



MTEP reported strong set of numbers. Standalone revenues grew 17.0% YoY and 14.9% QoQ to Rs 1,159m on back of strong volume growth (15.2% YoY and 12.6% QoQ). The volumes for the quarter stood at 6313 tons. EBITDA stood at Rs 203m 12.4% YoY and 7.6% QoQ. EBITDAM margins declined 400bps YoY (due to addition of employees at the new plants, revision in wage costs in Telangana, refurbishment of roofing, electrical and robots at Unit I) and 120bps QoQ (on back of lower gross margins) to 17.6%. The last write off on account of RAK of Rs 10m (after Rs 10m provided in Q1) will be done in Q2FY20, post which there will be no further burden on the company. Due to these onetime write offs the EBITDA/kg was Rs 33.7 which otherwise would have been Rs 34.5. The management sounded very positive and confident of achieving Rs 34.0/kg EBITDA for the full year on back of 15-20% volume growth. Adjusted PAT grew 20.4% YoY at Rs 109m.

IML revenues as a percentage of sales increased from 61.7% in Q1FY19 to 65% in Q1FY20 and volumes from 53.5% to 61% on back of manifold growth in F&F business. In spite of sustained growth in F&F we do not anticipate this mix to change in the near term due to incremental volumes from Vizag and Mysuru.

In spite of increase in interest costs estimates we have revised our PAT estimates upwards by 3.8% for FY20E and 21E due to lower tax rate (28% versus 35% previously). We expect Revenue/EBITDA/Adj.PAT to grow at 18.8%/19.0%/20.5% CAGR to Rs 5,563m/Rs 1,018m/ Rs 517m in FY21E on back of 1) sustained growth in F&F through new product and client addition, 2) incremental growth from Vizag & Mysuru plants resulting in 3) better fixed cost absorption, 4) no further overhang on account of RAK related expenses, 5) no major capex in the offing. At CMP, the stock is trading at PER of 16.4x FY20E and 13.9x FY21E revised EPS estimates of Rs 15.8 and Rs 18.7 respectively. **Maintain BUY with a TP of Rs 355.**

Key financials (Y/e March)	2018	2019	2020E	2021E
Revenues (Rs m)	3,395	3,941	4,831	5,563
Growth (%)	12.9	16.1	22.6	15.2
EBITDA (Rs m)	635	719	878	1,018
PAT (Rs m)	317	241	437	517
EPS (Rs)	11.4	8.7	15.8	18.7
Growth (%)	17.3	(23.9)	81.3	18.3
CEPS (Rs)	15.7	14.0	22.7	26.1
Net DPS (Rs)	2.0	4.0	4.0	4.0
Profitability & Valuation	2018	2019	2020E	2021E
EBITDA margin (%)	18.7	18.3	18.2	18.3
RoE (%)	18.8	13.0	21.2	21.5
RoCE (%)	28.4	27.5	27.4	26.6
EV / sales (x)	2.3	2.0	1.7	1.4
EV / EBITDA (x)	12.5	11.2	9.1	7.6
PE (x)	22.6	29.7	16.4	13.9
P / BV (x)	4.0	3.8	3.2	2.8
Net dividend yield (%)	0.8	1.5	1.5	1.5

Source: Company Data, PL Research

Q1FY20 Result Update

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Rating	BUY
Price	Rs 259
Target Price	Rs 355
Implied Upside	37%
Sensex	37,883
Nifty	11,284
Bloomberg Code	MTEP.IN
Reuters Code	MOLT.BO
<i>(Prices as on July 26, 2019)</i>	

Tracking Data

Market Cap (Rs bn)	7.2
Shares O/s (m)	27.7
3M Avg. Daily Value (Rs m)	14.0

Major Shareholders

Promoters	35.5
Domestic Inst.	10.9
Public & Others	53.6

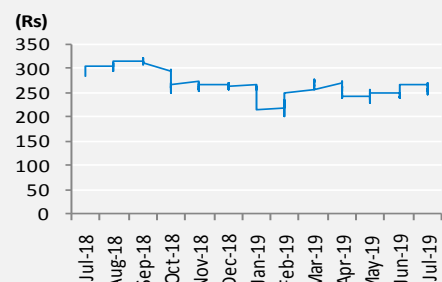
Stock Performance

(%)	1M	6M	12M
Absolute	(1.1)	(1.8)	(14.0)
Relative	4.0	(6.2)	(14.7)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2020E	15.8	13.4	17.9
2021E	18.7	16.6	12.7

Price Chart



Food and FMCG leads the volume game

During the quarter, volumes grew 89.0% YoY to 1169 tons. Revenues grew 71% YoY from Rs 160m to Rs 280m. Company bagged new orders from many new clients in Food and FMCG sector during this quarter. Apart from 5, 15, and 17 liters packs, the company has also introduced new 10 liter square packs which will start contributing to revenues from August onwards. Company is confident of growing this segment on back of growth coming from edible oil and ice cream segment as well as addition of a new major cheese manufacturer. The company is in talks with 'Zomato' and 'Swiggy' for providing tamper-free packaging solutions. They are also in advanced discussions with 'Pepsi' and 'Coke' for supply of sippers which could start in 4/5 months from now.

Edible Oil and ghee witness good traction

Demand for Square packs continue to grow as it is successfully replacing tin with plastic by major edible oil players like N.K Protein, Goyal, Damani, Gulab, Haider Group, etc. The Company has added/increased capacity for these packs. Capacity shifted from RAK has been mainly allocated to these packs and other food packing products. 4 of the 7 machines moved to Daman from the RAK plant are of Japanese built and far superior. July to January is the peak season for ordering ghee and edible oil.

The management expects to double revenues in this segment during FY20E to Rs 500m. Company started catering to Ghee as a segment only during FY19 and garnered revenues of ~Rs60m, which is expected to double for the next two years.

Plants at Mysuru and Vizag now fully operational

During the quarter the company has successfully started supplies to Asian Paints from its Vizag Unit while supplies from the Mysuru Unit had started during Q4FY19. The company supplied a total of 434 tons which garnered revenues of ~Rs 80m.

MTEP is expecting to achieve volumes of ~4000 MTPA from both plants combined in FY20E at an average realisation of Rs 185+ and per kg EBITDA of Rs 32-33. Hence it is likely to generate additional revenues of Rs 700-800m and EBITDA of ~Rs125-130m in FY20E.

Operations stopped completely at RAK Plant

Operations at the RAK subsidiary have been completely stopped. The expenses in the subsidiary include one-time expenses (Rs 4m) due to terminal benefits paid to retrenched employees and other write offs. There was a further onetime expense of Rs 6m on account of operational losses. Last quarter the company already provided Rs 110m towards RAK write offs and is likely to provide further Rs 10m in Q2FY20, post which there will be no further burden on the company on this count.

The closure is expected to happen before this calendar year. Major plant and machinery has been shifted and installed at other operating locations in India and will be utilized to meet the increased demand. 4 of the 7 machines have been deployed at Hyderabad for larger packaging in the edible oil segment and the balance 3 at Daman for smaller food containers.

No major capex plans for FY20E

It is interesting to note that the company has invested as much or more (Rs 1.2bn) in capex in the last two years (FY17-19) as it had in the last 30 years of its existence (Rs 1.1bn). Due to the same there has also been a substantial increase in the term loan. With the internal capex done and shifting of the RAK capacities to India, the company is now ready to sweat these assets for the next two years and hence we do not anticipate any major capex in FY20E and 21E.

The capex plan for FY20E is ~Rs 300m on setting up a capacity in Kanpur for Bereger and Nerolac but it will be on leasehold premises to minimize risks and outlay. The capex will be funded by way of internal accruals.

Financial Overview & Valuations

During the quarter, interest cost shot up y 59.5% YoY and 14.2% QoQ to Rs 24m due to increase in debt on account of capex and higher working capital. It is expected to stabilise around these levels going ahead. Total term loan as at end of quarter was Rs 170m which is likely to increase further by Rs 350m due shifting of RAK debt to the stand along balance sheet. The new effective tax rate for the company will be 28%.

In spite of increase in interest costs estimates we have revised our PAT estimates upwards by 3.8% for FY20E and 21E due to lower tax rate (28% versus 35% previously). We expect Revenue/EBITDA/Adj.PAT to grow at CAGR of 18.8%/19.0%/20.5% to Rs 5,563m/Rs 1,018m/ Rs 517m in FY21E on back of 1) sustained growth in F&F through new product and client addition, 2) incremental growth from Vizag & Mysuru plants resulting in 3) better fixed cost absorption, 4) no further overhang on account of RAK related expenses, 5) no major capex in the offing. At CMP, the stock is trading at PER of 16.4x FY20E and 13.9x FY21E revised EPS estimates of Rs 15.8 and Rs 18.7 respectively. **Maintain BUY with a TP of Rs 355.**

Q1FY20 Result Overview (Rs m)					
Y/e March	Q1 '20	Q1 '19	YoY gr. (%)	Q4 '19	QoQ gr. (%)
Net Revenue	1,159	990	17.0	1,009	14.9
Expenditure					
Raw Material Cost	703	603	16.6	598	17.6
<i>% of revenue</i>	<i>60.6</i>	<i>60.9</i>		<i>59.3</i>	
Employee Cost	123	97	27.2	105	17.2
<i>% of revenue</i>	<i>10.6</i>	<i>9.8</i>		<i>10.4</i>	
Other Expense	130	109	18.4	117	10.8
<i>% of revenue</i>	<i>11.2</i>	<i>11.1</i>		<i>11.6</i>	
Total Expenditure	955	809	18.1	820	16.6
EBITDA	203	181	12.4	189	7.6
<i>Margin (%)</i>	<i>17.6</i>	<i>18.3</i>		<i>18.7</i>	
Depr. & Amortization	45	34	34.1	42	6.6
EBIT	158	147	7.4	147	7.9
Net Interest	24	15	59.5	21	14.2
Other Income	9	5	92.3	3	201.3
Exceptional Item	-	-	#DIV/0!	(115)	(100.0)
Profit before Tax	143	137	4.6	14	949.3
Total Tax	35	47	(25.8)	33	4.9
<i>Effective tax rate (%)</i>	<i>24.2</i>	<i>34.2</i>		<i>242.5</i>	
Profit after Tax	109	90	20.4	(19)	NA
<i>PAT Margin (%)</i>	<i>9.4</i>	<i>9.1</i>		<i>(1.9)</i>	
Adjusted PAT	109	90	20.4	96	13.7
Adjusted EPS	3.9	3.3	20.4	3.4	13.7

Source: Company Data, Idea Research

Q1FY20 Result Overview (Rs m)					
Y/e March	Q1 '20	Q1 '19	YoY gr. (%)	Q4 '19	QoQ gr. (%)
Volumes (MTPA)	6,313	5,472	15.4	5,761	9.6
EBITDA per kg (Rs)	33.7	34.0	(0.8)	33.7	-

Source: Company Data, Idea Research

Income Statement (Rs m)

Y/e March	2018	2019	2020E	2021E
Net Revenue	3,395	3,941	4,831	5,563
Raw Material Expenses	2,020	2,387	2,933	3,377
Gross Profit	1,375	1,554	1,899	2,186
Employee Cost	344	405	499	573
Other Expenses	396	430	522	595
EBITDA	635	719	878	1,018
Depr. & Amortization	118	147	191	206
Net Interest	41	71	98	112
Other Income	11	13	18	19
Profit before Tax	486	400	607	718
Total Tax	169	159	170	201
Profit after Tax	317	241	437	517
Ex-Od items / Min. Int.	-	-	-	-
Adj. PAT	317	241	437	517
Avg. Shares O/S (m)	27.7	27.7	27.7	27.7
EPS (Rs.)	11.4	8.7	15.8	18.7

Cash Flow Abstract (Rs m)

Y/e March	2018	2019	2020E	2021E
C/F from Operations	90	807	501	678
C/F from Investing	(386)	(692)	(221)	(186)
C/F from Financing	297	(115)	103	(64)
Inc. / Dec. in Cash	1	(1)	383	428
Opening Cash	9	9	9	392
Closing Cash	9	9	392	820
FCFF	(296)	114	280	492

Key Financial Metrics

Y/e March	2018	2019	2020E	2021E
Growth				
Revenue (%)	12.9	16.1	22.6	15.2
EBITDA (%)	22.4	13.3	22.1	15.9
PAT (%)	17.9	(23.9)	81.3	18.3
EPS (%)	17.3	(23.9)	81.3	18.3
Profitability				
EBITDA Margin (%)	18.7	18.3	18.2	18.3
PAT Margin (%)	9.3	6.1	9.0	9.3
RoCE (%)	28.4	27.5	27.4	26.6
RoE (%)	18.8	13.0	21.2	21.5
Balance Sheet				
Net Debt : Equity	0.4	0.5	0.4	0.2
Net Wrkg Cap. (days)	109.3	73.7	75.0	75.0
Valuation				
PER (x)	22.6	29.7	16.4	13.9
P / B (x)	4.0	3.8	3.2	2.8
EV / EBITDA (x)	12.5	11.2	9.1	7.6
EV / Sales (x)	2.3	2.0	1.7	1.4
Earnings Quality				
Eff. Tax Rate	34.8	39.7	28.0	28.0
Other Inc / PBT	0.0	0.0	0.0	0.0
Eff. Depr. Rate (%)	8.7	6.8	7.5	7.5

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2018	2019	2020E	2021E
Non-Current Assets	1,568	2,153	2,201	2,199
Net fixed assets	1,142	1,793	2,001	1,995
Capital Work In Progress	147	160	-	-
Other Intangible Assets	3	3	-	-
Intangibles under development	1	2	-	-
Investment property	1	1	-	-
Non-Current Investments	203	97	102	107
Other financial assets	2	2	2	2
Other Non-Current Assets	69	95	95	95
Current Assets	1,454	1,280	2,001	2,677
Inventories	505	438	537	618
Trade receivables	824	664	872	1,005
Cash & Bank Balance	9	9	392	820
Loans	25	39	45	52
Other financial assets	30	29	35	41
Current Tax Assets	4	14	16	18
Other Current Assets	58	87	104	125
Total Assets	3,022	3,433	4,202	4,877

Equity

Equity Share Capital	139	139	139	139
Other Equity	1,669	1,768	2,072	2,456
Total Networth	1,807	1,906	2,210	2,594
Non-Current Liabilities	147	301	590	720
Long Term borrowings	20	149	409	509
Provisions	20	20	50	80
Deferred tax liabilities	104	131	131	131
Other financial liabilities	3	2	-	-
Current Liabilities	1,067	1,226	1,402	1,563
ST Debt / Current of LT Debt	771	740	814	896
Trade payables	178	179	244	281
Other current liabilities	97	266	293	322
Short term provisions	3	16	20	24
Other current liabilities	19	25	31	39
Total Equity & Liabilities	3,022	3,433	4,202	4,877

Quarterly Financials (Rs m)

Y/e March	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	983	959	1,009	1,159
EBITDA	171	173	189	203
<i>% of revenue</i>	<i>17.4</i>	<i>18.0</i>	<i>18.7</i>	<i>17.6</i>
Depr. & Amortization	35	37	42	45
Net Interest	16	18	21	24
Other Income	6	4	3	9
Profit before Tax	127	122	14	143
Total Tax	43	36	33	35
Profit after Tax	84	87	(19)	109
Adj. PAT	84	87	(19)	109

Source: Company Data, PL Research.

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