

Hitech Plast Ltd

Facing headwinds in the FMCG business

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

Industry **Containers and Packaging**

Hitech Plast Ltd's (Hitech's) Q3FY12 revenues were broadly in line with CRISIL Research's expectations but operating profitability and PAT were lower than expected. EBITDA margins of both the paints and the non-paint (FMCG and personal care) businesses were low due to lower capacity utilisation. The paints business reported lower sales, and, hence lower capacity utilisation in Q3 due to the seasonal nature of this business. But the non-paint business saw low capacity utilisation due to lower offtake from some of the FMCG clients for whom the company has set up capacities. Also, the company's cost structure is high due to higher overhead costs which are now putting pressure on margins due to lower volumes. While the company has taken various initiatives to control costs, the benefit of the same will come with a lag effect and the performance of this division remains a key monitorable. We have lowered FY12 and FY13 earnings estimates by ~22% to factor in lower margins in the non-paint business. However, we are confident of the growth in the end-user segment and maintain our fundamental grade of **3/5**.

Q3FY12 result analysis (consolidated)

- Consolidated revenue grew by 16.3% y-o-y (down 4.6% q-o-q) to Rs 955 mn. Revenue from the paints business grew by 16.3% y-o-y to Rs 564 mn. It declined by 9.2% q-o-q due to seasonality in sales. The non-paint business grew by 16.4% y-o-y (3% q-o-q) to Rs 391 mn.
- Consolidated EBITDA margin declined by 245 bps y-o-y to 10.4%, the lowest in the past eight quarters. EBITDA margin of the paints business declined by 87 bps y-o-y (~200 bps q-o-q) to 13.8%. EBITDA margin of the non-paint business declined by 472 bps y-o-y (489 bps q-o-q) to 5.3% since capacity utilisation declined to ~60% due to lower offtake from major FMCG clients. As a result, the non-paint business posted loss at the EBIT level in this quarter.
- The company provided for tax at the rate of 16% in this quarter compared to 36% in Q3FY11 and 26% in Q2FY12 since it had made excess provision in H1FY12. Also, deferred tax asset of Rs 6.7 mn was booked in this quarter due to losses in the subsidiary. The 9MFY12 tax rate was 26% vs. tax rate of 29% in 9MFY11.
- PAT margin declined by 120 bps y-o-y (209 bps q-o-q) to 1.8% due to lower EBITDA margin. EPS was Rs 1.3, down 30% y-o-y and 56% q-o-q.

Valuations: Current market price has strong upside

We continue to use the discounted cash flow method to value Hitech and revise the fair value to Rs 90 per share from Rs 109 earlier. Based on the current market price of Rs 70, we retain the valuation grade of **5/5**.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	2,176	2,634	3,451	3,931	4,348
EBITDA	330	409	466	473	553
Adj PAT	101	148	143	107	117
Adj EPS-Rs	7.7	11.3	10.8	8.1	8.9
EPS growth (%)	6.5	46.9	(3.7)	(25.2)	9.4
Dividend yield (%)	3.8	2.0	2.6	1.6	1.8
RoCE (%)	21.8	22.6	18.7	14.4	14.9
RoE (%)	17.2	18.7	14.5	9.5	9.6
PE (x)	4.4	7.7	6.5	8.7	7.9
P/BV (x)	0.6	1.3	0.9	0.8	0.7
EV/EBITDA (x)	3.2	4.9	4.4	4.9	4.6

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

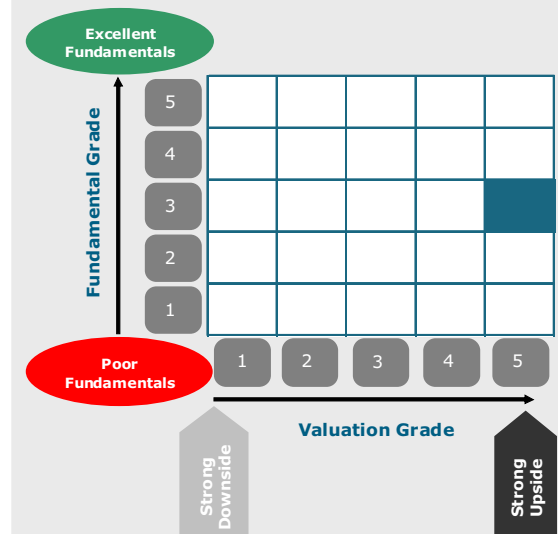


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Fair Value **Rs 90**

CMP **Rs 70**

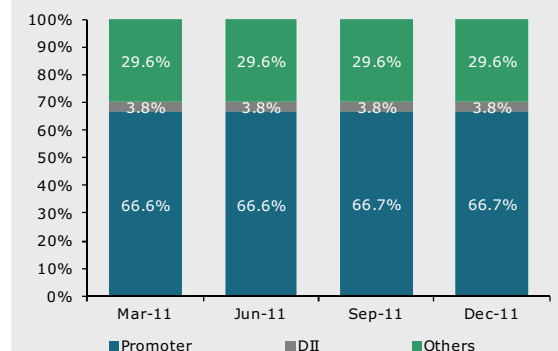
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5564/18289
NSE / BSE ticker	HITECHPLAS /HITECH
Face value (Rs per share)	10
Shares outstanding (mn)	13.2
Market cap (Rs mn)/(US\$ mn)	928/19
Enterprise value (Rs mn)/(US\$ mn)	2,056/42
52-week range (Rs) (H/L)	114/52
Beta	0.96
Free float (%)	33
Avg daily volumes (30-days)	3,891
Avg daily value (30-days) (Rs mn)	0.24

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
HITECH	14%	-3%	-13%	-23%
NIFTY	12%	13%	10%	0%

ANALYTICAL CONTACT

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