

Hitech Plast Ltd

Medium-term outlook weak

Fundamental Grade **3/5 (Good fundamentals)**
Valuation Grade **5/5 (CMP has strong upside)**

Industry **Containers & Packaging**

Hitech Plast Ltd's (Hitech's) Q2FY12 results were broadly in line with CRISIL Research's expectations. Though revenue growth was in line with our estimates, EBITDA margin was below expectation due to higher raw material cost. However, PAT was in line with our estimates as higher raw material cost was offset by lower depreciation and tax provisioning. We expect a slowdown in demand in the paint container and FMCG segments in the coming quarters and, hence, lower profitability. However, we are positive on Hitech's long-term prospects based on its leading position in paints packaging and innovation-driven increasing momentum in the FMCG packaging business. Hence, we maintain the fundamental grade of **3/5**.

Q2FY12 result analysis

- Revenues grew by 9.1% y-o-y and 3.6% q-o-q to Rs 1,000 mn, driven by similar growth in the paint container and FMCG segments. Volume growth in both the segments was muted. While the paint container segment registered a de-growth of 0.5% y-o-y in volumes, the FMCG packaging segment logged only 4.5% y-o-y growth in volumes.
- EBITDA margin contracted by 218 bps y-o-y (up 36 bps q-o-q) to 13.8% due to higher raw material cost; the company was unable to pass on the full hike. The paint container business' EBITDA margin fell by 140 bps y-o-y to 15.5% and FMCG packaging business' by 342 bps y-o-y to 11.0%.
- PAT decreased by ~27% y-o-y (up 5.4% q-o-q) to Rs 39 mn due to the decline in EBITDA margin and higher interest. However, contraction in EBITDA margin was offset by lower depreciation cost and lower provisioning of taxes. Average tax rate during the quarter was 25.7% compared to 31.2% in Q2FY11 and 29.1% in Q1FY12.

Earnings estimates revised downwards

The paint container segment's muted volume growth in Q2FY12 is expected to continue in the coming quarters given the weakening housing demand in India. Besides, the FMCG packaging business is seeing slower volume growth as some of Hitech's clients have deferred their purchases due to a demand slowdown. Accordingly, we lower our revenue estimates by 7% to Rs 3.9 bn for FY12 and by 10% to Rs 4.4 bn for FY13. Consequently, our EPS estimates are reduced by 10% to Rs 10.4 for FY12 and by 13% to Rs 11.3 for FY13.

Valuations: Current market price has strong upside

We continue to value Hitech based on the discounted cash flow method. Following lowered earnings estimates, we revise the fair value to Rs 109 per share.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	2,176	2,634	3,451	3,878	4,420
EBITDA	330	409	466	527	622
Adj PAT	101	148	143	137	149
Adj EPS-Rs	7.7	11.3	10.8	10.4	11.3
EPS growth (%)	6.5	46.9	(3.7)	(4.2)	8.8
Dividend yield (%)	3.8	2.0	2.5	2.0	2.2
RoCE (%)	21.8	22.6	18.7	17.1	16.2
RoE (%)	17.2	18.7	14.5	12.0	11.7
PE (x)	4.4	7.7	6.8	7.1	6.5
P/BV (x)	0.6	1.3	0.9	0.8	0.7
EV/EBITDA (x)	3.2	4.9	4.5	4.4	4.5

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

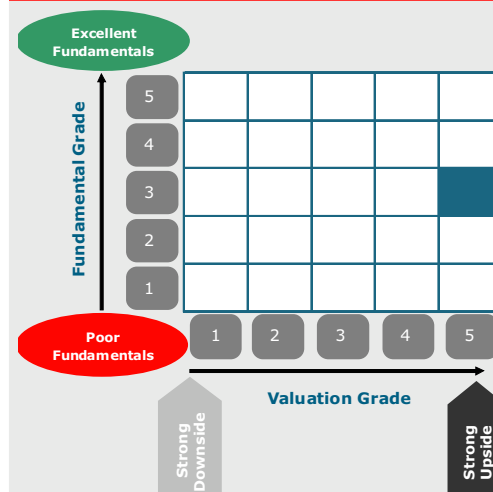


November 15, 2011

Fair Value **Rs 109**

CMP **Rs 73**

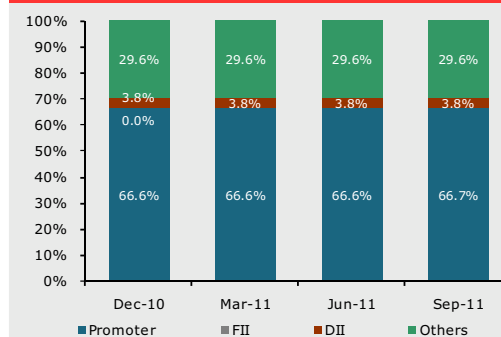
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5069/16883
NSE / BSE ticker	HITECHPLAS
Face value (Rs per share)	10
Shares outstanding (mn)	13.2
Market cap (Rs mn)/(US\$ mn)	966/19
Enterprise value (Rs mn)/(US\$ mn)	1,872/37
52-week range (Rs) (H/L)	140/70
Beta	0.96
Free float (%)	33.3%
Avg daily volumes (30-days)	1,021
Avg daily value (30-days) (Rs mn)	0.1

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
HiTech	-8%	-17%	-24%	-42%
NIFTY	-1%	0%	-9%	-17%

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