Time Technoplast Limited

August 02, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	300.0	300.0	[ICRA]A1+; Re-affirmed
Total	**300.0**	**300.0**	

*Instrument details are provided in Annexure-1

Rating action

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

Rationale

The rating reaffirmation considers the long operating track record of the company in the plastic packaging industry with an established market presence. TTL enjoys a leading market position in most of its product segments in the domestic and global markets. The company has a diversified product mix and exposure to diversified end-user industries. Furthermore, over the last two years, the company's product mix has improved through the addition of new products, which is likely to yield diversification related benefits and aid in revenue growth. The location of the company's plants in proximity to its customers has enabled logistics convenience. The rating considers 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 company is, however, present 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 profit 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 majority of its foreign exchange exposure, thereby mitigating the risk to an extent. The rating also factors in the ongoing capital expenditure of the company, which is being largely funded through debt, 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. ICRA notes that the proceedings, in respect of the case filed by one of its UK-based customers and counter cases filed by TTL against the customer, are still on-going, and ICRA would continue to monitor the developments and its impact on TTL.

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

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

[2] *100 lakh = 1 crore = 10 million*

Key rating drivers

Credit strengths

Extensive experience of the promoters and professional leadership team - The promoters have more than 30 years of experience in the polymer industry. TTL has a professional leadership team comprising members with extensive experience in various disciplines such as engineering, manufacturing, marketing and sales, product and quality management, corporate finance, etc.

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, the United Arab Emirates (UAE), Taiwan, Thailand and Vietnam through its subsidiaries and joint venture (JV) companies. The company's product portfolio consists of diversified products for industry segments like industrial packaging solutions, technical and lifestyle products, infrastructure related products, material handling solutions, composite cylinders and multilayer multi-axial oriented cross laminated films (MOX films). Over the last two years, the company's product mix has improved through the addition of new products, which is likely to yield diversification related benefits and aid in revenue growth.

Leadership position in the domestic industrial packaging market; healthy market position enjoyed in multiple product segments - TTL is the largest player in the industrial packaging solutions segment in the domestic market and the fourth largest player, worldwide. It is also one of the leading players in the global market for composite cylinders and intermediate bulk containers (IBC).

Well-diversified customer base resulting in low customer concentration risks - TTL has a well-diversified customer base, spread across different industry segments. The top 10 customers contributed ~21% to the total standalone revenues of TTL in FY2018, reflecting low customer concentration risk.

Steady growth in operating income over the years; stable operating profit margins - TTL recorded a compounded annual growth rate (CAGR) of ~9% in revenues over FY2014-FY2018. The company registered ~13% YoY growth in revenues in FY2018. TTL's operating profit margins have remained healthy supported by its brand image and technologically advanced products. The operating profit margin improved marginally to 15.3% in FY2018 from 14.7% in FY2017 due to better product mix. With the company diversifying its customer base and product portfolio and focusing on relatively high margin products, ICRA expect 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 consolidated debt of TTL as on March 31, 2018 stood at Rs. 777.0 crore. The company's capital structure remains healthy, as evinced from the gearing of 0.5 time as on March 31, 2018, owing to healthy accretion to reserves. With marginal improvement in profitability, TTL's coverage indicators have also remained healthy with Total Debt / OPBDITA of 1.6 times, NCA / Total Debt of ~39% and interest coverage ratio at 5.4 times as on March 31, 2018.

Credit challenges

Fragmented industry and intense competition exerts pressure on profitability - Given the low entry barriers in the industry, TTL faces competition from a few large established players as well as numerous smaller-sized players. However, for few products like HDPE drums, IBCs, composite cylinders, etc, TTL is one of the leading players, worldwide. TTL faces competition in the industrial packaging segment from metallic container manufacturers, although 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 of polymer products.

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 oil prices that are highly volatile in nature. However, since TTL is in the business-to-business (B2B) space, it is able to pass on the impact of input price fluctuations to its customers with a time lag of about 15-20 days and sometimes a quarter, depending upon the terms of the contracts with its customers. 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 remains moderate with NWC / OI of ~31% as on March 31, 2018. 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. In addition, 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 made against advance payments.

Large debt funded capital expenditure, to be undertaken in the near term, may stretch the capital structure to some extent – The company has pursued an aggressive growth strategy by entering into several geographies and the investments for such growth have been significantly debt-funded. However, gearing remained comfortable, due to healthy accretion to reserves. The company further plans a capital expenditure of ~Rs. 204.0 crore in FY2019 towards capacity enhancement in many of its product lines, which will largely be debt-funded and may stretch the capital structure to some extent.

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, incorporated in 1989, is a manufacturer of polymer products in India, as well as in the Asia and the Middle East and North Africa (MENA) regions. The company was listed on the Bombay Stock Exchange in 2007. The company has operations at 20 locations in India and 10 locations overseas. It has overseas footprints in geographies like Bahrain, Egypt, Indonesia, Malaysia, Singapore, UAE, Taiwan, Thailand and Vietnam. The company's portfolio consists of products for industry segments like industrial packaging solutions, lifestyle products, automotive components, infrastructure related products, IBCs, material handling solutions, composite cylinders and MOX films.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	2756.6	3104.4
PAT (Rs. crore)	151.4	185.3
OPBDIT/OI (%)	14.7%	15.3%
RoCE (%)	14.6%	15.7%
Total Debt/TNW (times)	0.5	0.5
Total Debt/OPBDIT (times)	1.8	1.6
Interest coverage (times)	4.5	5.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years			
					Date & Rating	Date & Rating in FY2018		Date & Rating in FY2017	Date & Rating in FY2016
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	August 2018	January 2018	April 2017	-	-
1	Commercial Paper Programme	Short-term	300.0	-	**[ICRA]A1+**	**[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
NA	Commercial Paper Programme	NA	NA	7-365 days	300.0	[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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