

RESULT UPDATE

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TIME TECHNOPLAST (TTL)

PRICE: Rs.57
TARGET PRICE: Rs.70

RECOMMENDATION: BUY
CONS. FY11E P/E: 10.1x

- ❑ TTL reported excellent set of Q1FY11 results which are above our estimates on the profitability front due successful commissioning of expansions like high pressure pipes and prefabricated shelters
- ❑ Approved acquisition of majority shareholding (90%) in largest plastic industrial packaging company in Taiwan
- ❑ Successfully produced prototype composite cylinders
- ❑ NED Energy to foray into batteries for power sector and solar power
- ❑ Successfully launched UPS and automotive batteries
- ❑ Revise FY11 earnings estimate with EPS of Rs.5.6 (Rs.5.5 earlier)
- ❑ We are positive on the medium to long term growth prospects of TTL
- ❑ Due to 23% upside potential from current levels we continue to recommend BUY on TTL with increased price target to Rs.70 (Rs.65 earlier)

Cons. summary table (FV - Re.1)

(Rs mn)	FY09	FY10	FY11E
Sales	7,897	10,114	12,651
Growth (%)	15.9	28.1	25.1
EBITDA	1,558	1,950	2,393
EBITDA (%)	19.7	19.3	18.9
Net profit	690	909	1,180
Net debt	2,700	3,960	4,911
EPS (Rs)	3.3	4.3	5.6
Growth (%)	(6.3)	31.7	29.8
DPS (Rs)	0.4	0.4	0.5
ROE (%)	13.9	15.5	18.5
ROCE (%)	16.0	15.7	18.1
EV/Sales (x)	1.9	1.6	1.3
EV/EBITDA (x)	9.4	8.1	7.0
P/E (x)	17.3	13.1	10.1
P/CEPS (x)	12.6	9.4	7.5
P/BV (x)	2.4	2.0	1.7

Source: Company, Kotak Securities - Private Client Research

Consolidated quarterly results table

(Rs mn)	Q1FY11	Q1FY10	YoY (%)	Q4FY10	QoQ (%)
Net Sales	2,481	2,081	19.2	3,059	(18.9)
Incr / dec in stock	(109)	(67)	-	(126)	(13.0)
raw materials	1,699	1,349	26.0	2,145	(20.8)
staff cost	92	76	21.6	110	(16.5)
other exp.	278	266	4.3	452	(38.5)
total exp.	1,960	1,624	20.7	2,582	(24.1)
EBIDTA	521	458	13.8	477	9.1
Other income	4	0	-	13	-
Depreciation	69	85	(18.7)	82	(16.1)
EBIT	456	373	22.4	408	11.8
Interest	84	78	8.7	92	(8.4)
PBT	372	295	26.0	316	17.8
Extraordinary gain	-	-	-	-	-
Tax & deferred tax	91	69	32.3	67	35.6
PAT	281	226	24.0	249	13.0
minority int	12	22	(46.5)	5	138.3
NPAT	269	204	31.6	244	10.4
Equity (Rs. mn)	209	209	-	209	-
Ratios					
Operting profit (%)	21.0	22.0	-100 bps	15.6	+540 bps
EPS (Rs)	1.3	1.0		1.2	
CEPS (Rs)	1.6	1.4	-	1.6	-
Raw Materials / Sales (%)	64.1	61.6	-	66.0	-
Staff cost / sales (%)	3.7	3.6	-	3.6	-
Other exp / sales (%)	11.2	12.8	-	14.8	-
TAX / PBT (%)	24.5	23.3	-	21.3	-

Source: Company

- For Q1FY11 the company reported revenues of Rs.2.5 bn, up strong 19.2% on YoY basis. This was primarily due to increased contribution from the HDPE pipes, auto components and international operations.
- The operating margins during Q1FY11 were down by 100 bps on YoY basis due to booking of expenditure of several new expansion projects. While the expenditure is booked now its benefits in terms of profits and economies of scale would be realized going forward.
- However the operating margin up sharply 540 bps on sequential basis to 21.0%. This is primarily due to successful commissioning of new projects like high pressure pipes and prefabricated shelters which have contributed to increased profitability.
- EBITDA for Q1FY11 was at Rs.521 mn up 13.8% YoY and up 9.1% on sequential basis.
- The depreciation cost is down 18.7% on YoY basis to Rs.69 mn as it includes depreciation write back of Rs.33 mn which is due to change in method of providing depreciation from WDV to SLM in one of its subsidiary i.e. TPL Plastech Ltd. If we were to adjust for this then the depreciation is actually up 20.1% on YoY basis to Rs.102 mn on account of commissioning of new projects like high pressure pipes and prefabricated shelters
- PBT for Q1FY11 was up 26.0% YoY and up 17.8% on sequential basis to Rs.372 mn.
- NPAT for the Q1FY11 was at Rs.269 mn up 31.6% YoY and up 10.4% on sequential basis thereby translating into quarterly EPS of Rs.1.3 and CEPS of Rs.1.6.

Approved acquisition of the largest plastic industrial packaging company in Taiwan

The company has approved the acquisition of majority shareholding i.e. 90% in the largest plastic industrial packaging company in Taiwan. This acquisition would help TTL to establish its market leadership position in the plastic industrial packaging space in the Asian countries. We await further details from the management regarding the details of the acquisition and hence we have not factored it into our earnings estimates as of now.

Successfully produced prototype composite cylinders

Last year TTL has acquired Kompozit Praha of Czech Republic which is one of the three player globally which makes composite cylinders. Post this TTL has set up an integrated production facility for composite LPG cylinders in India. Now it has successfully set up a pilot project and produced prototype composite cylinders for Asian market which has since been tested and approved as per European Standards. Going forward this can be big business for the company due to sharp rise in demand for cylinders both in India and abroad.

NED Energy to foray into batteries for power sector and solar power

NED energy which operates the battery business of TTL has acquired a majority stake in Bangalore based company that is engaged in manufacture of specialized batteries for Power Sector and Solar Industry. We await further details from the management regarding the details of the acquisition and hence we have not factored it into our earnings estimates as of now.

Successfully launched UPS and automotive batteries

Meanwhile NED Energy has successfully developed and launched UPS Batteries from its Panoli plant in Gujarat and Automotive Batteries from its Bahrain plant. This is significant as going forward this will help NED to compensate for reduction in demand for telecom batteries and would de-risk its business.

Update on expansions

- **Silvassa:** TTL has successfully commissioned and is in middle of ramping up the Prefab Shelter and High Pressure HDPE pipes facility at Silvassa. In response to large orders it has also expanded the capacity of HDPE pipes. TTL has received the necessary 'BIS' approvals for the Prefab Structures and Shelters and thus it is now ready to participate in Govt. Tenders. The company has already executed few pilot orders with key customers and has built up strong customer reference. This should help to ramp up the business quickly.
- **Chennai:** The project at Gummidipoondi (Chennai) for Industrial Packaging and High Pressure Pipes is at advanced stage of implementation. The Industrial packaging business has commenced commercial production and the High Pressure Pipes would commence commercial operations shortly.
- **TPL Plastech Ltd.,** subsidiary of TTL has successfully set up a green field packaging facility at Pantnagar (Uttarakhand) and it has successfully commenced commercial operations.
- **Hyderabad:** TTL is setting up a Greenfield Industrial Packaging unit at Hyderabad which is expected to be completed by December 2010. This would help to cater to the increased demand in the Southern Region.

Stable raw material price positive for TTL

In view of the additional gas based polymer manufacturing capacities coming on steam gradually, we believe that the average raw material prices in the next three to four years would remain at a lower levels than that existed in the earlier years. This would make polymer packaging far more competitive than its alternatives like metal packaging which would help expanding its market and demand. Also higher economics of scale and efficient centralized procurement of raw material would enable the Company to consistently maintain its operating margins.

Change in earning estimates - FY11E

(Rs mn)	Old	Revised	% shift
Revenues	12,651	12,651	-
EBIDTA (%)	18.5	18.9	2.2
Profit	1,150	1,180	2.6
EPS (Rs.)	5.5	5.6	2.6
CEPS (Rs.)	7.4	7.6	1.9
WACC (%)	13.0	13.0	-
Terminal growth (%)	4.0	4.0	-
Price Target (Rs/share)	65	70	7.7

Source: Kotak Securities - Private Client Research

Revise FY11 earning estimates

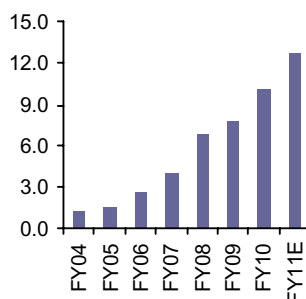
- Due to higher than expected operating margins on account of commencement of various expansions we are revising FY11 earning estimates for TTL. This is also on the back of increasing share of high margin non packaging business in total revenues.
- For FY11 we now expect TTL to report revenues of Rs.12.6 bn (no change), operating margin of 18.9% (up 40 bps) and NPAT of Rs.1.2 bn (up 2.6% YoY).
- Thus we expect TTL to report higher EPS of Rs.5.6 and CEPS of Rs.7.6 in FY11E as against our earlier estimate of Rs. 5.5 and Rs.7.4 respectively.
- We have valued TTL on DCF method of valuation with 13.0% WACC and 4.0% terminal growth rate (no change). Thus the price target is revised upward from Rs.65 to Rs.70.

We recommend BUY on Time Technoplast with an increased price target of Rs.70

Valuation and recommendation

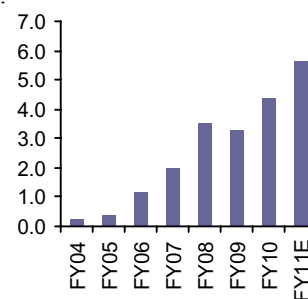
- At the current market price of Rs.57, TTL trades at attractive valuation of 1.7x book value, 10.1x earnings and 7.5x cash earnings based on FY11E.
- We feel the valuation is attractive due to high margin businesses with innovative applications of polymers, foray into high growth areas in battery business, high pressure HDPE pipes, Prefab shelters, JV for material handling solutions and successful production of composite cylinders. This is expected to lead to significant growth in revenues and profitability, going forward.
- Due to 23% upside potential from the current levels we continue to recommend **BUY** on TTL with increased price target of Rs.70.

Cons. revenues (Rs bn)



Source: Company, Kotak Securities - Private Client Research

Consolidated EPS (Rs) - FV Re.1



Source: Company, Kotak Securities - Private Client Research