PhillipCapital

Time Technoplast (TIME IN)

Solution for green energy

INDIA | MIDCAP- PACKAGING | Company Update

5 October 2021

Time Technoplast (Time), with its global presence, is a leading manufacturer of polymer and composite products for industrial packaging, automotive, and material handling. We expect its working capital and return ratios to improve, based on these two factors: (1) Strong growth in value-added products (i.e., intermediate bulk containers (IBCs) supported by an increasing manufacturing base for chemicals in India, and (2) composite cylinders with the government's focus on a gas-based economy for clean energy.

Leader in packaging and composite cylinder products

In industrial packaging drums, Time has c.60% market share in India. It has around 20 manufacturing locations in India and present in 11 countries including India with market leader in 9 countries with own manufacturing base. It has 14 recognised brands and works with more than 900 institutional customers globally. It is fourth largest industrial packaging company worldwide behind three giants namely Schutz, Germany Mauser and Greif form USA. Its industrial packaging products cater to varied sectors like chemicals, paints, and pigments, food and beverage, petrochemicals, industrial coating, agriculture, pharma, construction chemicals. It has developed capabilities for innovative products as a replacement for metal products by using polymers and employing plastic-processing technology with injection, blow, and extrusion processes. It is only company in India for locally produced Type IV CNG composite cylinders used for CNG cascades and on-board application in automobiles. Time is also first one to launch Type-IV composite cylinders for LPG in India, and is the second largest producer of composite cylinders worldwide.

Increasing share of value-added products

Its value-added products include IBCs, composite cylinders, and multi-layer multi-oriented x-cross laminated films (MOX film). These products' contribution increased to 20% of its revenue in FY21 from 12% in FY16; pre-covid CAGR was 23% (Rs 6.8/2.9bn in FY20/16). Higher growth in value-added products is positive for Time, as these carry better EBITDA margins (16-20%) compared to 11-14% for its established products, and also have lower working-capital cycles. Time's established products portfolio constituted 80% of its total revenue in FY21, divided into three categories: (1) Industrial packaging (drums, jerry cans, pails), (2) infrastructure (HDPE pipes, DWC pipes, energy-storage devices), (3) Auto component and lifestyle (turf and matting, disposable bins, auto components).

Emerging opportunities in CNG composite cylinders

The government aims to increase the share of natural gas in India's energy mix to 15 -20% by 2030 from current 6.2%. The 9th/10th CGD bidding rounds, covering 174/124 districts for the development of CNG networks, will cumulatively attract investments worth c.Rs 1.2tn. India's network of CNG stations is set to exceed 11,200 (3x present) by 2030 and the proposed capacity addition should generate strong demand for CNG dispensers, cascades, and CNG vehicles. It has started receiving orders for Type IV composite cylinders for CNG cascade and onboard application and has an order book of Rs 850mn. There are tenders at advanced stages of finalization with various gas distribution companies, and it sees a potential market of Rs 22bn per year over the next four years for CNG cascade and onboard applications.

Focus on growth and return ratio improvement

Time's revenue CAGR was 11% over FY12-20 at Rs 15.2/35.7bn, while revenue declined by 16% to Rs 30bn in FY21 due to Covid-19. EBITDA margins have remained healthy (14-16%) over FY12-20, except a fall to 12.9% in FY21. Time's asset turn (sales/capital employed) is c.1.3x with RoCE at c.14%. The management is targeting RoCE of 20% by FY25, with higher contribution from value-added products, and improvement in working capital. Time has a gross debt of Rs 8bn with a D/E of 0.4 and debt/EBITDA of 2x.

Not Rated

CMP RS 71

SEBI CATEGORY: SMALL CAP

COMPANY DATA

O/S SHARES (MN) :	226
MARKET CAP (RSBN) :	16
MARKET CAP (USDMN) :	0.2
52 - WK HI/LO (RS) :	95 / 36
LIQUIDITY 3M (USDMN) :	1.0
PAR VALUE (RS) :	1

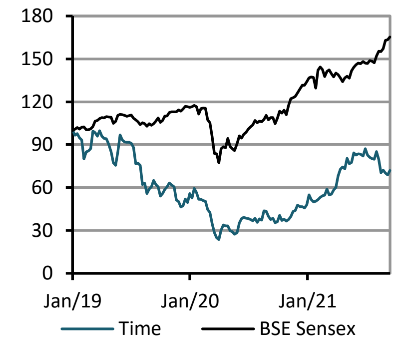
SHARE HOLDING PATTERN, %

	Jun 21	Mar 21	Dec 20
PROMOTERS	51.3	51.3	51.3
DII	11.2	11.3	11.0
FII	14.6	15.2	15.0
OTHERS	22.8	22.2	25.1

KEY FINANCIALS

Rs mn	FY19	FY20	FY21
Net Sales	35,637	35,780	30,049
EBIDTA	5,235	4,989	3,871
Net Profit	2,027	1,691	1,034
EPS, Rs	9.0	7.5	4.6
PER, x	8.3	9.9	16.2
EV/EBIDTA, x	4.6	4.8	6.1
ROE, %	12.5	9.6	5.6

PRICE VS. SENSEX



Source: Phillip Capital India Research

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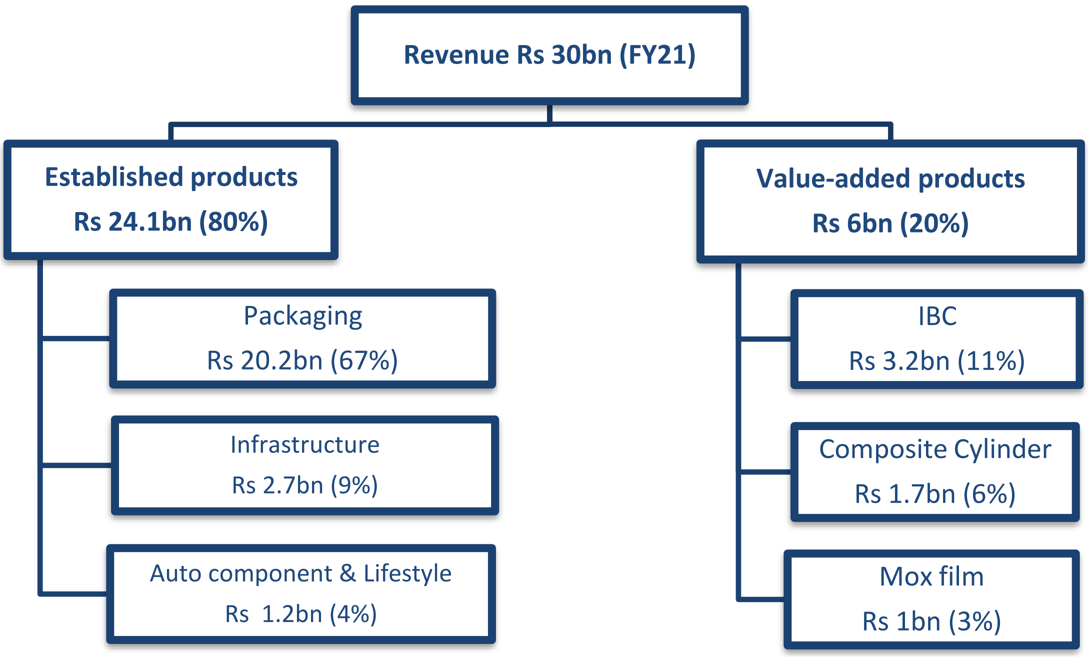
Diversified technology driven products and markets

Time Technoplast is a leading manufacturer of polymer and composite products for industrial packaging, automotive, and material handling with a global presence. The company categorize products into two groups viz. established products and value-added products. Established product portfolio constitutes 80% of total revenue which is divided into three categories: (1) Industrial packaging (drums, jerry cans and pails), (2) infrastructure (HDPE pipes, DWC pipes, and energy-storage devices), (3) Auto component and life style (turf and matting, disposable bins, and auto components). Value-added products contribute 20% of total revenue, which include intermediate bulk containers (IBC), composite cylinders, and mox films.

The company has c.60% market share in India and is market leader in 9 out of 11 countries including India in Industrial packaging. It is fourth largest industrial packaging company worldwide behind three giants namely Schutz, Germany Mauser and Greif form USA. Its industrial packaging products cater to varied sectors like chemicals, paints, and pigments, food and beverage, petrochemicals, industrial coating, agriculture, pharma, construction chemicals.

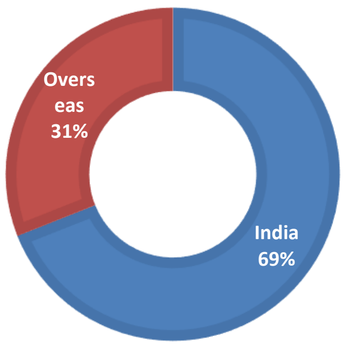
Industrial Packaging Sales by user Industry



Time's overseas business was at Rs 9.2bn in FY21, contributing to 31% of its overall revenue. EBITDA margin for domestic operations were better (c.13.1% in FY21) while exports margins were marginally lower (c.12.7% in FY21); however, net profitability in overseas was better due to low tax rate abroad. Going forward, the management expects significant growth, as a number of multinational companies are trying to shift their manufacturing base from China to other Asian countries such as India, Indonesia, and Thailand etc.

Time has 14+ recognized brands and works with 900+ institutional customers globally. It focuses on developing and using the latest processing technologies for product development, and has an R&D team of 30.

Overseas business contributes c. 31%



The company also has a strong presence in the overseas market with manufacturing bases in 10 countries including UAE, Bahrain, Egypt, Thailand, Vietnam, Malaysia, Saudi Arabia, Indonesia, Taiwan, and the USA – to cater to the industrial packaging segment. It has recently entered the US market for IBCs and large-sized drums and said it is receiving a strong response from all its locations in Chicago, Houston, and Iowa.

Time Technoplast geographical presence

Source: Company

Increasing share of value-added products

The contribution of value-added products increased to 20% in FY21 from 12.2% in FY16. These products saw pre-Covid revenue CAGR of 23% (FY16-20) to Rs 6.8bn from Rs 2.9bn. Higher growth in value-added products is positive for Time as these earn higher EBITDA margins (c.16-20%) compared to 11-14% for its established products, and also have lower working-capital cycles.

Time Technoplast's product profile

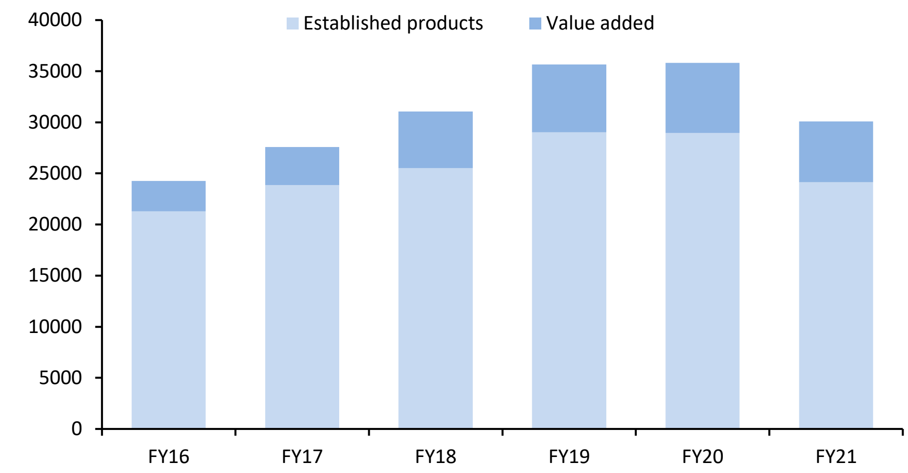
Source: Company

Time is the third-largest manufactures of IBCs in the world

- **IBCs:** These storage solutions lead to c.75% savings in storage and transportation costs vs. drums and have the additional advantage of strong resistance to chemicals vs. metal drums. The increasing manufacturing of speciality chemicals in India is positive for Time.
- **LPG composite cylinders:** Time has been manufacturing these for almost 10 years now, and exports to 40+ countries globally. Type-IV LPG cylinders have the advantages of being light weight, explosion proof, and rust proof. It sells LPG composite cylinders under "Litesafe", ranging from 2-22kgs. It has started receiving trial orders for Type-IV LPG composite cylinders from oil marketing companies (OMCs) in India.
- **MOX film (multi-layer multi axis oriented cross lamination films):** It launched this product in FY17 under the brand *Techpaulin*. It has 25 super distributors across the country for this, and its markets are growing – such as for truck covers, pond liners, mulching films, and poly-house films for agricultural use, along with exports to Thailand, Malaysia, Germany, UK and USA.

Composite LPG cylinders are lighter, durable and safe

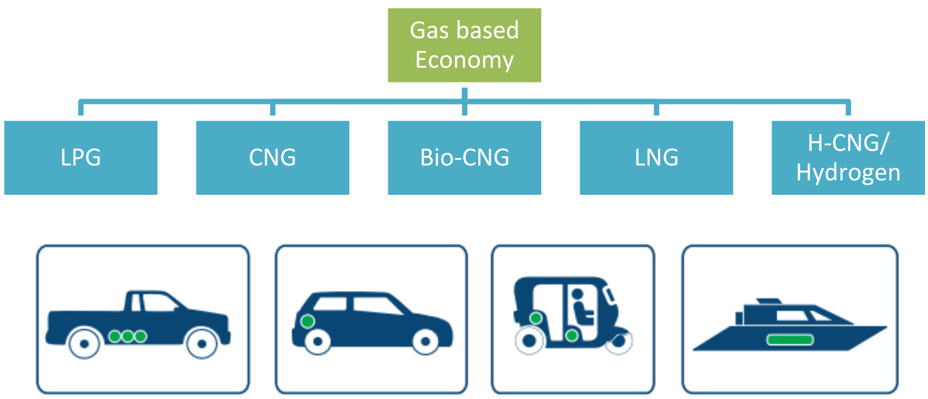
Revenue share of value-added products



Source: PhillipCapital India Research, Industry

Emerging opportunity in CNG composite cylinders

The government aims to increase the share of natural gas in the country's energy mix from the current c.6.2% to touch 15-20% by 2030 – a significant step towards becoming a gas-based economy to achieve the COP-21 climate-change goals set for 2030.



Natural gas consumption in India has increased consistently over the last five years. India is now the 13th largest consumers of natural gas globally and the 3rd largest in Asia Pacific, only behind China and Japan. Its annual gas consumption is c.170mmscmd, and expected to increase to c.600mn mmscmd by 2023. Import of LNG has increased consistently from 58mmsmd in FY16 to c. 90mmscmd in FY21, as increasing demand is met through imports.

Structural reforms for a gas-based economy

Increasing domestic production
- Pricing guidelines for domestic gas
- Discovered small fields
- Coal-bed methane
- Bio-gas production

Developing gas infrastructure
- National gas grid
- North East Gas Grid through SPV
- New LNG import facilities
- Developing CGD Network
- Network of CNG and LNG fuel stations
- Promotion of Bio-CNG (SATAT policy)

Improving market access
- Gas trading exchange (GTE)
- E-bidding platform
- Rationalization of tariff to benefit consumers and operators
- Tax related aspects

Source: PhillipCapital India Research

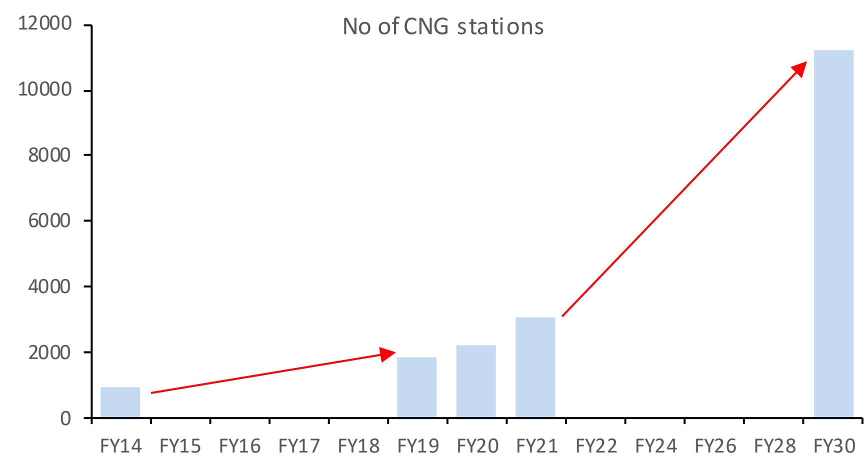
Development in City Gas Distribution (CGD) with the success of the 9th and 10th round

- The 9th and 10th CGD bidding round, covering 174 and 124 districts, respectively, for the development of a CNG network and pipelines, will cumulatively attract an investment of c.Rs 1.2 trillion. However, by 2030, India will have an operational CGD infrastructure across 407 districts, with the potential of covering more than 50% of the country's area and serving more than 70% of its population, up from just c.20% at present.
- Number of CNG stations have increased to 3,101 in FY21 from 938 in FY14. India's network of CNG stations is set to exceed 11,200 – 3x by 2030. Bidding for the 11th round is likely to begin soon.
- Proposed capacity additions are expected to create strong demand for CNG dispensers cascades, and CNG vehicles.
- GAIL has started work on the Angul-Mumbai 17,000km gas pipeline.

CGD Authorisation	Geographical areas (GA)	Population covered %
Existing infrastructure	92	19.9
Round 9 expansion	178	46.2
Round 10 expansion	228	70.5
Round 11 expansion	Expected soon	

Source: PNGRB

No of CNG stations will cross 11,000 in 2030 with a time-bound commitment



Source: PhillipCapital India Research

SATAT Policy 2018

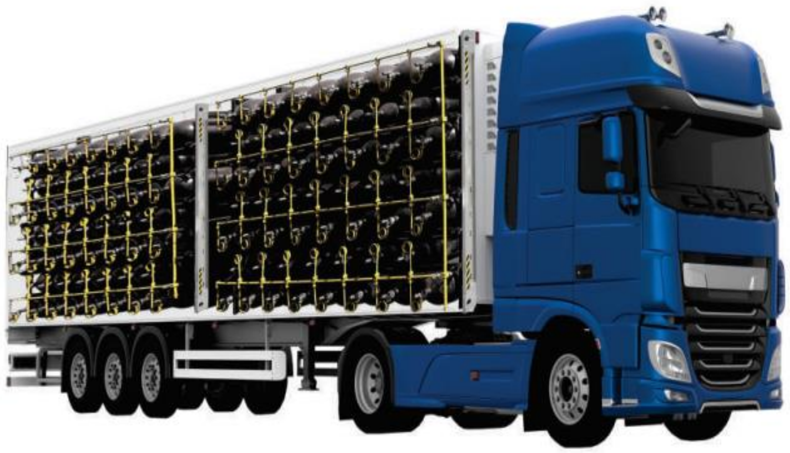
* The Government of India has envisaged 5,000 bio-CNG plants (minimum capacity of >2.0 tonnes per day of CBG), which are to be commissioned in a phase-wise manner across India under the SATAT scheme over the next five years.
* There is no restriction on the technology choice for the developers.
* The government has categorized CBG plants under the 'white category', so they will not require any consent from pollution control boards for operations.
* Bio-manure is an important by-product of CBG plants, and it is now included in the Fertilizer Control Order 1985 under "fermented bio-manure", to provide an opportunity for organic farming across the country.
* The government has included CBG projects under priority-sector lending; it has also eased funding norms and is providing financial assistance to promote this sector.
* The government has given a ten-year pricing visibility for CBG projects under the SATAT policy.

CNG composite cylinders

Time Technoplast got approval from PESO and third party (Bureau Veritas – Europe) for type-IV cylinders in August 2020 for cascade applications. Subsequently it received approval from PESO and Bureau Veritas under ISO: 11439-2013 for on-board (vehicle) applications in May 2021. Both the approvals (cascade and onboard applications) are for the first time in India for locally produced Type IV composite cylinders.

Type IV CNG cylinders are light weight and provide safety and comfort, as the weight of the carrier reduces considerably, and it increases the driving range for on-board applications. Rust-proof inner liners increase the life of vehicles, and no fuel contamination takes place. CNG reduces fuel costs by 40-50% vs. diesel engines.

Type IV CNG cascades with 2.2x fuel carrying capacity compared to metal cylinders



Type of cylinder	Construction	Details
Type I	Full steel cylinder	Metal prone to rust and corrosion, heavy
Type II	Metal cylinders with side wrapped with carbon fibre	Lighter steel cylinder with wrapped carbon fibre partially on side body only
Type III	Aluminium cylinders wrapped with carbon fire	Prone to galvanic corrosion
Type IV	Polymer- non-metallic liner wrapped with carbon fibre	No rust, corrosion, lighter cylinders

Time has started receiving orders for the Type-IV composite cylinders for cascade onboard applications and has order book is Rs 850mn for CNG cylinders for both applications.

The total opportunity for Type IV CNG cascade is expected at c. Rs 289bn over long-term including (1) Rs 115bn from new CNG station of c. 8100 allotted in 9th and 10th bidding (2) Rs 13.2bn from Mobile refuelling units (MRUs) demand of c. 2200 (3) Rs 60bn from expected biogas projects under SATAT programme (4) Rs 48bn from shifting to gas generators for telecom towers and (5) Rs 53bn form onboard application for intracity bus. There are tenders at advanced stages of finalization with various gas distribution companies, and it sees a potential market of Rs 22bn per year over the next four years for CNG cascade and onboard applications.

Market of c. Rs 22bn per year aided by government thrust

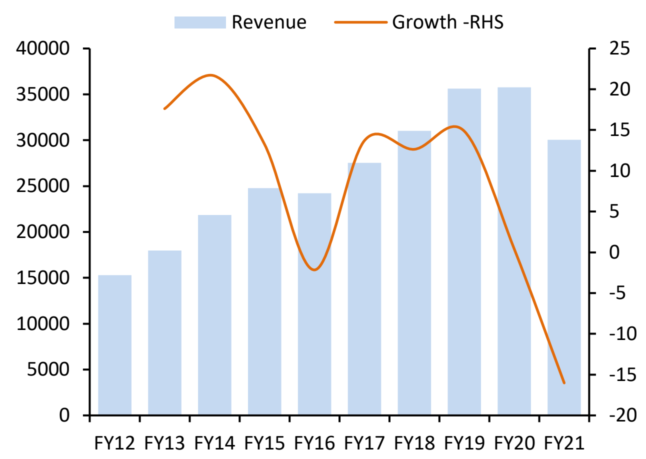
Rs bn	Total opportunity	No of years	Est. market per year	Est. conversion to Type IV cylinders	Time Es. Business p.a
CNG Cascades	115.5	8	14.4	50%	7.2
MRUs	13.2	4	3.3	50%	1.7
Compressed Bio Gas	60	3	20.0	20%	4.0
Gas Generators for Telecom Towers	48	4	12.0	20%	2.4
CNG for Intracity Buses	53	4	13.3	50%	6.6
Total	**289.7**		**63.0**		**21.9**

Source: Company

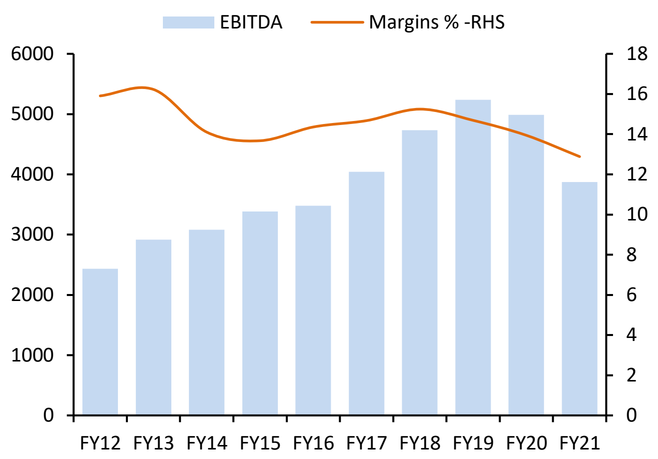
Key financials trends

- Time had a revenue CAGR of 11% in FY12-20 – to Rs 35.7bn from Rs 15.2bn, while revenue declined by 16% to Rs 30bn in FY21 due to Covid-19.
- EBITDA margins have remained healthy at 14-16% over FY12-20, except a decline to 12.9% in FY21.
- Asset turn (sales/capital employed) is c.1.3x with RoCE at c.14%.
- The management is targeting RoCE of 20% by FY25, with a higher contribution from value-added products, and improvement in working capital.
- Net working capital is c.37% of sales, which is c.45% of total capital employed for the company.
- The company has a gross debt of Rs 8bn, with D/E of 0.4 and debt/EBITDA of 2x.
- It had a capital expenditure of Rs 1bn (Rs 670mn in established products and Rs 365mn in value added) in FY21 for capacity expansion, re-engineering, and automation.
- The capex for FY22 is expected c. Rs 1.3bn (Rs 850mn in established products + Rs 450mn in value added) while additional capex is likely in CNG composite cylinders, to capture upcoming opportunity.

Revenue CAGR of 11.2% over FY12-20 (Rs mn)

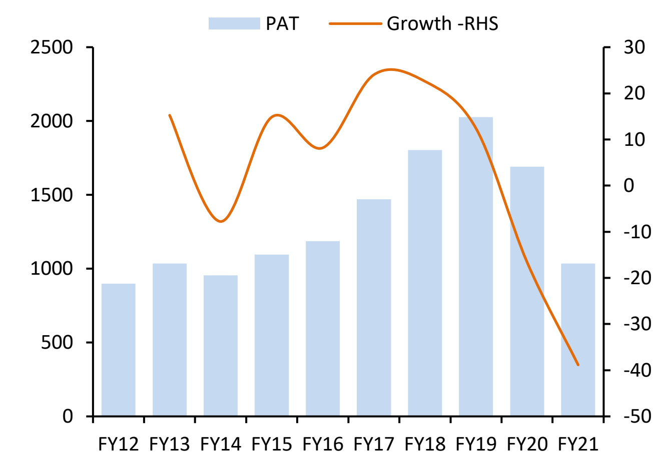


EBITDA and margin trend (Rs mn)

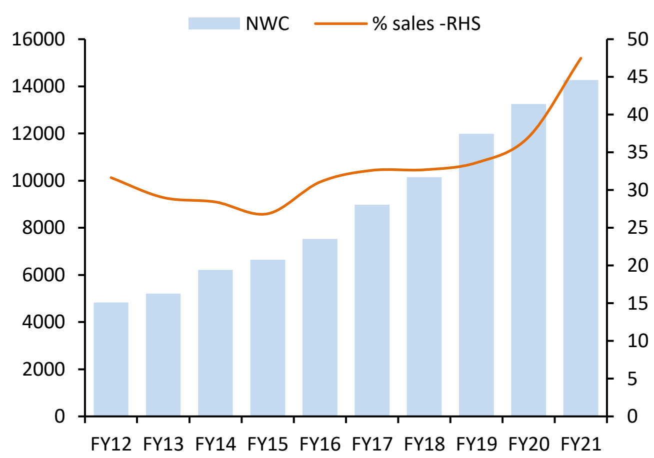


Source: Industry, PhillipCapital India Research

Profit trend (Rs mn)

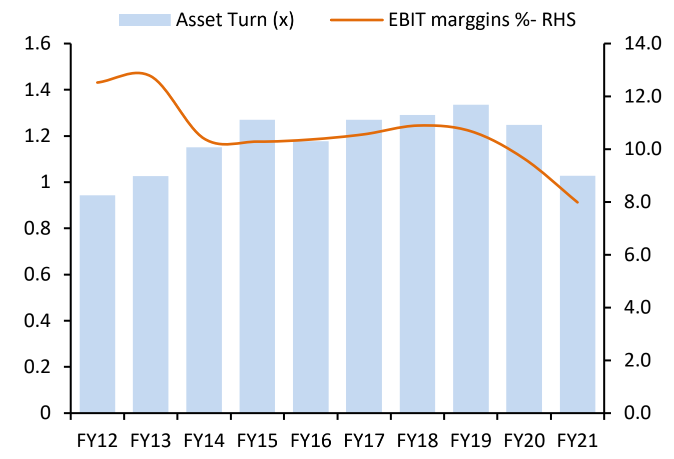


Net working capital trend (Rs mn)

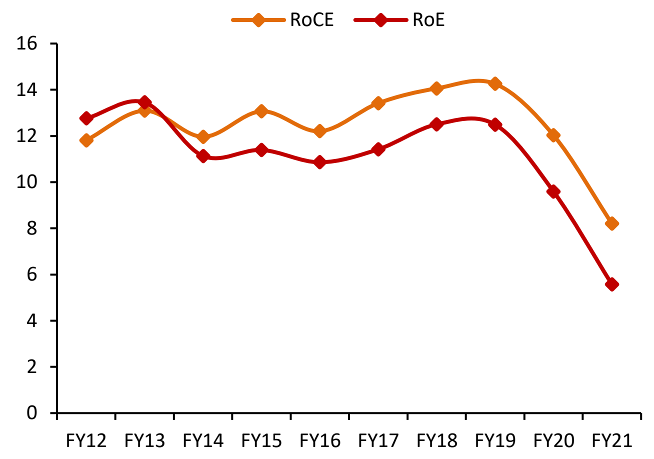


Source: Industry, PhillipCapital India Research

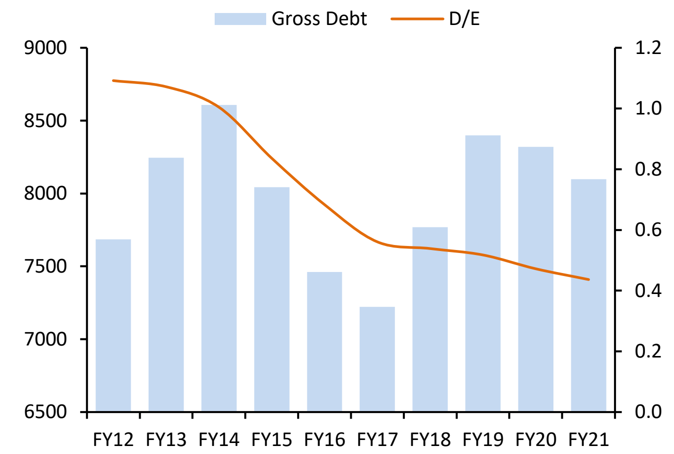
Asset turn (sales/CE) and EBIT margins



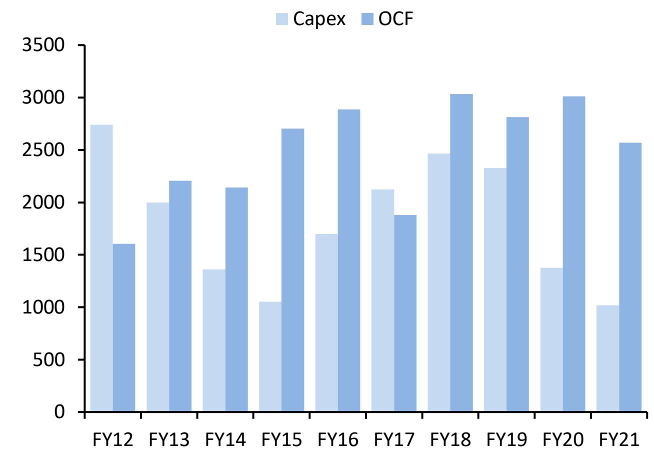
Return ratios (%) remain healthy (FY20/21 impact of Covid-19)



Leverage remains comfortable



Cashflow to support repayment and growth



Source: Industry, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY18	FY19	FY20	FY21
Net sales	**31,027**	**35,637**	**35,780**	**30,049**
Growth, %	12.6	14.9	0.4	-16.0
Raw material expenses	21,528	25,113	25,044	21,029
Employee expenses	1,451	1,639	1,704	1,594
Other Operating expenses	3,318	3,650	4,044	3,555
EBITDA (Core)	**4,731**	**5,235**	**4,989**	**3,871**
Growth, %	17.0	10.7	-4.7	-22.4
Margin, %	15.2	14.7	13.9	12.9
Depreciation	1372	1461	1562	1510
EBIT	**3,358**	**3,774**	**3,427**	**2,361**
Margin, %	10.8	10.6	9.6	7.9
Interest paid	875	986	1082	977
Other Non-Operating Income	21	32	23	38
Pre-tax profit	**2,504**	**2,819**	**2,368**	**1,422**
Tax provided	652	734	617	364
Profit after tax	**1,853**	**2,085**	**1,750**	**1,058**
Others (Minorities, Associates)	-43	37	10	20
Net Profit	**1,804**	**2,027**	**1,691**	**1,034**
Growth, %	22.6	12.4	-16.6	-38.8
Wtd avg shares (m)	226	226	226	226

Balance Sheet

Y/E Mar, Rs mn	FY18	FY19	FY20	FY21
Equity	226	226	226	226
Reserves and Surplus	14,605	16,466	17,925	18,802
Shareholders Fund	14,831	16,692	18,151	19,028
Minority interest	405	463	522	483
Total Loan	7,770	8,399	8,320	8,097
Lease liability	0	0	581	534
Deferred tax liability	1,036	1,145	1,099	1,096
Total equity & liabilities	**24,041**	**26,698**	**28,672**	**29,239**
Gross Block	20,650	22,900	24,435	25,069
Net fixed asset	11,991	12,785	12,857	12,233
Intangible	6	6	4	2
Capital Work in Progress	941	983	805	403
Asset held for sale	0	0	0	601
Right of Use	0	0	633	575
Goodwill on Consolidation	0	0	0	0
Investment	220	274	294	289
Current Assets	15,762	17,950	19,050	18,942
Inventories	6,409	7,373	7,577	7,598
Trade Receivables	6,703	7,842	8,207	7,983
Cash balance	740	666	825	870
Loans and Advance	1,138	1,281	1,463	1,497
Other current assets	772	787	978	994
Current Liabilities	4,878	5,299	4,971	3,806
Trade Payable	4,370	4,750	4,435	3,244
Other Current Liabilities	425	458	429	425
Provisions	83	92	106	136
Net Working Capital	10,884	12,651	14,079	15,136
Total assets	**24,041**	**26,698**	**28,672**	**29,239**

Cash Flow

Y/E Mar, Rs mn	FY18	FY19	FY20	FY21
PBT	2,504	2,819	2,368	1,422
Operating profit	4725	5395	5102	3885
Chg in working capital	-1191	-1969	-1967	-1033
Total tax paid	-501	-612	-624	-343
Cash flow from operating activities	**3,033**	**2,815**	**3,012**	**2,570**
Capital expenditure	-2466	-2328	-1376	-1020
Cash flow from investing activities	**-2442**	**-2305**	**-1376**	**-1018**
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	548	630	-79	-223
Dividend (incl. tax)	-180	-226	-254	-222
Cash flow from financing activities	**-508**	**-583**	**-1477**	**-1507**
Net chg in cash	84	-74	159	45

Valuation Ratios

	FY18	FY19	FY20	FY21
Per Share data				
EPS (INR)	8.0	9.0	7.5	4.6
Book NAV/share (INR)	63.8	71.8	78.0	82.0
CEPS (INR)	14.0	15.4	14.4	11.3
DPS (INR)	0.7	0.8	0.9	1.0
Return ratios				
Return on equity (%)	12.5	12.5	9.6	5.6
Return on capital employed (%)	15.4	15.5	13.2	9.0
Turnover ratios				
Asset turnover (x)	1.3	1.3	1.2	1.0
Working capital/Sales (%)	32.7	33.6	37.0	47.5
Receivable days	79	80	84	50
Inventory days	75	76	77	92
Payable days	51	49	45	39
Valuation				
PER (x)	9.3	8.3	9.9	16.2
Price/Book (x)	1.2	1.0	0.9	0.9
Yield (%)	0.9	1.1	1.3	1.3
EV/EBITDA (x)	5.0	4.6	4.8	6.1
EV/EBIT (x)	7.0	6.4	6.9	9.9

Source: Company, PhillipCapital India Research Estimates

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	>= +10%	Target price is equal to or more than 10% of current market price
NEUTRAL	-10% > to < +10%	Target price is less than +10% but more than -10%
SELL	<= -10%	Target price is less than or equal to -10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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