



INDEPENDENT EQUITY RESEARCH

Hitech Plast Ltd

Q3FY12 Result Update

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 (- 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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.

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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

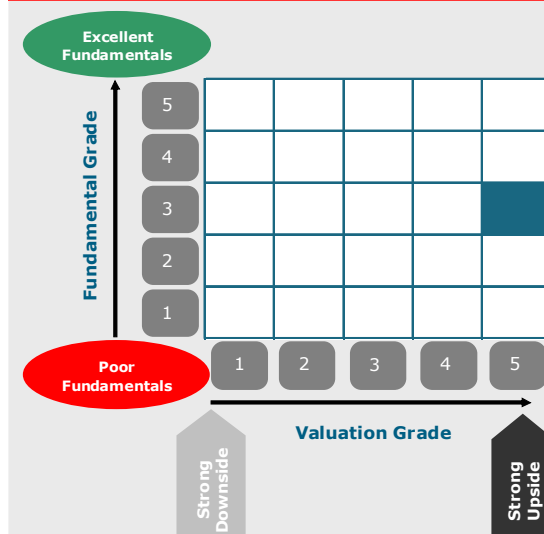


February 20, 2012

Fair Value **Rs 90**

CMP **Rs 70**

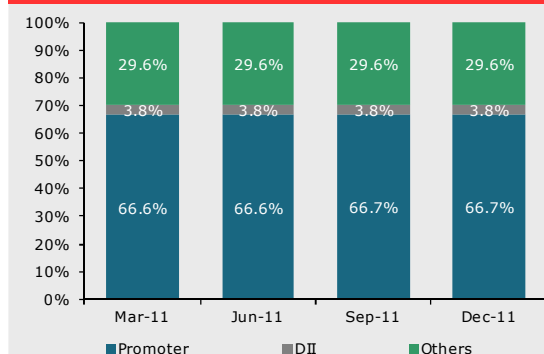
CFV MATRIX



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%

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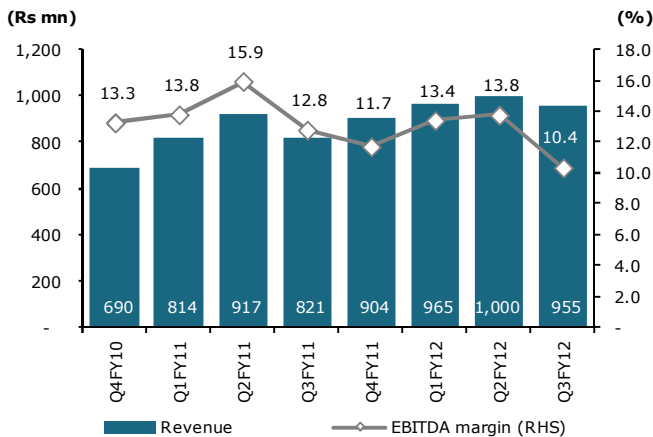
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Q3FY12 Result Summary(consolidated)

(Rs mn)	Q3FY12	Q2FY12	Q3FY11	q-o-q (%)	y-o-y (%)	9MFY12	9MFY11	y-o-y (%)
Net sales	955	1,000	821	(4.6)	16.3	2,920	2,551	14.5
Raw materials cost	623	623	510	0.0	22.1	1,861	1,580	17.8
Raw materials cost (% of net sales)	65.3%	62.3%	62.2%	301bps	308bps	63.7%	61.9%	181bps
Employees cost	59	59	51	(0.2)	16.6	176	147	20.0
Other expenses	173	180	154	(3.9)	12.4	517	461	12.1
EBITDA	99	138	105	(28.2)	(5.9)	366	363	0.7
EBITDA margin	10.4%	13.8%	12.8%	(341)bps	(245)bps	12.5%	14.2%	(171)bps
Depreciation	40	38	32	7.2	25.1	113	92	22.29
EBIT	58.4	99.9	72.7	(41.6)	(19.7)	253.2	271.1	(6.6)
Interest and finance charges	46	46	34	(0.9)	35.7	133	90	47.59
Operating PBT	13	54	39	(76.3)	(67.3)	120	181	(0.34)
Other Income	2.1	0.2	1.0	877.8	115.9	3.2	4.8	(32.2)
PBT	15	54	40	(72.6)	(62.9)	124	186	(33.5)
Tax	2	14	15	(82.9)	(83.7)	32	54	(40.5)
Minority Interest	(5)	1	1	-	-	(1)	13	-
PAT	17	39	25	(55.9)	(30.4)	93	119	(22.0)
Adj PAT	17	39	25	(55.9)	(30.4)	93	119	(22.0)
Adj PAT margin	1.8%	3.9%	3.0%	(209)bps	(120)bps	3.2%	4.7%	(149)bps
No of equity shares (mn)	13.2	13.2	13.2	-	-	13.2	13.2	-
Adj EPS (Rs)	1.3	2.9	1.9	(55.9)	(30.4)	7.0	9.0	(22)

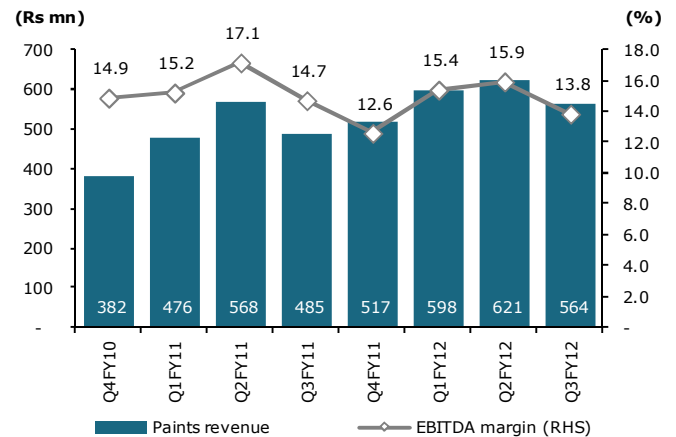
Source: Company, CRISIL Research

EBITDA margin declined in Q3



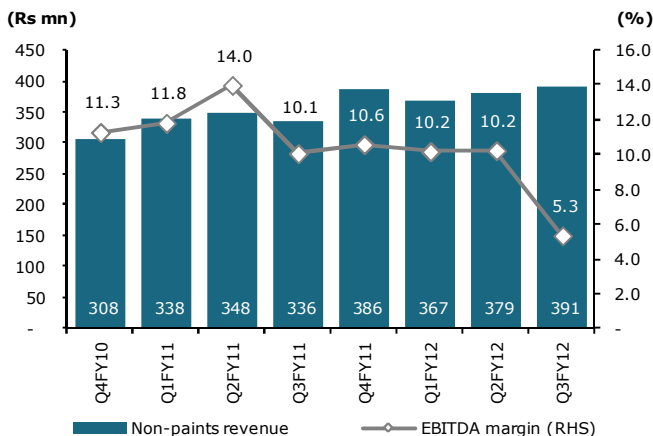
Source: Company, CRISIL Research

Paint revenue declined q-o-q due to seasonality



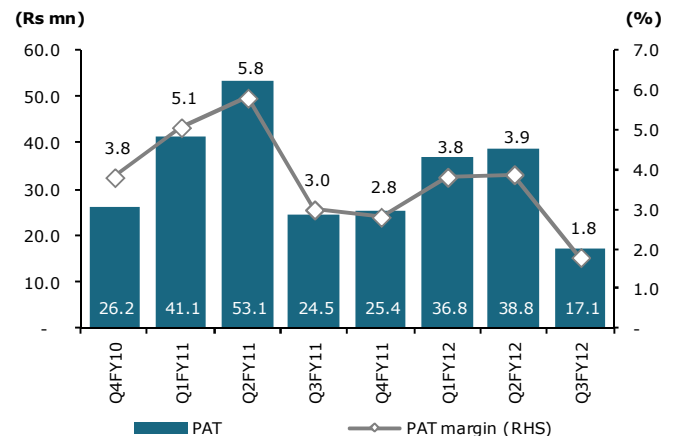
Source: Company, CRISIL Research

Non-paint EBITDA margin declined due to low capacity utilisation



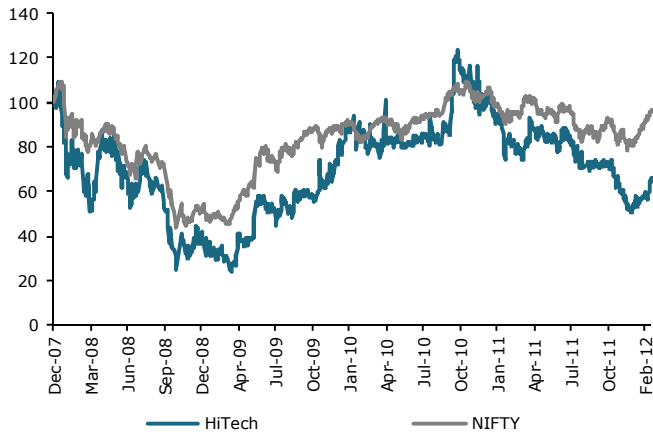
Source: Company, CRISIL Research

PAT margin was the lowest in the past eight quarters



Source: Company, CRISIL Research

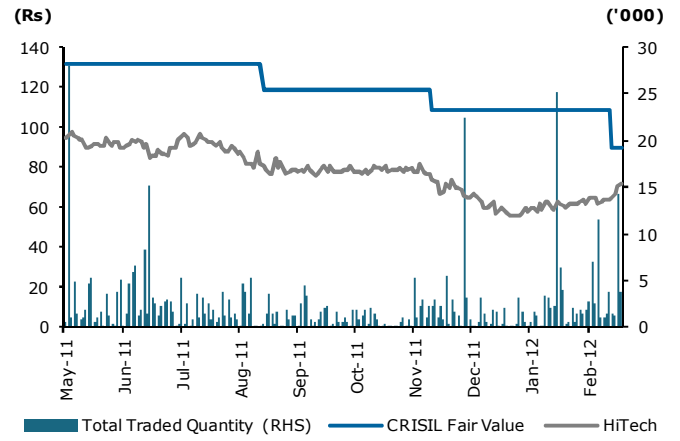
Share price movement



-indexed to 100

Source: NSE, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

EARNINGS ESTIMATES REVISED DOWNWARDS

Paint business

Particulars	Unit	FY12E			FY13E		
		New	Old	% variation	New	Old	% variation
Revenue	Rs mn	2365	2248	5.2%	2591	2591	0.0%
EBITDA	Rs mn	349	348	0.1%	415	415	0.0%
EBITDA margin	%	14.8	15.5	-75bps	16.0	16.0	0bps

Non-paint business

Particulars	Unit	FY12E			FY13E		
		New	Old	% variation	New	Old	% variation
Revenue	Rs mn	1,547	1,611	-4.00%	1,736	1,808	-4.00%
EBITDA	Rs mn	124	179	-30.80%	139	208	-33.20%
EBITDA margin	%	8.0	11.1	-310bps	8.0	11.5	-350bps

Consolidated financials

Particulars	Unit	FY12E			FY13E		
		New	Old	% variation	New	Old	% variation
Revenue	Rs mn	3,931	3,859	1.9%	4,348	4,399	-1.2%
EBITDA	Rs mn	473	527	-10.4%	553	622	-11.1%
EBITDA margin	%	12.0	13.7	-164bps	12.7	14.2	-142bps
Depreciation	Rs mn	154	145	6.2%	172	185	-6.7%
Interest	Rs mn	179	176	1.7%	208	220	-5.6%
Tax rate	%	26.0	28.0	-175bps	30.0	28.0	200bps
PAT	Rs mn	107	137	-21.9%	117	149	-21.5%
PAT margin	%	2.7	3.5	-83bps	2.7	3.4	-69bps
EPS	Rs	8.1	10.4	-21.9%	8.9	11.3	-21.5%

Source: CRISIL Research estimate

Reasons for changes in estimates

Line item	FY12	FY13
Revenues	<ul style="list-style-type: none"> Higher revenue from the paints business and lower revenue from the non-paint business 	<ul style="list-style-type: none"> Lower revenue from the non-paint business
EBITDA margins	<ul style="list-style-type: none"> Lower EBITDA margin in the paints business due to sharper decline in Q3FY12 Lower EBITDA margin in the non-paint business due to low capacity utilisation driven by slow demand 	<ul style="list-style-type: none"> Lower EBITDA margin in the non-paint business due to low capacity utilisation driven by slow demand
PAT margins	<ul style="list-style-type: none"> Lower-than-previously-estimated EBITDA margin Higher-than-expected depreciation Lower-than-expected tax rate 	<ul style="list-style-type: none"> Lower-than-previously-estimated EBITDA margin Lower-than-previously-expected depreciation and interest due to low capex and debt Higher-than-previously-estimated tax rate due to expiry of tax benefits

VALUATION

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. At this value, the implied P/E multiples are 11.1x FY12 earnings estimate and 10.2x FY13 earnings estimate. Consequently, we retain the valuation grade of **5/5**.

One-year forward P/E band



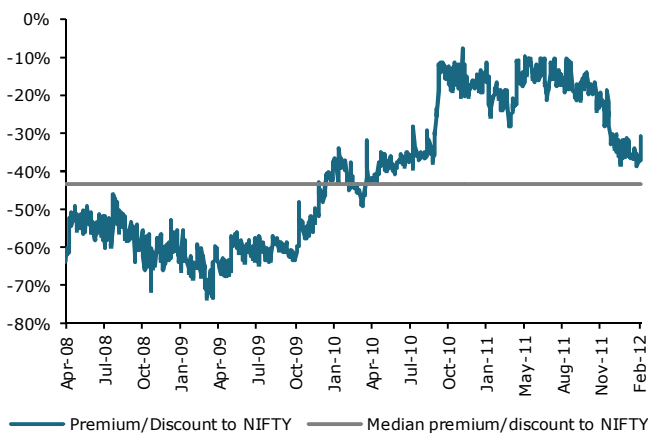
Source: NSE, CRISIL Research

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	Rs 132	5/5	Rs 95
09-Jun-11	Q4FY11 result update	3/5	Rs 132	5/5	Rs 90
17-Aug-11	Q1FY12 result update	3/5	Rs 119	5/5	Rs 81
15-Nov-11	Q2FY12 result update	3/5	Rs 109	5/5	Rs 73
20-Feb-12	Q3FY12 result update	3/5	Rs 90	5/5	Rs 70

* For detailed initiating coverage report please visit: www.ier.co.in

CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

FINANCIALS

Income statement

(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
EBITDA margin	15.2%	15.5%	13.5%	12.0%	12.7%
Depreciation	89	95	126	154	172
EBIT	242	314	340	318	381
Interest	103	85	123	179	208
Operating PBT	139	229	217	140	173
Other income	8	5	5	5	4
Exceptional inc/(exp)	41	2	2	-	-
PBT	188	236	224	145	177
Tax provision	39	78	63	38	53
Minority interest	6	7	16	-	7
PAT (Reported)	142	150	145	107	117
Less: Exceptionals	41	2	2	-	-
Adjusted PAT	101	148	143	107	117

Ratios

	FY09	FY10	FY11	FY12E	FY13E
Growth					
Operating income (%)	20.7	21.1	31.0	13.9	10.6
EBITDA (%)	12.2	23.9	14.0	1.3	17.1
Adj PAT (%)	6.5	46.9	(3.7)	(25.2)	9.4
Adj EPS (%)	6.5	46.9	(3.7)	(25.2)	9.4
Profitability					
EBITDA margin (%)	15.2	15.5	13.5	12.0	12.7
Adj PAT Margin (%)	4.6	5.6	4.1	2.7	2.7
RoE (%)	17.2	18.7	14.5	9.5	9.6
RoCE (%)	21.8	22.6	18.7	14.4	14.9
RoIC (%)	20.3	18.3	16.3	13.5	13.4

Valuations

Price-earnings (x)	4.4	7.7	6.5	8.7	7.9
Price-book (x)	0.6	1.3	0.9	0.8	0.7
EV/EBITDA (x)	3.2	4.9	4.4	4.9	4.6
EV/Sales (x)	0.5	0.8	0.6	0.6	0.6
Dividend payout ratio (%)	11.9	15.4	16.9	14.1	14.5
Dividend yield (%)	3.8	2.0	2.6	1.6	1.8

B/S ratios

Inventory days	40	48	55	56	56
Creditors days	29	35	34	30	30
Debtor days	49	60	56	56	56
Working capital days	78	75	75	82	85
Gross asset turnover (x)	2.0	2.1	2.2	2.0	1.9
Net asset turnover (x)	3.9	3.9	3.7	3.4	3.4
Sales/operating assets (x)	3.6	3.3	3.2	3.0	2.9
Current ratio (x)	4.1	3.7	3.8	4.1	4.2
Debt-equity (x)	0.7	0.8	0.9	1.0	1.2
Net debt/equity (x)	0.7	0.7	0.8	1.0	1.1
Interest coverage	2.3	3.7	2.8	1.8	1.8

Per share

	FY09	FY10	FY11	FY12E	FY13E
Adj EPS (Rs)	7.7	11.3	10.8	8.1	8.9
CEPS	14.4	18.5	20.4	19.8	22.0
Book value	52.4	68.1	81.7	88.5	96.3
Dividend (Rs)	1.3	1.7	1.9	1.1	1.3
Actual o/s shares (mn)	13.2	13.2	13.2	13.2	13.2

Balance Sheet

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Liabilities					
Equity share capital	132	132	132	132	132
Reserves	410	544	722	811	908
Minorities	149	221	222	222	229
Net worth	691	897	1,076	1,165	1,269
Convertible debt	-	-	-	-	-
Other debt	498	697	963	1,213	1,463
Total debt	498	697	963	1,213	1,463
Deferred tax liability (net)	40	49	56	56	56
Total liabilities	1,228	1,644	2,095	2,434	2,788
Assets					
Net fixed assets	612	753	1,093	1,238	1,316
Capital WIP	64	188	100	150	300
Total fixed assets	676	940	1,193	1,389	1,616
Investments	1	1	1	1	1
Current assets					
Inventory	188	273	424	485	536
Sundry debtors	328	461	578	646	715
Loans and advances	125	119	122	157	174
Cash & bank balance	43	60	57	46	67
Marketable securities	-	-	-	-	-
Total current assets	684	913	1,181	1,334	1,492
Total current liabilities	166	246	313	323	354
Net current assets	517	667	868	1,011	1,138
Intangibles/Misc. expenditure	33	35	33	33	33
Total assets	1,228	1,644	2,095	2,434	2,788

Cash flow

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	146	234	222	145	177
Total tax paid	(8)	(69)	(57)	(38)	(53)
Depreciation	89	95	126	154	172
Working capital changes	(17)	(132)	(204)	(155)	(105)
Net cash from operations	210	128	87	107	191
Cash from investments					
Capital expenditure	(246)	(361)	(377)	(350)	(400)
Investments and others	0	-	-	-	-
Net cash from investments	(246)	(361)	(377)	(350)	(400)
Cash from financing					
Equity raised/(repaid)	(0)	-	-	-	-
Debt raised/(repaid)	(47)	199	266	250	250
Dividend (incl. tax)	(17)	(23)	(25)	(15)	(17)
Others (incl extraordinary)	119	74	45	(3)	(3)
Net cash from financing	55	250	286	232	230
Change in cash position	19	18	(4)	(11)	21
Closing cash	43	60	57	46	67

Quarterly financials

(Rs mn)	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net Sales	821	904	965	1,000	955
Change (q-o-q)	-10%	10%	7%	4%	-5%
EBITDA	105	106	129	138	99
Change (q-o-q)	-28%	1%	22%	6%	-28%
EBITDA margin	12.8%	11.7%	13.4%	13.8%	10.4%
PAT	25	25	37	39	17
Adj PAT	25	25	37	39	17
Change (q-o-q)	-54%	3%	45%	5%	-56%
Adj PAT margin	3.0%	2.8%	3.8%	3.9%	1.8%
Adj EPS	1.9	1.9	2.8	2.9	1.3

Note: All ratios are computed on Adj PAT

Source: Company, CRISIL Research estimate

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Other services by the Research group include

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