January 05, 2018

Time Technoplast Limited

Summary of rated instruments

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Commercial Paper Programme	200.0	300.0	[ICRA]A1+; Assigned/outstanding

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 300.0 crore[1] (enhanced from Rs. 200.0 crore) enhanced commercial paper programme of Time Technoplast Limited ('TTL' or 'the company')[2].

Rationale

The rating continues to take into account the long operating track record of the company in the plastic packaging industry with an established market presence. ICRA notes the diversified product mix of the company and its exposure to diversified end-user industries. TTL enjoys a leading market position in most of its product segments in the domestic as well as global markets. ICRA also notes that the company's improved product mix through the addition of new products is likely to yield diversification related benefits and aid in revenue growth. The rating also derives comfort from the location of the company's plants in proximity to its customers, enabling logistics convenience. The rating further takes into account the healthy increase in the company's cash accruals over the last five years due to scale up in revenues, driven by regular capacity additions and successful introduction of new products. TTL's financial profile is strong, as characterised by low gearing and healthy coverage indicators. The equity infusion of ~Rs. 150 crore through qualified institutional placement (QIP) in the current year further supports TTL's credit profile.

The rating also takes into consideration the company's presence in the highly fragmented packaging industry, characterised by intense competition, limiting its pricing flexibility. Furthermore, the price of the company's key raw material—high-density polyethylene (HDPE)—is derived from crude oil prices, thereby exposing TTL's margins to volatility in raw material price movement. With ~70% of the raw material requirement being met through imports, the company also remains vulnerable to volatility in foreign currency exchange rates. However, TTL hedges ~50% of its total foreign exchange exposure, thereby mitigating the risk to an extent. The rating also factors in the ongoing debt-funded capital expenditure of the company and the moderate liquidity profile of the company. However, ICRA takes comfort from the expected improvement in cash accruals post commencement of the ongoing projects.

TTL's ability to continue its revenue growth, while achieving improvement in profitability is a key rating sensitivity. ICRA would also continue to monitor any larger than expected debt funded capital expenditure that may deteriorate the capital structure and coverage indicators.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

ICRA

Key rating drivers

Credit strengths

- **Extensive experience of promoters in the plastic packaging industry**
- **Diversified product portfolio, with steady cash flows from varied product segments –** TTL is a leading plastic packaging manufacturer, with operations in India, Bahrain, Egypt, Indonesia, Malaysia, Singapore, UAE, Taiwan, Thailand and Vietnam through its subsidiaries and joint venture (JV) companies. The company's product portfolio is diversified, catering to industry segments like industrial packaging solutions, technical and lifestyle products, infrastructure / construction related products, material handling solutions, composite cylinders and multilayer multi-axial oriented cross laminated films (MOX).
- **Leadership position in the domestic plastic packaging industry; healthy market position enjoyed in multiple product segments –** In the industrial packaging solutions segment, which accounted for ~73% of its consolidated revenues in FY2017, TTL and its 75% subsidiary, TPL Plastech Limited, command ~70% share in the domestic market. TTL is also the number two player in the polymer drums segment and the number three in intermediate bulk containers (IBCs) worldwide.
- **Well-diversified customer base resulting in low customer concentration risks –** TTL has a well-diversified customer base, with presence across different industry segments. The top ten customers contributed ~18% of the total revenue in FY2017 reflecting low customer concentration risk.
- **Steady growth in operating income over the years; high economies of scale reflecting in healthy and stable operating profit margins –** TTL recorded a compounded annual growth rate (CAGR) of ~9% in revenues over FY2013-FY2017. The company registered ~14% YoY growth in operating income (OI) to Rs. 2,756.6 crore in FY2017, and ~10% YoY growth in OI to Rs. 1,406.2 crore in H1 FY2018. TTL's operating profit margins have remained healthy supported by its brand image and technologically advanced products. The operating profit margin improved to 14.8% in FY2017 from 14.1% in FY2016 due to better operational efficiencies. The same further improved to 15.1% in H1 FY2018 on account of improved operational efficiencies. With the company diversifying its customer base and product portfolio and focusing on relatively high margin products, ICRA expects TTL's operating profit margins to remain stable over the medium term.
- **Strong financial profile, as characterised by low gearing and healthy coverage indicators –** The total debt of TTL (consolidated) as on September 30, 2017 comprises Rs. 348.0 crore of term loans from banks and Rs. 371.1 crore of working capital facilities from banks. The company's capital structure is healthy, as evinced from the gearing of 0.5 times as on September 30, 2017, improved from 0.6 times as on March 31, 2016, owing to healthy accretion to reserves. With an improvement in profitability, TTL's coverage indicators have also remained healthy with Total Debt / OPBDITA of 1.7 times, NCA / Total Debt of 40% and interest coverage ratio at 5.1 times as on September 30, 2017.

Credit weaknesses

- **Fragmented industry and intense competition exerts pressure on profitability –** Given the low entry barriers in the industry, TTL faces competition from few large established players as well as numerous smaller-sized players. However, for few products like HDPE drums, IBCs, composite cylinders, polymer mats etc, TTL is the largest manufacturer in the domestic market and faces very limited competition for such products. TTL also faces competition in industrial packaging segment from metallic container manufacturers; though on account of the various benefits that plastic containers have over their metallic counterparts, there has been a gradual decrease in the industry wide usage of metallic containers. The threat from imports is negligible owing to the freight intensive nature.

- **Ability to manage volatility in major raw material prices, which are dependent on crude oil prices, is critical –** HDPE is the major raw material for TTL's products and its prices are largely derived from the crude prices that are highly volatile in nature. The steep fluctuations in price of raw material are passed on to the customers with a time lag of 1 to 1.5 months. However, monthly price revisions for 20-35% of its customers, quarterly for ~40% of its customers and spot purchases by the balance 15-20% enables TTL to pass on any significant increase in input prices to the customers, thereby mitigating the price risk to some extent. However, the minor fluctuations cannot be passed on immediately so as to remain competitive in the market.
- **Moderate working capital intensity of operations, arising mainly from high inventory requirements –** The working capital intensity of the company is moderate with NWC / OI of 32% as on March 31, 2017, increased from 30% as on March 31, 2016 primarily due to increase in debtors and inventory levels. The company has a policy of stocking 60 days of raw material inventory, depending on the raw material price movement, and average transit period is 15-20 days. Also, it maintains ~30 days of finished goods inventory including work-in-progress (mainly running products inventory). Nearly 65-70% of the company's raw material requirement is imported against 90 days letter of credit (LC), followed by 90 days buyers' credit, while domestic purchases are against advance payments.
- **Large debt funded capital expenditure to be undertaken in the near term, which is likely to stretch the capital structure to some extent –** The Group has pursued an aggressive growth strategy by entering into several geographies. Capital expenditure (including acquisitions) incurred in the past investments have been significantly debt-funded; however, gearing has remained comfortable due to healthy accretion to reserves. The company has planned a capital expenditure of ~Rs. 234.0 crore in FY2018 towards enhancement in the capacities in most of its product lines. This is being funded largely debt funded, which is likely to stretch the capital structure in the near term.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Corporate Credit Rating Methodology
ICRA's Approach for Rating Commercial Papers

About the company:
Time Technoplast Limited, established in 1992, is a manufacturer of polymer products in India as well as Asia and Middle East and North Africa (MENA) regions. The company was listed on the Bombay Stock Exchange in 2007. The Group has 28 manufacturing units, of which 18 are in India. It has operational overseas footprints in geographies like Bahrain, Egypt, Indonesia, Malaysia, Singapore, UAE, Taiwan, Thailand and Vietnam. The company's portfolio consists of products for growing industry segments like industrial packaging solutions, lifestyle products, automotive components, infrastructure / construction related products, material handling solutions and composite cylinders. TTL has also developed a new product—MOX films, the production of which commenced from Q1 FY2018.

TTL (on a consolidated basis) reported a profit after tax (PAT) of Rs. 151.4 crore on an OI of Rs. 2756.6 crore in FY2017, as against a PAT of Rs. 122.3 crore on an OI of Rs. 2424.3 crore in FY2016. For the six-months ended September 30, 2017 (unaudited), TTL (consolidated) reported a PAT of Rs. 80.1 crore on an OI of Rs. 1,406.2 crore.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	2,424.3	2,756.6
PAT (Rs. crore)*	122.4	151.4
OPBDIT/ OI (%)	14.5%	14.8%
RoCE (%)	13.1%	14.6%
Total Debt/ TNW (times)	0.6	0.5
Total Debt/ OPBDIT (times)	2.1	1.8
Interest coverage (times)	3.7	4.5
NWC/ OI (%)	30%	32%

*Before minority interest

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S.N	Instrument	Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating		Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					January 2018	April 2017	-	-	-
1	Commercial Paper Programme	Short-term	300.0	NA	[ICRA] A1+	[ICRA] A1+	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Commercial Paper Programme	-	-	7-365 days	200.0	[ICRA]A1+
-	Commercial Paper Programme	Yet to be placed			100.0	[ICRA]A1+

Source: Time Technoplast Limited

ICRA

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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