

Mold-Tek Packaging (MOLPAC)

CMP: ₹ 822

Target: ₹ 935 (14%)

Target Period: 12 months

HOLD

July 29, 2022

Strong revenue growth drives Q1 performance...

About the stock: Mold-Tek Packaging is a leading player in the rigid packaging business and is into manufacturing decorative packaging containers for paint, lubricant, FMCG & foods (F&F) industry.

- It was the first to introduce in-mould label (IML) decorative products and QR coded packaging products in India
- While new product launches helped drive profitability of the company, its balance sheet remained strong with RoCE, RoE of ~18%, 19% respectively (3-year average)

Q1FY23 Results: Strong revenue growth in Q1 led by customer additions

- Strong revenue growth of 55% YoY to ~₹ 208 crore was led by ~49% volume growth. Favourable base and client additions drives volume in Q1
- The gross margin declined ~366 bps YoY due to high cost inventory. EBITDA margin decline was restricted at 99 bps YoY by better operating leverage
- PAT up ~80% YoY to ~ ₹ 22 crore; tracking sales growth in Q1

What should investors do? Mold-Tek's share price has grown by ~3x over the past five years (from ₹ 280 in July 2017 to ~₹ 822 levels in July 2022).

- We maintain our **HOLD** rating on the stock

Target Price and Valuation: We value the stock at ₹ 935 i.e. 30x P/E on FY24E EPS

Key triggers for future price performance:

- Capacity addition (13% in the next two years), new launches (foraying into pharma packaging) and increasing wallet share from existing clients are expected to drive revenue
- Aiming to increase EBITDA per kg to ₹ 42/kg from ₹ 35/kg in FY22. High margin 'pump' and IML based QR-coded products to drive EBITDA/kg
- Balance sheet to remain healthy with low debt, high RoCE, RoEs

Alternate Stock Idea: We like Supreme Industries in our coverage.

Supreme Industries (SIL) is India's leading plastic processing company with a presence in four major segments including piping systems, packaging products, industrial products & consumer product. It is the market leader in the PVC pipe industry with a value market share of 15%. It has a robust balance sheet with RoE & RoCE of 24% & 27% (five-year average)

- BUY with a target price of ₹ 2175



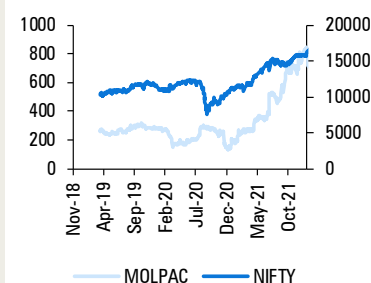
Particulars

Particular	Amount
Market Cap (₹ Crore)	2,733.6
Total Debt (FY22) (₹ Crore)	44.0
Cash & Inv (FY22) (₹ Crore)	16.4
EV (₹ Crore)	2,761.3
52 week H/L	863/ 445
Equity capital (₹ Crore)	15.6
Face value (₹)	5.0

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	35.1	33.7	32.1	33.5	34.2
FII	8.3	9.2	10.3	10.5	12.0
DII	14.3	15.0	16.2	15.7	16.8
Others	42.3	42.1	41.3	40.3	37.0

Price Chart



Recent event & key risks

Key Risk: (i) Strong growth in the FMCG segment (ii) Delay in passing on high input prices

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	2 Year CAGR (FY22-FY24E)
Net Sales	405.7	438.2	478.9	631.5	16.0	793.4	915.5	20.4
EBITDA	70.3	76.8	94.5	120.7	19.1	144.6	180.8	22.4
EBITDA Margin (%)	17.3	17.5	19.7	19.1		18.2	19.7	
Net Profit	31.9	37.5	48.0	63.7	21.4	80.7	102.6	27.0
EPS (₹)	11.5	13.4	17.2	20.4		24.3	30.9	
P/E (x)	71.3	61.2	47.8	40.4		33.9	26.6	
RoE (%)	16.7	19.0	18.7	13.9		22.6	22.8	
RoCE (%)	18.0	18.6	20.1	18.6		26.1	26.5	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Strong revenue growth on a favourable base and client additions

- Revenue up by 55% YoY to ₹ 208 crore led by ~49% volume growth in Q1FY23. Lube segment reported strong revenue growth of ~90% YoY to ₹ 55 crore led by new customer additions. Food & FMCG (F&F) segment revenue increased 69% YoY to ₹ 51 crore led by 66% volume growth supported by client additions, demand recovery from both edible oil and ice cream segment. Paint segment revenue increased ~43% YoY to ₹ 102 crore largely on favourable base.
- On a three-year basis, revenues grew at CAGR of 21% led by 12% volume growth. Segment wise, Paints, F&F and Lubs revenue grew at CAGR of 22%, 21% and 20% respectively
- The gross margin declined 366 bps YoY in Q1FY23 mainly due to use of high cost inventory. The EBITDA margin came in at ~18%, down 99 bps YoY tacking lower gross margins. The EBITDA per kg improved on a QoQ basis to ₹ 41, however down from ₹ 42 as compared to same period last year
- PAT was up by ~80% YoY to ₹ 22 crore, tracking strong topline growth

Q1FY23 Earnings Conference Call highlights

Demand Outlook:

- Mold-Tek is continuous witnessing strong demand traction from F&F players. The F&F companies are upgrading packaging of their products post opening up the economy. Mold-Tek has 3 confirmed projects and would be receiving the 4th project in the coming few weeks. The revenue potential is ~₹ 40 crore from all these four projects
- The company sees strong demand from the lubricants business led by customer addition (Exxonmobil, DEF). The management expects volume offtake from the lubricants segment to go up except for Q2FY23 where it expects a dip in demand for lubricants due to monsoon
- Mold-Tek's pump segment is seeing an average performance and has added few new clients. The company has an order from Wipro of ~3 million units per month. However, the current order is at 8 lakh units per month. The volumes in this segment are expected to rise after Wipro sets up its plant in Hyderabad by the end of FY23. Company expects ~50% capacity utilization by the next year by adding new clients
- The pump capacity is fungible and company can utilize the current machines for their thin wall packaging products
- The company is increasing its capacity at its plants in Mysore (from 54000 MT to 6300 MT) and Vizag (From 4800 MT to 6000 MT) to meet the increasing demand from Asian Paints. It is also in talks with Berger Paints and another paint company for creating additional capacities for them in the north. Demand from Paints segment is expected to increase from August 2022 onwards when paint companies start building stocks in anticipation of the festival season

Margins:

- Mold-Tek passes its raw material price changes on a monthly or a quarterly basis to its clients depending upon its arrangements with them
- The management expects EBITDA margin to improve in the upcoming quarters led by softening of raw material prices
- OTC pharma commands higher EBITDA per kg (in the range of 180-200/kg) as compared to ₹ 80-120 EBITDA per kg of F&F and ₹ 30-40 EBITDA per kg of Paints and Lubes respectively

Capex and Capacity Expansion:

- The company has envisaged a Capex of ₹250 crore for the next 2.5 to 3 years. Out of this, Mold-Tek has planned to invest ~₹125 crore in FY23 to enhance various capacities, set up new a plant at Daman to fulfill the requirements of FMCG and Food Companies
- Mold-Tek is planning to enhance its capacity from 44,000 tons to 54,000 tons by the end of FY23

Other:

- Top five clients contribute ~65% of overall sales of the company. Asian Paints is the largest customer of the company followed by HUL, Castrol, Hutson Agro.
- The key raw material is polypropylene copolymer and company procures 95% of their raw materials requirements domestically.
- The company's pilot plant to produce OTC products and sampling of pharma products would be starting by September or October 2023
- The capacity of this Injection Blow Moulding (IBM) pilot plant will be fully utilized as the company has received orders from one of the major FMCG companies in India for an OTC product. The moulds for the same are under development
- Mold-Tek is also planning on doubling its IML label printing capacity
- The company passes on price hikes with the lag of one to three months (depending on client's profile).

Exhibit 1: Peer Comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Shaily Eng	1,750	361	566	706	863	17	14	16	17	22	35	56	80	11	11	15	19	12	10	13	16	72	50	31	22
Mold Tek	2,734	479	631	793	916	20	19	18	20	48	64	81	103	20	19	26	26	19	14	23	23	48	40	34	27
Time Technoplast	2,352	3005	3650	4076	4706	13	14	14	14	108	192	227	279	9	11	13	14	6	9	11	12	22	12	10	8
EPL	5,530	3092	3433	3738	4077	20	17	18	19	244	221	272	334	16	13	16	18	15	12	15	17	23	25	20	17

Source: Company, ICICI Direct Research

We believe, Mold-Tek Packaging has reported a strong Q1FY23 performance led by robust volume growth. The company has recorded its highest ever quarterly volume of 9000 MT, up 49% YoY. Mold-Tek has increased its FY23 capex guidance from ₹ 80 crore earlier to ₹ 125 crore, seeing strong demand traction from all business segments. The company has also received trial order for its new OTC pharma packaging products. The new IBM (injection blow moulding) plants will start operational from H2FY23. The company expects production of new pharma products to ramp up from FY24 onwards. Going forward, we build in revenue CAGR of ~20% in FY22-24E supported by volume CAGR of 19%. We believe volume growth will be driven by capacity addition, new product launches and client additions. However, we see a limited upside in the EBITDA margin (in line of FY21 EBITDA margin) considering volatility in the raw material prices and low operating leverage from new capacities. We believe the current market price is discounting all its near term positives. Hence, we maintain our HOLD rating on the stock with positive future outlook. We value the stock at 30x FY24E EPS to arrive at a revised target price of ₹ 935/share.

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	207.8	133.7	55.4	177.9	16.8	Strong volume growth of ~49% YoY, largely on a favourable base drives topline
Other Income	0.1	0.1	11.1	1.1	-88	
Raw Material Exp	129.0	78.5	64.3	108.8	18.5	Use of high cost inventories drags gross margin (down by 337 bps YoY)
Employee cost	10.9	8.9	22.2	10.6	2.4	
Other Expenditure	30.8	21.1	46.0	26.7	15.4	
Total Expenditure	170.7	108.5	57.3	146.1	16.8	
EBITDA	37.2	25.2	47.2	31.8	16.9	
EBITDA Margin (%)	17.9	18.9	-99 bps	17.9	2 bps	Better operating leverage restricted EBITDA margin fall at 100 bps
Depreciation	7.1	6.2	15.8	6.9	3.8	
Interest	1.0	2.6	-61.9	1.1	-10.8	
PBT	29.2	16.6	76.1	24.8	17.4	
Total Tax	7.4	4.5	66.6	7.5	-0.9	
PAT	21.7	12.1	79.7	17.3	25.3	Lower PAT growth is led by decline in EBITDA margin and higher tax provisioning

Key Metrics*

Paints	101.8	71.0	43.4	92.5	10.1	Favourable base and capacity expansion drives topline
Lubes	55.1	29.0	89.9	42.7	29.0	Customer addition helped drive segment revenue
FMCG	50.9	30.2	68.5	42.5	19.9	Customer additions and wallet share gains drive segment revenue

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	716.4	793.4	10.8	867.4	915.5	5.5	We have revised our revenue estimates upside factoring in Q1 performance. We build in revenue CAGR of 21% FY21-24E led by customer addition and launch of new products
EBITDA	137.6	144.6	5.1	171.8	180.8	5.2	
EBITDA Margin (%)	19.2	18.2	-97bps	19.8	19.7	-7bps	We believe gross margin pressure to ease from H2FY23 onwards supported by stable raw material prices
PAT	77.4	80.7	4.2	98.0	102.6	4.7	
EPS (₹)	23.3	24.3	4.2	29.5	30.9	4.7	

Source: ICICI Direct Research

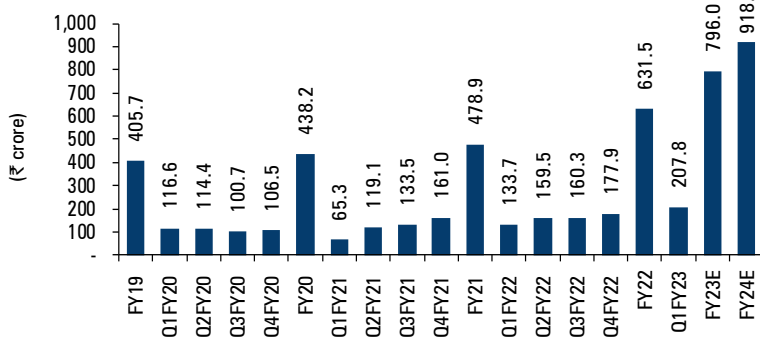
Exhibit 4: Assumptions

	Current (%)					Previous		Comments
	FY20	FY21	FY22E	FY23E	FY24E	FY23E	FY24E	
Paints	22.5	10.1	36.5	18.0	10.3	8.4	15.4	We model segment revenue CAGR of 14% in FY22-24E led by capacity additions and incremental demand from existing clients
Lubes	(11.1)	(2.2)	33.0	26.3	2.3	9.7	5.5	We have tweaked our revenue estimate upward for FY23E factoring in new customer addition in Q1FY23 and launch of new products
FMCG	18.9	19.9	20.9	39.1	15.7	24.9	22.3	We model segment revenue CAGR of 27% for FY22-24E supported by new product launches and customer additions

Source: ICICI Direct Research

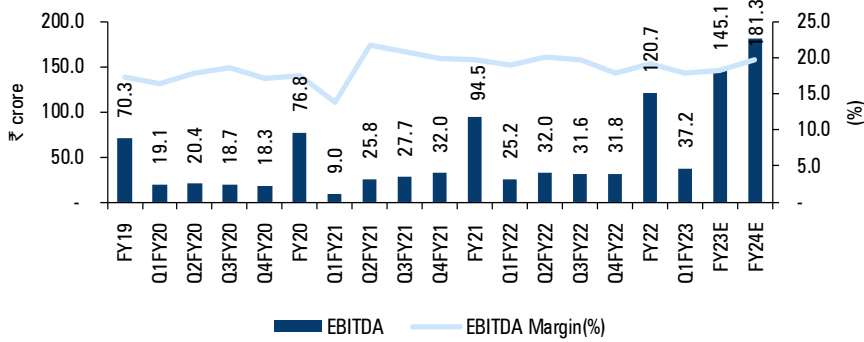
Financial story in charts....

Exhibit 5: Volume driven revenue growth



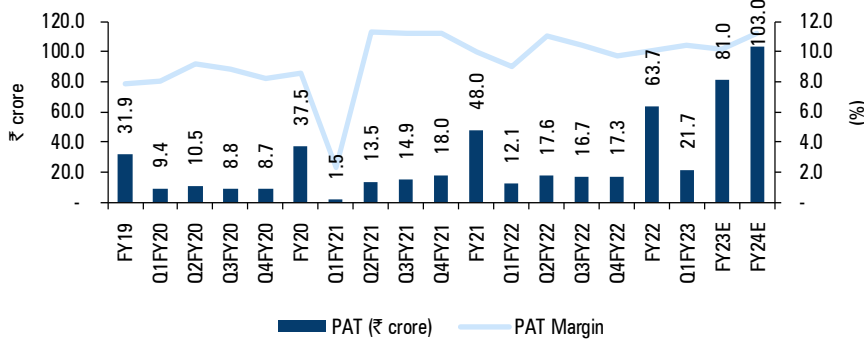
Source: Company, ICICI Direct Research

Exhibit 6: Usage of high cost inventory hits EBITDA margin



Source: Company, ICICI Direct Research

Exhibit 7: PAT growth trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E
Revenue	478.9	631.5	793.4	915.5
Growth (%)	9.3	31.9	25.6	15.4
Raw material expense	272.4	384.8	484.3	549.3
Employee expenses	32.9	38.7	44.4	51.3
Other expenses	79.1	95.5	120.1	134.2
Total Operating Exp	384.4	510.8	648.8	734.8
EBITDA	94.5	120.7	144.6	180.8
Growth (%)	23.1	27.7	19.8	25.0
Depreciation	21.5	26.4	31.1	35.7
Interest	9.9	9.3	5.4	7.4
Other Income	0.9	1.6	0.3	0.3
PBT	63.9	86.5	108.4	137.9
Total Tax	16.0	22.9	27.8	35.3
PAT	48.0	63.7	80.7	102.6

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit after Tax	48.0	63.7	80.7	102.6	
Add: Depreciation	21.5	26.4	31.1	35.7	
(Inc)/dec in Current Assets	-41.1	-85.4	61.2	-67.3	
Inc/(dec) in CL and Provisions	22.3	-11.6	90.1	20.1	
Others	9.9	9.3	5.4	7.4	
CF from operating activities	60.6	2.4	268.4	98.6	
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-58.3	-51.9	-125.0	-100.0	
Others	11.1	-14.8	10.0	0.0	
CF from investing activities	-47.2	-66.7	-115.0	-100.0	
Issue/(Buy back) of Equity	0.1	1.7	1.0	0.0	
Inc/(dec) in loan funds	-7.8	-54.9	20.0	20.0	
Dividend paid & dividend tax	-8.4	-22.5	-2.7	-10.0	
Others	8.9	149.0	-184.1	-7.4	
CF from financing activities	-7.2	73.3	-165.8	2.6	
Net Cash flow	6.2	9.0	-12.3	1.2	
Opening Cash	1.1	7.4	16.4	4.0	
Closing Cash	7.4	16.4	4.0	5.2	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	14.0	15.6	16.6	16.6
Reserve and Surplus	242.0	441.5	340.8	433.4
Total Shareholders funds	255.9	457.1	357.4	450.1
Total Debt	98.9	44.0	64.0	84.0
Other non current liabilities	12.1	15.1	15.1	15.1
Total Liabilities	366.9	516.2	436.5	549.1
Assets				
Gross Block	315.7	365.4	490.4	590.4
Less: Acc Depreciation	76.3	102.7	133.8	169.5
Total Fixed Assets	251.0	276.5	370.4	434.7
Investments	0.0	0.0	0.0	0.0
Inventory	70.8	95.9	76.1	100.3
Debtors	90.1	143.0	97.8	138.0
Loans and Advances	0.3	0.6	0.6	0.6
Other CA	7.8	14.9	18.7	21.6
Cash	7.4	16.4	4.0	5.2
Total Current Assets	176.4	270.8	197.2	265.7
Creditors	32.2	28.1	97.8	112.9
Provisions	4.4	4.9	16.9	19.5
Other CL	33.0	25.0	33.3	35.8
Total Current Liabilities	69.6	58.0	148.0	168.2
Net current assets	106.8	212.8	49.2	97.5
Other non current assets	9.1	26.9	17.0	16.9
Total Assets	366.9	516.2	436.5	549.1

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	17.2	20.4	24.3	30.9
Cash EPS	24.9	28.8	33.6	41.6
BV	91.7	146.2	107.5	135.3
DPS	3.0	7.2	0.8	3.0
Operating Ratios (%)				
EBITDA Margin	19.7	19.1	18.2	19.7
PAT Margin	10.0	10.1	10.2	11.2
Asset Turnover	1.5	1.7	1.6	1.6
Inventory Days	54.0	55.4	35.0	40.0
Debtor Days	68.7	82.7	45.0	55.0
Creditor Days	24.6	16.2	45.0	45.0
Return Ratios (%)				
RoE	18.7	13.9	22.6	22.8
RoCE	20.1	18.6	26.1	26.5
RoIC	19.2	18.8	25.4	25.9
Valuation Ratios (x)				
P/E	51.7	43.6	36.6	28.8
EV / EBITDA	32.2	24.7	20.8	16.8
EV / Net Sales	6.4	4.7	3.8	3.3
Market Cap / Sales	6.2	4.7	3.7	3.2
Price to Book Value	9.7	6.1	8.3	6.6
Solvency Ratios				
Debt / Equity	0.4	0.1	0.2	0.2
Current Ratio	4.6	7.7	1.7	2.0
Quick Ratio	2.7	4.8	1.0	1.2

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Consumer Discretionary universe

Sector / Company	Rating	M Cap		EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)			RoE (%)			
		(₹ Cr)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints (ASIPAI)	Buy	3,16,374	33.4	32.2	47.1	56.6	98.7	102.6	70.0	58.3	64.2	65.3	46.6	39.3	29.6	27.1	36.4	39.1	25.0	23.0	30.2	31.9
Berger Paints (BERPAI)	Hold	60,123	7.4	8.6	9.9	11.9	83.5	72.2	62.6	52.2	50.4	45.4	39.9	33.7	24.9	23.3	27.9	30.4	21.3	21.2	25.2	27.0
Kansai Nerolac (KANNER)	Reduce	21,826	9.8	6.9	9.7	12.1	41.1	58.3	41.6	33.5	25.9	33.6	25.9	21.4	17.2	12.1	16.8	19.5	13.2	9.2	12.7	14.6
Pidilite Industries (PIDIND)	Hold	1,22,938	22.2	23.8	26.0	32.2	109.2	101.9	93.2	75.2	72.9	66.4	62.0	50.4	23.8	22.2	22.6	25.6	20.2	18.8	19.1	21.4
Bajaj Electricals (BAJELE)	Hold	13,013	16.5	10.8	22.0	29.5	68.7	104.6	51.5	38.4	43.7	51.6	38.5	29.2	15.1	13.5	19.1	22.1	10.7	7.8	14.9	17.2
Crompton Greaves(CROGR)	Hold	24,445	9.8	9.2	8.4	10.5	39.6	42.3	46.6	37.1	32.4	31.9	28.4	23.5	34.4	16.2	16.0	19.7	31.9	24.0	20.5	22.6
Havells India (HAVIND)	Hold	77,239	16.7	19.1	19.4	25.1	74.3	64.6	63.7	49.2	48.6	42.7	43.0	34.0	24.9	23.7	24.6	31.4	20.1	19.9	20.9	26.6
Polycab India (POLI)	Buy	34,402	59.3	61.4	67.1	77.6	38.8	37.5	34.3	29.7	30.1	26.3	22.5	19.4	20.6	20.2	21.8	22.1	17.9	15.6	16.5	16.7
Symphony (SYMLIM)	Hold	6,639	15.3	17.3	26.1	34.8	62.0	54.9	36.3	27.3	46.5	40.1	27.9	21.1	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	Hold	9,667	4.7	5.3	5.4	6.8	47.5	42.0	41.5	33.2	30.1	28.4	27.1	21.7	23.9	21.2	23.7	26.6	16.7	16.2	17.9	20.3
Voltas Ltd (VOLTAS)	Hold	32,842	16.0	15.3	21.0	28.9	62.1	64.9	47.3	34.3	50.5	47.2	39.2	27.9	15.0	14.0	18.0	21.0	10.6	9.2	13.8	16.6
Amber Enterprises (AMBEN)	Hold	8,339	24.7	33.0	60.4	86.2	100.1	74.9	41.0	28.7	37.6	31.6	22.8	17.0	7.7	6.8	10.5	13.4	5.2	6.4	11.2	13.8
Dixon Technologies (DIXTEC)	Buy	21,752	27.3	32.1	55.4	83.6	134.4	114.3	66.1	43.8	75.9	57.7	37.5	26.7	23.5	17.7	27.0	31.4	21.7	19.1	30.9	34.1
Supreme Indus (SUPIND)	Buy	24,249	77.0	76.2	77.1	87.0	24.8	25.0	24.8	22.0	18.3	19.1	19.2	16.6	33.1	25.9	24.2	24.9	30.9	25.2	23.9	24.1
Astral Ltd (ASTPOL)	Hold	36,460	20.3	24.4	28.8	35.1	89.3	74.3	63.0	51.7	55.9	47.5	40.6	33.8	27.5	26.6	27.3	28.5	21.5	21.0	21.4	22.3
Time Techno (TIMTEC)	Hold	2,352	4.8	8.5	10.0	12.4	21.8	12.2	10.4	8.4	7.6	6.1	5.2	4.5	8.7	11.3	12.8	14.1	5.7	9.3	10.6	11.9

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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