

Time Technoplast (TIMTEC)

CMP: ₹ 78

Target: ₹ 85 (9%)

Target Period: 12 months

HOLD

February 16, 2022

Revenue growth on favourable base...

About the stock: Time Technoplast is a leading manufacturer of polymer based packaging & composite products with 34 production facilities in 11 countries.

- Established products (industrial packaging, PE pipe, battery others) contribute ~80% to the topline while value added product category (IBC, composite cylinders, mox films) contributes 20% of revenue
- Focus is to increase revenue sharing from value added product category in the next five years from 20% to 22%

Q3FY22 Results: A favourable base and improved demand of composite products drives topline in Q3FY21

- Revenues came in higher by ~13% YoY to ₹ 942 crore on a favourable base of Q3FY21 (wherein revenues were down 10% YoY)
- Improved operating leverage drove EBITDA margin up ~100 bps YoY to 14.4%
- PAT up 37% YoY to ₹ 55 crore tracking higher sales & EBITDA in Q3

What should investors do? Time Technoplast's share price has grown by ~2.3x over the past one year (from ~₹ 35 in August 2020 to ~₹ 78 level in February 2021).

- We revise our rating from BUY to HOLD

Target Price & valuation: We value Time Technoplast at 4x EV/EBITDA on FY23E EBITDA and revise our target price to ₹ 85/share.

Key triggers for future price performance:

- The company has laid out plans to achieve ₹ 5000 crore revenues by FY25 (implied CAGR of 14% in FY21-25) led by value added product segment
- Time Techno sees strong revenue traction (of ₹ 2200 crore/annum) from its newly launched CNG cascade business (not built in future estimates)
- Improved product mix will drive EBITDA margin, going forward (aims to increase EBITDA margin to 15.5% FY25E)

Alternate Stock Idea: We like MoldTek Packaging in the packaging space.

- Strong volume growth of ~18% in FY21-24E led by capacity expansion and client additions in the high margin product categories
- BUY with a target price of ₹ 850



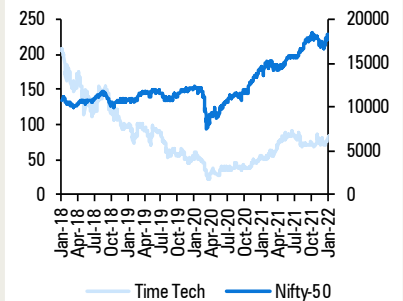
Particulars

Particular	Amount
Market Cap (₹ Crore)	1,763.9
Total Debt (FY21) (₹ Crore)	677.3
Cash&Inv (FY21) (₹ Crore)	87.0
EV (₹ Crore)	2,354.3
52 week H/L	95/ 51
Equity capital (₹ Crore)	22.6
Face value (₹)	1.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	51.3	51.3	51.3	51.3	51.3
FII	15.1	15.2	14.6	13.4	12.4
DII	11.0	11.3	11.2	11.0	10.1
Others	22.6	22.2	22.9	24.3	26.2

Price Chart



Recent event & key risks

- Key Risk:** (i) Strong order inflow in Type IV cylinders' category (ii) Delay in passing on high input prices

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 Year CAGR (FY21-23E)
Net sales	3,563.7	3,578.0	3,004.9	4%	3,656.8	4,051.1	16%
EBITDA	523.5	498.9	387.1	2%	512.8	565.3	21%
EBITDA Margin (%)	14.7	13.9	12.9		14.0	14.0	
PAT	202.7	169.1	107.8	-5%	199.0	228.4	46%
EPS (₹)	9.0	7.5	4.8		8.8	10.1	
P/E (x)	8.7	10.4	16.4		8.9	7.7	
Price/Book Value (x)	1.1	1.0	0.9		0.9	0.8	
EV/EBITDA (x)	4.7	4.9	6.1		4.6	4.1	
RoE (%)	12.1	9.3	5.7		10.0	10.7	
RoCE (%)	15.0	12.5	8.7		12.7	13.5	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY22 Results:

- The company reported revenue growth of ~13% YoY to ₹ 942 crore supported by volume growth of 9%. Revenue growth in Q3FY22 came on a favourable base of Q3FY21 (revenue dipped 10% YoY). On a two year CAGR basis Q3FY22 revenues remained flat
- Segment wise, polymer products revenue increased 11% YoY to ₹ 645 crore supported by improved demand for plastic products (largely plastic drums/jerry cans, pails, etc). However, PE pipe business remained a laggard with revenue growth of 5% YoY even on a lower base of Q3FY21
- The composite product segment revenue increased 16% YoY to ₹ 297 crore led by strong growth in the intermediate bulk container (IBC), composite cylinders segment by 22%, 18% YoY, respectively. However, demand for auto products was hit by a slowdown in the automotive industry
- Despite strong revenue growth in the composite product category (relatively high margin business), gross margins saw a 55 bps drop on a YoY basis, mainly due to a delay in price hikes. However, the EBITDA margin came in higher by 100 bps YoY to 14.4%, mainly due to savings in other costs and improved operating leverage
- PAT increased 37% YoY to ₹ 55 crore tracking higher sales & EBITDA in Q3

Q3FY22 Earnings Conference Call highlights

- Composite cylinders for Type IV CNG cascade:** The company is seeing a good response to its Type-IV composite cylinders for CNG cascade. The current order book is at ₹ 250 crore
- Composite Cylinders for LPG:** Time Technoplast has been shortlisted for the supply of 1.5 mn LPG cylinders to a government owned oil marketing company. The company is looking for more orders from Government of India, going ahead, under the Pradhan Mantri Ujjwala Yojna
- The pipe business volume offtake suffered due to lower procurement by EPC contractors amid high volatility in PVC resins price. The current order book is at ~₹ 190 crore
- Capacity utilisation in Q3FY22 was at ~74%. The company expects the same to improve ~10-15% from upcoming quarters
- Time Techno has incurred a capex of ~ ₹ 127 crore in 9MFY22
- Working capital cycle was stretched to 150 days in FY21 due to pandemic led disruption). However, the management has guided for a normalised working capital cycle of 90 days in the next 12-18 months
- The management has guided a normalised EBITDA margin of ~14-14.5% for FY23 and debt to EBITDA at maximum 2x
- Value added product revenue contribution is expected to increase to 32% by FY25 from 22% currently

Exhibit 1: Peer Comparison

Company	Mcap ₹ cr	Revenue			EBITDA margin			PAT			RoCE			RoE			PE		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Shaily Eng	1,649	361	557	659	17	16	17	22	39	62	12	12	17	12	11	15	68	42	27
Mold Tek	2,300	479	636	727	20	20	21	48	71	86	20	27	29	19	24	24	42	31	27
Time Technoplast	1,764	3005	3657	4051	13	14	14	108	199	228	9	13	13	6	10	11	16	9	8

Source: Company, ICICI Direct Research

We believe, the strong revenue growth in Q3FY22 came on lower base of last year. On a 9MFY22 basis, revenues at ₹ 2612 crore still below its pre-Covid level sales of ₹ 2662 crore due to lower-than-expected offtake of polymer products (pipe and plastic products). We believe the company's revenues will grow at a CAGR of 16% largely on a favourable base and execution of new orders in the composite product segment. On the margin front, we build in flattish margin for FY22E-23E considering delay in passing of higher raw material prices as crude prices continued its upward movement. Hence, we change our rating from BUY to HOLD, valuing the company at 4xEV/EBITDA on FY23 EBITDA and revise our target price to ₹ 85/share.

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Revenue	942.0	834.8	12.8	914.6	3.0	Revenue growth of ~13% YoY supported by 9% volume growth
Other Income	0.7	0.6	15.3	0.4	63.6	
Raw Material Exp	663.4	583.3	13.7	643.3	3.1	Despite a strong revenue growth in the composite products category, gross margin was down 55 bps YoY, mainly due to a delay in price hikes and change in product mix
Employee Exp	45.9	39.2	17.2	44.7	2.7	
Other expenditure	96.9	100.1	-3.2	95.8	1.1	
EBITDA	135.8	112.3	21.0	130.8	3.8	
EBITDA Margin (%)	14.4	13.4	97 bps	14.3	12 bps	Saving in other expenses completely offset gross margin pressure, resulting in EBITDA margin expansion of 100 bps YoY (flat QoQ)
Depreciation	39.4	37.8	4.3	39.1	0.7	
Interest	22.9	24.0	-4.4	23.0	-0.5	
PBT	74.2	51.1	45.1	69.1	7.5	
Total Tax	19.4	11.3	71.1	17.8	9.0	
PAT	54.9	40.0	37.1	51.3	7.0	Higher EBITDA margin and savings in interest outgo drives bottomline
Key Metrics						
Polymer products	645.0	578.9	11.4	615.3	4.8	Polymer product sales growth largely driven by favourable base and improved demand of plastic products. However PE pipe revenues grew albeit at a slow pace of 6%, which has restricted overall segment growth at 11% YoY
Composite products	297.0	255.9	16.0	299.3	-0.8	Strong recovery in the IBC business (up by ~22% YoY) and new order inflows in the Type-IV composite cylinders drive overall segment recovery

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	YoY (%)	
Revenue	3,647.2	3656.8	0.3	4099.2	4051.1	(1.2)	We tweak our revenue estimate marginally
EBITDA	495.0	512.8	3.6	581.1	565.3	(2.7)	
EBITDA Margin (%)	13.6	14.0	42bps	14.2	14.0	-22bps	We model flattish EBITDA margin for FY22E-23E considering delay in passing of higher raw material prices and increased freight costs
PAT	188.3	199.0	5.7	241.9	228.4	(5.6)	
EPS (₹)	8.3	8.8	5.7	10.7	10.1	(5.6)	

Source: ICICI Direct Research

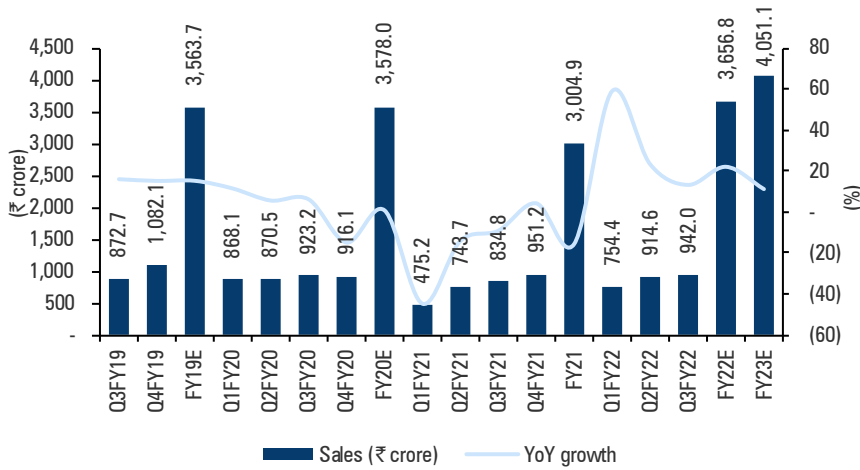
Exhibit 4: Assumptions

Growth (%)	Current			Earlier			Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Established products	0.0	-15.9	18.2	10.6	18.5	10.2	We model segent revenue CAGR of 14% considering improved demand conditions and a favourable base in FY21-23E
Value added Products	1.7	-16.3	35.3	11.3	32.7	20.3	We cut our revenue CAGR estimate to 23% from 26% in FY21-23E considering slow order offtake in the newly launched composite cylinders (Cascade, on-board)

Source: ICICI Direct Research

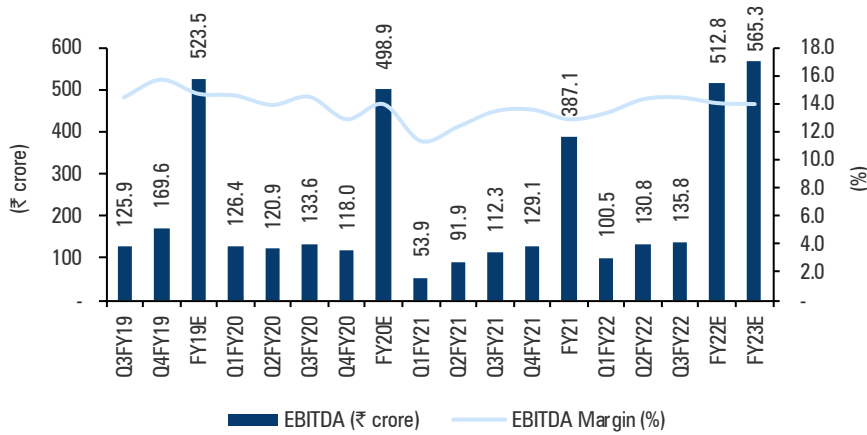
Financial story in charts

Exhibit 1: Overall revenue trend



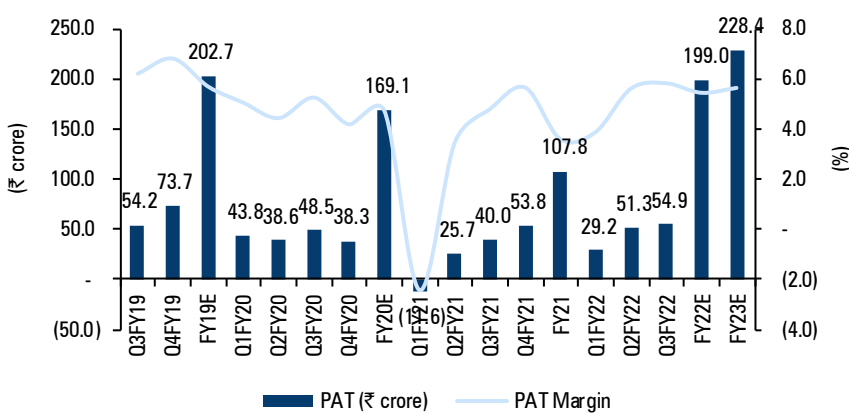
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 3: PAT trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement					₹ crore
Year end March	FY20	FY21	FY22E	FY23E	
Net sales	3578.0	3004.9	3656.8	4051.1	
Expenditure					
Raw material	2504.4	2102.9	2571.6	2852.0	
Employee Expenses	170.4	159.4	181.1	184.1	
Other Expenses	404.4	355.5	391.3	449.7	
Total expenditure	3079.1	2617.8	3144.0	3485.8	
EBITDA	498.9	387.1	512.8	565.3	
Other income	2.3	3.8	4.0	4.4	
EBITDA (incl. other income)	501.2	391.0	516.8	569.7	
Depreciation	156.2	151.0	156.5	170.1	
EBIT	344.9	240.0	360.3	399.6	
Interest	108.2	97.7	92.4	90.6	
PBT before Exc. Items	236.7	142.2	267.9	309.0	
Less: Exc. Items	0.0	0.0	0.0	0.0	
PBT after Exc. Items	236.7	142.2	267.9	309.0	
Tax	61.7	36.4	68.8	80.6	
PAT	169.1	107.8	199.0	228.4	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					₹ crore
Year end March	FY20	FY21	FY22E	FY23E	
Profit/(Loss) after taxation	169.1	107.8	199.0	228.4	
Add: Depreciation & Amortization	156.2	151.0	156.5	170.1	
Add: Interest Paid	108.2	97.7	92.4	90.6	
CF bef working capital chg.	433.5	356.6	448.0	489.1	
Net Increase in Current Assets	-94.1	15.3	-255.7	-122.6	
Net Increase in Current Liabilities	-72.5	-57.3	65.8	65.3	
Net CF from operating act.	266.9	314.5	258.1	431.9	
(Purchase)/Sale of Fixed Assets	-208.8	-42.3	-80.0	-200.0	
Others	68.2	-64.8	0.0	0.0	
Net CF from Investing act.	-140.6	-107.1	-80.0	-200.0	
Pro/(Rep) of debt	20.9	-85.1	-20.0	-20.0	
Payment of Div & Div tax	-25.3	-15.8	-80.0	-72.0	
Int. paid	-108.2	-97.7	-92.4	-90.6	
Net CF from Financing act	-110.5	-202.9	-227.0	-182.6	
Net Cash Flow	15.9	4.5	-48.8	49.3	
Cash & Cash Equi at beg	66.6	82.5	87.0	38.2	
Cash & Cash Equi at end	82.5	87.0	38.2	87.5	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet					₹ crore
Year end March	FY20	FY21	FY22E	FY23E	
share capital	22.6	22.6	22.6	22.6	
Reserve and Surplus	1792.5	1880.2	1964.7	2121.1	
Total Shareholder's Fund	1815.1	1902.8	1987.3	2143.8	
Total Debt	762.4	677.3	657.3	637.3	
Deferred Tax liability	79.2	82.5	82.5	82.5	
Minority Interest	52.2	48.3	48.3	48.3	
Total Assets	2766.9	2764.4	2828.9	2965.3	
Gross Block	2522.4	2564.7	2644.7	2844.7	
Accumulated Depreciation	1173.0	1324.0	1480.5	1650.6	
Net Block	1349.4	1240.8	1164.3	1194.1	
Capital WIP	80.5	80.5	80.5	80.5	
Total Fixed Assets	1430.0	1321.3	1244.8	1274.6	
Investments	29.4	28.9	28.9	28.9	
Current Assets					
Inventory	757.7	759.8	851.6	910.1	
Debtors	820.7	798.3	961.8	998.9	
Other Current Assets	244.1	249.1	249.5	276.4	
Cash	82.5	87.0	38.2	87.5	
Total Current Assets	1905.0	1894.2	2101.1	2273.0	
Current Liabilities					
Creditors	443.5	324.4	450.8	499.5	
Provisions	10.6	13.6	8.7	9.6	
Other current liabilities	143.2	202.0	146.4	162.2	
Total Current Liabilities	597.4	540.1	605.9	671.3	
Total Liabilities	2766.9	2764.4	2828.9	2965.3	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
Year end March	FY20	FY21	FY22E	FY23E
EPS	7.5	4.8	8.8	10.1
Cash EPS	14.4	11.4	15.7	17.6
DPS	1.1	0.7	3.5	3.2
BV per share	80.3	84.1	87.9	94.8
Profitability Ratio				
EBITDA Margin	13.9	12.9	14.0	14.0
PAT Margin	4.7	3.6	5.4	5.6
Return Ratio				
RoCE	12.5	8.7	12.7	13.5
RoE	9.3	5.7	10.0	10.7
RoIC	12.5	8.6	12.7	13.6
Valuation Ratio				
P/E	10.4	16.4	8.9	7.7
EV/EBITDA	4.9	6.1	4.6	4.1
Mcap/Sales	0.5	0.6	0.5	0.4
Price to BV	1.0	0.9	0.9	0.8
Activity Ratios				
Inventory Days	77.3	92.3	85.0	82.0
Debtors Days	83.7	97.0	96.0	90.0
Creditors Days	45.2	39.4	45.0	45.0
Gross Block Turnover	1.4	1.2	1.4	1.4
Solvency Ratios				
Debt/Equity	0.4	0.4	0.3	0.3
Debt/Ebitda	1.5	1.7	1.3	1.1
Current Ratio	4.0	5.3	4.5	4.3
Quick Ratio	2.3	3.1	2.6	2.5

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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