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Dec 29, 2020 | REINITIATION REPORT | VOL-6, NO-24

Containers & Packaging | **Hitech Corporation Limited** | BUY

CMP: Rs.113 | TARGET PRICE: Rs.150 | TIME : 12 months

Reinitiation Report

We had initiated coverage on Hitech Corporation Limited on November 20, 2017 (Vol-3 No-21) at the price of Rs175 and target of Rs230. However, due to company related as well as macro reasons we had to tone down the target to levels of Rs125. With the comeback quarter and things getting streamlined, we revised the target upwards to Rs150.

About the Company:

Hitech Corporation Ltd (Hitech Corp), formerly known as Hitech Plast Ltd, is a leading rigid plastic packaging manufacturer delivering the highest quality of innovative and sustainable products. It has 12 manufacturing facilities in India catering to over 1200 customers across the paint & coating, FMCG, agrochemical, lubricant & health care industries. The manufacturing sites are located in the union territory of Dadra and Nagar Haveli and in the states of Gujarat, Maharashtra, Uttrakhand, Himachal Pradesh, Haryana and Tamil Nadu. The R&D centre competencies enable the company to offer a 360-degree service model to its customers with end-to-end customised packaging solutions. The company has Mr. Ashwin Dani as the Chairman and Mr. Malav Dani as the Managing Director.

Investment Rationale:

A) Offerings: Hitech Corp is a leading manufacturer of rigid plastic packaging solutions with its customer base spread across multiple geographies which includes paints and coatings, personal care, food to healthcare, agriculture and lubricants.

Exhibit 01: Product Library

Source: Company Website

B) Industry Assessment Due To Covid-19:

(i) Personal, Healthcare and Home Care: Led by the sophistication of the Indian consumer psyche and tilt towards international brands, an industry that was valued at USD1.6bn 2017 is now expected to grow at roughly 9% to reach USD2.7bn by 2023. After the emergence of Covid-19, there has been a strong demand for products like hand sanitizers, hand-wash, disinfectants and other health related products. Many brands have already taken the move to shift their focus towards healthcare and personal hygiene products. For Hitech Corp, despite the lockdown conditions, the company was able to deliver several variants of home care products as per the demand of its customers.

SNAPSHOT	
52 week H / L	Mcap (Rsmn)
132/41	1,941
Face value: 10	
BSE Code	NSE CODE
526217	HITECHCORP

Annual Performance

(Rsmn)	FY18	FY19	FY20	FY21E
Total Revenue	3,885	4,619	4,601	4,054
EBITDA	371	516	598	555
EBITDA (%)	9.6	11.2	13.0	13.7
Other Income	63	5	5	7
Interest	139	199	236	202
Depreciation	175	214	300	300
PBT	120	107	68	61
PAT	78	164	24	52
Equity (Rs mn)	172	172	172	172
EPS (INR)	5	10	1	3

Quarterly Performance

Parameters (Rs mn)	Dec-19	Mar-20	Jun-20	Sept-20
Sales (Net)	1,075	1,091	574	1,233
EBITDA	155	135	50	192
EBITDA (%)	14.5	12.3	8.7	15.5
Other Income	1	2	2	5
Interest	60	53	46	50
Depreciation	79	78	69	76
PAT	(8)	3	(64)	64
Equity (Rs mn)	172	172	172	172

Ratio Analysis

Parameters (Rs mn)	FY18	FY19	FY20	FY21E
EV/EBITDA (x)	9.3	7.1	5.9	6.1
EV/Net Sales (x)	0.9	0.8	0.8	0.8
M Cap/Sales (x)	0.5	0.4	0.4	0.5
M Cap/EBITDA (x)	5.2	3.8	3.2	3.5
Debt/Equity (x)	1.2	1.3	1.2	1.1
ROCE (%)	12	12	11	10
Price/Book Value (x)	1.3	1.2	1.2	1.2
P/E (x) (TTM)	27.0	14.2	13.7	37.5

Shareholding Pattern as on 30th Sept, 2020

Parameters	No of Shares	%
Promoters	12,784,480	74.4
Institutions	3,000	0.02
Public	4,388,220	25.6
TOTAL	17,175,700	100.0

Source: Annual Report

Note: All the data is calculated as per Market Price on 28th Dec, 2020

Investment Rationale: (contd.)

B) Industry Assessment Due To Covid-19 (contd.):

(ii) FMCG: The Rs4lk-cr industry grew 9% over FY19 with the packaged food segment accounting for almost 50% of the revenues. As per Nielsen research, the FMCG sector portrayed signs of recovery in the September quarter with y-o-y growth of 1.6%; well supported by the phased unlocking, rural consumption driven growth, good monsoon and increased govt. expenditure through MNREGA and other public projects to further aid the rural demand. Moreover, a shift towards digitization and e-commerce appears to be irreversible and would be the reason for an unexpected lift that the industry needed. Outbreak of the pandemic has led to a major shift in the consumer buying and behavioral patterns. There has been a shift of emphasis to a more health conscious approach boosting the packaging industry and encouraging adoption of new ways of packaging materials (e-packaging-an expected development) and designs. All of this shows some growth momentum likely to be witnessed in times to come.

(iii) Paints and Agrochemicals: **Indian paints and coatings** is an Rs50,000cr industry that is expected to grow to Rs70,000cr by 2022. Incentives from the government providing stimulus to both rural and urban housing as well as growing disposable income in younger Indians is likely to aid the decorative paints demand. Greater emphasis on innovation like odour free and dust & water-resistant paints will require specialized packing solutions. In the **Agrochemical space**, Hitech's proximity to the agricultural chemical manufacturing belt will enable it to better understand the needs of these customers and expand its packaging market share.

Overall, we can infer that the FMCG sector has been less vulnerable or rather insulated from the Covid impact coupled with the opening of additional avenues of new offerings for the companies catering to the same. In the same context, Hitech Corp is also well placed to capitalize on the opportunities going forward.

C) Capital Expenditure and Expansion Plans: The unforeseen timing and undetermined repercussions of the pandemic led to a temporary halt on Hitech Corp's larger expansion plans. However, low cost efficiency improvement projects at various plants are underway as planned. These include the systematic replacement of older machines with newer technology as well as the augmentation of existing plant and machinery to support newer products and customers.

D) Cost-Centric Approach: The company has strived to adopt a cost- centric approach in order to rationalise the production facilities towards profitable products and thus optimise cost. Keeping this strategy in mind, the operations at the manufacturing facility at Sitarganj (Uttarakhand) has been discontinued and shifted to some other manufacturing units of the company w.e.f. 16th October, 2020 due to reduction in off-take by some of the major customers of the company. The said unit had a turnover of Rs395mn constituting approximately 8% of total turnover for FY20 and had a negligible contribution to the net worth of the company for the last two years. This move would enable the company to save overheads and administrative costs. Furthermore, conserving cash in such unprecedented times is the need of the hour and hence, the management didn't recommend any dividends for FY20.

E) Research and Development: Hitech's research and development centre, has been moved to Sanaswadi. The new facility is large enough to support the firms' ambitions to invest in better machining technology as well as proximate enough to facilitate faster trial and testing time. Mould design and development remains at the forefront of Hitech's technological enterprise, but other innovations, ranging from low cost automation to process improvement complement its holistic approach towards providing customer delight. The mould designs are also being designed to increase productivity with reduced cycle time. The company is experimenting with newer materials of construction to increase life of the mould and reducing its replacement and maintenance costs. This will cascade into better profitability in the long term.

F) Technological Efficiencies: The company has a dedicated technology centre at Pune (Sanaswadi) that carries out design, product and process innovations and improvements. The centre is aimed at utilizing polymers efficiently in production, thus enabling in cost savings. Technology upgradation and reduction in production cycle time enables the company in sustaining and strengthening its competitive position, thereby facilitating customer satisfaction. All of this, benefits the company in improving the product library and enhance productivity.

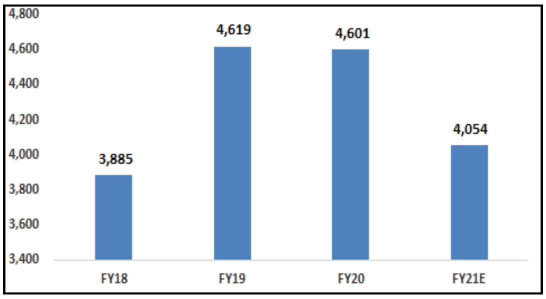
Financials:

- In FY20, the total sales stood at Rs4,600mn as against Rs4,619mn in FY19; drop of 0.4%. PAT stood at Rs24mn v/s Rs164mn, de-growth of 86%. This was on account of one-time exceptional credit/ (charge) recorded in the respective financial years owing to employee separation compensation charges and full and final settlement of insurance claim towards Rohtak plant.
- In Q2FY21, the net sales came in at Rs1,233mn as compared to Rs1,220mn in the same quarter last year; flat growth of 1.0%. The Ebitda margins for the quarter under review stood at 15.5% as compared to 12.4% in Q2FY20. PAT came in at Rs64mn as against Rs9mn in Q2FY20. The growth was led by slightly higher other income and DTA during the quarter.
- For H1FY21, the revenues came in at Rs1,807mn as against Rs2,435mn in H1FY20; with an operational efficiency at 13.4% in H1FY21 as against 12.6% in H1FY20.

Investment Rationale: (contd.)

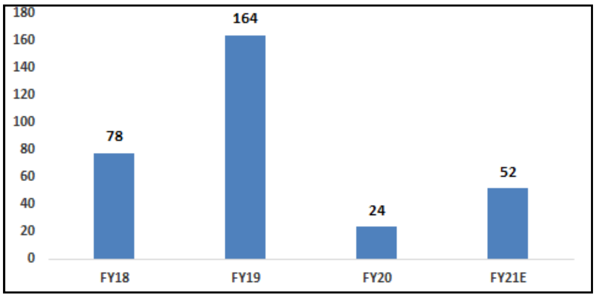
Financials (contd.):

Exhibit 02: Sales Trend



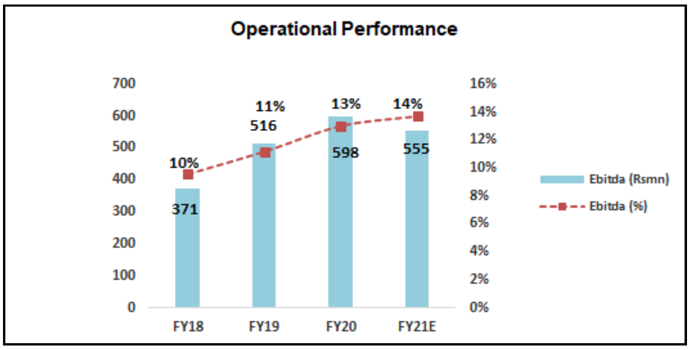
Source: Annual Reports, Progressive Research

Exhibit 03: PAT Trend



Source: Annual Reports, Progressive Research

Exhibit 04: Ebitda v/s Ebitda Margins



Source: Annual Reports, Progressive Research

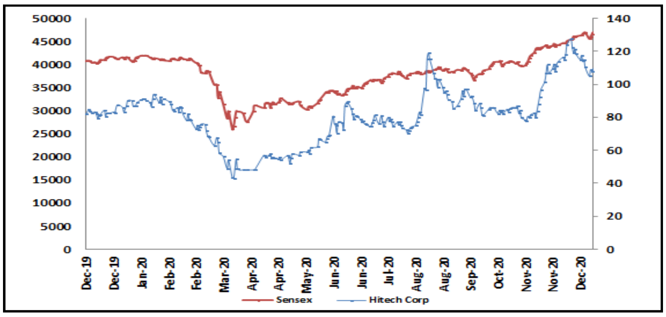
Risks and Concerns:

- Fluctuation in crude prices
- Slowdown in end user industries catered
- Dependency on fixed set of clients
- Fluctuation in raw material (polymers) prices and inability to pass on the same

Outlook and Recommendations:

Hitech Corp suffered a major sentimental setback (Rohtak plant fire) coupled with the overall economic slowdown. However, improvement in performance is indicating the gradual attempts to get back on track. Although the last quarter results show flat topline, operational efficiency was the key. There was also streamlining of the manufacturing units with capex hinting at the planned business growth of the company. This would be further complemented with the expected growth of the FMCG sector (Personal & Healthcare, Home Care, Paints etc.) which was least impacted in the turmoil of the pandemic. Hitech Corp has a decent clientele and thereby is aptly placed to benefit from the upcoming opportunities of the sector. We thereby re-initiate a Buy call on the stock with a target price of Rs150 over a 12 months horizon.

Exhibit 05: Price v/s Sensex



Source: Ace Equity, Progressive Research

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