

September 27, 2019

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	300.00	200.00	[ICRA]A1+; Reaffirmed
Total	300.00	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 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 couple of 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. The rating considers the healthy increase in TTL'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 and stable operating profit margin (OPM). TTL's financial profile is strong, as characterised by low gearing and healthy coverage indicators. Nonetheless, ICRA notes the high borrowing rates of the company.

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 prices, thereby exposing TTL's profit margins to volatility in raw material price movement. With around 65-70% of the raw material requirement being met through imports, it remains vulnerable to volatile foreign currency exchange rates. However, TTL hedges a predominant share of its foreign exchange exposure, thereby mitigating the risk to an extent. The rating factors in the company's ongoing capital expenditure (capex) plans, which are being funded through a mix of debt and internal accruals. This may moderate its capital structure to some extent. Nonetheless, TTL's liquidity profile is adequate, supported by undrawn fund-based working capital and term loan limits.

Key rating drivers and their description

Credit strengths

Extensive experience of 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 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 couple of 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. Furthermore, 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 ~23% of its total standalone revenues in FY2019, reflecting the low customer concentration risk.

Steady revenue growth and stable OPM – TTL registered a compounded annual growth rate (CAGR) of ~10% in revenues over FY2014-FY2019, with ~15% YoY growth in FY2019. The company's OPM has remained healthy in the range of 14-15% during FY2014-FY2019, supported by its brand image and technologically-advanced products. There was a marginal dip in OPM to 14.8% in FY2019 from 15.3% in FY2018, due to volatility in HDPE prices and robust YoY growth in its relatively low-margin HDPE pipes business in FY2019. With intense competition limiting the margin expansion of its established products segment and the company's focus on increasing the share of its relatively high-margin products, ICRA expects TTL's OPM to remain stable over the medium term.

Strong financial profile characterised by low gearing and healthy coverage indicators – TTL's total consolidated debt as on March 31, 2019, stood at ~Rs. 840 crore. The company's capital structure remains healthy, as evinced from the gearing of 0.5 times as on March 31, 2019, owing to healthy accretion to reserves. TTL's coverage indicators remain healthy and mainly in line with FY2018, with Total Debt / OPBDITA of 1.6 times, NCA / Total Debt of ~41% as on March 31, 2019 and interest coverage ratio of 5.3 times in FY2019. Nonetheless, ICRA notes its high borrowing rates.

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 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, although 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, 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 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 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 company's working capital intensity remains moderate with NWC / OI of ~32% as on March 31, 2019. 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.

Large near-term debt-funded capex might moderate 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, its gearing remained comfortable, due to healthy accretion to reserves. TTL further plans a capex of ~Rs. 200.0 crore in FY2020 towards capacity enhancement in some of its product lines, which will be funded by a mix of debt and internal accruals. It has already secured a term loan for the same. This may moderate its capital structure to some extent. Nonetheless, TTL's liquidity profile is adequate, supported by undrawn fund-based working capital and term loan limits.

Liquidity position: Adequate

TTL's liquidity is adequate with healthy cash flow from operations, on a consolidated basis, on the back of healthy revenue growth and more or less stable OPM. On a consolidated basis, TTL had term loans of ~Rs. 417 crore as on March 31, 2019, of which ~Rs. 98 crore is scheduled for repayment in FY2020. Furthermore, considering the capex plans in the range of Rs. 200-220 crore per annum, which are expected to be financed through a mix of debt and internal accruals, the overall debt levels as on March 31, 2020 are estimated to remain more or less at similar levels as on March 31, 2019. Repayments of these term loans are supported by TTL's healthy cash accruals. The company has some cushion available in the form of undrawn working capital limits (average utilisation of ~77% of sanctioned limits during September 2018 to August 2019) and undrawn sanctioned term loan of ~Rs. 223 crore as on March 31, 2019. As on August 31, 2019, its undrawn fund-based limits stood at ~Rs. 146 crore (~Rs. 130 crore as on March 31, 2019) and TTL had a balance of free cash, bank and liquid investments of ~Rs. 49 crore as on March 31, 2019.

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 Methodology	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, 2019, TTL had seven 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. The company has operations in 20 locations across India and 10 locations overseas. It has overseas footprints in geographies like the UAE, Bahrain, Egypt, Saudi Arabia, Indonesia,

Malaysia, Thailand, Taiwan, Vietnam and the US. 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)

	FY2018	FY2019
Operating Income (Rs. crore)	3,104.4	3,566.7
PAT (Rs. crore)	185.3	208.5
OPBDIT/OI (%)	15.3%	14.8%
RoCE (%)	15.7%	15.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9
Total Debt/OPBDIT (times)	1.6	1.6
Interest Coverage (times)	5.4	5.3
DSCR	2.0	2.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding	Rating	FY2019	FY2018		FY2017
					27-Sep-2019	2-Aug-2018	5-Jan-2018	4-Apr-2017	NA
1	Commercial Paper Programme	Short-term	200.0	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	NA

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
NA	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: TTL

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
Schoeller Allibert Time Holding PTE Limited	50.10%	Full Consolidation
Time Mauser Industries Private Limited	49.00%	Full Consolidation

*As on March 31, 2019

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