order for recycling plastics is rearranging and it anticipates more demand will be met by virgin polyethylene. Countries such as China, India, Vietnam, Indonesia, the United States and Europe recycled investments have increased and it may result in an overall no demand change in longer term.
- **Commodity price risk**: The company is exposed to fluctuations in polymer prices which are determined by supply and demand in Indian and international markets. Since polymers are crude and gas derivatives, prices also tend to follow crude and gas prices, which are volatile and this volatility has an impact on the company's income and net profit.
- **Higher sustained capex**: TIME has been consistently incurring higher capex since last 4-5 years of Rs2-2.5bn p.a. Due to higher capex the profitability was getting impacted and hence one of the key reasons for low valuation. However, TIME has recently mentioned that they are likely to reduce the intensity of capex with enough capacity in place and new product development with higher asset turns.
- **Capital allocation:** TIME has over the time invested money in different products (battery business, medical moulds, etc.) which are non-core businesses and different geographies (capacities across geographies) which has not turned out to be fruitful. Such kind of capital allocation over the years is also one of the other reasons for low valuation. Recently, TIME appointed E&Y for the restructuring and advising on business strategies. The same is likely to help company focus on core business and get rid of non-core businesses.
- **Promoters pledge:** Promoters and promoter companies have pledged 40.35mn equity shares which is 17.84% of the total share of the company.

  The promoter company of TIME had purchased land along with old constructed premises time to time for which loan of Rs700mn was taken and this loan is has been continuing for several years. To secure this loan, the company has provided mortgage of the vacant free hold plot (being old premises demolished) and pledge of equity shares, which is 2.5 times of the loan amount. Promoters need to provide additional pledge/ release of shares depending on market price valuation as per agreed the timing. As on date, 40.35mn shares have been provided as collateral security.

  The said loan of Rs700mn is of two promoter companies namely Vishwalaxmi Trading & Finance – Rs350mn and Time Securities Services– Rs350mn.

  The management has decided to sell/dispose free hold property along with all the rights for Rs700-800mn so that the existing loan will be paid off. Promoters are servicing payment of interest out of the dividend.

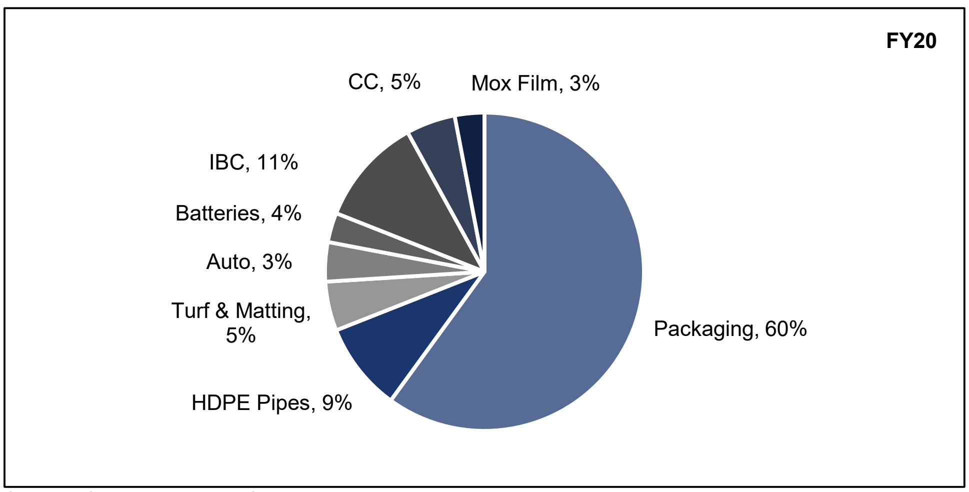
Company background

TIME Technoplast Limited (TTL) commenced operations in 1992. Itis an Indian multinational conglomerate and one of the leading manufacturers of technology based polymer and composite products, globally. It is the flagship company of the TIME group, and has subsidiary companies (including step-down subsidiaries) operating across the globe. It has strong presence in Asia and the Middle East and North Africa along with presence in 10 countries outside India, including the US. Globally, TIME is the largest manufacturer of large-sized plastic drums, second largest manufacturer of composite cylinders and third largest intermediate bulk container manufacturer. Extensive R&D capabilities have enabled it to develop new innovative products as a replacement for metal products by using polymers and employing technologies of plastic processing (blow, injection & extrusion).

TIME operates in 10 overseas countries and 20 locations across India to meet the local demand of products considering the voluminous nature of the products and efficiency in logistics.

- **Products:** TIME's portfolio consists of technically driven innovative products catering to growing industry segments like industrial packaging solutions, lifestyle products, healthcare products, material handling solutions, composite cylinders (CC), infrastructure/construction related products and automotive components. The group has over 14 recognised brands and works with more than 900 institutional customers, globally.

Chart 36: Revenues by product category



Source: Company data, I-Sec research

TIME classifies its products into 2 segments; established products and value-added products

- **Established products:** This product basket is broadly divided into 3 categories: **Industrial Packaging** (drums, jerry cans & pails), **Infrastructure** (HDPE pipes, DWC pipes and energy storage devices), **Technical & Lifestyle** (turf & matting, disposable bins & auto components). This segment contributes 81% to overall revenue. EBITDA margin for the segment stood at 13.1% in FY20.

- **Value-added products (VAP):** The value-added products, which include intermediate bulk container (IBC), composite cylinder and multi-layer multi oriented X cross laminate film (MOX Film), grew 3.1% YoY in FY20 to Rs6.84bn. The share of these products has been 19% of the total revenue during FY20.

Overseas operations:

TIME has manufacturing presence in 10 countries apart from India that primarily cater to industrial packaging segment. **Overseas business contributed Rs10.45bn to the overall revenue during FY20, which translated to 29% (P.Y. 29%) of total revenues. EBITDA margin for domestic operations is about 14.1% while the same in overseas is 13.8%**.

Going forward, we expect, significant growth in overseas revenue as multiple multinational companies are trying to shift their manufacturing base from China to countries like India, Indonesia, Thailand etc., where TIME already has significant presence thus providing a good opportunity.

Wherever TIME is present over the years, it has made its mark in those geographies and attained leadership in those places as shown below:

Table 6: TIME's ranking globally in Industrial Packaging

Region	Country	IBC	55 GAL. Plastic Drums
South East Asia	Thailand	1st	1st
	Taiwan	1st	1st
	Indonesia	1st	1st
	Malaysia	2nd	2nd
	Vietnam	1st	1st
Middle East & North Africa	Sharjah	1st	1st
	Bahrain/Saudi Arabia	1st	1st
	Egypt	1st	1st
North America	North America	-	-

Source: Company data, I-Sec research

Table 7: Overall capacity across product categories

Annual Installed capacity	India	Overseas	Total
Plastic products ('000 MT)	202	86	288
IBC ('000 Nos)	270	960	1,230
PE Pipes ('000 MT)	53	0	53
Composite Cylinders ('000 Nos)	1,400	0	1,400
MOX Films (MT)	12,000	0	12,000

Source: Company data, I-Sec research

- **Experienced team of promoters & professionals:** TIME is professionally managed with experienced promoters having more than 25 years in the field of polymers manufacturing activity.

Table 8: Management details

Name	Designation	Qualification
Mr. Anil Jain	Managing Director	Degrees in Science, Engineering from Punjab University and Business Management from Delhi University with over 40 years in the field of Polymer Technology and Products
Mr. Bharat Vageria	Whole TIME Director, Finance	Degree in Commerce and a Fellow of Institute of Chartered Accountants (FCA) with over 35 years of experience in the Polymer Industry
Mr. Raghupathy Thyagarajan	Whole TIME Director, Marketing	Degree in Science and Masters in Business Administration from Mumbai University with over 30 years of industrial experience in Polymer Products
Mr. Naveen Jain	Whole TIME Director, Technical	Degree in Engineering from IIT Delhi with over 30 years experience in Production, Quality Management and Projects Management

Source: Company data, I-Sec research

Financial summary (consolidated)

Table 9: Profit and loss statement

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21E	FY22E
Net Sales	31,027	35,637	35,780	28,150	36,700
Add: Other Operating Income	-	-	-	-	-
Net revenue	**31,027**	**35,637**	**35,780**	**28,150**	**36,700**
Less:					
Cost of goods sold	21,528	25,113	25,044	20,127	25,800
Employee cost	1,451	1,639	1,704	1,689	1,982
Others	3,318	3,650	4,044	2,815	3,597
Total Operating Expenses	**26,297**	**30,402**	**30,791**	**24,631**	**31,379**
EBITDA	**4,731**	**5,235**	**4,989**	**3,519**	**5,322**
Depreciation	1,372	1,461	1,562	1,641	1,759
Other income	21	32	23	25	30
EBIT	**3,380**	**3,806**	**3,449**	**1,903**	**3,592**
Less: Financial expenses	875	986	1,082	1,035	973
Recurring Pre-tax Income	**2,504**	**2,819**	**2,367**	**868**	**2,619**
Less: Taxation	652	734	617	219	659
Less: Minority Interest / Subsidiary loss	49	58	59	45	60
Net Income (Reported)	**1,804**	**2,027**	**1,691**	**605**	**1,900**
Extraordinary Items	-	-	-	-	-
Recurring Net Income	**1,804**	**2,027**	**1,691**	**605**	**1,900**

Source: Company data, I-Sec research

Table 10: Balance sheet

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21E	FY22E
ASSETS					
Current Assets, Loan & Advances					
Inventories	6,409	7,373	7,577	6,478	7,541
Sundry debtors	6,703	7,842	8,207	7,250	8,044
Cash and bank balances	591	666	825	1,004	1,208
Other current assets	2,055	2,068	2,441	2,800	3,300
Loans and advances	-	-	-	-	-
Total Current Assets	**15,758**	**17,950**	**19,050**	**17,532**	**20,093**
Current Liabilities & Provisions					
Current Liabilities	4,370	4,750	4,435	3,548	4,525
Provisions and other liabilities	1,881	1,949	2,119	1,381	1,651
Total Current Liabilities & Provisions	**6,251**	**6,699**	**6,555**	**4,929**	**6,176**
Net Current Assets	**9,507**	**11,251**	**12,495**	**12,604**	**13,918**
Investments	**220**	**274**	**294**	**314**	**334**
Fixed Assets					
Gross block	20,703	22,958	25,224	27,024	28,524
Less : depreciation	8,706	10,168	11,730	13,370	15,130
Net block	**11,997**	**12,791**	**13,494**	**13,654**	**13,394**
CWIP	941	983	805	-	-
Godwill	**-**	**-**	**-**	**-**	**-**
Total Assets	**22,664**	**25,299**	**27,088**	**26,571**	**27,646**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders Fund					
Equity share capital	226	226	226	226	226
Reserves and surplus	14,601	16,466	17,925	17,589	19,244
Total Shareholders Fund	**14,828**	**16,692**	**18,151**	**17,815**	**19,470**
Borrowings					
Long term	3,302	3,183	3,315	3,065	2,765
Short term	3,549	4,231	4,309	4,309	3,959
Total Borrowings	**6,851**	**7,415**	**7,624**	**7,374**	**6,724**
Deferred Tax Liability	**581**	**730**	**792**	**842**	**892**
Minority Interest	**405**	**463**	**522**	**540**	**560**
Total Liabilities & Shareholders' Equity	**22,664**	**25,299**	**27,088**	**26,571**	**27,646**

Source: Company data, I-Sec research

Table 11: Cashflow statement

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21E	FY22E
Cash Flow from Operating Activities					
PAT	1,804	2,027	1,691	605	1,900
Add: Depreciation	1,372	1,461	1,562	1,641	1,759
Add: Other Operating activities	-	-	-	-	-
Operating Cash Flow Before Working Capital change (a)	**3,176**	**3,489**	**3,253**	**2,245**	**3,659**
Changes in Working Capital					
(Increase) / Decrease Trade & 0th receivables	(921)	(1,139)	(364)	757	(794)
(Increase) / Decrease Inventories	(936)	(964)	(204)	898	(1,063)
Increase / (Decrease) Current liab and provisions	968	447	(725)	(1,446)	1,317
Others	(256)	26	263	(882)	(590)
Working Capital Inflow / (Outflow) (b)	**(1,145)**	**(1,629)**	**(1,030)**	**(673)**	**(1,130)**
Net Cash flow from Operating Activities (a) + (b)	**2,031**	**1,859**	**2,224**	**1,572**	**2,529**
Cash Flow from Capital commitments (c)	**(2,437)**	**(2,297)**	**(2,088)**	**(995)**	**(1,500)**
Free Cash flow after capital commitments (a) + (b) + (c)	**(406)**	**(438)**	**136**	**577**	**1,029**
Cash Flow from Investing Activities					
Purchase of Investments	1	(54)	10	20	20
Change in goodwill	-	-	-	-	-
Net Cash flow from Investing Activities (d)	**1**	**(54)**	**10**	**20**	**20**
Cash Flow from Financing Activities					
Equity raised/(repaid)	-	-	-	-	-
Proceeds from fresh borrowings	541	564	209	(250)	(650)
Dividend paid including tax and others	(218)	(145)	(259)	(218)	(245)
Net Cash flow from Financing Activities (e)	**323**	**419**	**(50)**	**(468)**	**(895)**
Change in Deferred Tax Liability (f)	111	148	62	50	50
Total Increase / (Decrease) in Cash (a) + (b) + (c) +(d) + (e) + (f)	29	75	159	179	204
Opening Cash and Bank balance	562	591	666	825	1,004
Closing Cash and Bank balance	591	666	825	1,004	1,208
Increase / (Decrease) in Cash and Bank balance	**29**	**75**	**159**	**179**	**204**

Source: Company data, I-Sec research

Table 12: Key ratios

(Year ending Mar 31)

	FY18	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)					
EPS	8.0	9.0	7.5	2.7	8.4
Cash EPS	14.0	15.4	14.4	9.9	16.2
Dividend per share (DPS)	0.8	0.5	1.0	0.8	0.9
Book Value per share (BV)	65.6	73.8	80.3	78.8	86.1
Growth (%)					
Net Sales	12.6	14.9	0.4	(21.3)	30.4
EBITDA	17.0	10.7	(4.7)	(29.5)	51.2
PAT	22.6	12.4	(16.6)	(64.2)	214.2
Cash EPS	22.6	12.4	(16.6)	(64.2)	214.2
Valuation Ratios (x)					
P/E	4.7	4.2	5.0	13.9	4.4
P/CEPS	2.7	2.4	2.6	3.8	2.3
P/BV	0.6	0.5	0.5	0.5	0.4
EV / EBITDA	3.0	2.8	2.9	3.9	2.4
EV / Sales	0.5	0.4	0.4	0.5	0.3
Operating Ratio					
Raw Material / Sales (%)	70.5	71.9	70.1	71.5	70.3
Employee cost / Sales (%)	4.7	4.6	4.4	6.0	5.4
SG&A / Sales (%)	10.7	10.2	6.7	10.0	9.8
Other Income / PBT (%)	0.9	1.1	1.0	2.9	1.1
Effective Tax Rate (%)	26.0	26.0	26.1	25.2	25.2
Working Capital (days)	102.8	107.2	115.8	132.0	110.0
Inventory Turnover (days)	75.4	75.5	77.3	84.0	75.0
Receivables (days)	78.9	80.3	83.7	94.0	80.0
Payables (days)	51.4	48.6	45.2	46.0	45.0
Net D/E Ratio (x)	0.4	0.4	0.4	0.3	0.3
Return/Profitability Ratio (%)					
Net Income Margins	5.8	5.7	4.7	2.1	5.2
RoACE	15.7	15.9	13.0	7.0	13.1
RoAE	12.5	12.5	9.4	3.3	9.9
Dividend Payout	12.1	7.2	15.3	36.0	12.9
Dividend Yield	2.1	1.4	2.6	2.1	2.4
EBITDA Margins	15.2	14.7	13.9	12.5	14.5

Source: Company data, I-Sec research

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