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Hitech Plast Ltd

Reinitiating Coverage

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

About CRISIL Research

CRISIL Research is India's largest independent and integrated research house. We provide insights, opinions, and analysis on the Indian economy, industries, capital markets and companies. We are India's most credible provider of economy and industry research. Our industry research covers 70 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 4,500 primary sources, including industry experts, industry associations, and trade channels. We play a key role in India's fixed income markets. We are India's largest provider of valuations of fixed income securities, serving the mutual fund, insurance, and banking industries. We are the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today India's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. We deliver our research through an innovative web-based research platform. Our talent pool comprises economists, sector experts, company analysts, and information management specialists.

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Last updated: April 30, 2012

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Disclaimer:

Hitech Plast Ltd

New management, new business resolutions

Fundamental Grade	**3/5 (Good fundamentals)**
Valuation Grade	**5/5 (CMP has strong upside)**
Industry	**Containers and packaging**

Hitech Plast Ltd (Hitech), a leading manufacturer of polymer-based containers for the paints, FMCG, agrochemicals, lubricants and pharmaceutical industries, endured a tough FY12 due to low offtake from its largest client Asian Paints (mainly due to a planned plant shutdown) and FMCG clients. In order to revive the business, Hitech has appointed new key management personnel; their focus is on expanding the client base and reducing costs. We expect the business momentum to pick up on the back of expected end-user industry growth and addition of new clients. However, client concentration and slowdown in end-user demand remain key risks. We assign a fundamental grade of **3/5**, indicating that its fundamentals are **good** relative to other listed securities in India.

Asian Paints' business concentration - boon and bane

Asian Paints accounted for 41% of Hitech's consolidated revenues on an average over FY08-12. This business concentration works well for Hitech (35-40% market share) as Asian Paints is the largest organised manufacturer and is expected to grow faster than the overall paint industry in India. However, any operational issue in Asian Paints' plants would have an adverse impact on Hitech's revenues and profitability as was seen in FY12. Hence, timely commissioning of Asian Paints' Khandala plant (for which Hitech is setting up a dedicated facility) and smooth operations at its other plants are key monitorables.

Non-paint segment's growth to be driven by new client acquisitions, industry growth

The non-paint container segment incurred losses in FY12 as the utilisation rate declined due to low offtake from certain FMCG clients for whom Hitech had set up dedicated capacities. To mitigate this risk, the company is now focusing on expanding its client base to include industries such as agrochemicals. We expect end-user industry growth to remain robust and expect Hitech to benefit from the same.

Revenues to grow at three-year CAGR of 15%; PAT to grow at 26%

Consolidated revenues are expected to grow at a three-year CAGR of 15% to ₹5.9 bn in FY15 driven by 16% growth in the paint container segment and 14% growth in the non-paint container segment. EBITDA margin is expected to improve by 127 bps to 13.2% as business in both the segments is expected to pick up and utilisation rates are expected to improve. Driven by this, PAT is expected to grow at a three-year CAGR of 26% to ₹210 mn. RoE and RoCE are expected to improve from 9.3% and 14% in FY12 to 13.8% and 19.4% in FY15, respectively.

Valuations: Current market price has strong upside

We have used the discounted cash flow method to value Hitech and arrived at a fair value of ₹80 per share. This fair value implies P/E multiples of 7x FY14E EPS and 5x FY15E EPS. At the current market price of ₹57, our valuation grade is **5/5**.

KEY FORECAST

(₹ mn)	FY11	FY12	FY13E	FY14E	FY15E
Operating income	3,451	3,861	4,529	5,102	5,920
EBITDA	466	460	563	651	781
Adj Net income	142	104	128	150	210
Adj EPS-₹	10.8	7.9	9.7	11.4	16.0
EPS growth (%)	(4.1)	(26.5)	22.9	16.9	40.5
Dividend yield (%)	2.8	2.8	2.6	3.5	5.2
RoCE (%)	18.7	14.0	15.5	16.9	19.4
RoE (%)	14.4	9.3	10.5	11.0	13.8
PE (x)	5.3	7.3	5.9	5.1	3.6
P/BV (x)	0.9	0.9	0.8	0.7	0.6
EV/EBITDA (x)	4.2	4.6	4.2	3.5	3.1

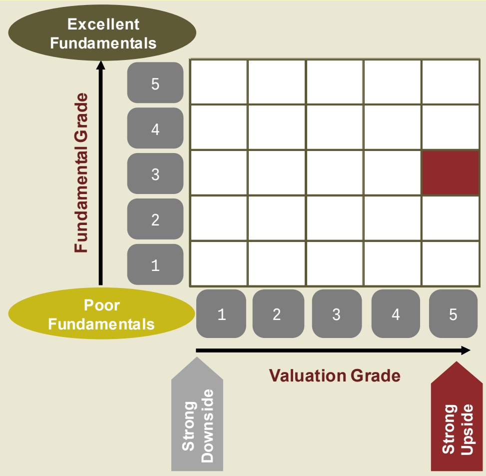
NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimates

January 15, 2013

Fair Value	**₹80**
CMP	**₹57**

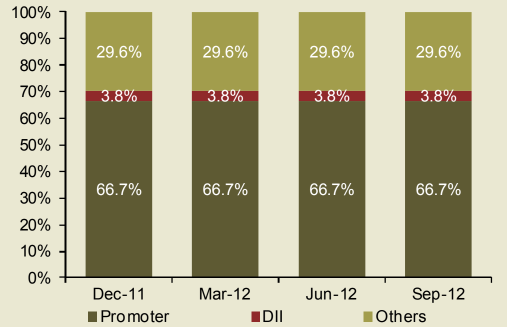
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	6057/19987
NSE/BSE ticker	HITECHPLAS/HITECH
Face value (₹ per share)	10
Shares outstanding (mn)	13.2
Market cap (₹ mn)/(US$ mn)	756/14
Enterprise value (₹ mn)/(US$ mn)	2,365/42
52-week range (₹)/(H/L)	75/48
Beta	0.79
Free float (%)	33.3%
Avg daily volumes (30-days)	3,455
Avg daily value (30-days) (₹ mn)	0.2

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Hitech	6%	2%	-7%	-3%
Nifty	3%	7%	16%	24%

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Table 1: Hitech - Business environment

Product/segment	Paint container segment	Non-paint container segment
Revenue contribution (FY12)	60%	40%
Revenue contribution (FY15E)	61%	39%
Product/ service offering	Plastic containers (0.2 litres to 20 litres) for the packaging of paints (water-based) and chemicals	Plastic containers (5 ml to 5 litres) for packaging of personal and home care, food and health products, pharmaceuticals and agrochemicals
Geographic presence	Supplies only in the domestic market - manufacturing presence in North, West and South India	Supplies predominantly in the Indian market with a small export presence
Market position	■ Leading player in the paint container segment with a market share of 35-40% ■ Caters to 40% of Asian Paints' polymer container requirements	One of the largest organised players
Sales growth (FY10-FY12 – 2-year CAGR)	20% (volume CAGR 10%, realisation CAGR 9.6%)	22% (volume CAGR 13.7%, realisation CAGR 6.8%)
Sales growth (FY12-FY15 – 3-year CAGR)	16% (Volume CAGR 12%, realisation CAGR 3%)	14% (Volume CAGR 9%, realisation CAGR 5%)
Demand drivers	■ Growth in the paint industry driven by: – Increase in penetration in rural areas and higher frequency of repainting due to higher income levels – Increase in consumption of paints due to investment in real estate	■ Growth in the FMCG industry (food, personal care, home care, health products, etc.) driven by: – Increase in population – Increase in consumption as affordability will increase due to rising income levels – Higher penetration of organised retail ■ Increasing importance of packaging for branding and marketing purposes
Key competitors	Competition mainly from Mold-Tek Packaging in the organised segment and also from the unorganised players	Higher competition from the unorganised segment and competition from organised players such as Pearl Polymers, Mold-Tek Packaging and Manjushree Technopak
Key risks	■ Low or delayed offtake from key clients such as Asian Paints for whom Hitech has set up dedicated facilities ■ Increase in raw material prices as the company is not able to pass on the increase with immediate effect ■ Slowdown in end-user industry growth due to weak macroeconomic factors ■ Increase in competition from unorganised players	

Source: Company, CRISIL Research

Grading Rationale

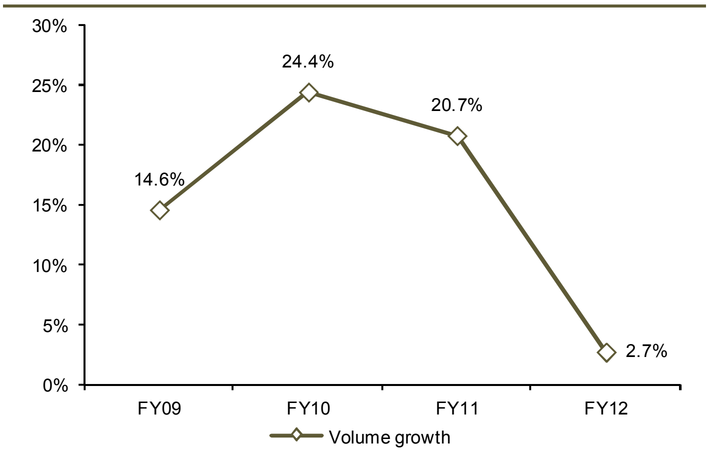
Last year was a challenge but business is now looking up

FY12 proved to be tough for Hitech. Both its business segments – paint container and non-paint container – reported muted volume growth due to lower offtake from key clients for whom the company has set up dedicated capacities. Hitech's overall volumes grew by 2.7% in FY12 compared to an average volume growth of 20% over FY09-11; however, revenues grew by 12% because realisations improved due to higher polymer prices. PAT declined by 27.5% y-o-y due to160 bps decline in EBITDA margin.

Hitech's volumes grew by 2.7% in FY12 compared to an average volume growth of 20% over FY09-11

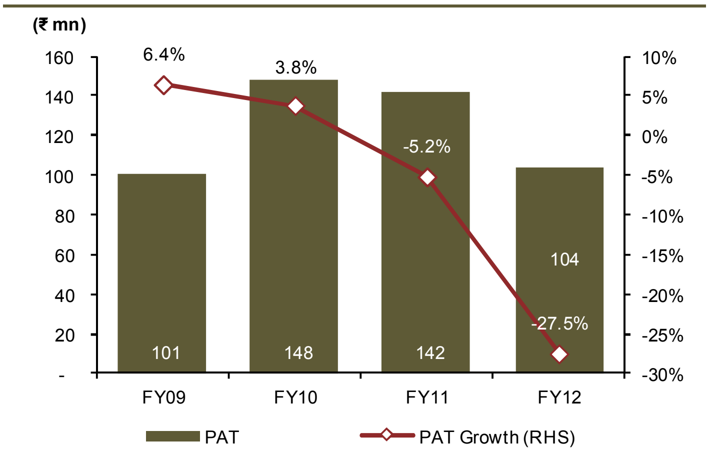
However, we now expect Hitech to get back on the growth track following two developments: a) The recent hiring of key top management personnel (please refer to page 15 for details). Backed by good experience in the industry in which Hitech operates, the new management has already devised a strategy to nudge the company back on the growth path; based on our interactions, we believe the new management has strong capabilities. b) The growth prospects of the end-user industries are promising and Hitech has acquired new clients to drive revenue growth in both business segments.

Figure 1: Volume growth weakened to 2.7% in FY12



Source: Company, CRISIL Research

Figure 2: Profit declined due to lower EBITDA margin



Source: Company, CRISIL Research

Maintains foothold in competitive rigid packaging industry

With an installed capacity of 36,870 tonnes (paint and non-paint containers), Hitech continues to be one of the leading organised players in the domestic rigid packaging industry (polymer-based) – it has a market share of 35-40% in the paint container industry and is one of the largest players in the non-paint container industry. Its consolidated revenues have grown at a four-year CAGR of 21% supported by 15% volume CAGR over the same period. The company has been able to maintain foothold in the industry despite strong presence of the unorganised segment (which is more cost competitive) and expansion by organised players. Manufacturing facilities spread across 15 locations in North, West and South India enable the company to service its clients better and minimise freight cost. Further, the company has also been focussing on diversifying its client base. Hitech, which started as a manufacturer of containers for the paint industry, has over the years added clients from industries such as chemicals, FMCG, pharmaceuticals, agrochemicals and lubricants. In FY12, the company added over 60 clients spread across paints, agrochemicals and FMCG industries.

Table 2: Hitech is a leading player in the domestic rigid packaging industry

Company	Capacity installed (tonnes)	Plant locations	Regions covered	Key products	Industries served
Hitech	**36,870**	**15**	**North, West and South India**	**PET, HDPE and PP containers**	**Paint, agrochemicals, FMCG, pharma**
Manjushree Technopack	48,505	1	South India	PET and PP containers, PET preforms	FMCG (mainly beverages) and pharma
Mold-Tek Packaging	20,000	7	West and South India	PET and PP containers	Lubricant, paint, FMCG and pharma
Pearl Polymer	NA	5	North, West and South India	PET containers	Pharma, agrochemicals, FMCG

PET: Polyethylene terephthalate, HDPE: High density polyethylene, PP: polypropylene

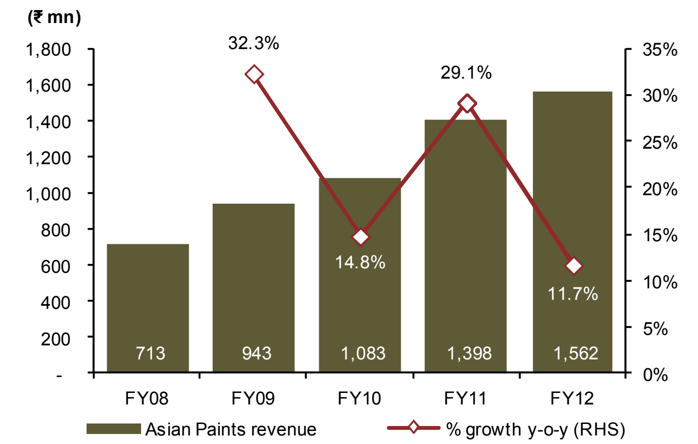
Source: Company reports

Paint container segment: Asian Paints remains a key client

Asian Paints continues to be Hitech's largest client and has accounted for 68% of the company's paint container revenues and 41% of consolidated revenues on an average over the past five years. Revenues from Asian Paints have grown at a CAGR of 22% over FY08-12 with a volume CAGR of 15%. Hitech is one of the leading vendors of Asian Paints (which follows a multiple vendor policy for all its plants) and has supplied 40% of Asian Paints' total polymer container requirement over the years.

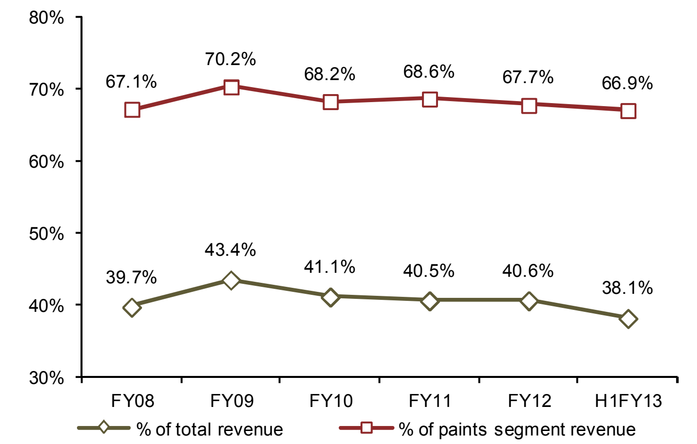
Water-based paints are packaged in polymer containers while solvent-based paints are packaged in tin containers

Figure 3: Revenues from Asian Paints grew at 22% CAGR over FY08-12…



Source: Company, CRISIL Research

Figure 4: … and accounted for 41% of consolidated revenues



Source: Company, CRISIL Research

Concentration is both a boon and a bane

Boon: Asian Paints is the market leader; Khandala capacity to strengthen relationship

Hitech's long relationship with Asian Paints gives the company an edge over peers as Asian Paints is the largest paint manufacturer in the organised segment of the paint industry. Further, Asian Paints is expected to grow faster than the paint industry driven by its established brand name, strong distribution network and proven quality. This growth will directly benefit Hitech as it is Asian Paints' largest vendor.

Hitech is setting up a 4,000-tonne dedicated facility for Asian Paints at Khandala, Maharashtra

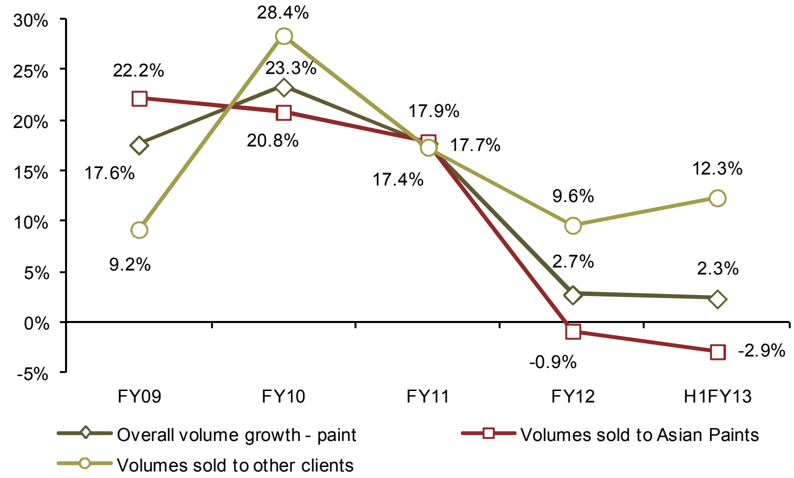
In order to strengthen its relationship with Asian Paints, Hitech is setting up a 4,000-tonne dedicated facility for Asian Paints' 3,00,000 kilo litre decorative paints capacity at Khandala, Maharashtra. Asian Paints has already started trial production at this facility and expects to commence commercial operations by Q4FY13. Accordingly, Hitech plans to start trial production by February 2013 to be able to meet Asian Paints' requirements on time. The overall capex for this plant is estimated at ₹300 mn, which will be done over October 2012-January 2013 – the company has acquired land, has constructed the building and expects to receive machinery by end-January 2013. This capex will be funded through the foreign currency loan which Hitech raised in Q2FY13. We have factored in sales from this plant from FY14 onwards; timely commencement of its operations is a monitorable.

Bane: Decline in Asian Paints' growth severely impacts Hitech's performance

Volumes sold to Asian Paints grew only by 2.3% in FY12 and declined by 2.9% in H1FY13

In FY12, the paint container segment volumes grew by only 2.7%; offtake from Asian Paints remained flat during the year as Asian Paints' Rohtak plant was shut for a month in Q4FY12 for capacity expansion. Further, this segment saw volume growth of 2.3% in H1FY13 – volume sold to Asian Paints declined by 2.9% as there was a slowdown in demand for paints. Asian Paints' total volumes marginally declined in Q1FY13 and grew in single digits in Q2FY13. Volumes sold to other clients grew by 12.3% during the same period due to new client additions. Based on our interactions with the company, we believe that paint demand was impacted in H1FY13 due to delayed monsoons and late festival season. The demand has picked up in Q3FY13 and we expect the demand to stay strong over the FY12-15. Further, Asian Paints' Khandala plant is on schedule and is expected to get commissioned in Q4FY13. While we do not foresee any significant risk to our forecast, the timely commissioning of Asian Paints' Khandala plant and smooth operations at its other plants are key monitorables.

Figure 5: Volume growth in FY12 and H1FY13 impacted by low offtake from Asian Paints



Source: Company, CRISIL Research

New business from international paint companies in India presents good opportunity

A number of international paint manufacturers have set up operations in India in recent times. Hitech is looking to capitalise on this to further grow its business. It has already added new customers such as Sherwin Williams (USA, fourth largest paint manufacturer globally) and Jotun (Norway) and is channelling its marketing efforts towards adding more such companies.

Hitech is already a vendor for MNC paint manufacturers such as Sherwin Williams and Jotun

Further, Hitech plans to approach Indian paint manufacturers such as Kansai Nerolac and Shalimar Paints to give a boost to its non-Asian Paints revenue. Also, it plans to minimise sales to the unorganised segment as the demand from this segment is only in the peak season and it is difficult to pass on the increase in raw material prices to this segment.

According to the company, it has sufficient capacity to cater to the needs of the new clients and does not plan to expand its capacity any further over the next two-three years. We expect Asian Paints to continue to be the largest client for Hitech. At the same time, the MNC companies present significant opportunity for Hitech; revenues from these MNCs will grow at a strong pace as these companies increase their penetration in India. However, making inroads into companies such as Kansai Nerolac and Shalimar Paints will take some time as these players already have an established vendor base.

Paint industry's growth to benefit organised players like Hitech

The domestic paint industry, valued at ₹290 bn as per the Indian Paints Association, has been growing at 12-15% per annum over the past few years. A strong correlation has been observed between the paint industry growth and GDP growth - it has historically grown at 1.5-2x GDP growth. Going forward, we expect the paint industry to maintain its correlation with GDP growth and expect 10-12% growth per annum over the next few years.

Indian demographics work in favour of the paint industry

The per capita consumption of paints in India is currently one of the lowest at 1.35 kg compared to 25 kg in the US, 12 kg in Japan and 5 kg in Malaysia. Further, penetration of paints in the rural areas is significantly lower than urban areas. The per capita income in India is on the rise both in the urban and rural areas, which is expected to increase affordability. This should result in higher penetration of paints and also increase the frequency of repainting. Further, (a) increase in demand for residential real estate due to reducing household size, increasing urbanisation, higher disposable income and easy availability of finances, and (b) growth in commercial real estate due to economic growth and increase in organised retail, work in favour of the paint industry.

Preference for water- based paints…

The decorative paint industry accounts for 65-70% of the overall industry and caters mainly to real estate. This segment can be further subdivided into water-based paints (emulsions, whitewash, distemper and cement) and solvent-based paints (enamels and varnishes). Water-based paints are preferred as they are more environment friendly and emit lower fumes compared to solvent-based paints. We expect the former to grow faster than solvent-based paints.

Water-based paints are more environment friendly and emit lower fumes compared to solvent-based paints

… and increase in the share of organised paint manufacturers…

The organised segment accounts for 65% of the Indian paint industry and includes Asian Paints, Berger Paints, Kansai Nerolac, Akzo Nobel and Shalimar Paints. Asian Paints is the market leader with 50-55% market share in the organised segment. Over the past few years, there has been a gradual shift towards the organised sector in the paint industry driven by increase in quality consciousness among end-users. The brands are becoming increasingly important as the end-consumers are getting involved in the purchase decisions especially for repainting. Additionally, the use of value-added products (manufactured mainly by the organised segment) is increasing due to rise in disposable income. All these factors augur well for the organised segment, which is expected to gain share in the industry and grow faster than the unorganised segment.

… work well for Hitech

Organised paint manufacturers prefer to source their packaging material from organised container manufacturers such as Hitech given high quality, seamless supply and better serviceability. Additionally, with the increase in automation in the paint manufacturing plants, the importance of quality of packaging containers is expected to increase as an automised line requires zero defect containers. We believe that Hitech is well placed to benefit from the shift towards water-based paints by virtue of its leading position. Further, increase in the organised segment's market share in the paint industry augurs well for Hitech due to its strong relationship with players such as Asian Paints and Berger Paints.

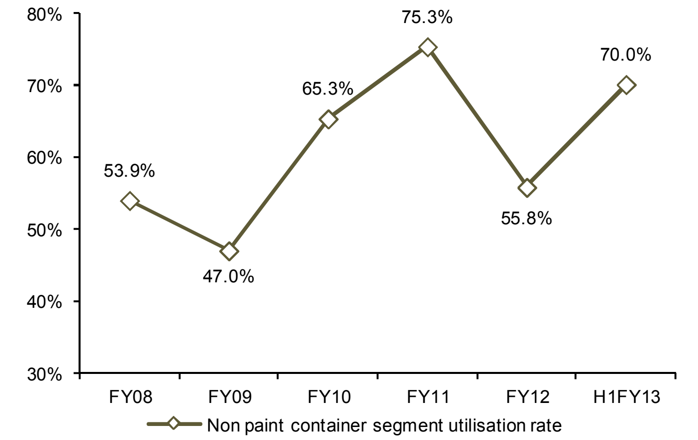
Non-paint container segment: Expanding client base to mitigate client concentration risk

In FY12, the profitability of the non-paint container segment declined significantly as the utilisation levels dropped to 56% from 75% in FY11 due to lower offtake from some FMCG clients for whom the company had set up dedicated capacities. As a result, the division incurred losses in FY12. This business has picked up in H1FY13 driven by an export order from Hindustan Unilever, which is expected to last till end-FY13.

Non-paint container segment's utilisation levels dropped to 56% in FY12 from 75% in FY11

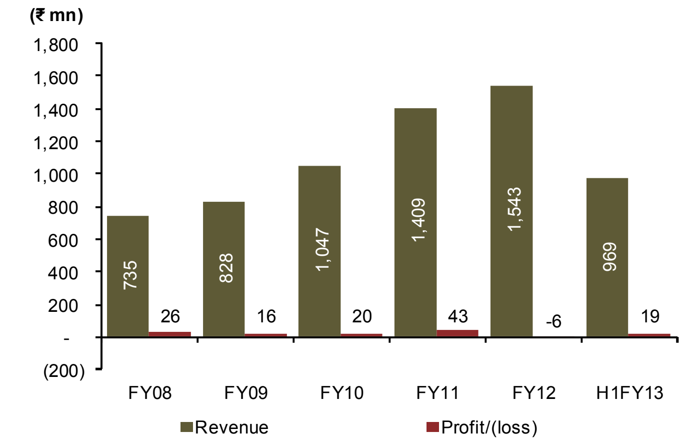
In order to ensure steady business and optimum utilisation levels, Hitech is now focussing on expanding its client base in this segment. It has added 28 new clients in this segment over the past one year. Also, the company is now focussing on verticals other than FMCG such as the agrochemical industry to de-risk in case of a slowdown in demand from FMCG clients like in FY12. It has already added agrochemical players such as PI Industries, Excel Industries and Monsanto India as its clients.

Figure 6: Non-paint utilisation rate dipped in FY12…



Source: Company, CRISIL Research

Figure 7: … which resulted in losses



Source: Company, CRISIL Research

FMCG and agrochemical industries expected to grow

FMCG industry to more than double over next four-five years

According to industry sources, the Indian FMCG industry (food and beverages, household care, personal care and health care products) was pegged at over US$ 30 bn in 2011. The demand for FMCG products in India is expected to remain strong driven by rise in disposable income, increase in rural penetration and increase in penetration of organised retail. Accordingly, the industry's revenues are expected to more than double over the next four-five years.

Agrochemicals industry to grow at 15% CAGR

According to the Associated Chambers of Commerce and Industry in India (ASSOCHAM), India is currently the fourth largest producer of agrochemicals (after the US, Japan and China) and the Indian agrochemical industry is currently valued at ₹160 bn. The domestic demand for agrochemicals is expected to remain robust driven by the government's thrust on their use, increase in awareness about their benefits, need for increase in farm production due to the increasing population, and growing horticulture and floriculture industries in India. ASSOCHAM expects this industry to grow at 15% CAGR to ₹250 bn by 2015.

Cost reduction and quality improvement measures to make Hitech competitive in the long run

Having seen a dip in profitability in FY12, the management has indicated that it is working on various fronts to make the company more efficient and cost competitive. Some of the initiatives taken by the company are:

Power: Power and fuel costs have increased substantially due to revision in power tariffs in most states and increase in diesel prices, making the use of diesel generator sets expensive. In order to reduce total power consumed, the company is procuring all new machines with higher energy efficiency and is trying to reduce cycle time by modifying mould designs. Also, the company has brought consultants on board who are working towards a plan to reduce power cost.

Labour: Hitech is trying to reduce labour cost by increasing the level of automation in its plants. The company's new plants in Rohtak and Khandala have a high level of automation. For the older plants, the company is implementing low-cost automation as it does not want to incur high capex. Also, it is modifying certain processes such as printing to minimise labour intervention.

Hitech's rejection rate at the plant level has reduced to 2% and customer returns have reduced by 50%

Quality: To ensure minimum rejection and wastage, the company has introduced the process of training all labourers regularly as majority of the labourers are on contract. Also, it has created permanent operator level positions in the plants and is now using automatic leak detectors to detect defects. These initiatives have reduced the rejection at the plant level to 2% and have also reduced customer returns by 50%.

We expect the aforementioned measures to take some time to get implemented and reflect on the profitability of the company but they will make the company more cost competitive in the long run.

Focusing on working capital management to reduce debt

Hitech is looking to reduce working capital days to lower debt (₹1.1 bn in H1FY13) and, hence, the interest burden. The company expects to lower its inventory days and increase creditor days through various initiatives.

Inventory management

- Hitech is working towards reducing the finished goods inventory. According to the management, Asian Paints provides them with schedules well in advance and they have begun to monitor the finished goods inventory levels more closely to optimise the output according to the schedule provided. However, it is difficult to reduce inventory for the non-paint container clients as their schedules are not available well in advance. It also plans to store more of WIP inventory of standard containers which can be sold to multiple clients.
- The company has initiated the process of moving towards dry offset printing, which requires lesser drying time compared to the conventional screen printing process, and is using heat transfer labelling for smaller packaging. These steps will help in further reducing WIP inventory.
- The company has started monitoring the inventory at depots of Reliance Industries, its largest raw material vendor. This will enable the company to plan the purchase so as to optimise raw material inventory levels.

Creditor days: Currently, Hitech sources majority (over 90%) of its raw material requirement from Reliance Industries where it has to make payments in advance. The company is exploring the option of broadening its vendor base to include international vendors which will give the company better credit period.

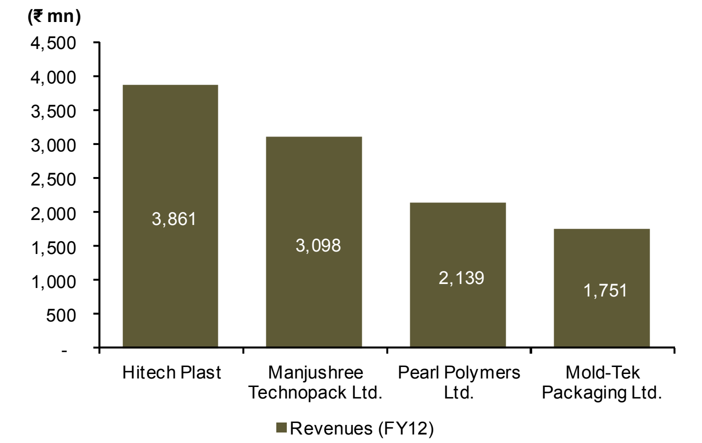
We will continue to monitor the success of these strategies; the benefit from the same is not factored into our estimates.

Hitech's return ratios are comparable to peers

We have compared Hitech with large organised players in the rigid packaging industry viz. Manjushree Technopack, Mold-Tek Packaging and Pearl Polymers. We observed that Hitech's revenue is the highest amongst peers and its margins and RoCE are comparable to peers. Hitech's RoCE has declined from 22.6% in FY10 to 14% in FY12 mainly due to lower business profitability, high capex and low capacity utilisation.

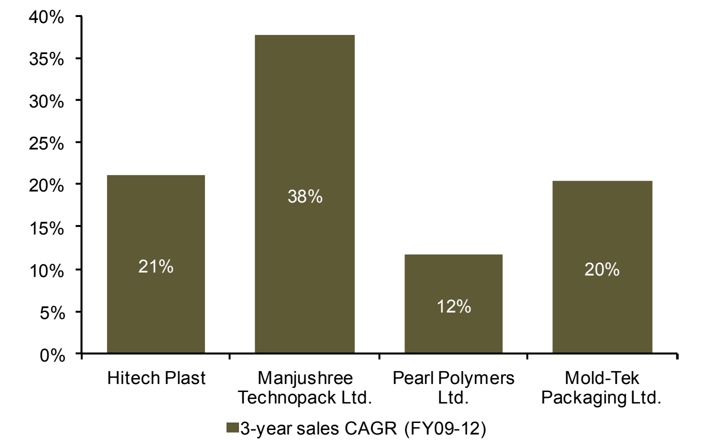
Hitech's RoCE has declined from 22.6% in FY10 to 14% in FY12 mainly due to lower business profitability, high capex and low capacity utilisation

Figure 8: Hitech has the highest sales in the peer group…



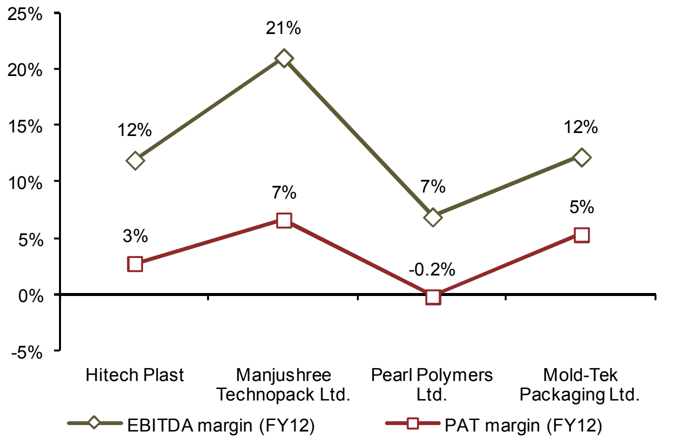
Source: Company, CRISIL Research

Figure 9: …and second highest revenue CAGR over FY09-12



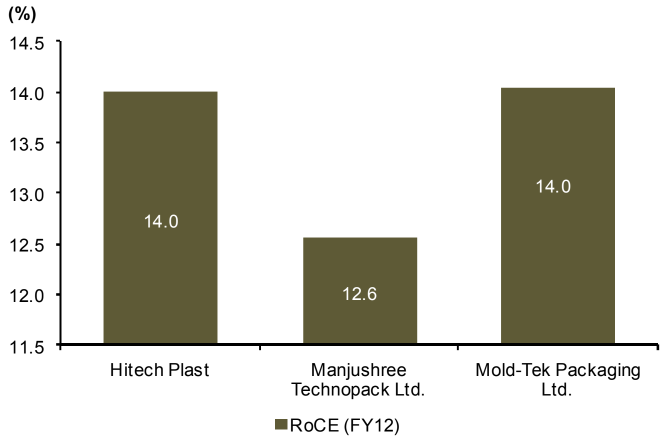
Source: Company, CRISIL Research

Figure 10: PAT margin is lower than most peers'



Source: Company, CRISIL Research

Figure 11: RoCE is comparable to that of peers



Note: RoCE of Pearl Polymers is negative for FY12

Source: Company, CRISIL Research

Key Risks

Decline in offtake from Asian Paints

As Asian Paints is the largest client, any slowdown in demand from Asian Paints due to a company-related or industry-related issue will impact Hitech's performance and is a risk for the company.

Slowdown in end-user industry demand

Hitech is severely impacted when there is a slowdown in the end-user industries – paints, FMCG and agrochemicals. This impact was seen in FY12 (FMCG) and H1FY13 (paints). Any future slowdown in the end-user industries will have an adverse impact on the company's performance.

Inability to pass on full increase in raw material price

Prices of polymers (polypropylene - PP, high density poly ethylene - HDPE), the main raw material for Hitech, are governed by the demand-supply situation and crude oil prices. Although the company has an arrangement with most of its clients in the paint container segment wherein the increase in prices of polymers can be passed on, generally the pass-on happens with a lag. Further, the company finds it difficult to pass on the rise to the non-paint container clients due to intense competition in this segment. Hence, the company's margins may be adversely impacted in a cost-inflationary environment.

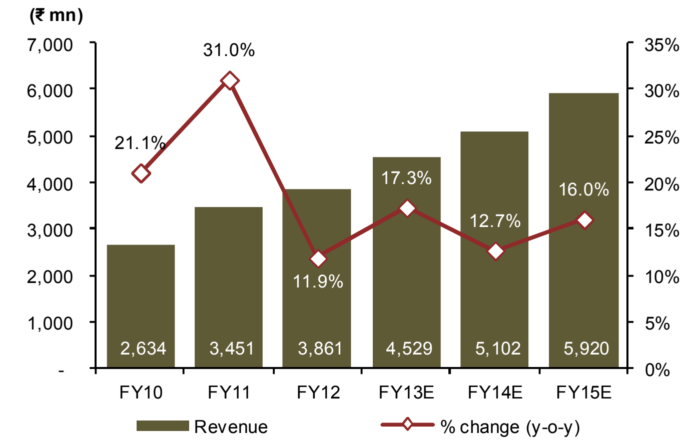
Hitech finds it difficult to pass on the increase in raw material prices to non-paint container clients

Financial Outlook

Revenues to grow at a three-year CAGR of 15%

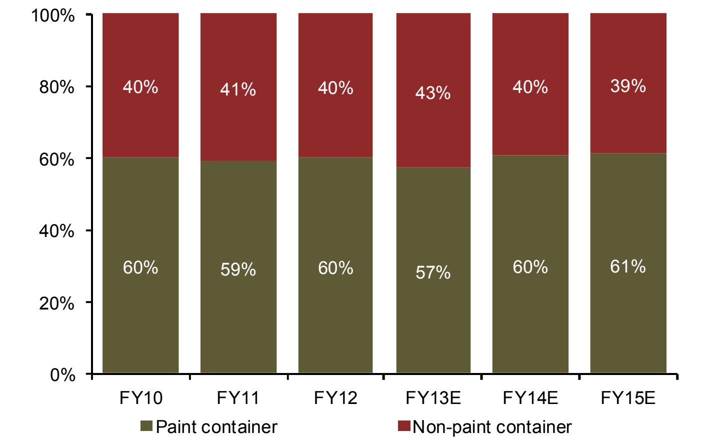
Consolidated revenues are expected to grow at a three-year CAGR of 15% to ₹5.9 bn in FY15. The paint container segment's revenues are expected to grow at a three-year CAGR of 16% to ₹3.6 bn and constitute 61% of total revenues, driven mainly by capacity addition and strong paint demand. The non-paint container segment's revenues are expected to grow at a three-year CAGR of 14% to ₹2.3 bn driven by robust growth in the end-user demand.

Figure 12: Revenue growth to remain strong



Source: Company, CRISIL Research

Figure 13: Segment-wise contribution



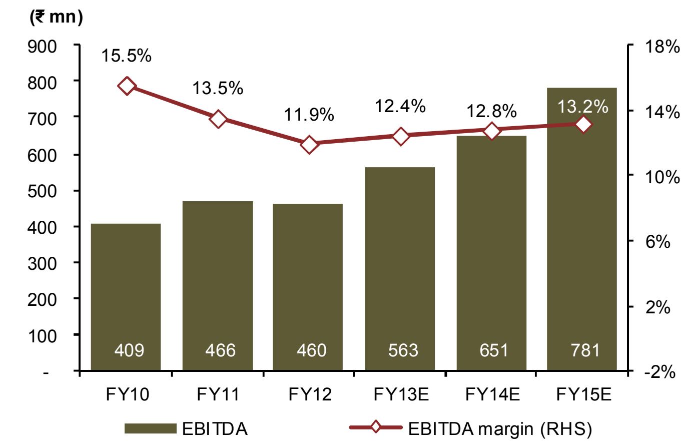
Source: Company, CRISIL Research

EBITDA margin to improve from current levels

We expect EBITDA margin to increase by 127 bps to 13.2% in FY15. EBITDA margin of the paint container segment is expected to remain flat at 14.5%. The non-paint container segment's EBITDA margin is expected to improve by 225 bps to 11.3% in FY15 due to improvement in utilisation rates.

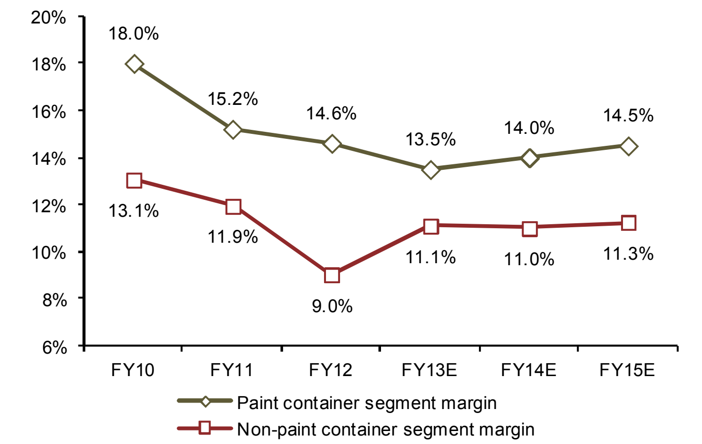
Non-paint container segment's EBITDA margin is expected to improve due to better utilisation rates

Figure 14: EBITDA margin to increase by 127 bps…



Source: Company, CRISIL Research

Figure 15: …driven by rise in non-paint container margin

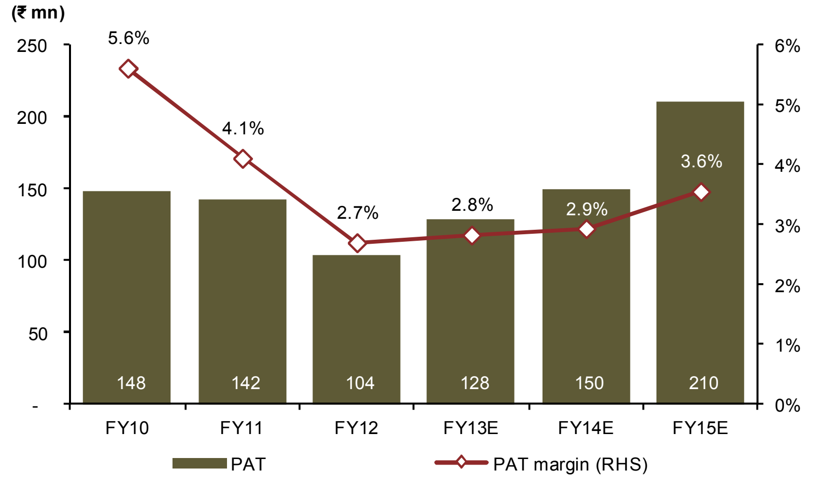


Source: Company, CRISIL Research

PAT to grow at a three-year CAGR of 26%

PAT is expected to grow at a three-year CAGR of 26% to ₹210 mn in FY15 driven by revenue growth and increase in EBITDA margin. PAT margin is expected to increase by 85 bps to 3.6% in FY15.

Figure 16: PAT margin to increase by 85 bps



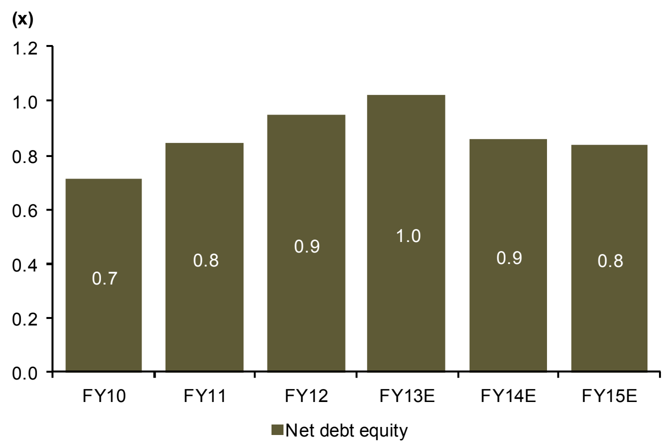
Source: Company, CRISIL Research

Hitech's RoE and RoCE declined due to fall in profitability

Debt-equity to decline marginally; RoE expected to improve

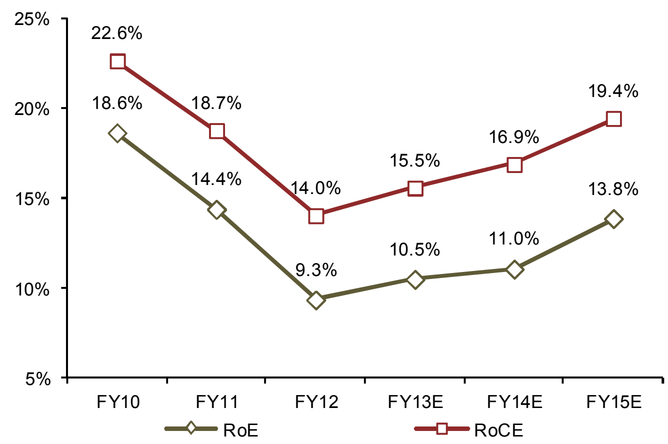
The company's debt-equity has increased as it carried out debt-funded expansions. We expect net debt-equity to marginally decline to 0.8x in FY15. RoE and RoCE, which declined significantly in FY12 due to low profitability, are expected to improve as EBITDA margin improves.

Figure 17: Debt-equity to remain around 1x



Source: Company, CRISIL Research

Figure 18: RoE to improve to 13.8%



Source: Company, CRISIL Research

Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance.

Hitech has an experienced and professional management

Promoter - co-founder of Asian Paints; highly professional management

Hitech is promoted by Mr Ashwin Dani, who is one of the three founders and non-executive vice chairman of Asian Paints. He is supported by his son, Mr Malav Dani, who has recently taken over as the managing director of the company. Further, based on our interaction with the company, we believe that the management is extremely professional and have a decentralised decision-making process.

New top management is highly experienced

In the past one year, as few top management people retired and there was a need for strong experienced people to improve operations of the company, Hitech has brought in new personnel at the top management level.

- Mr Malav Dani has taken over as the MD of the company post the retirement of Mr Ashok Kumar Goyal. Mr Dani is an MBA from Columbia University, USA and has worked with GE for six years and Asian Paints for two years. He was the executive director of Coatings Specialities (India) Ltd, a group company, before taking over as the joint managing director of Hitech.
- Mr Atul Sethi has joined as chief operating officer, a position recently introduced in the company. Mr Sethi has been associated with Asian Paints for 10 years where he has handled various functions including sales, marketing and supply chain management. Prior to joining Hitech, Mr Sethi was with Everstone Capital Advisors.
- Mr Satish Samant has taken over as the CFO from Mr Bhupendra Dusara, who has taken up another position within the group controlled by the Dani family. Mr Samant is a chartered accountant and a post graduate in law. He was previously associated with Jyoti Structures Ltd, Reliance Industries Ltd, Maxwell Industries Ltd and Coatings Specialities (India) Ltd.

Based on our interactions, we believe that the new management has been proactive in identifying key focus areas and they have taken significant steps to improve the operations and overall profitability of the company.

Proactive in innovating new products

Hitech's management has successfully innovated and developed new products in the past. It started with packaging for the paints industry and then entered the FMCG segment. The company is now focussing on developing and designing plastic packaging products for the FMCG segment and has put up a strong product development and designing team. Management's ability to continuously innovate and implement new technologies and products has enabled Hitech to scale up the operations in a short span of time.

Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Research analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Overall, Hitech's corporate governance is good supported by an independent board and good board practices.

Corporate governance practices are good

Board composition and processes

Hitech's board comprises 10 members, of whom six are independent directors, which meets the requirement under Clause 49 of SEBI's listing guidelines. The directors have strong industry experience and are highly qualified. Hitech's board includes personalities like Mr Ashwin Nagarwadia, ex-chairman Ingersoll Rand, and Mr A V S Murthy Arkalgud, ex-VP finance at Asian Paints. The independent directors have a fairly good understanding of the company's business and its processes.

The company's quality of disclosure is good judged by the level of information and details furnished in the annual report, websites and other publicly available data. The company has all the necessary committees – audit, remuneration and investor grievance - in place to support corporate governance practices. The audit committee is chaired by an independent director, Mr Rameshchandra Gandhi, a chartered accountant.

Management is transparent, proactive in sharing information

Based on our interactions with the management over the past one year, we believe that the management is transparent and adheres to highest ethical practices. Also, they have been very proactive in sharing information.

Valuation Grade: 5/5

We have valued Hitech based on the discounted cash flow method to arrive at a fair value of ₹80 per share. This fair value implies P/E multiples of 7x FY14E EPS and 5x FY15E EPS. Based on the current market price of ₹57, the valuation grade is **5/5**.

DCF-based fair value of ₹80 per share

Key DCF assumptions

	FY14-22	Terminal year
Cost of equity (%)	18.80	18.80
Cost of debt (%)	7.37	7.37
WACC (%)	13.09	12.40
Terminal year growth rate (%)		4.00

Sensitivity analysis

Terminal WACC	Terminal growth rate: 3.0%	3.5%	4.0%	4.5%	5.0%
10.4%	111	121	133	147	163
11.4%	87	94	103	112	123
12.4%	68	74	**80**	87	95
13.4%	54	58	63	68	74
14.4%	43	46	50	54	58

Terminal year EBITDA margin	Terminal growth rate: 3.0%	3.5%	4.0%	4.5%	5.0%
8.1%	21	24	27	31	35
9.1%	45	49	54	59	65
10.1%	68	74	**80**	87	95
11.1%	92	99	107	115	125
12.1%	116	124	133	144	155

Improvement in business to drive stock price

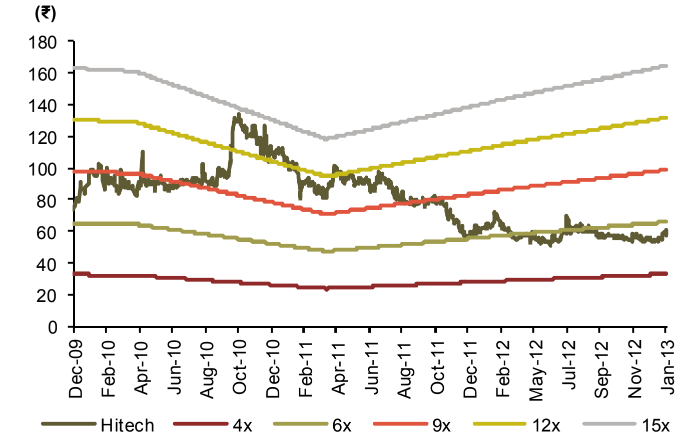
Hitech's stock has traded at a median one-year forward P/E of 8.7x over the past three years which has been higher than peers' multiples. However, over the past year, the stock price declined significantly due to muted performance and is currently trading at a one-year forward P/E multiple of 5.2x. We expect the company's performance to improve and drive the multiple closer to historical levels.

Peer comparison

Company	Market cap (₹ mn)	P/E (x)			P/B (x)			EV/EBITDA (x)			RoE (%)		
		FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Hitech Plast	**756**	**7.3**	**5.9**	**5.1**	**0.9**	**0.8**	**0.7**	**4.6**	**4.2**	**3.5**	**9.3**	**10.5**	**11.0**
Manjushree Technopack Ltd	1,333	5.2	NA	NA	1.1	NA	NA	3.6	NA	NA	22.5	NA	NA
Pearl Polymers Ltd	185	NA	NA	NA	0.3	NA	NA	3.9	NA	NA	-0.7	NA	NA
Mold-Tek Packaging Ltd	568	7.0	NA	NA	1.4	NA	NA	4.9	NA	NA	23.6	NA	NA

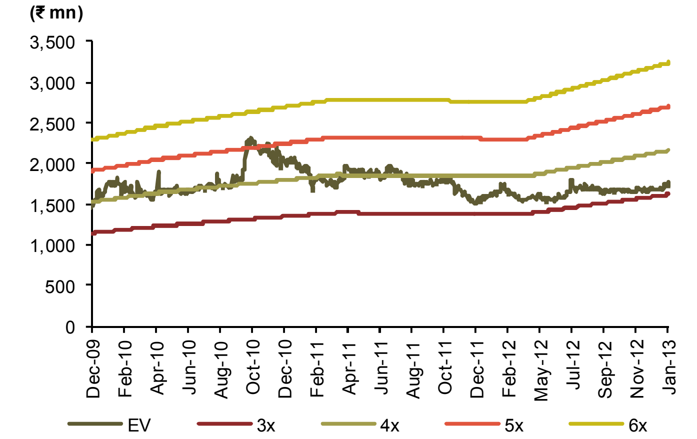
Source: CRISIL Research, Industry sources

One-year forward P/E band



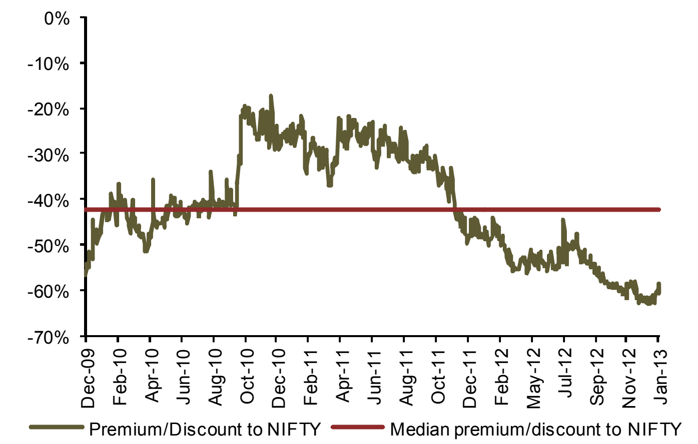
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



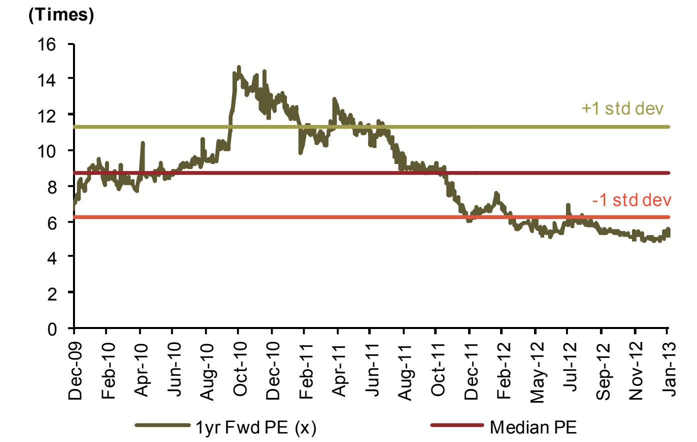
Source: NSE, CRISIL Research

P/E – premium / discount to Nifty



Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

CRISIL IER reports released on Hitech Plast Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
12-May-11	Initiating coverage	3/5	₹132	5/5	₹95
09-Jun-11	Q4FY11 result update	3/5	₹132	5/5	₹90
17-Aug-11	Q1FY12 result update	3/5	₹119	5/5	₹81
15-Nov-11	Q2FY12 result update	3/5	₹109	5/5	₹73
20-Feb-12	Q3FY12 result update	3/5	₹90	5/5	₹70
04-Jun-12	Q4FY12 result update	3/5	₹80	5/5	₹53
15-Jan-13	Reinitiating coverage	3/5	₹80	5/5	₹57

Company Overview

Incorporated in 1991, Mumbai-based Hitech started its operations by manufacturing thin-walled cylindrical, injection moulded plastic containers called "BoCans". They were invented and patented by a technocrat, Mr Eric Bock of Denmark, primarily for paint customers. The company currently manufactures and supplies plastic containers for the paints, chemicals, FMCG, pharmaceuticals, lubricants and agrochemical products. The paint container segment contributes 60% to revenues and the non-paint container segment 40%.

Hitech has strong clientele - Asian Paints, Pidilite and Glaxosmithkline Consumer

The company has a strong clientele such as Asian Paints, Pidilite, Glaxosmithkline Consumer, etc. It has a strong relationship with Asian Paints (41% of revenues in FY12) and derives a large amount of repeat business from it.

Hitech has six manufacturing units; one each in Pune (Maharashtra), Puducherry, Sriperumbudur (Tamil Nadu) and Rohtak (Haryana); and two in Silvassa (Union Territory Dadra and Nagar Haveli). It is setting up its seventh plant in Khandala, Maharashtra. Its subsidiary Clear Mipak Packaging Solutions has eight manufacturing units; two in Silvassa (Union Territory of Dadra and Nagar Haveli), three in Gujarat, and one each in Baddi (Himachal Pradesh), Daman and Sitarganj (Uttarakhand). The company also has a technology centre in Pune, Maharashtra where the R&D expenditure is eligible for tax exemption under section 35(2AB) of the Income Tax Act 1961 till FY14.

Milestones

1991	The company was incorporated
1992	Tech collaboration with Flamegrace Ltd, USA – exclusive licence to manufacture "BoCans"
1993	The company came out with the public issue
1996	Licence agreement with CHT Design Services Pty. Ltd for manufacturing L 20 containers, DG pail
1999	Commenced production of DG pails with unique pilfer proof design
2001	Acquired 51% in Multitech Plast Containers Ltd, which has a unit in Silvassa
2003	Acquired Clear Plastics Group of Companies, which manufactures plastic containers for the FMCG industry
2004	Set up a new manufacturing unit in Puducherry
2005	Established new manufacturing unit in Sriperumbudur in Tamil Nadu and Baddi, Himachal Pradesh, through CPL Multitech Plast Containers was merged with Hitech
2006	Acquired Mipak Polymers Ltd, which manufactures plastic containers for the pesticides industry
2007	Established new manufacturing unit in Sitargunj, Uttarakhand
2010	Established largest manufacturing unit in Rohtak in Haryana

Annexure: Financials

Income statement

(₹ mn)	FY11	FY12	FY13E	FY14E	FY15E
Operating income	**3,451**	**3,861**	**4,529**	**5,102**	**5,920**
EBITDA	**466**	**460**	**563**	**651**	**781**
EBITDA margin	**13.5%**	**11.9%**	**12.4%**	**12.8%**	**13.2%**
Depreciation	126	154	174	197	223
EBIT	**340**	**307**	**388**	**455**	**557**
Interest	123	175	203	209	198
Operating PBT	**217**	**131**	**185**	**246**	**359**
Other income	5	7	7	5	4
Exceptional inc/(exp)	2	2	6	-	-
PBT	**224**	**141**	**198**	**250**	**363**
Tax provision	63	37	46	85	124
Minority interest	17	(2)	18	16	30
PAT (Reported)	**144**	**106**	**134**	**150**	**210**
Less: Exceptionals	2	2	6	-	-
Adjusted PAT	**142**	**104**	**128**	**150**	**210**

Ratios

	FY11	FY12	FY13E	FY14E	FY15E
Growth					
Operating income (%)	31.0	11.9	17.3	12.7	16.0
EBITDA (%)	14.0	(1.3)	22.3	15.7	19.8
Adj PAT (%)	(4.1)	(26.5)	22.9	16.9	40.5
Adj EPS (%)	(4.1)	(26.5)	22.9	16.9	40.5
Profitability					
EBITDA margin (%)	13.5	11.9	12.4	12.8	13.2
Adj PAT Margin (%)	4.1	2.7	2.8	2.9	3.6
RoE (%)	14.4	9.3	10.5	11.0	13.8
RoCE (%)	18.7	14.0	15.5	16.9	19.4
RoIC (%)	16.3	13.4	14.6	14.4	15.7
Valuations					
Price-earnings (x)	5.3	7.3	5.9	5.1	3.6
Price-book (x)	0.9	0.9	0.8	0.7	0.6
EV/EBITDA (x)	4.2	4.6	4.2	3.5	3.1
EV/Sales (x)	0.6	0.6	0.5	0.4	0.4
Dividend payout ratio (%)	17.1	23.0	14.5	17.5	18.8
Dividend yield (%)	2.8	2.8	2.6	3.5	5.2
B/S ratios					
Inventory days	55	44	43	44	44
Creditors days	34	19	19	19	19
Debtor days	56	54	56	56	56
Working capital days	75	81	80	82	81
Gross asset turnover (x)	2.2	2.0	2.0	2.1	2.1
Net asset turnover (x)	3.7	3.3	3.6	3.9	4.1
Sales/operating assets (x)	3.2	3.0	3.1	3.4	3.9
Current ratio (x)	3.8	4.8	4.8	5.0	4.8
Debt-equity (x)	0.9	1.0	1.1	0.9	0.9
Net debt/equity (x)	0.8	0.9	1.0	0.9	0.8
Interest coverage	2.8	1.8	1.9	2.2	2.8

Per share

	FY11	FY12	FY13E	FY14E	FY15E
Adj EPS (₹)	10.8	7.9	9.7	11.4	16.0
CEPS	20.3	19.6	23.0	26.3	32.9
Book value	60.5	66.8	75.2	84.3	96.7
Dividend (₹)	1.6	1.6	1.5	2.0	3.0
Actual o/s shares (mn)	13.2	13.2	13.2	13.2	13.2

Balance Sheet

(₹ mn)	FY11	FY12	FY13E	FY14E	FY15E
Liabilities					
Equity share capital	132	132	132	132	132
Reserves	665	749	860	979	1,143
Net worth	**797**	**880**	**991**	**1,110**	**1,274**
Minorities	280	278	296	312	342
Convertible debt	-	-	-	-	-
Other debt	963	1,182	1,367	1,317	1,392
Total debt	**963**	**1,182**	**1,367**	**1,317**	**1,392**
Deferred tax liability (net)	56	52	52	52	52
Total liabilities	**2,095**	**2,393**	**2,707**	**2,791**	**3,060**
Assets					
Net fixed assets	1,093	1,242	1,267	1,371	1,497
Capital WIP	100	133	273	73	73
Total fixed assets	**1,193**	**1,375**	**1,541**	**1,444**	**1,571**
Investments	**1**	**1**	**1**	**1**	**1**
Current assets					
Inventory	424	382	434	489	568
Sundry debtors	578	624	757	853	989
Loans and advances	122	152	181	204	237
Cash & bank balance	57	74	43	87	32
Marketable securities	-	12	12	12	12
Total current assets	**1,181**	**1,243**	**1,427**	**1,645**	**1,838**
Total current liabilities	**313**	**259**	**296**	**332**	**383**
Net current assets	**868**	**984**	**1,131**	**1,313**	**1,455**
Intangibles/Misc. expenditure	**33**	**32**	**33**	**33**	**33**
Total assets	**2,095**	**2,393**	**2,707**	**2,791**	**3,060**

Cash flow

(₹ mn)	FY11	FY12	FY13E	FY14E	FY15E
Pre-tax profit	222	138	192	250	363
Total tax paid	(57)	(41)	(46)	(85)	(124)
Depreciation	126	154	174	197	223
Working capital changes	(204)	(87)	(179)	(138)	(197)
Net cash from operations	**87**	**164**	**142**	**225**	**267**
Cash from investments					
Capital expenditure	(377)	(335)	(341)	(100)	(350)
Investments and others	-	(12)	-	-	-
Net cash from investments	**(377)**	**(347)**	**(341)**	**(100)**	**(350)**
Cash from financing					
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	266	219	185	(50)	75
Dividend (incl. tax)	(25)	(25)	(19)	(26)	(40)
Others (incl extraordinaries)	45	5	3	(4)	(7)
Net cash from financing	**286**	**200**	**168**	**(81)**	**29**
Change in cash position	(4)	17	(31)	44	(55)
Closing cash	57	74	43	87	32

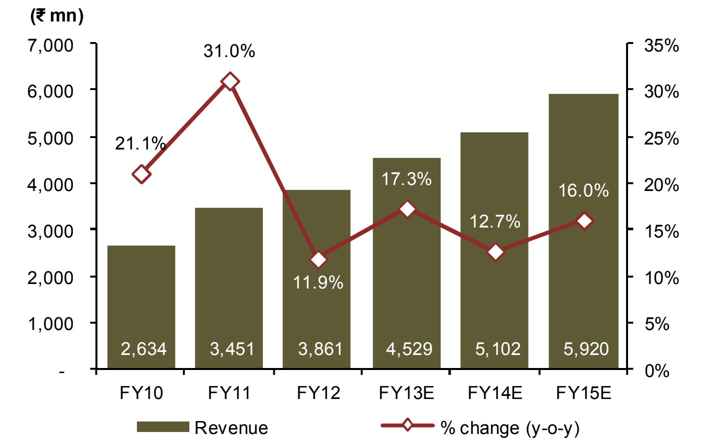
Quarterly financials

(₹ mn)	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13
Net Sales	**1,000**	**955**	**937**	**1,139**	**1,111**
Change (q-o-q)	4%	-5%	-2%	22%	-2%
EBITDA	**138**	**99**	**97**	**130**	**145**
Change (q-o-q)	6%	-28%	-2%	35%	12%
EBITDA margin	**13.8%**	**10.4%**	**10.3%**	**11.4%**	**13.1%**
PAT	39	17	13	24	33
Adj PAT	**39**	**17**	**13**	**24**	**33**
Change (q-o-q)	5%	-56%	-27%	90%	39%
Adj PAT margin	**3.9%**	**1.8%**	**1.3%**	**2.1%**	**3.0%**
Adj EPS	**2.9**	**1.3**	**0.9**	**1.8**	**2.5**

Source: CRISIL Research

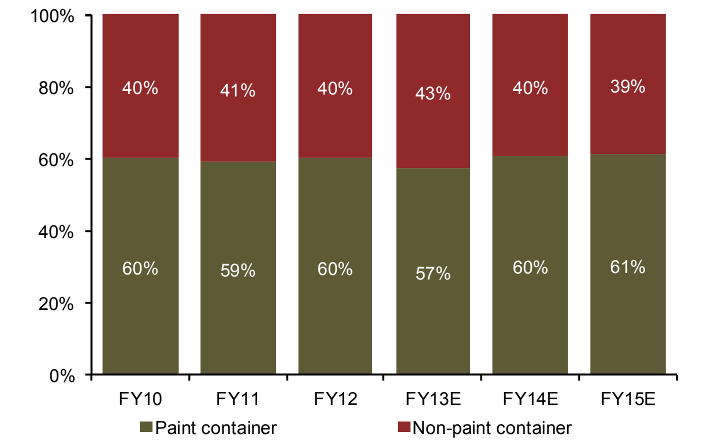
Focus Charts

Revenues to grow at 15% CAGR



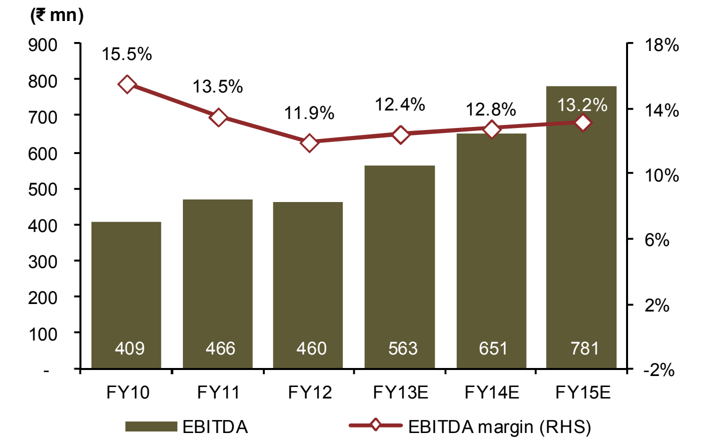
Source: Company, CRISIL Research

Paint container segment to remain the major contributor



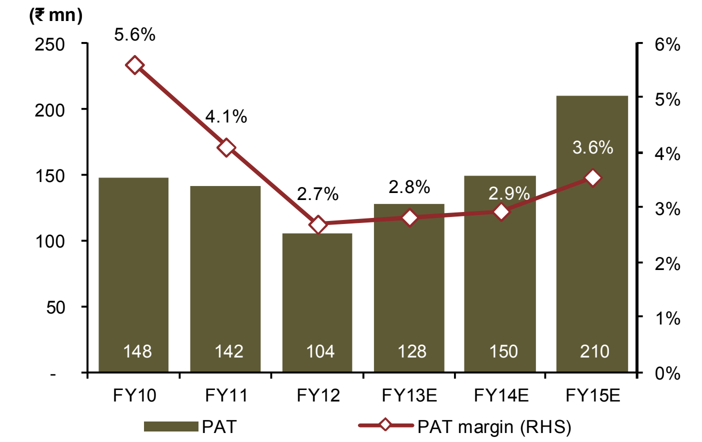
Source: Company, CRISIL Research

EBITDA margin to expand



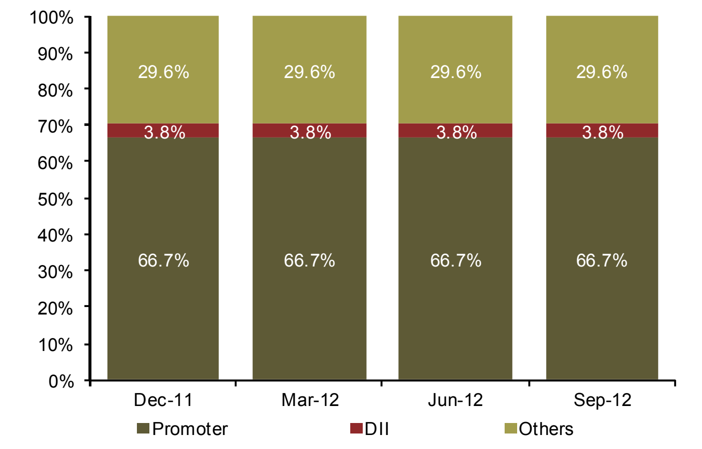
Source: Company, CRISIL Research

PAT and PAT margin trend



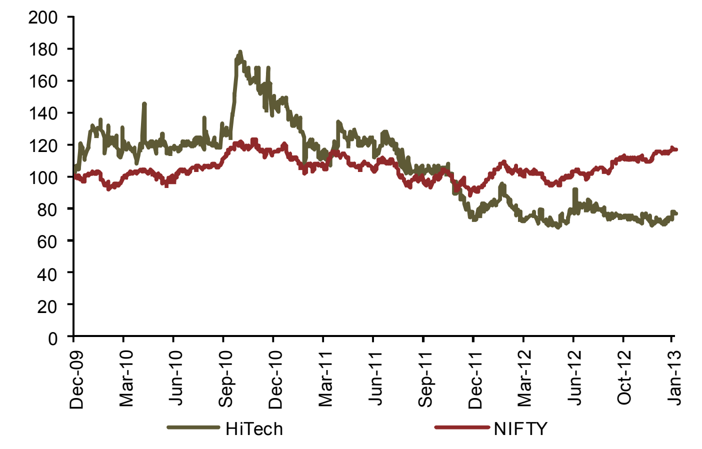
Source: Company, CRISIL Research

Shareholding pattern over the quarters



Source: Company, CRISIL Research

Returns vis-à-vis Nifty



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Source: Company, CRISIL Research

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