Stock Idea – 10 December 2014

Equity Research

NIRMAL BANG
a relationship beyond broking

Time Technoplast Ltd

Recommendation	BUY
CMP (09/12/2014)	Rs. 54
Target Price	20-25% upside
Sector	Containers and Packaging
Stock Details	
BSE Code	532856
NSE Code	TIMETECHNO
Bloomberg Code	TIME IN
Market Cap (Rs cr)	1134.6
Free Float (%)	38.1
52- wk HI/Lo (Rs)	58/33
Avg. volume BSE (Quarterly)	766,710
Face Value (Rs)	1
Dividend (FY 14)	45%
Shares o/s (Crs)	21.01

Relative Performance	1Mth	3Mth	1Yr
Time Technoplast	12.6%	-0.2%	53.0%
Sensex	0.9%	3.1%	31.9%

Shareholding Pattern	30th Sep 14
Promoters Holding	61.9%
Institutional (Incl. FII)	23.8%
Corporate Bodies	3.3%
Public & others	11.0%

Silky Jain (+91 22 3926 8178)
Research Analyst
silky.jain@nirmalbang.com

All set for growth

Time Technoplast Ltd (TTL) is a leading industrial packaging player with presence in 12 countries and catering to almost all the growing industry segments. The company reported decline in profitability and margins in the last 3 years leading to lower return ratios as TTL had significantly expanded its capacity in overseas operations. Investment in new products, entry in new regions and at the same time demand slow down in the key demand segments impacted the performance of the company and it could not reap the benefits of the expansion. As the demand scenario now looks encouraging with most of the end user segment expected to perform well; growth avenues for the company looks good in the medium term.

H2FY15 looks better on account of healthy traction in overseas packaging facilities, pick up in domestic demand and improving utilization rates. The company generates 55% of the business in H2. We believe that the investments done will start yielding results and therefore we are positive on the medium term prospects of the company.

Investment Rationale

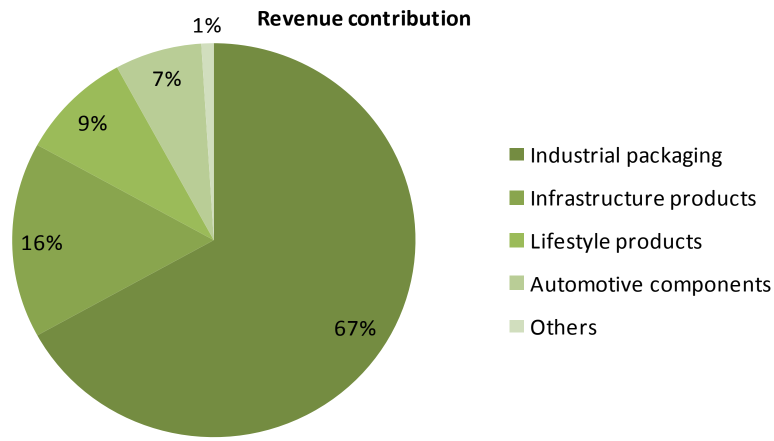
- **Growth in user industries to drive demand for industrial packaging:** Industrial packaging is the major contributor to the company's revenues with around 67% of the revenue share coming from this segment. In FY14, the company's domestic packaging business was impacted due to sharp increase in raw material prices (polymer) which impacted the competitiveness of the products. However, with decline in polymer prices, the raw material costs are expected to come down significantly (with a lag effect) and thus lead to improved demand. Moreover, the key customer of the company - BASF has expanded its capacity at Dahej which is now operational and will further boost the demand for the product.
- **Improving capacity utilization:** TTL's blended/overall capacity utilization stands at ~70-75%; however its overseas facilities have comparatively lower capacity utilization of mere 50-55%. Thus, there is adequate scope for further improvement in capacity utilization.
- **Gradual reduction in capex leading to lower borrowings:** TTL had undertaken significant capex in the last 3 years resulting in higher debt which is now expected to moderate. Infact impact of the same was visible in H1 where the company was able to reduce debt by Rs 34 cr.
- **Composite cylinder- Feather in the cap:** TTL has received significant orders in the composite cylinder segment which will boost the overall revenues.

Based on our rough calculation, we expect the company to report EPS of Rs 4.9 in FY15E and 5.6 in FY16E. At CMP, TTL trades at 11.04x its FY15 and 9.6x FY16E EPS respectively which is lower than the peer group (~15x). ***We believe that the stock can generate return of 20-25% in the medium term on the back of multiple growth opportunities and declining raw material costs and therefore we recommend BUY on the stock at current levels.***

Year	Net Sales	Growth	EBITDA	Margin	PAT	Margin	EPS	PE	EV/EBITDA
FY11	1275.3	26.1%	236.0	18.5%	108.5	8.5%	5.2	10.5	7.2
FY12	1528.2	19.8%	243.1	15.9%	89.8	5.9%	4.3	12.6	7.6
FY13	1797.4	17.6%	291.6	16.2%	103.5	5.8%	4.9	11.0	6.6
FY14	2186.3	21.6%	308.3	14.1%	95.4	4.4%	4.5	12.1	6.3

Company Description

Established in 1992, Time Technoplast Ltd (TTL) is a leading technology based polymer product company. The company's portfolio consists of technically driven innovative products catering to growing industry segments like Industrial Packaging Solutions, Lifestyle Products, Automotive Components, Healthcare Products, Infrastructure / Construction related products, Material Handling Solutions & Composite Cylinders.



Source: Company data, Nirmal Bang Research

Product break up:

- **<u>Industrial Packaging Solutions:</u>** TTL offers a wide range of industrial packaging products like polymer drums, containers, pails and PET sheets for varied packaging requirements. These barrels / containers are used in Specialty Chemicals, Paints, Inks, Pharmaceutical Intermediates, FMCG Intermediates, Conception Chemicals, Additives, Lube Oils & Additives and food industry. TTL is the 2nd largest manufacturer of plastic drums. With the popularity of Intermediate Bulk Container (IBC) systems, IBC systems are being increasingly used in newer markets, such as Middle East, Asia, far East and Africa apart from established markets of Europe and America. In order to cater the increasing demand the company also offers specially designed GNX Bulktainer. Product range also includes 1000 litre IBC systems and returnable packaging.

- **<u>Automotive Components:</u>** TTL also manufactures value added plastic auto components and has developed a wide variety of Automotive Components products like
  - 3S Rain Flaps
  - Deaeration Tanks / Radiator Tanks
  - Fuel Tanks
  - Air Ducts

- **<u>Lifestyle products:</u>** TTL is one of the leading players in the matting segment. The segment has been growing at an annual rate of over 26% for the company and includes products like Turfs and matting used in households, dustbins and moulded furniture:
  - Duro Turf
  - Duro Soft

- Duro Wipe
- Car mats
- Meadows

➢ **Healthcare products:** TTL markets its health care products under the brand Genex. TTL offers a unique range of products which offer innovative solutions to health problems like HIV, Hepatitis B, Hepatitis C and other blood transmitted diseases.
- Auto break - Reuse Prevention Syringes
- Auto Collect - Blood Samplers
- OT Safe - Disposable Face Masks

➢ **Material Handling:** Schoeller Arca Time Materials Handling Solutions (SATMHS) is a joint venture between Schoeller Arca System (SAS), a world-wide market leader in the plastic Returnable Transit Packaging solutions of Netherlands & Time Technoplast. SATMHS offers a wide range of plastic Returnable Transit Packaging (RTP) & material handling solutions and also offers a broad range of tackable Containers, Stack-Nest Container, Foldable Small/Large containers, Plastic crates & pallets, Export Pallets, Dollies (Trollies) to provide end to end materials handling solutions & solutions to sectors like Retail, automotive, agriculture, processed food, apparels, Pharma, FMCG, consumer durables and logistics. Such products will help in reducing handling and transport costs and l provide long term operational benefits, maximum efficiency and protection, optimum space utilization, create better logistics and supply chain.

➢ **Battery segment:** TTL has ventured into the telecom VRLA battery space through its subsidiary, NED Energy (NED). The company is currently supplying batteries to telecom players like Bharti Airtel, BSNL, Idea Cellular, Nokia, Ericsson etc. With some demand pick up arising in the telecom sector the company has witnessed traction in telecom batteries demand.

➢ **Composite Cylinders:** Time Technoplast acquired Kompozit-Praha s.r.o., an established manufacturer of LPG composite cylinders based in Europe. The company has set up manufacturing facility for composite cylinders in India using the technology and know-how of Europe. Composite cylinders manufactured in India are offered under brand name Litesafe for LPG applications. Litesafe Cylinders have gained huge interest and appreciation across the globe due to its various striking features. These cylinders are superior alternatives to traditionally used metal cylinders. These cylinders are extremely light weight attractive in color and shape, rest and corrosion proof, UV resistant and most importantly are 100% explosion proof. Litesafe Cylinders are first of its kind to be manufactured in Asian region. Time Technoplast also offers composite cylinders to Middle East, Africa and South Asian countries at lower shipping costs.

➢ **Infrastructure products:** TTL's Infrastructure division includes products like
- Refuse bins
- HDPE Pipe
- Prefabs and shelter

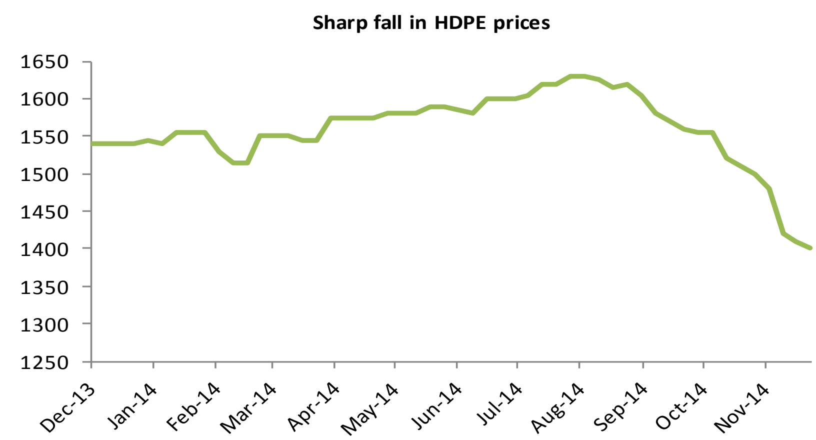
TTL has 28 manufacturing locations spread across the globe, of which 14 are in India alone. The employee base of the company stands at 3600. The company has operational foot prints in geographies like UAE, Bahrain, Egypt, Romania, Vietnam, Malaysia, Thailand, Korea, Poland, China, Taiwan and Indonesia.

Investment Rationale

Growth in end user industries to drive demand for industrial packaging
TTL is a market leader in industrial packaging with market share of around 70% in India. Over the last few years, the metal drums have been substituted with polymer drums in the domestic market with latter offering easy handling and strength at the same time. The current penetration of polymer drums in India is ~55%.

Industrial packaging is the major contributor to the company's revenues with around 67% of the share coming from this segment. In FY14, the company's domestic packaging business was impacted due to sharp increase in raw material prices (polymer) which led to higher prices of the polymer led end products and led to shift in preference towards metal drums. Decline in steel prices and support by PSUs towards promoting SME and MSME units which manufactured metal drums led to significant competition in the overall industry impacting the performance of the company.

However, we have seen a sharp decline in polymer prices which will lead to lower raw material prices for the company. In addition, weak demand in China and Europe will continue to drive the polymer prices lower.



Source: Bloomberg, Nirmal Bang Research

Moreover, we expect revival in the macroeconomic environment to boost growth in the company's key end-user industries' such as chemicals and FMCG, leading to a gradual pick-up in its domestic volumes.

Tapping less penetrated geographies to enhance market share
TTL has strategically expanded its operations in countries where the penetration of plastic packaging in industrial and high end application are very less (5-10%) which offers immense growth opportunities. These countries include UAE, Thailand, Taiwan, Indonesia, Egypt, Bahrain South Korea, Malaysia and Vietnam. The company intends to increase its market share in these countries and aims to become the leading player there. As of now, the company has already emerged as the largest industrial packaging company in the UAE, Taiwan and Thailand.

Diversification leads to de risking of business:
TTL has diversified its product portfolio which mitigates the impact on account of slowdown in any particular segment. The company currently caters to automobile, infrastructure, healthcare, FMCG and chemicals sectors leading to diversified revenue.

The company has focused on two dimensions –

- Extend product range: introduction of new products with upgraded features
- Extend geographies: entering into different markets

Improving capacity utilization

TTL's blended capacity utilization stands at ~70-75% but its overseas facilities have a much lower capacity utilization of 50-55%. The company believes that it there is not much need for further capacity expansion and the increased demand can be met through de bottlenecking and ramping up of existing capacities.

Significant client base

TTL has more than 500 clients in the Industrial packaging space. Of the total clients, top 10 customers contribute only 20% of its industrial packaging revenues indicating less dependence on any particular client. Almost 90% of its business is derived from repeat orders of its existing client base.

Strategically located to cater to international clients

The company has set up manufacturing facilities in several markets which are closer to the end users. We believe such a set-up is beneficial to TTL as will reduce freight cost and provide proximity to end-users leading to cost advantage.

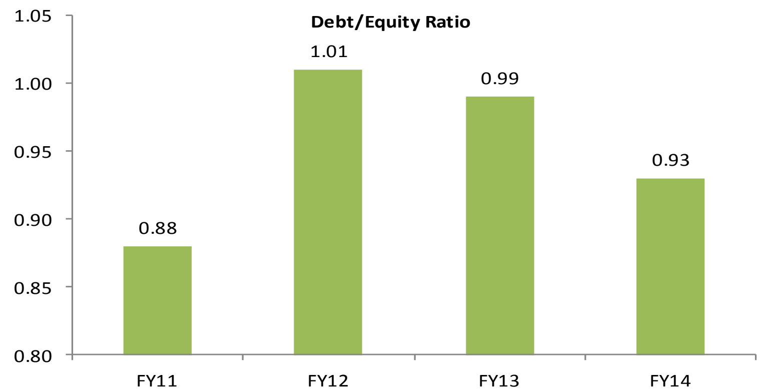
Scaling up revenues in international operations

After achieving market leadership in India, TTL has expanded into other countries in the last 2-3 years to scale up its sales on international basis. Currently TTL's revenue from overseas companies is around 31% (vs 29% in FY14). TTL has commissioned various projects in Indonesia, Taiwan, South Korea, Thailand, Bahrain and Egypt which will enable in creating TTL as a strong Asian player.

Volumes in the international geographies posted 22% growth in FY14. Most of these capacities were added in last 2-3 years and now the capacity utilization has improved to nearly 50%. We believe that led by traction across most geographies, the capacity utilization will improve further leading to better sales volumes from international operations.

Gradual reduction in capex will result in lower in borrowings

The company had undertaken significant capex of Rs ~600 cr in last three years in order to expand its operations in overseas markets. However, with most of the expansion being taken care of, the company now intends to moderate its capex plans. The company has incurred capex of Rs 48 cr in H1FY15 and for FY15 overall capex is expected to be at Rs 100 cr. It has also reduced its debt position by Rs 34 cr from Rs 860 cr last year to Rs 826 cr in H1FY15. The company is now at the end of capex cycle and we expect free cash flow to improve going forward.



Source: Company data, Nirmal Bang Research

Industrial batteries business to witness strong growth

Management has stated that the industrial batteries segment which comprises of telecom batteries has witnessed strong growth in H1FY15 and is expected to witness similar growth going forward as well. However, as the company intends to focus on its core packaging business, we believe that the company may look for strategic sale of this segment which can result in lowering the debt burden of the company. This segment registered sales of Rs 111 cr in H1FY15.

Composite cylinder- Feather in the cap

The company has an installed capacity of 700,000 composite cylinders of which 300,000 are based in India and 400,000 in Bahrain. The Indian facility has received approval from the Petroleum and Explosives Safety Organisation (PESO) in Q4FY13 and also various overseas agencies. However, TTL could not start its supplies in India due to regulatory hurdles. The oil marketing companies in India have not yet adopted this product which continues to remain a challenge for the company.

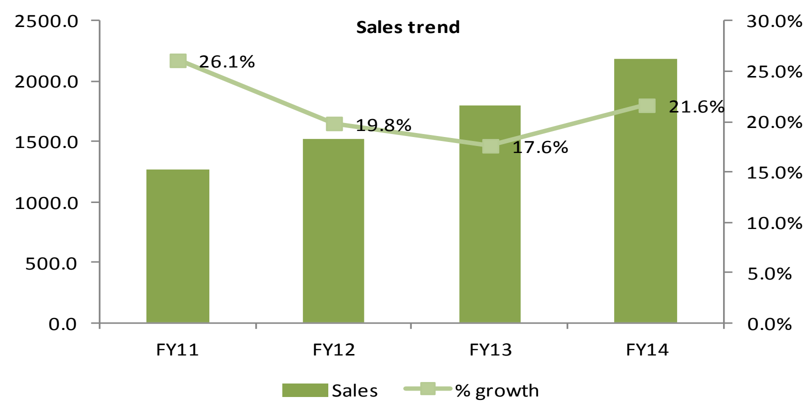
However, the company has capitalized on exports (Far East and Africa) in this segment and in Q2FY15; it bagged two orders for supplying 200,000 composite cylinders for FY15-16. Apart from this there is another order of 50,000 cylinders in the pipeline. The Bahrain facility has not yet been operational and the entire demand will be met by the Indian operations. Based on the above orders, we expect composite cylinder to generate significant revenues in the coming year.

Revival in the auto segment

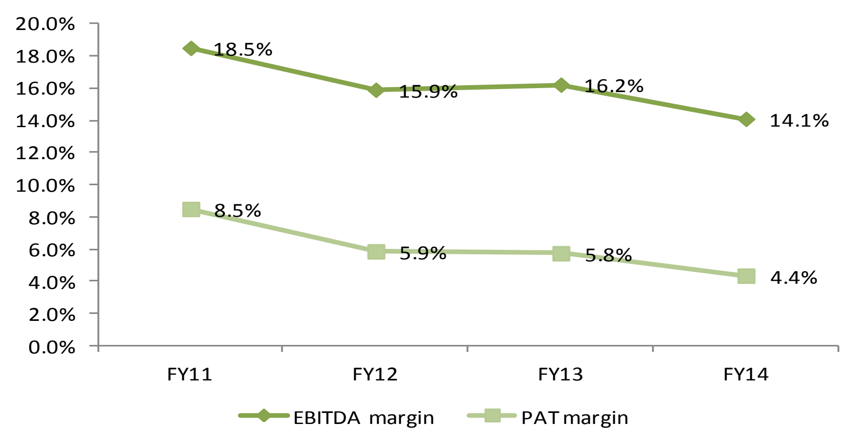
The company manufactures and supplies value added plastic auto components mainly to CV industry. The overall CV industry was witnessing decline in the last 3-4 years which resulted into slow sales growth for the company. Going forward, with CV industry revival expected just round the corner, we believe that this segment should contribute significantly to the bottom line of the company. Moreover, the company is in close coordination with major OEMs like Tata Motors, M & M, Ashok Leyland to develop new products Plastic fuel Tanks or De-aeration Tanks for their various models.

Improvement in margins

Historically, the company has reported sales growth of above 20% in the last 4 years. Despite this the EBITDA margins have shown a declining trend in the last 4 years. This was primarily due to lower capacity utilization and higher raw material costs. With declining raw material prices, we believe that the company can scale back its margin to higher levels. Management has still hinted towards a conservative target of maintaining margins of around 14%. Higher depreciation and higher interest cost have eaten up the profits of the company. We saw that the net profit has declined from Rs ~108 cr in FY11 to Rs ~95 cr in FY14. We believe that lower capex and subsequent reduction in debt will lead to some improvement in the bottom line performance of the company.



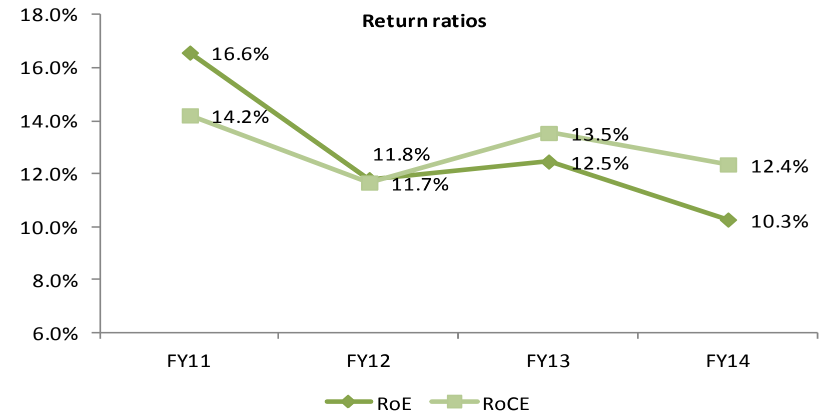
Source: Company data, Nirmal Bang Research



Return ratios set to improve

We expect TTL to report improvement in sales led by improving demand scenario. We have seen that the company has reported decline in return ratios in the last 4 years owing to significant capacity expansion undertaken. At the same time, overall slowdown across segments further impacted the performance of the company and the debt position of the company continued to increase.

As bulk of the capex is behind for the company, TTL is strategically placed to reap the benefits of the investments done in the past. In addition improving business outlook of various segments will also lead to higher profitability. Subsequently, return ratios are expected to improve.



Source: Company data, Nirmal Bang Research

Q2FY15 Results snapshot

Particulars (Rs in cr)	Q2FY15	Q2FY14	*YoY*	Q1FY15	*QoQ*
Net sales	605.1	532.3	*13.7%*	569.6	*6.2%*
RM cost	416.7	358.6	*16.2%*	389.8	*6.9%*
RM cost % of sales	***68.9%***	***67.4%***		***68.4%***	
Employee cost	27.6	26.9	*2.4%*	26.2	*5.2%*
Other exp	74.6	72.0	*3.6%*	74.3	*0.3%*
Total expenditure	518.8	457.5	*13.4%*	490.3	*5.8%*
EBITDA	**86.3**	**74.8**	***15.3%***	**79.4**	***8.7%***
EBITDA margin	***14.3%***	***14.1%***		***13.9%***	
Other income	0.1	1.1	*(90.5%)*	0.1	*66.7%*
Interest	28.5	24.5	*16.5%*	27.3	*4.5%*
Depreciation	23.8	21.6	*10.0%*	23.3	*1.9%*
PBT before exceptional	**34.1**	**29.8**	*14.3%*	**28.8**	*18.2%*
Exceptional items	0.0	0.0		0.0	
PBT	**34.1**	**29.8**	*14.3%*	**28.8**	*18.2%*
Tax	7.6	7.0	*8.3%*	7.2	*5.6%*
Tax rate	***22.2%***	***23.5%***		***24.9%***	
PAT	26.5	22.8	*16.2%*	21.7	*22.4%*
Minority interest	**(1.0)**	**(0.9)**	*8.6%*	**(1.0)**	*(2.9%)*
PAT after minority	***25.50***	***21.89***	*16.5%*	***20.62***	*23.7%*
Adj EPS	**1.2**	**1.0**	***16.5%***	**1.0**	***23.7%***

Source: Company data, Nirmal Bang Research

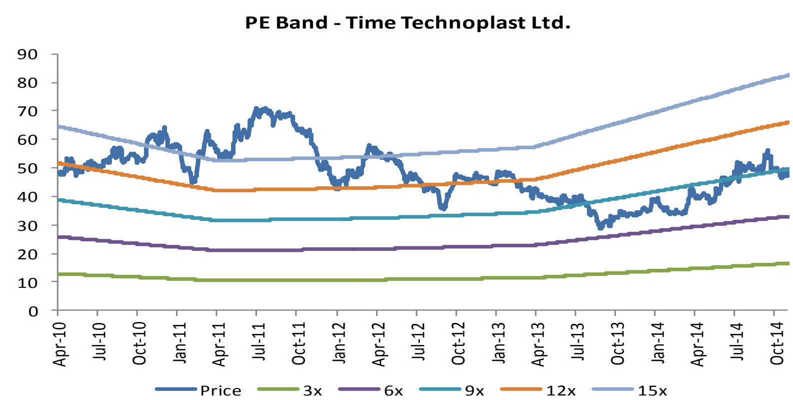
- Net sales increased 13.7% YoY to Rs 605.1 cr driven by 13% volume growth (8% India and 22% overseas). EBITDA margin expanded by 20 bps YoY to 14.3%.
- Further, interest cost was higher at Rs 28.5 cr (up 16.5% YoY) due to increase in borrowings rate.
- PAT increased 16.5% YoY to Rs 25.5 cr.
- The working capital cycle stood at 81 days (86 days in India and 69 days in overseas) as compared to 82 days in Q2FY14.

Peer comparison

Though there is no direct competitor of Time Technoplast, we have compared it with Moldtek Packaging and Hitech plasts as these companies also have presence in the packaging industry. Within the peer group we can see that Time Technoplast is available at lower P/E and EV/EBITDA despite generating better margins primarily due to lower RoE. We believe that with improving business outlook, the return ratios should improve from current levels and thus the company will command a higher multiple as compared to current levels.

	Sales	EBITDA	Margins	PAT	EPS	P/E	EV/EBITDA	RoE
Moldtek packaging	286	35.1	12.3%	13.0	11.5	21.8	10.0	21.4%
Hi Tech plasts	482	48	10.0%	8.4	5.5	22.3	5.8	7.1%
Time Technoplast	2340	330	14.1%	100.7	4.8	11.5	5.3	12.6%

Source: Company data, Nirmal Bang Research
Based on TTM



Source: Company data, Nirmal Bang Research

Risk Concerns

- An increase in raw material prices can impact performance of the company adversely.
- As the company caters to 10 different countries, any impact on the economy of the country will have a direct impact on the company's performance.
- Failure to improve the capacity utilization of the overseas operations can lead to consolidation of business in these geographies.
- For personal commitment the promoter have borrowed money against pledge of company shares. Promoter has sold some shares in the open market and may sell some more to reduce the personal debt. Current promoter holding is 61.9% which may come down to 60% over a period of time.

Financials

Income Statement (Rs. In Cr)	FY11	FY12	FY13	FY14
Revenues - Net	**1275.3**	**1528.2**	**1797.4**	**2186.3**
% change	*26.1%*	*19.8%*	*17.6%*	*21.6%*
EBITDA	**236.0**	**243.1**	**291.6**	**308.3**
% change	*45.6%*	*3.0%*	*20.0%*	*5.7%*
Interest	45.1	68.5	88.6	99.0
Other Income	2.3	3.9	5.3	6.0
EBDT	**193.2**	**178.5**	**208.3**	**215.3**
Depreciation	44.0	55.6	67.5	86.9
Exceptional (Gain)/ Loss	0.0	0.0	0.0	0.0
PBT	**149.2**	**122.9**	**140.8**	**128.4**
Tax	35.6	30.8	34.1	29.6
PAT	**113.6**	**92.1**	**106.7**	**98.8**
Minority interest	5.9	2.3	3.3	3.4
PAT after minority	**108.5**	**89.8**	**103.5**	**95.4**
Shares o/s (No. in Cr.)	21.0	21.0	21.0	21.0
EPS	**5.2**	**4.3**	**4.9**	**4.5**
Cash EPS	7.5	7.0	8.3	8.8

Quarterly (Rs. In Cr)	Dec.13	Mar.14	June.14	Sep.14
Revenue	**547.8**	**617.0**	**569.6**	**605.1**
EBITDA	**78.0**	**86.0**	**79.4**	**86.3**
Interest	**25.4**	**26.3**	**27.3**	**28.5**
EBDT	**52.6**	**59.7**	**52.1**	**57.8**
Dep	**21.8**	**22.5**	**23.3**	**23.8**
Other Inc.	**0.1**	**4.8**	**0.1**	**0.1**
PBT	**30.9**	**42.0**	**28.8**	**34.1**
Tax	**7.4**	**9.2**	**7.2**	**7.6**
PAT after minority	**22.8**	**31.8**	**20.6**	**25.5**
EPS (Rs.)	1.1	1.5	1.0	1.2

Operational Ratio	FY11	FY12	FY13	FY14
EBITDA margin (%)	18.5%	15.9%	16.2%	14.1%
Adj.PAT margin (%)	8.5%	5.9%	5.8%	4.4%
Adj.PAT Growth (%)	19.4%	-17.2%	15.2%	-7.8%
Price Earnings (x)	10.4	12.9	11.2	12.1
Book Value (Rs.)	30.9	35.2	38.5	43.2
ROCE (%)	14.2%	11.7%	13.5%	12.4%
RONW (%)	16.6%	11.8%	12.5%	10.3%
Debt Equity Ratio	0.9	1.0	1.0	0.9
Price / Book Value (x)	1.8	1.6	1.4	1.3
EV / Sales	1.3	1.2	1.1	0.9
EV / EBIDTA	7.2	7.6	6.6	6.3

Balance Sheet (Rs. In Cr)	FY11	FY12	FY13	FY14
Issued Share Capital	20.9	21.0	21.0	21.0
Reserves & Surplus	648.8	739.7	809.0	907.7
Net Worth	**669.8**	**760.8**	**830.0**	**928.7**
Minority interest	41.4	56.9	60.6	71.6
Total Loans	589.1	768.5	824.6	860.8
Net Deferred Tax Assets	28.7	33.9	36.9	39.7
Total Liabilities	**1328.9**	**1620.1**	**1752.1**	**1900.7**
Net Fixed Assets	**743.8**	**918.7**	**1009.6**	**1144.8**
CWIP	119.1	134.9	147.5	45.2
Investments	**0.0**	**0.0**	**0.0**	**0.0**
Inventories	258.9	308.2	361.7	422.3
Sundry Debtors	250.3	320.8	362.9	429.2
Cash & Bank	53.7	66.4	53.6	69.6
Other non current assets	133.5	158.4	145.5	134.2
C A L&A	696.4	853.9	923.6	1055.3
CL & P	232.5	291.2	334.4	349.1
of which creditors	*173.8*	*232.4*	*266.4*	*288.8*
Working Capital	**463.9**	**562.6**	**589.2**	**706.1**
Misc exp not written off	2.1	3.9	5.8	4.5
Total Assets	**1328.9**	**1620.1**	**1752.1**	**1900.7**

Cash Flow (Rs. In Cr)	FY11	FY12	FY13	FY14
Operating				
EBITDA	236.0	243.1	291.6	308.3
Change in WC	-76.1	-86.8	-44.0	-97.3
Tax	-29.1	-21.6	-24.2	-28.4
CF from Operations	**130.8**	**134.7**	**223.5**	**182.6**
Investing Activities				
Capex	-236.5	-274.2	-199.7	-136.2
Investment	15.4	30.2	14.4	13.6
Other Income	2.3	3.9	5.3	6.0
Cash from Investment	**-218.8**	**-240.1**	**-180.1**	**-116.6**
Financing				
Dividend paid	-10.6	-11.7	-9.9	-9.9
Share Capital and Premium	0.0	0.0	0.0	0.0
Interest Paid	-45.1	-68.5	-88.6	-99.0
Loan	149.3	179.5	56.1	36.2
Others	5.0	18.8	-13.9	22.7
Cash from Financing	**98.5**	**118.1**	**-56.2**	**-50.0**
Net change in Cash	10.6	12.7	-12.8	16.0
Opening cash	43.2	53.7	66.4	53.6
Closing Cash	**53.7**	**66.4**	**53.6**	**69.6**

Source: Company data, Nirmal Bang Research

NOTES

Nirmal Bang Research (Division of Nirmal Bang Securities PVT LTD)

B-2, 301/302, Marathon Innova,
Nr. Peninsula Corporate Park
Lower Parel W), Mumbai-400013
Board No. : 91 22 3926 8000/8001

Fax. : 022 3926 8010