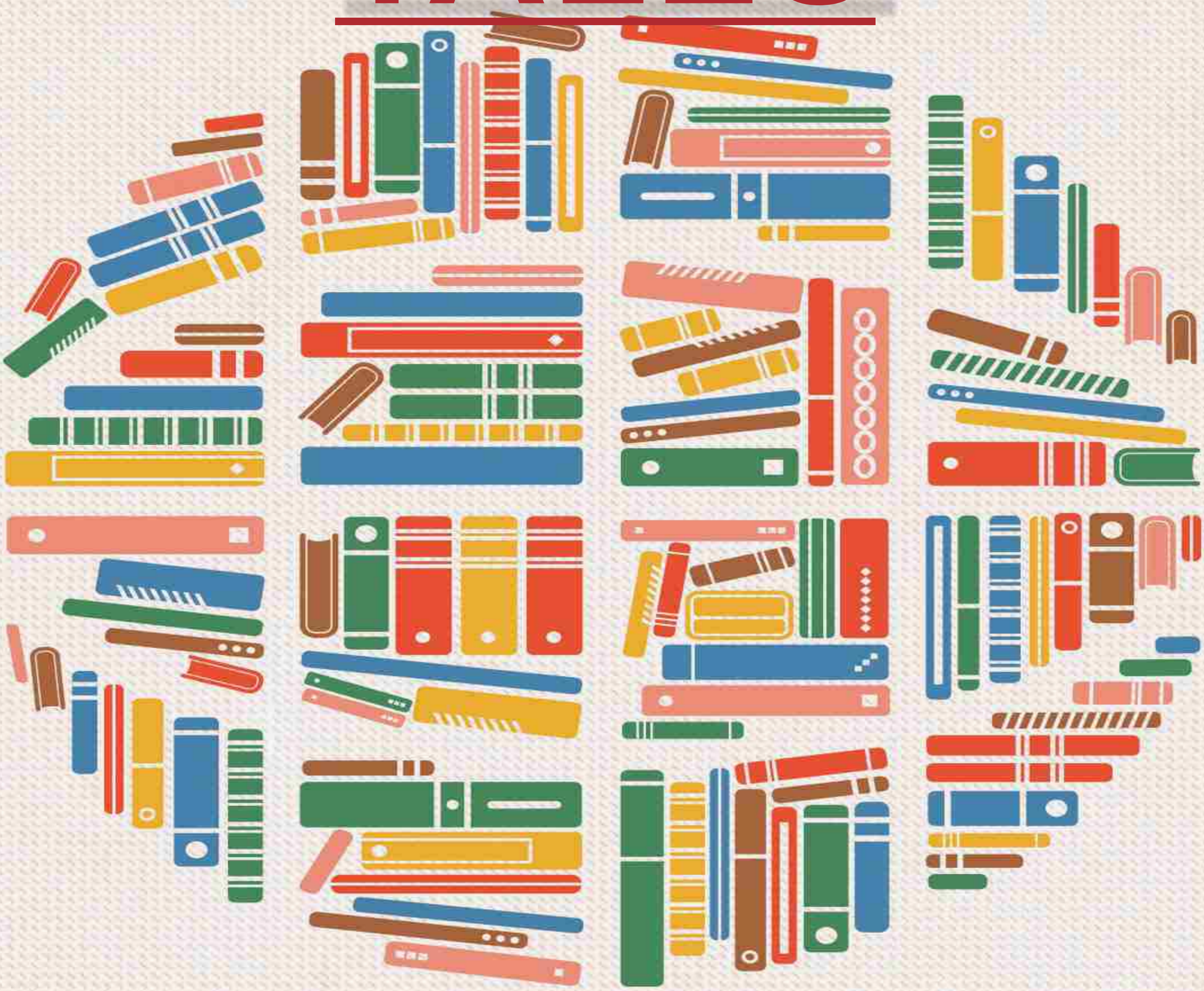
ICICI direct Research

May 3, 2021

Stock TALES



Stock Tales are concise, holistic stock reports across wider spectrum of sectors. Updates will not be periodical but based on significant events or change in price.

Mold-Tek Packaging Ltd (MOLPAC)

ICICI direct Research

CMP: ₹ 445 | Target: ₹ 600 (35%) | Target Period: 15 months | BUY

May 3, 2021

Packet of good - customer base, growth, financials

Mold-Tek Packaging (MTPL) is one of the leading players in the rigid packaging category with a market share of ~25%. The company is into manufacturing decorative packaging containers for paint, lubricant, FMCG & foods (F&F) industries. MTPL's focus on upgrading its product portfolio by adopting newer technologies makes it different from other packaging players. It was the first company to introduce in-mould label (IML) decorative products (new label printing technology) in India, which not only helped MTPL improve its profitability but also stay ahead of its peers in a highly competitive market. In future, it plans to introduce various new products such as dispensing pumps and QR coded products. The company is also looking to increase the share of high margin business i.e. F&F segment by launching packaging products for ready to eat foods & personal care products. F&F segment will be key to drive future revenue growth and EBITDA margin. On the balance sheet front, MTPL's debt reduction programme and funding of future expansion through internal accruals will drive return ratios higher (RoE: 23%, RoCE: 28% in FY23E).

Continuous focus on launching innovative solutions

MTPL was the first to introduce the plastic containers concept for paint companies and succeeded in replacing tin packaging. Later, it also launched "pull up spout", an innovative packaging solution for lubricant companies. The company's capability of launching innovative solutions by adopting new technologies has kept it ahead of the competition. Future launch includes QR-Coded IML packaging solutions, which is the first of its kind in India. This is expected to result in strong replacement demand from paints/lubricant industries, going ahead. These packaging solutions are useful in tracking products, avoiding duplication and launching trade scheme for brands.

F&F segment key growth driver for MTPL

F&F segment revenue is likely to grow at a robust 25% backed by new launches and customer additions in the edible oil, sweet boxes, ready to eat & personal care packaging category. The segment commands EBITDA margin in the range of 30-35%, much higher than company level margin of ~18%. We believe the revenue contribution will increase from 23% in FY20 to 29% by FY23E. Rising contribution of F&F segment would help drive consolidated revenue and EBITDA margin for MTPL in FY20-23E.

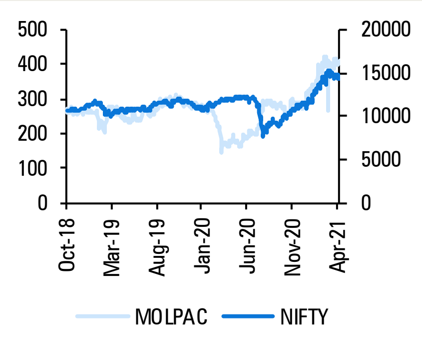
Valuation & Outlook

We believe MTPL's capability to adopt new technologies and launch innovative products will keep the company ahead of competition. Despite being in the B2B business, gross margin of MTPL has increased in the last five years depicting its pricing power. Increased contribution from high margin segments would aid revenue and EBITDA margin expansion. We build in ~15%, ~28% revenue, PAT CAGR, respectively, in FY20-23E. We believe continuous growth momentum will help drive high return ratios for MTPL in FY20-23E. We assign a **BUY** rating to the stock with a target price of ₹ 600/share, valuing the company at 21x FY23E earnings.

Stock Data

Particular	Amount
Market Cap (₹ Crore)	1,233.8
Total Debt (FY20) (₹ Crore)	106.6
Cash & Inv (FY20) (₹ Crore)	1.1
EV (₹ Crore)	1,339.3
52 week H/L	460/ 159
Equity capital (₹ Crore)	13.9
Face value (₹)	5.0

Price Performance



Key Highlights

- Strong growth in F&F segment, which commands higher margin will be key growth driver in FY20-23
- Lean balance sheet, strong return ratios and quality management

Risk to our call

- Delay/less volume offtake amid pandemic by key clients
- Slow/lower pick-up in demand of new products would restrict EBITDA margin expansion

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Stock Tales

ICICI Securities – Retail Equity Research

Key Financial Summary

₹ Crore	FY19	FY20E	FY21E	FY22E	FY23E	(CAGR 20-23E)
Net sales	405.7	438.2	458.5	569.0	674.0	15.4
EBITDA	70.3	76.8	91.9	110.3	138.6	21.8
EBITDA Margin(%)	17.3	17.5	20.0	19.4	20.6	
Net Profit	31.9	37.5	45.7	57.7	77.6	27.5
EPS (₹)	11.5	13.5	16.5	20.8	28.0	
P/E(x)	38.6	32.9	27.0	21.4	15.9	
RoE (%)	16.7	19.0	19.9	20.9	23.1	
RoCE (%)	18.0	18.6	20.7	23.6	27.8	

Source: ICICI Direct Research, Company

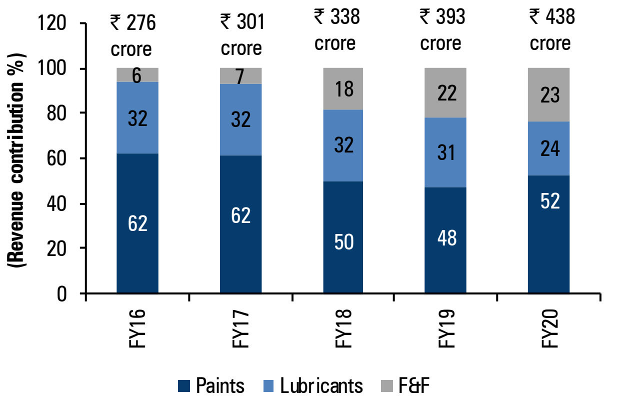
Company Background

Business profile


Established in 1986, Mold-Tek Packaging (MPTL) is the market leader in India's plastic container industry with ~25% value market share. The company produces plastic containers for paints, lubricants and food & FMCG (F&F) players. MTPL has total production capacity of ~41500 metric tonnes (MT) by FY21, an increase of 12% over the last year. Segment wise, paints segment is the highest contributor in topline with ~52% share followed by lubricant and F&F segments with revenue share of 24% and 23%, respectively. The key strength of MTPL is its in-house tool making capability, which helped it to developed ~50 robots in the last nine years. The in-house developed robots cost ~65% lower than the imported ones. These robots helped implement in-mould labelling (IML) techniques that were first introduced by MTPL in India in 2011. The own mould manufacturing capability along with use of IML technology to produce plastic containers provided an edge to MTPL over competition in gaining market share. Leveraging the same technology, MTPL has increased its presence in the F&F segment and launched containers/boxes for edible oil, ghee, ice cream segments. MRPL has also introduced sweet boxes (plastic boxes for food packaging) and entered the dispensing pumps business categories in FY20-21, which will be a key growth driver for it, going ahead.

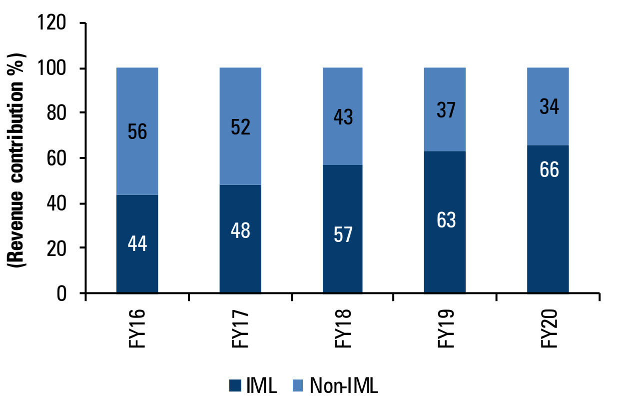
MTPL has reported revenue CAGR of 12% to ₹ 438 crore in the last five years, led by volume CAGR of 10%. Among all three segments, F&F has remained a key growth driver for MTPL, recording phenomenal growth of 57% during the same period. Better product mix (as the F&F segment is a high margin business) has helped in ~100 bps increase in gross margin during the same period. The same flowed to the EBITDA margin, which came in at ~18% in FY20. On the balance sheet front, the company's D/E is at a comfortable level along with RoCE & RoE of 18.6% and 19%, respectively.

Exhibit 1: Revenue contribution of business segments



Source: Company, ICICI Direct Research

Exhibit 2: Rising contribution of IML in topline



Source: Company, ICICI Direct Research

Exhibit 3: Major clientele

Source: Company, ICICI Direct Research,

Investment Rationale

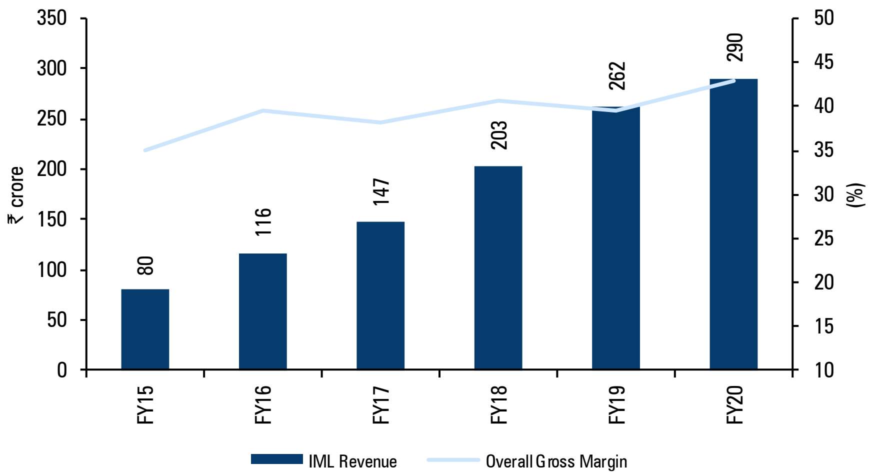
Continued focus on innovation

MTPL's key strength is in its capability to launch innovative products by adopting latest technologies. In the early nineties, the company introduced plastic pail packaging concept for the paint industry, which has succeeded in gradually replacing the tin packaging for paints. Subsequently, MTPL introduced plastic containers for lubricant packaging with innovative "pull up spout" and single & double lock pails. Later, in 2011, the company introduced in-mould labelling (IML) technology for the first time in India, which is a much better solution than the heat transfer label and screen printing. IML provides various benefits of packaging including higher brand recall (as labels do not get separated), provide better aesthetics and the process eliminates human intervention and saves space required for production. The company has 50 robots, which were developed in house.

The F&F segment is 100% IML based packaging. The launch in the F&F segment includes, hinge pack, sweet pack, square packs, adhesive packs. These products were launched in FY20 and are slowly gaining momentum. MTPL further plans to launch QR coded IML packaging solutions. QR coded packaging solutions will help companies track their products and also safeguard against duplication. The brands can also initiate various trade schemes through QR-coded packaging solutions. According to the company, this will be a game changer for MTPL in the long term.

The IML products command higher margin than the non IML products. The EBITDA margin difference between IML and non IML is about 800-1000 bps. Hence, rising contribution of IML in the topline helps drive gross margins of the company.

Exhibit 4: Increasing gross margin along with rising sales of IML based products

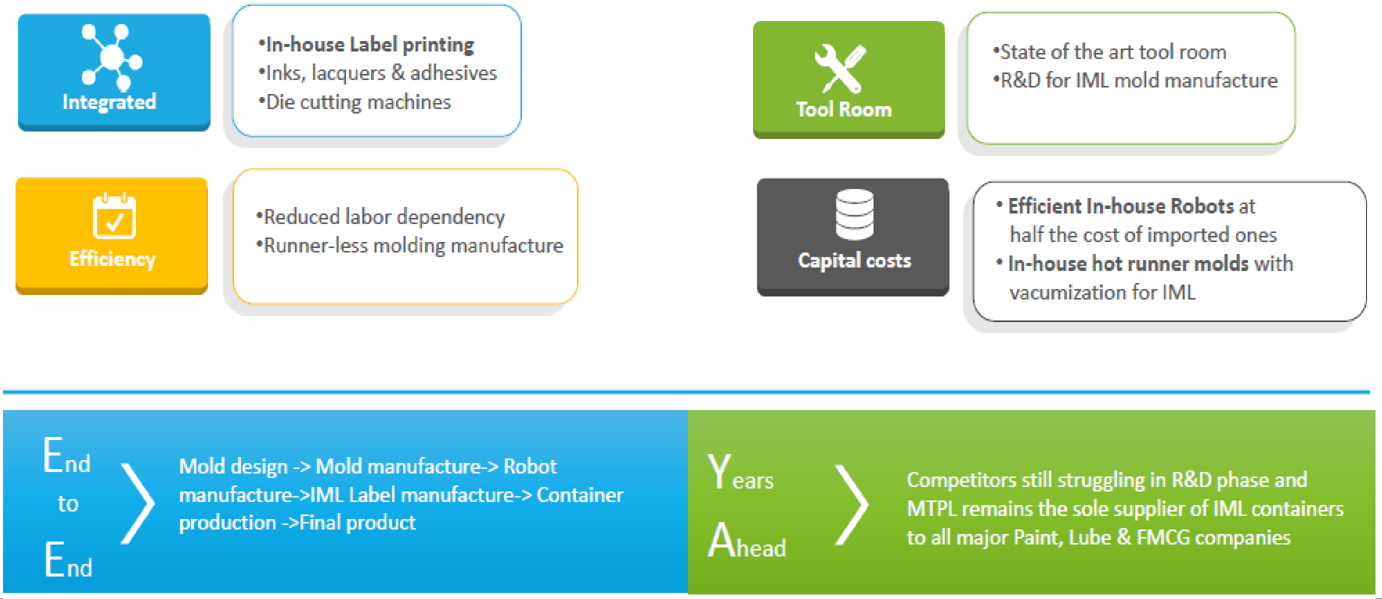


Source: Company, ICICI Direct Research

Strong backward integration capabilities of MTPL

MTPL is one of the leading players in the rigid packaging industry to have in-house tool facilities. The centralised in house tool room facility of MTPL (in Hyderabad) helps the company to design, develop, manufacture and maintain the moulds and Robots. While other players depend on imports for mould, MTPL's strong backward integration of designing/developing own mould helps in reducing lead time in launching new products. Hence, the company stays ahead of competition. MTPL has developed ~50 robots in house, at half the cost of imported ones.

Exhibit 5: In-house development of moulds, robots - Strong competitive edge of MTPL



Source: company, ICICI Direct Research

Diversification into new products: Pumps, caps & enclosures

MTPL has entered into a new product segment, pumps, caps & enclosures under the health & hygiene category and expect ~ ₹ 100 crore revenue from this segment in the next three years. The company has incurred a capex of ₹ 15-16 crore for the manufacturing capacity of ~96 million pumps annually (8 mn monthly). MTPL plans to add similar capacity in the next two years after gauging the demand outlook. The gross margin of the product is almost double the company level margin, which will help drive margin expansion, going forward. The company has already signed major clients for its pump business, which includes Reckitt Benckiser, Wipro, Godrej, and Asian Paints.

Exhibit 6: Pump business to grow ~3x in three years

Source: company, ICICI Direct Research

Increasing contribution from food & FMCG industry

The food & FMCG (F&F) segment revenue contribution to total topline has increased from mere 6% in FY16 to 23% in FY20. This segment largely serves the edible oil/ghee and ice cream segment. As the FMCG business is 100% IML based packaging, it commands EBITDA margin of ~30-35% much higher than company level EBITDA margin of ~18%. The conversion of tin to plastic in the edible oil/ghee segment and strong demand for packaged foods amid pandemic is likely to drive segment revenue at a CAGR of 25% in FY20-23E (higher than overall sales CAGR of 15%).

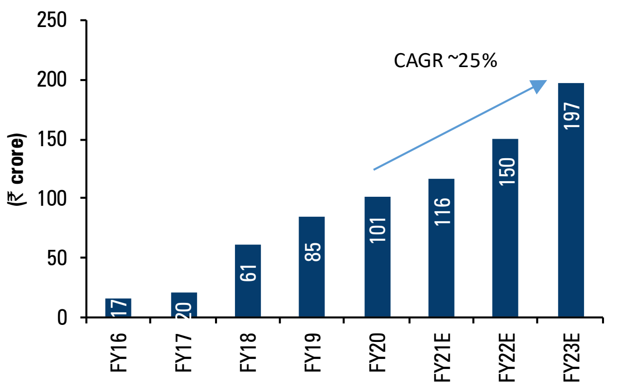
Edible oil/ghee segment: As per the company, conversion of tin to plastic containers in the edible oil/ghee segment is ~₹ 1200 crore opportunity. The company has launched different SKUs in the Q-packs (5 litre, 10 litre, 15 litre) for edible oil/ghee manufacturers. The customers in this includes NK Protein, Goyal, Damani, Gulab, Halder group, etc. MTPL's revenue in this segment saw phenomenal growth of 48% YoY to ₹ 43 crore in FY20.

Ice cream/sweet pack: The company's revenue from the said business increased 54% YoY in FY20 to ₹ 48 crore. The client in this segment includes HUL, Amul, Arun, etc. While the ice cream segment of the company had a severe hit amid pandemic, the newly launched sweet boxes and hinge packs products in the same period saw significant demand due to a surge in packaged foods demand.

Exhibit 7: Strong customer base in F&F segment

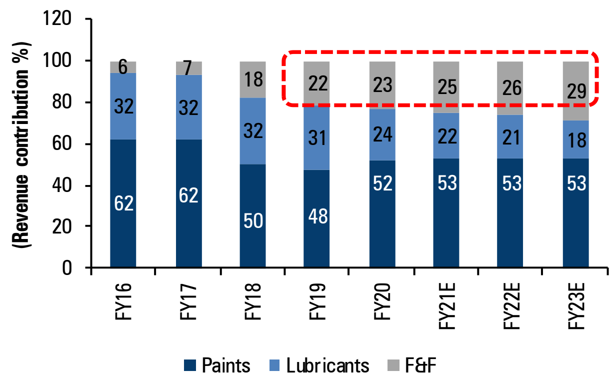
Source: company, ICICI Direct Research

Exhibit 8: New launches help drive F&F segment growth



Source: Company, ICICI Direct Research

Exhibit 9: Faster growth to lead higher F&F contribution



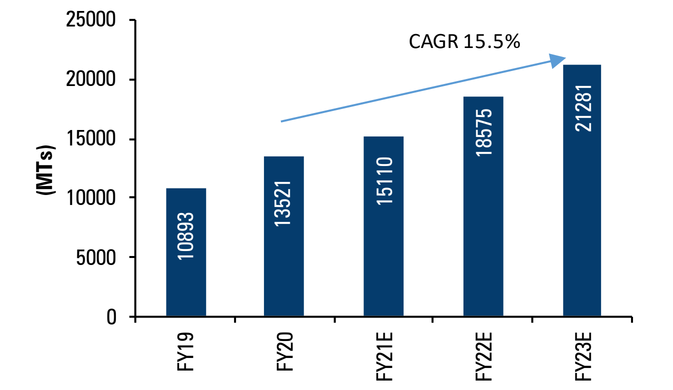
Source: Company, ICICI Direct Research

Paint segment performance to remain healthy backed by strong clientele

With ~52% topline contribution, the paint segment has remained the largest topline contributor for MTPL since its existence. The company recorded strong segment revenue growth of 22% YoY in FY20 to ₹ 229 crore led by volume growth of 24% YoY.

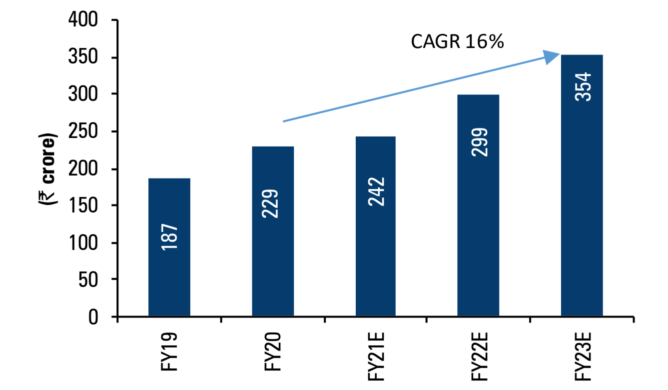
In the paint segment, the company has all major paint players such as Asian Paints, Berger Paints, Kansai Nerolac and Akzo Noble as its client. Asian Paints is a major contributor with 35% share to its overall topline (~66% of MTPL's paint segment revenue). The company has done greenfield expansion of ~6000 MT to serve demand from Asian Paints (~3000 MT each in Vizag and Mysore). Looking at strong demand from existing clients, MTPL is likely to increase the total capacity of these plants to ~14000 MT in the next three to five years. MTPL is also looking to set up a new plant in Kanpur to serve the requirements of Berger Paints. We build in paint segment revenue growth at a CAGR of 16% in FY20-23E led by capacity addition and increased wallet share from existing customers.

Exhibit 10: Strong volume growth in paint segment…



Source: Company, ICICI Direct Research

Exhibit 11: …to drive revenue at CAGR of 16%



Source: Company, ICICI Direct Research

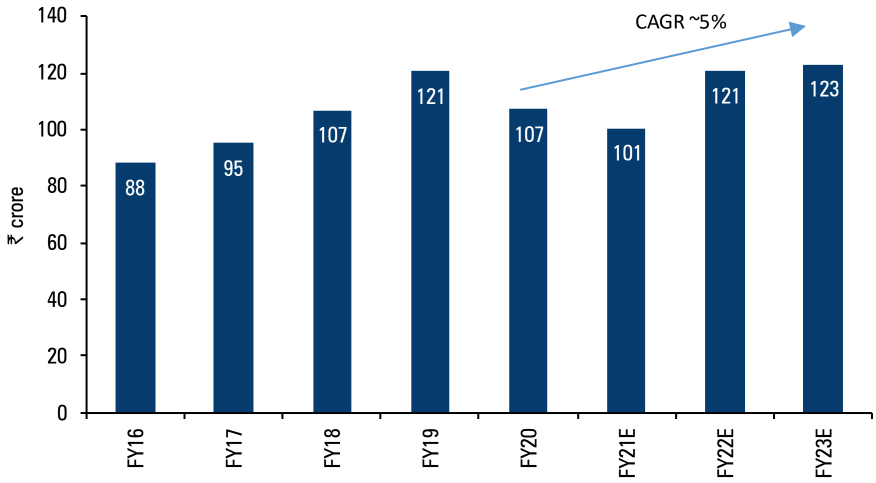
Exhibit 12: Strong customer base in paints segment

Source: company, ICICI Direct Research

Lubricant segment to grow steadily

The company's lubricant segment reported slower growth at 5% in the last five years mainly due to a slowdown in the automotive industry. While MTPL has strong clients such as Castrol, Shell, etc, the revenue contribution from this segment has declined from 32% in FY16 to 24% in FY20. Going forward, we believe the lubricant segment would grow at its historical growth rate of 5% supported by the launch of new QR coded IML packaging solution, which would help in replacement demand from FY22 onwards.

Exhibit 13: Lubricant segment likely to grow slightly better than historical rate



Source: Company, ICICI Direct Research

Exhibit 14: Strong customer base in lubricant segment

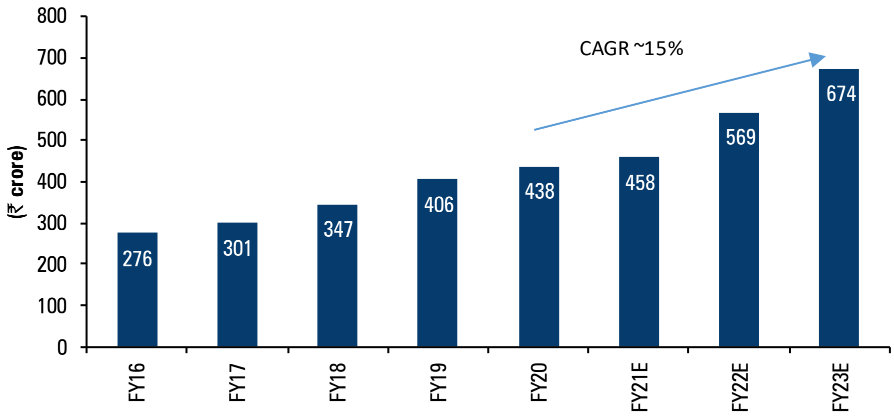
Source: company, ICICI Direct Research

Financials

Revenue CAGR of 15% in FY20-23 led by F&F segment

MTPL is likely to see consolidated revenue CAGR of 15% to ₹ 674 crore in FY20-23E led by strong growth in the F&F and paint segment. The F&F and paint segments are likely to grow at a CAGR of 25% and 16%, respectively in FY20-23E. We believe customer addition, strong revenue traction from pump business and wallet share gains by launching new products would help drive revenue for MTPL.

Exhibit 15: Strong revenue growth in FY20-23E

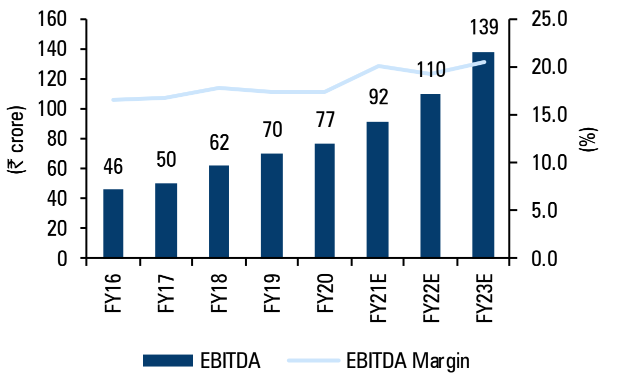


Source: Company, ICICI Direct Research

Higher revenue contribution of F&F segment to help drive profitability, going forward

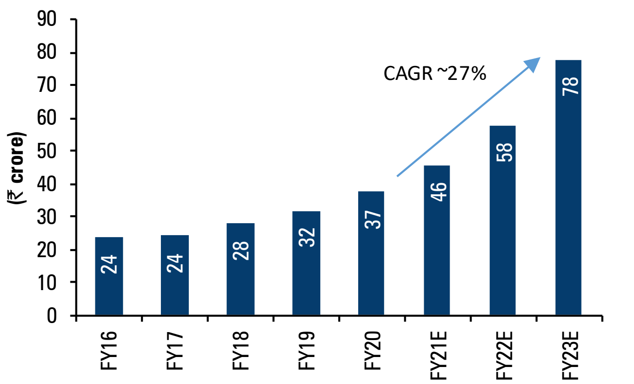
EBITDA margin expansion of ~700 bps in the last eight years was largely driven by rising contribution of IML based revenue and rising contribution from the F&F business. We believe the F&F segment revenue will continue to grow at a CAGR of 25% (much higher than company level growth of 15%), helping drive overall EBITDA margins, going forward. The EBITDA margin of F&F ranges at 30-35% compared to the company level margin of ~18%. Hence, rising contribution of F&F segment in overall topline would help drive overall EBITDA margin higher by ~300 bps from 17.5% in FY20 to 20.6% in FY23E. This, coupled with a reduction in gross debt from ₹ 107 crore to ₹ 47 crore (through increase free cashflows), would help saving in interest outgo. We believe PAT may see a strong CAGR of 27% in FY20-23E.

Exhibit 16: EBITDA to grow strongly in FY20-23



Source: Company, ICICI Direct Research

Exhibit 17: Robust PAT CAGR of 27% in FY20-23E

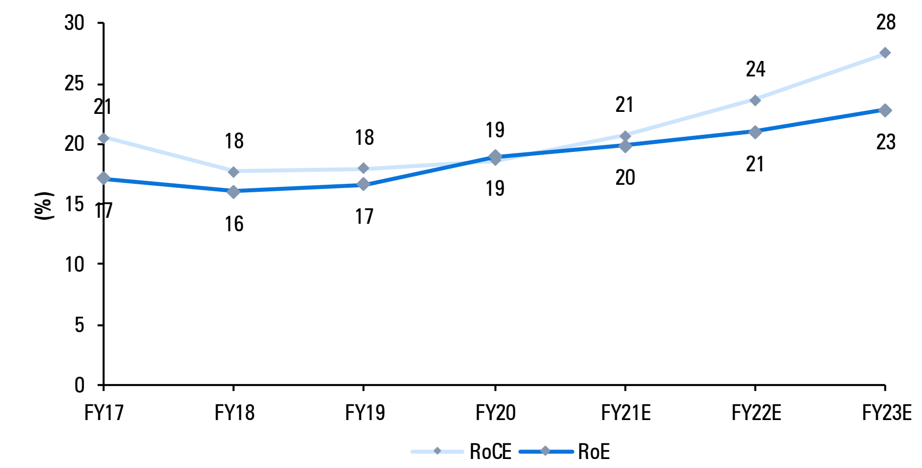


Source: Company, ICICI Direct Research

Higher RoCE, RoE on strong profitability, lean b/s

Historically, MTPL has reported strong RoCE and RoEs barring FY18-19 wherein the company's overseas subsidiary Mold-Tek Packaging FZE, UAE was yielding lower profit. MTPL closed down that subsidiary in FY19 and took an impairment loss of ~ ₹ 14 crore on investment made in UAE in FY19-20. The return ratios further started moving northwards with improved profitability of domestic business and improved cash conversion cycle. We believe higher operating cash flow would not only help fund MTPL's capex requirements, it will also help in debt reduction. This will help drive future RoCE, RoEs of the company.

Exhibit 18: Trend of return ratios, going forward



Source: Company, ICICI Direct Research

Exhibit 19: Valuation matrix (peers)

	Mcap	Revenue			EBITDA margin			PAT			D/E			RoCE			RoE			PE		
	₹ cr	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	Y21E	Y22E	Y23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
EPL Ltd	7,126	3058	3366	3746	21	20	21	247	281	340	0.3	0.3	0.2	18	19	21	16	16	17	33	27	21
Mold-Teck	1,234	458	569	674	20	19	21	46	58	78	0.4	0.3	0.1	21	24	28	20	21	23	27	21	16
Huhatamak	2,054	2463	2603	2902	9	11	11	96	127	155	0.3	0.3	0.2	14	20	22	13	18	19	21	16	13

Source: company, ICICI Direct Research

Risks & Concerns

Higher dependence on key customers

At present, the company is highly dependent on a single customer (Asian Paints alone contributes ~35% to total revenue). Also, MTPL does not have any long term contact with any of its key customers. Hence, loss of key customers or a significant reduction in demand from such customers could have an adverse effect on MTPL's financials.

Inability to pass on increased price of key raw materials

The key raw material used for manufacturing products are PPCP, HDPE, LLDPE. Raw material consumption as percentage of total revenue was 57% in FY20. The average price of key raw material such has HDPE has almost doubled in the last one year to ₹ 100/kg. Any sharp increase in prices and delay in passing on the same would lead to a significant loss in the company's gross margin, thereby impacting the overall profitability.

Regulatory concerns over use of polymer based products

In recent years, the government has initiated various actions to restrict single use of plastics given the rising environmental concern. While the company's product are manufactured through same polymer based products, at present it is not a part of any regulator concerns. However, any future action by the government to shift/change plastic components may lead to business risk for the company.

Financial Summary (consolidated)

Exhibit 20: Profit & Loss Statement

(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenue	**438.2**	**458.5**	**569.0**	**674.0**
Growth (%)	8.0	4.6	24.1	18.5
Raw material expens	249.7	260.1	326.9	379.7
Employee expenses	50.0	50.2	61.3	68.1
Other expenses	60.9	55.5	70.5	87.6
Total Operating Exp	361.4	366.6	458.7	535.4
EBITDA	**76.8**	**91.9**	**110.3**	**138.6**
Growth (%)	9.2	19.7	20.0	25.7
Depreciation	19.2	21.5	24.5	29.0
Interest	10.4	9.5	8.9	6.2
Other Income	1.2	0.6	0.2	0.2
PBT	48.3	61.4	77.1	103.6
Total Tax	10.9	15.8	19.4	26.0
PAT	37.5	45.7	57.7	77.6

Source: Company, ICICI Direct Research

Exhibit 21: Cash Flow Statement

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	37.5	45.7	57.7	77.6
Add: Depreciation	19.2	21.5	24.5	29.0
(Inc)/dec in Current Assets	2.7	-3.1	-31.5	-30.0
Inc/(dec) in CL and Provisions	-0.2	5.1	10.8	7.3
Others	10.4	9.5	8.9	6.2
CF from operating activities	69.6	78.7	70.3	90.1
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-25.9	-50.0	-25.0	-35.0
Others	-4.9	0.0	0.0	-2.0
CF from investing activities	-30.9	-50.0	-25.0	-37.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	3.5	-5.0	-25.0	-30.0
Dividend paid & dividend tax	-30.1	-10.0	-11.6	-16.6
Others	-11.9	-13.2	-8.9	-6.2
CF from financing activities	-38.5	-28.1	-45.6	-52.8
Net Cash flow	0.2	0.6	-0.2	0.3
Opening Cash	1.0	1.1	1.7	1.5
Closing Cash	1.1	1.7	1.5	1.8

Source: Company, ICICI Direct Research

Exhibit 22: Balance Sheet

(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	13.9	13.9	13.9	13.9
Reserve and Surplus	183.6	215.7	261.7	322.7
Total Shareholders funds	197.5	229.5	275.6	336.6
Total Debt	106.6	101.6	76.6	46.6
Other non current liabilities	11.7	11.7	11.7	11.7
Total Liabilities	**315.8**	**342.9**	**363.9**	**394.9**
Assets				
Gross Block	257.4	307.4	332.4	367.4
Less: Acc Depreciation	54.8	76.3	100.8	129.8
Total Fixed Assets	214.2	242.6	243.2	249.2
Investments	0.0	0.0	0.0	0.0
Inventory	50.6	50.2	62.4	73.9
Debtors	58.9	61.6	76.4	90.5
Loans and Advances	0.2	0.2	0.2	0.2
Other CA	18.2	19.0	23.6	28.0
Cash	1.1	1.7	1.5	1.8
Total Current Assets	129.1	132.8	164.1	194.3
Creditors	18.0	21.4	24.9	29.5
Provisions	3.1	3.7	4.3	5.1
Other CL	26.1	27.3	33.9	35.7
Total Current Liabilities	47.2	52.3	63.1	70.4
Net current assets	81.8	80.4	101.0	123.9
Other non current assets	19.8	19.8	19.7	21.8
Total Assets	**315.8**	**342.9**	**363.9**	**394.9**

Source: Company, ICICI Direct Research

Exhibit 23: Key Ratios

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	13.5	16.5	20.8	28.0
Cash EPS	20.4	24.2	29.6	38.4
BV	71.2	82.8	99.4	121.4
DPS	10.9	3.6	4.2	6.0
Operating Ratios (%)				
EBITDA Margin	17.5	20.0	19.4	20.6
PAT Margin	8.6	10.0	10.1	11.5
Asset Turnover	1.7	1.5	1.7	1.8
Inventory Days	42.1	40.0	40.0	40.0
Debtor Days	49.1	49.0	49.0	49.0
Creditor Days	15.0	17.0	16.0	16.0
Return Ratios (%)				
RoE	19.0	19.9	20.9	23.1
RoCE	18.6	20.7	23.6	27.8
RoIC	18.2	20.4	23.0	27.1
Valuation Ratios (x)				
P/E	32.9	27.0	21.4	15.9
EV / EBITDA	17.4	14.5	11.9	9.2
EV / Net Sales	3.1	2.9	2.3	1.9
Market Cap / Sales	2.8	2.7	2.2	1.8
Price to Book Value	6.2	5.4	4.5	3.7
Solvency Ratios				
Debt / Equity	0.5	0.4	0.3	0.1
Current Ratio	6.0	5.2	5.6	5.6
Quick Ratio	3.7	3.2	3.4	3.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey	**Head – Research**	**pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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