September 21, 2020 Revised

Time Technoplast Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	200.00	200.00	[ICRA]A1+; Reaffirmed
Total	**200.00**	**200.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation considers the company's extensive operating track record in the plastic packaging industry with an established market presence. Time Technoplast Limited (TTL) enjoys a leading market position for most of its product segments in the domestic and global markets. The company has a varied product mix and exposure to diverse end-user industries. Furthermore, over the last few years, its product mix has improved through the addition of new products, which is likely to yield diversification-related benefits and aid in revenue growth and profitability. TTL's financial profile is strong, as characterised by low gearing and healthy coverage indicators. Nonetheless, ICRA notes the company's high borrowing rates.

The company is present in the highly fragmented packaging industry, characterised by intense competition, which limits its pricing flexibility. Furthermore, the price of its key raw material—high-density polyethylene (HDPE)—is derived from crude oil, thereby exposing TTL's profit margins to volatility in raw material price movement. With around 65-70% of its raw material requirement being met through imports, it is exposed to volatile foreign currency exchange rates. However, TTL hedges a predominant share of its foreign exchange exposure, thereby mitigating the risk to an extent. Furthermore, TTL's liquidity profile is adequate, supported by undrawn fund-based working capital and term loan limits.

ICRA notes that the company's domestic manufacturing operations were shut down for about three weeks due to the Covid-19 pandemic-related lockdowns. However, its manufacturing operations at the overseas locations remained unhindered. This led to a YoY revenue reduction by ~45.3%, driven by volume degrowth of ~43% in Q1 FY2021. During the quarter, the company recorded an OPM of 11.4% vis-a-vis 14.6% in Q1 FY2020, with a dip in margin attributable to under-absorption of fixed costs. Nevertheless, with the easing of lockdowns and improving demand, the capacity utilisation levels have now recovered to about 85-90% of the pre-Covid-19 levels. In response to the pandemic, TTL has cut down its capex to about Rs. 100 crore in FY2021, most of which would be for maintenance purposes. Despite some impact on operations, ICRA expects its credit profile to remain healthy in FY2021 with lower but healthy cash accruals and moderate capex.

Key rating drivers and their description

Credit strengths

Diversified product portfolio and geographical mix; leading position in various product categories – TTL is a leading manufacturer of industrial packaging products, with operations in the domestic as well as international markets across Asia and the Middle East and North Africa (MENA) region, where it is present through its subsidiaries. The company derives ~71% of its consolidated revenues from its domestic operations and the balance from international operations. It has a diversified product portfolio comprising products for industry segments such as 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 few 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 and profitability. TTL is one of the leading players in various product categories like industrial packaging products (Asia and MENA region), composite cylinder and intermediate bulk containers (worldwide).

Well-diversified customer base resulting in low customer concentration risk – TTL has a well-diversified customer base, spread across different industry segments. The company's top 10 customers contributed to ~23.4% of its total standalone revenues in FY2020, reflecting low customer concentration risk. Over the years, it has developed strong relationships with reputed customers, which assists in procuring repeat orders.

Strong financial profile characterised by low gearing and healthy coverage indicators – TTL's total consolidated debt as on March 31, 2020, stood at ~Rs. 832.0 crore. The company's capital structure remains healthy, as evinced from the gearing of 0.4 times as on March 31, 2020, owing to healthy accretion to reserves. The coverage indicators remained healthy and mainly in line with FY2019, with Total Debt / OPBDITA of 1.7 times, NCA / Total Debt of ~38.4% as on March 31, 2020 and interest coverage ratio of 4.6 times in FY2020. Nonetheless, ICRA notes its high borrowing rates.

Credit challenges

Fragmented industry and intense competition exerting 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 polymer drums, IBCs, composite cylinders, etc, TTL is one of the leading players, worldwide. The company faces competition in the industrial packaging segment from metallic container manufacturers. However, there has been a gradual reduction in the industry-wide usage of metallic containers on account of the various benefits that plastic containers have over their metallic counterparts, coupled with the reducing price differential between the polymer drums and their steel counterparts. The threat from imports is negligible owing to the freight-intensive nature of polymer products.

Ability to manage volatility in major raw material prices remains critical – HDPE is the major raw material for TTL's products and its prices are primarily derived from the crude oil prices that are highly volatile in nature. However, since the company 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, 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 company's working capital intensity remains moderate with NWC/OI of ~36% as on March 31, 2020. It has a policy of stocking 60 days of raw material inventory, depending on the raw material price movement and the 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 TTL's raw material requirement is imported against letter of credit (LC), while domestic purchases are made against advance payments.

Liquidity position: Adequate

TTL's liquidity is expected to remain **adequate** with healthy cash flow from operations, on a consolidated basis, and more or less stable OPM. On a consolidated basis, it had term loans of ~Rs. 401 crore as on March 31, 2020, of which ~Rs. 70 crore is scheduled for repayment in FY2021. Considering its capex plans of Rs. 100 crore in FY2021 and Rs. 200-220 crore per annum in the subsequent years, which are expected to be financed through a mix of debt and internal accruals, the overall debt levels as on March 31, 2021 are likely to remain more or less at similar levels as on March 31, 2020. The repayments of these term loans would be supported by TTL's cash accruals, which are anticipated to remain healthy. The company has some cushion available in the form of undrawn fund-based working capital limits (average utilisation of ~67% of sanctioned limits during the 12-month period that ended in July 2020). Its undrawn fund-based limits stood at ~Rs. 171 crore as on July 31, 2020 (~Rs. 135 crore as on March 31, 2020). TTL had free cash, bank balances and liquid investments of ~Rs. 60 crore as on March 31, 2020.

Rating sensitivities

Positive triggers – Not applicable.

Negative triggers – Negative pressure on TTL's rating could arise if its TD/OPBDITA exceeds 1.8 times or its RoCE falls below 14% on a sustained basis. Furthermore, downward pressure on the rating might arise if the company's 12-month average utilisation of fund-based limits (including CP utilisation) exceeds 85% of its drawing power.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on TTL's consolidated financial profile. As on March 31, 2020, TTL had eight subsidiaries and one associate, which are enlisted in Annexure-2.

About the company

Incorporated in 1989, TTL is a manufacturer of polymer products in India, as well as in the Asia and the MENA regions. The company was listed on the Bombay Stock Exchange in 2007. It has operations in 21 locations across India and 10 locations overseas. It has overseas footprints in the UAE, Bahrain, Egypt, Saudi Arabia, Indonesia, Malaysia, Thailand, Taiwan, Vietnam and the US. The company's portfolio consists of products for industry segments such as industrial packaging solutions, lifestyle products, automotive components, infrastructure related products, IBCs, material handling solutions, composite cylinders and MOX films.

For the three-month period that ended on June 30, 2020, TTL reported a net loss of Rs. 11.6 crore on an operating income (OI) of Rs. 475.2 crore, against a profit after tax (PAT) of Rs. 44.7 crore on an OI of Rs. 868.1 crore for the three-month period that ended on June 30, 2019.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	3566.7	3580.3
PAT (Rs. crore)	208.5	175.0
OPBDIT/OI (%)	14.8%	14.0%
RoCE (%)	15.9%	13.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.8
Total Debt/OPBDIT (times)	1.6	1.7
Interest Coverage (times)	5.3	4.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument		Current Rating (FY2021)			Chronology of Rating History for the Past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					21-Sep- 2020	27-Sep-2020	2-Aug-2018	5-Jan-2018	4-Apr-2017
1	Commercial Paper Programme	Short-term	200.0	-	[ICRA]A1+	[ICRA]A1+	[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 click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Commercial Paper Programme*	NA	NA	7-365 days	200.00	[ICRA]A1+

**Commercial Paper programme is carved out of the company's fund-based working capital limits*
Source: Time Technoplast Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership*	Consolidation Approach
TPL Plastech Limited	75.00%	Full Consolidation
NED Energy Limited	94.04%	Full Consolidation
Elan Incorporated Fze	100.00%	Full Consolidation
Kompozit Praha SRO	96.20%	Full Consolidation
Ikon Investment Holdings Limited	100.00%	Full Consolidation
GNXT Investment Holding PTE Limited	100.00%	Full Consolidation
SchoellerAllibert Time Holding PTE Limited	50.10%	Full Consolidation
ShoellerAllibert Time Materials Handling Solutions Ltd.	100.00%	Full Consolidation
Time Mauser Industries Private Limited	49.00%	Full Consolidation

**As on March 31, 2020*

Corrigendum

Document dated September 21, 2020 has been corrected with revision as detailed below –

• Relationship contact details updated.

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