

Lockdown drags overall performance...

Time Technoplast's (TPL) Q4FY20 performance was marred by lockdown in March 2020, resulting in ~₹ 190 crore of revenue loss. Consolidated topline fell 15% YoY led by ~11% decline in sales volume. Polymer products (~70% of topline) de-grew ~15% YoY while composite product fell ~17% YoY. On the operating margin front, TPL has passed on lower raw material prices to end customers leading to flattish gross margin YoY. However, lower operating leverage (in the wake of volume decline) pulled down EBITDA margin by ~280 bps YoY in Q4FY20. As a result, TPL reported a sharp fall in PAT by ~48% YoY. For FY20, topline remained flat with volume growth of ~4% YoY. Value added products (VAP) grew 3% YoY in FY20, with its share in topline increasing to ~19% in FY20 (vs. 18.6% in FY19). TPL's continued focus on increasing pie of VAP in FY20, led to ~50 bps increase in consolidated gross margin in FY20. According to the management, the company will face demand challenges in H1FY21E owing to lockdown. They see a possible recovery in demand from H2FY21 with a recovery in economic activities. TPL also guided at rationalisation of various fixed costs to safeguard operating margins. We believe a recovery in economic activity would help drive revenues from FY22E onwards with a recovery in operating margins. We also believe a rationalisation of capex plans coupled with comfortable D/E (0.4x in FY20) would help the company to pass through the challenging phase in FY21E.

Piping segment hit hard due to lockdown

On a segment wise, piping segment was hit hard (sales down ~37% YoY) due to lower capex into infra related projects by government. Further, revenue from composite cylinder, IBCs fell sharply by 22%, 17% YoY, respectively, as volume offtake by key clients was impacted by Covid-19 related lockdown. These segments contribute ~25% of total revenue. We believe business activities would become normal post lockdown relaxation.

Lower operating leverage drags margin

While gross margins remained flat YoY, as the company passed on benefit of lower raw material prices to its clients, the EBITDA margin dragged by higher fixed costs. We believe FY21 margins will be impacted by lower sales and higher fixed cost. However, the company has guided for rationalisation of fixed costs, going forward, to safeguard margins.

Valuation & Outlook

We believe TPL would not face any liquidity issues due to pandemic owing to its strong MNCs client base and comfortable D/E of ~0.4x. We also believe being a market leader in the packaging segment, it would benefit from chemical MNCs looking for China+1 strategies and investing in Indian markets. We upgrade our rating from REDUCE to **HOLD** with a revised target price of ₹ 42 as we believe all near term challenges are factored in at CMP.



Particulars

Particular	Amount
Market Cap (₹Crore)	859.4
Total Debt (FY 20) (₹Crore)	762.4
Cash&Inv (FY 20) (₹Crore)	82.5
EV (₹Crore)	1,539.3
52 week H/L	96/ 22
Equity capital (₹Crore)	22.6
Face value (₹)	1.0

Key Highlights

- Volume de-growth of 11% in Q4FY20. However, the same grew ~4% YoY in FY20
- Change in mix, passing on benefit of lower raw material prices dented margins
- Expecting demand recovery from H2FY20 with pick-up in economic activities
- Upgrade rating from REDUCE to HOLD with revised target price of ₹ 42/share

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Key Financial Summary

₹Crore	FY18	FY19E	FY20E	FY21E	FY22E	CAGR (20-22E)
Net sales	3,102.7	3,563.7	3,578.0	2,897.8	3,896.4	4.4
EBITDA	473.1	523.5	498.9	352.7	558.6	5.8
EBITDA Margin (%)	15.2	14.7	13.9	12.2	14.3	
PAT	180.4	202.7	169.1	71.7	203.6	9.7
EPS (₹)	8.0	9.0	7.5	3.2	9.0	
P/E (x)	4.8	4.2	5.1	12.0	4.2	
Price/Book Value (x)	0.6	0.5	0.5	0.5	0.5	
EV/EBITDA (x)	3.1	2.9	3.1	4.4	2.8	
RoE (%)	12.2	12.1	9.3	4.0	10.7	
RoCE (%)	14.9	15.0	12.5	7.1	13.1	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	916.1	1,131.1	1,082.1	-15.3	923.2	-0.8	Lost revenue of ₹ 190 crore due to lockdown. Volume during Q4FY20 declined 11% YoY, while passing on benefits of lower raw material prices and change in mix dragged realisations
Other Income	1.0	2.6	2.4	-59.0	0.5	91.6	
Raw Material Exp	648.7	789.5	765.7	-15.3	644.3	0.7	Gross margin remained flat YoY while declining 100 bps QoQ due to change in mix and passing on lower raw material prices to customers
Employee Exp	50.9	52.0	49.8	2.3	40.3	26.3	
Other expenditure	98.5	126.7	97.0	1.5	105.0	-6.2	
EBITDA	118.0	162.9	169.6	-30.4	133.6	-11.6	
EBITDA Margin (%)	12.9	14.4	15.7	-279 bps	14.5	-158 bps	Higher fixed cost drags margin during Q4FY20
Depreciation	37.0	47.7	38.4	-3.8	40.0	-7.7	
Interest	26.0	29.1	27.4	-5.4	26.8	-3.0	
PBT	56.1	88.7	106.1	-47.1	67.3	-16.7	
Total Tax	15.8	22.4	30.3	-47.9	17.2	-8.1	
PAT	38.3	64.4	73.7	-48.0	48.5	-21.0	Lower operating performances drags overall PAT in Q4
Key Metrics							
Polymer products	665.4	816.9	781.5	-14.9	644.9	3.2	Polymer product category, which largely includes industrial packaging and PE pipes, reported revenue decline of ~11% and 35%, respectively
Composite products	250.7	314.2	300.5	-16.6	278.3	-9.9	Composite products revenue marred by ~17%, ~22% YoY drop in revenues IBCs and composite cylinders, respectively

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			FY22E	Comments
	Est	Act	% Chg	Old	New	% Chg	Introduced	
Revenue	3,794.2	3578.0	(5.7)	4,229.5	2897.8	(31.5)	3896.4	Factoring in lockdown impact on our estimates for FY21E and introducing FY22E estimates with slight recovery in demand for plastic and value added products
EBITDA	537.3	498.9	(7.2)	606.2	352.7	(41.8)	558.6	
EBITDA Margin (%)	14.2	13.9	-22bps	14.3	12.2	-216bps	14.3	While the company is likely to pass on benign raw material prices to its customers, the EBITDA margin may witness pressure on account of lower operating leverage
PAT	188.8	169.1	(10.4)	227.4	71.7	(68.5)	203.6	Lower PAT estimates due to lower revenue and operating profit
EPS (₹)	8.3	7.5	(10.4)	10.1	3.2	(68.5)	9.0	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

Growth (%)	Current			Introduced	Earlier		Comments
	FY19E	FY20E	FY21E	FY22E	FY20E	FY21E	
Established products	13.5	0.0	-20.7	31.4	9.6	9.2	We believe demand for industrial products and PE pipes would recover along with recovery in economic activities
Value added Products	21.1	1.7	-12.5	45.6	10.6	18.3	Valued added category growth to be largely supported by new orders in composite cylinders and IBCs categories

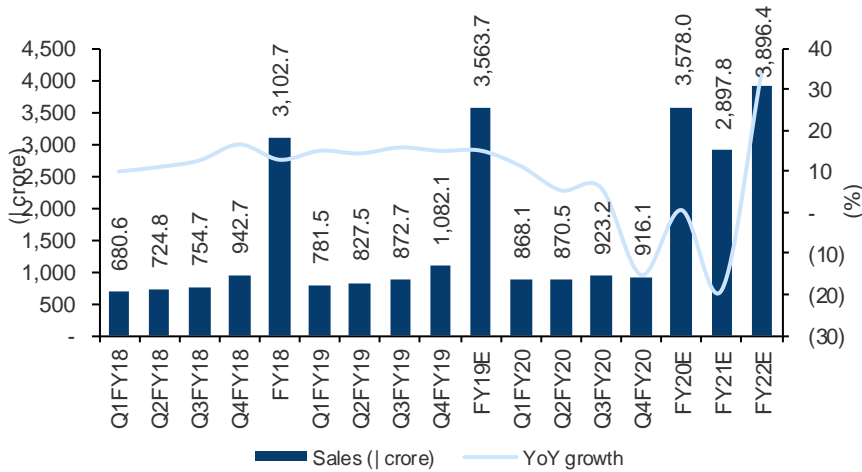
Source: Company, ICICI Direct Research

Conference call highlights

- There was a slow recovery in business activities due to extension of lockdown in various states
- In FY20, the India business contributed 71% while overseas contributed 29% towards total revenue. India revenue remained flat in FY20 while overseas revenue grew by a marginal 2%
- While the India business was struggling due to lockdown, the overseas business was operating at fairly good operating level as packaging was characterised under essential product category in overseas markets
- The company is looking at increased business opportunities from Malaysia, Thailand and Vietnam where various chemical companies are opening up a second base post US-China trade issues and Covid-19 related supply disruptions
- 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
- The pipes segment business was marred by lower government expenditure. However, the order book was at ~₹ 325 crore by the end of FY20, which would be executed in FY21
- The company has curtailed its capex to ₹ 100 crore in FY21E (against ~₹ 145 crore in FY20)
- TPL 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 company also expects new business opportunities for its CNG cylinders and CNG Cascades due to rising demand for gas based fuels

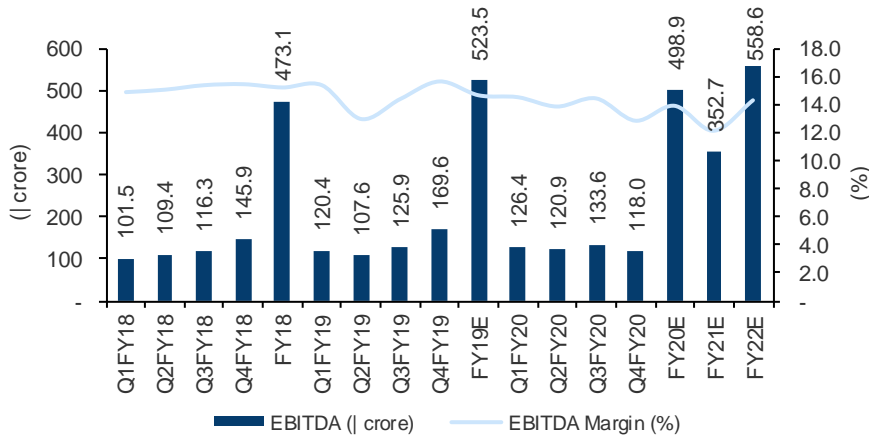
Financial story in charts

Exhibit 4: Revenue trend



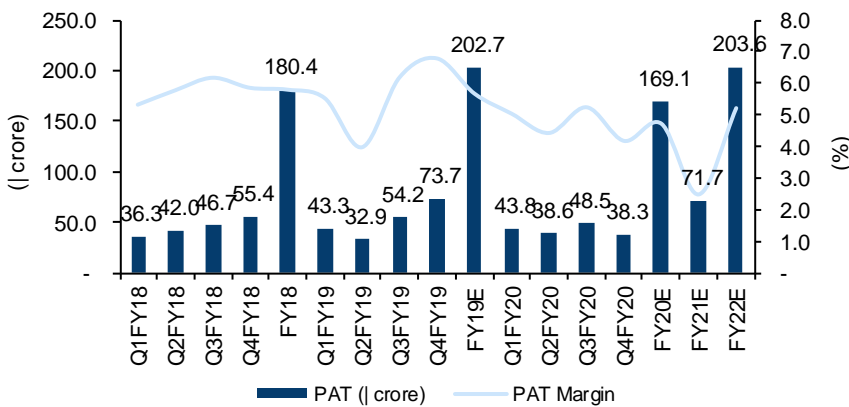
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin trend



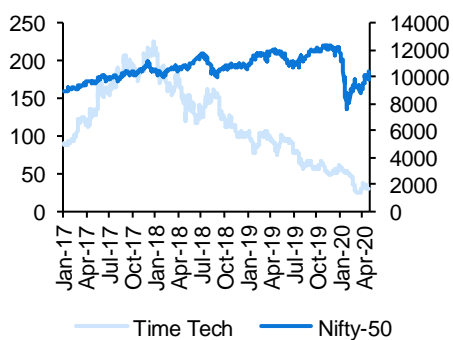
Source: Company, ICICI Direct Research

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 %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	51.2	51.2	51.2	51.2	51.3
FII	21.8	20.3	19.8	18.3	17.8
DII	9.0	10.8	10.7	11.6	11.6
Others	18.0	17.7	18.4	18.9	19.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement					₹ crore
Year end March	FY19E	FY20E	FY21E	FY22E	
Net sales	3563.7	3578.0	2897.8	3896.4	
Expenditure					
Raw material	2511.3	2504.4	2008.2	2690.4	
Employee Expenses	163.9	170.4	157.4	183.8	
Other Expenses	365.0	404.4	379.6	463.7	
Total expenditure	3040.2	3079.1	2545.2	3337.9	
EBITDA	523.5	498.9	352.7	558.6	
Other income	3.2	2.3	2.5	2.7	
EBITDA (incl. other income)	526.7	501.2	355.2	561.3	
Depreciation	146.1	156.2	162.3	183.1	
EBIT	380.6	344.9	192.9	378.2	
Interest	98.6	108.2	90.2	94.5	
PBT before Exc. Items	281.9	236.7	102.7	283.7	
Less: Exc. Items	0.0	0.0	0.0	0.0	
PBT after Exc. Items	281.9	236.7	102.7	283.7	
Tax	73.4	61.7	26.7	73.8	
PAT	202.7	169.1	71.7	203.6	

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet					₹ crore
Year end March	FY19E	FY20E	FY21E	FY22E	
share capital	22.6	22.6	22.6	22.6	
Reserve and Surplus	1646.6	1792.5	1753.4	1885.0	
Total Shareholder's Fund	1669.2	1815.1	1776.0	1907.6	
Total Debt	741.5	762.4	772.4	802.4	
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	2717.8	2879.5	
Gross Block					
Gross Block	2295.8	2522.4	2622.4	2732.4	
Accumulated Depreciation	1016.8	1173.0	1335.3	1518.4	
Net Block	1279.1	1349.4	1287.2	1214.0	
Capital WIP	98.3	80.5	80.5	80.5	
Total Fixed Assets	1377.4	1430.0	1367.7	1294.6	
Investments	27.4	29.4	29.4	29.4	
Current Assets					
Inventory	737.3	757.7	778.1	960.8	
Debtors	784.2	820.7	754.2	896.7	
Other Current Assets	206.8	244.1	197.7	265.9	
Cash	66.6	82.5	79.0	88.7	
Total Current Assets	1795.0	1905.0	1809.0	2212.0	
Current Liabilities					
Creditors	475.0	443.5	365.2	491.1	
Provisions	9.2	10.6	7.0	9.5	
Other current liabilities	185.7	143.2	116.0	156.0	
Total Current Liabilities	669.9	597.4	488.3	656.5	
Total Liabilities	2529.9	2766.9	2717.8	2879.5	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement					₹ crore
Year end March	FY19E	FY20E	FY21E	FY22E	
Profit/(Loss) after taxation	202.7	169.1	71.7	203.6	
Add: Depreciation & Amortization	146.1	156.2	162.3	183.1	
Add: Interest Paid	98.6	108.2	90.2	94.5	
CF bef working capital chg.	447.5	433.5	324.1	481.2	
Net Increase in Current Assets	-211.7	-94.1	92.5	-393.3	
Net Increase in Current Liabilities	44.7	-72.5	-109.1	168.3	
Net CF from operating act.	280.6	266.9	307.5	256.1	
(Purchase)/Sale of Fixed Assets					
(Purchase)/Sale of Fixed Assets	-229.7	-208.8	-100.0	-110.0	
Others	15.2	68.2	-20.0	0.0	
Net CF from Investing act.	-214.5	-140.6	-120.0	-110.0	
Pro/(Rep) of debt					
Pro/(Rep) of debt	56.4	20.9	10.0	30.0	
Payment of Div & Div tax	-14.2	-25.3	-72.0	-72.0	
Int. paid	-98.6	-108.2	-90.2	-94.5	
Net CF from Financing act	-58.6	-110.5	-190.9	-136.4	
Net Cash Flow					
Net Cash Flow	7.5	15.9	-3.5	9.7	
Cash & Cash Equi at beg	59.1	66.6	82.5	79.0	
Cash & Cash Equi at end	66.6	82.5	79.0	88.7	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					₹ crore
Year end March	FY19E	FY20E	FY21E	FY22E	
EPS	9.0	7.5	3.2	9.0	
Cash EPS	15.4	14.4	10.3	17.1	
DPS	0.6	1.1	3.2	3.2	
BV per share	73.8	80.3	78.5	84.4	
Profitability Ratio					
EBITDA Margin	14.7	13.9	12.2	14.3	
PAT Margin	5.7	4.7	2.5	5.2	
Return Ratio					
RoCE	15.0	12.5	7.1	13.1	
RoE	12.1	9.3	4.0	10.7	
RoIC	14.8	12.5	7.1	13.1	
Valuation Ratio					
P/E	4.2	5.1	12.0	4.2	
EV/EBITDA	2.9	3.1	4.4	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	90.0	
Debtors Days	80.3	83.7	95.0	84.0	
Creditors Days	48.6	45.2	46.0	46.0	
Gross Block Turnover	1.6	1.4	1.1	1.4	
Solvency Ratios					
Debt/Equity	0.4	0.4	0.4	0.4	
Debt/Ebitda	1.4	1.5	2.2	1.4	
Current Ratio	3.6	4.0	4.6	4.2	
Quick Ratio	2.0	2.3	2.6	2.3	

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		FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Asian Paints (ASIPAI)	1,687	1,900	Hold	1,61,783	29.0	20.4	32.5	58.2	82.9	51.9	39.9	50.6	34.0	27.4	18.4	27.2	30.5	21.2	31.2
Astral Polytechnik (ASTP)	980	900	Hold	14,765	16.6	14.2	20.0	59.2	68.8	48.9	27.8	30.4	23.3	20.5	16.3	20.2	16.6	12.6	15.4
Amber Enterprises (AM)	1,450	1,565	Hold	4,560	52.2	15.1	54.9	27.8	95.9	26.4	15.7	22.2	12.3	14.3	7.3	15.7	14.5	4.4	13.7
Bajaj Electricals (BAJEL)	389	495	Buy	4,423	0.0	4.1	14.8	NM	95.0	26.4	26.1	26.3	15.0	8.4	6.7	13.4	4.5	4.2	10.2
Berger Paints (BERPAI)	493	570	Hold	47,880	6.8	6.0	10.0	73.0	82.3	49.2	46.9	51.1	33.7	26.6	21.5	31.9	24.7	19.4	27.7
Essel Propack (ESSPRC)	180	190	Hold	5,518	6.7	6.0	7.9	26.9	30.0	22.8	10.3	10.0	8.4	15.6	13.9	15.9	14.3	11.5	14.2
Havells India (HAVIND)	577	575	Buy	35,999	11.7	7.8	13.2	49.1	73.7	43.7	29.0	36.8	23.3	19.6	14.0	21.2	17.0	11.2	17.1
Kansai Nerolac (KANNE)	452	415	Buy	24,359	9.9	7.8	10.4	45.5	57.9	43.4	26.6	31.2	24.1	17.6	14.5	17.9	14.1	11.1	13.7
Pidilite Industries (PIDINI)	1,374	1,485	Hold	70,442	21.9	18.3	26.2	62.8	74.9	52.4	44.7	51.5	37.0	31.0	24.4	32.6	26.1	19.8	26.6
Polycab India (POLI)	826	855	Buy	12,297	51.4	36.2	53.2	16.1	22.8	15.5	9.6	12.4	9.1	26.5	16.9	20.3	20.0	12.3	15.6
Supreme Indus (SUPINC)	1,127	1,040	Hold	14,316	38.5	36.8	27.6	39.7	30.6	40.8	15.1	18.3	13.9	22.5	15.7	21.1	20.7	15.0	19.5
Symphony (SYMLIM)	888	1,055	Buy	6,212	26.0	23.7	35.1	34.1	37.5	25.3	28.9	32.1	20.6	28.8	23.9	31.9	29.0	22.7	28.9
Time Techno (TIMTEC)	38	42	Hold	859	7.5	3.2	9.0	5.1	12.0	4.2	3.1	4.4	2.8	12.5	7.1	13.1	9.3	4.0	10.7
V-Guard Ind (VGUARD)	170	210	Buy	7,236	4.4	3.5	5.1	39.1	48.1	33.4	29.6	35.6	24.8	24.8	19.1	23.9	18.6	14.5	18.2
Voltas Ltd (VOLTAS)	552	635	Buy	18,257	15.8	9.5	21.4	35.0	58.1	25.8	25.1	46.0	20.3	19.5	11.2	20.1	13.0	7.2	14.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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