

MOLD-TEK PACKAGING LTD

PACKAGING

Q4FY19: improved volumes & earnings visibility; F&F grows yet again

Mold-Tek Packaging (MTEP) in Q4FY19 posted consolidated revenues of Rs. 104Cr. (↑10% YoY, ↑6%QoQ) aided by 9% volume growth driven by strong volumes offtake from the Edible Oil and Food & FMCG (F&F) segment. EBITDA during the quarter stood at Rs. 19Cr ↑12%/↑10% on YoY/QoQ basis respectively. MTEP's consolidated EBITDA Margin was 17.8% (+40bps YoY) while, EBITDA/kg at Rs. 32.1 was up 4% YoY. PAT for the quarter came in at Rs. 8.8cr ↑29%/↑15% YoY/QoQ respectively.

IML contribution at 60%/69% in volume/value terms during Q4FY19 is expected to remain strong. Further, with IML being the latest technology in rigid packaging and limited competition from peers (small scale operations) we believe for MTEP FMCG, Edible Oil, Ghee packs and new client wins will drive IML acceptance and thus higher volumes and margin performance. Further, commercialization of Mysuru & Vizag plants for Asian Paints will aid growth in its legacy business over FY20E/FY21E with improving EBITDA/kg of over Rs. 34/kg. We maintain BUY and with TP of Rs. 325 valuing it at 18x FY21E EPS.

BUY

Target Price: Rs 325

CMP : Rs 247
 Potential Upside : 32%
 Relative to Sector : Positive

MARKET DATA

No. of Shares : 2.77 cr
 FV (Rs) : 5
 Market Cap (Rs Cr.) : 672
 52-week High / Low : Rs 373/ Rs 202
 Avg. Daily vol. (6mth) : 15,536 shares
 Bloomberg Code : MTEP IN
 Reuters Code : MOLT.BO
 BSE Code : 533080
 NSE Code : MOLDTKPAC

Key Highlights

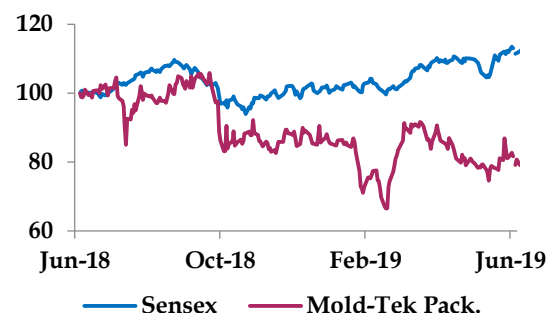
- F&F segment supports topline growth:** Q4FY19 topline growth of 10% was driven by volume growth of 9% wherein IML & Non-IML volume share grew by 60%/40% respectively YoY. Overall volume growth was driven by growth in F&F segment which reported 27% YoY growth in revenues. For FY19, MTEP posted volume growth of 12% YoY to 22,137 tn (590 tn from RAK), driven mainly by F&F (57% YoY), followed by Lubricant (7% YoY) and Paints (5% YoY). F&F is growing swiftly and has posted a robust 82% CAGR over FY15-19 to Rs. 85.3cr (21% of total revenues). The strong growth was supported by rapid customer additions (Mondelez is a key customer which accounts for ~30% of F&F segment revenues). We expect F&F revenues to be between Rs. 120-150cr by FY21E driven by the huge opportunity within FMCG sector to convert blow molded/glass/tin containers to IML containers. Management is guiding 15-20% production growth in FY20/FY21 (~50%/80% utilization in Vizag & Mysuru plants over FY20/FY21). We expect MTEP to report volume growth of 14/17% for FY20/21E given 1) Asian Paints' new plants utilization ramp up, 2) strong order book in edible oil packs and other F&F categories and 3) new client additions.

FINANCIAL SUMMARY (Consolidated)

Y/E	Sales	EBITDA	PAT	EPS	Change	P/E	RoE	RoCE	EV/EBITDA
March	(Rs Cr)	(Rs Cr)	(Rs Cr)	(Rs)	(YoY %)	(x)	(%)	(%)	(x)
FY19	406	70	32	11.3	13	27.7	16.4	17.5	13.8
FY20E	477	84	40	14.3	27	16.9	18.1	19.8	8.7
FY21E	556	100	49	17.6	23	13.7	19.2	22.2	7.4

Source: Company, Axis Securities; CMP as on 11th June 2019

PRICE PERFORMANCE



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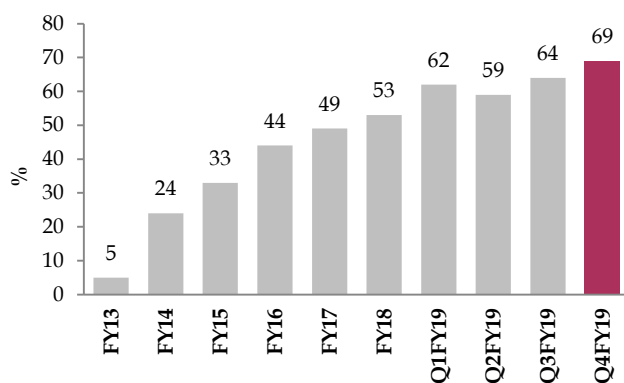
Key Highlights (Cont'd)

- EBITDA Margins at 17.8% up 40bps YoY:** During Q4FY19, EBITDA Margin at 17.8% expanded 40bps/70bps YoY/QoQ respectively. Gross Margin improved by 50bps (better product mix) at 40.8% vs 40.3% reported in Q4FY18, however, due to higher staff costs EBITDA Margin expanded modestly by 40bps YoY owing to higher staff costs (up 50bps YoY). Management guided that input prices have now stabilized and are trading at around Rs. 95/kg in May 2019 (closed FY19 with average raw material price of Rs. 87/kg). F&F segment formed 27% of its total revenues (versus 21%/24% in Q4FY18/Q3FY19 respectively). IML volumes stood at 60% in Q4FY19 higher than 52% reported in Q4FY18. As a result, overall EBITDA/kg of India business was Rs. 32.1/kg. The management maintained its target of achieving Rs. 34-35/kg over FY20E/FY21E led by continued traction in F&F (100% IML), a breakthrough in HUL and Hatsun for ice-cream packs and new client orders (amongst the leading HFD player), food aggregators etc. For the quarter, value share of paints/lube segment in Q4FY19 was 46%/27% respectively.
- Food & FMCG (F&F) segment a key growth driver which continues to drive EBITDA/Kg:** IML share in volume and value terms in Q4FY19 stood at 60%/69% respectively vs 52%/53% in Q4FY18 driven by higher sales from FMCG segment (27% vs 21%/24% YoY/QoQ resp). In Q4FY19 MTEP recorded 1,205tons of volume sales and Rs. 26.5cr of revenues in the F&F segment. This is an increase of 48%/68% YoY in the Food & FMCG segment. This growth is despite a dip in sales of Mondelez sales which was impacted due to shift in low value smaller packs. Mondelez sales are likely to normalize from FY20 (FY19 Mondelez contributed to Rs. 25crore). However, other FMCG sales (ice-cream, ghee, edible oil packs) contributed to Rs. 25crore in FY19 which negated the impact of drop in sales from Mondelez. For FY20E/FY21E, management expects the F&F sales full year contribution to rise to 24-25%. We believe launch of new products and growing acceptance of square packs and generic thin wall containers for ice-cream packs during the peak summer season and Edible Oil packaging should drive growth (volume/price) for MTEP in the F&F segment thereby making it the leader domestically. Further a breakthrough in HUL and Hatsun for their ice-cream packaging requirements during peak summer season (will add Rs. 25-30cr to revenues annually in FY20 to start with which could scale up further). For FY20, MTEP targets to achieve Rs. 50-60crore revenues from Edible Oil segment alone leading us to believe that F&F as a whole could clock revenues of Rs. 120-150cr over the next couple years. As F&F is 100% IML which generates EBITDA/kg of ~Rs. 70 vs Rs. 30-35 in the overall business. Any increase in F&F share will only raise overall EBITDA/kg for the company in the coming years despite an increase in low-margin paint volumes. We expect EBITDA/kg of Rs. 33.4 and Rs. 34.2 over FY20E/FY21E vs Rs. 32.6 reported for fiscal year 2019.
- Shutdown of RAK Plant:** In Q4FY19, MTEP has shut down 100% of its operations at RAK, UAE plant. For the same it took a write off of Rs. 11.5crore (Rs. 10cr equity value and Rs. 1.5 crore receivables) during Q4FY19. The RAK plant had to be shutdown due to lack of demand in GCC leading the capacity to remain idle. However, in Q4FY19 itself the management had started moving the machined from RAK to India and in Q4FY19 of the total 7 machines 4 had already been brought to India and put to commercial use at Daman and Hyderabad plants. For FY19, RAK generated sales of Rs. 13 crore and EBITDA/PAT loss stood at Rs. 17.5cr/Rs. 39.3cr respectively. A further write off of Rs. 1.5-2cr is expected during FY20.
- Outlook:** We expect F&F segment (generic pail, thin wall containers, small retail square ghee & edible oil packs) and Asian Paints oriented Mysuru and Vizag plants to be the key growth drivers of MTEP's top-line/ bottom-line over FY20-21E. This coupled with continuously growing IML revenue share would enable MTEP to post robust revenue and profit growth of 17%/26% CAGR respectively over FY19-FY21E. Our confidence stems from the fact that management has maintained its volume guidance to 15-20% over FY20-21E and encouraging demand outlook for Edible Oil Packaging to further aid performance of F&F Segment. Further, a pickup in Mondelez sales during FY20E compared to FY19 (lower due to resizing of packs) and new deal wins from FMCG players (HFD player in pipeline) will ensure improving the product mix in favour of higher margin IML segment for MTEP. We believe, EBITDA/kg to be at Rs. 34.2 by FY21E which is in line with management guidance of between Rs. 34 - Rs. 35/kg by FY20E/21E. Given the strong earnings visibility and superior margin profile going forward **we maintain "BUY" with unchanged TP of Rs. 325 valuing it at 18x FY21E EPS.**

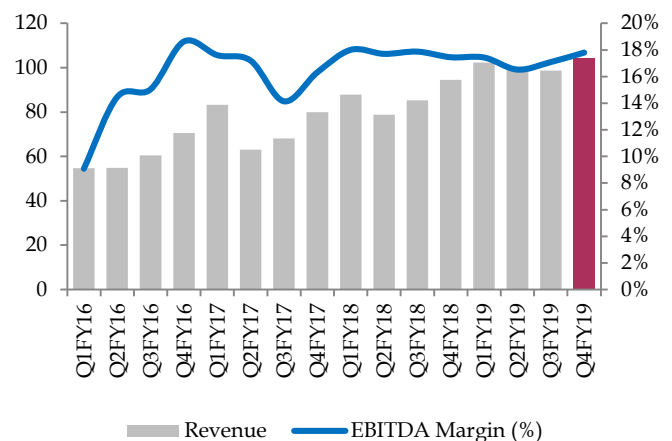
• **Other Key-Takeaways:**

- ✓ **Capex:** FY19 MTEP incurred a total capex of Rs. 73 crore. For FY20, capex intensity is expected to reduce to Rs. 20 - 25crore which includes amount to be spent on setting up a 3000MT unit in North India and expanding edible oil capacities. Management guided for FY20 capex to be funded through internal accruals.
- ✓ **Update on Mysuru and Vizag plants:** Commercial production is expected to begin from Q1FY20. The combined capacity of both these plants put together is 6,000 tons. Management guided to report volumes of ~2,400-3,000 tons in FY20 (@50% utilization levels). Both these plants are expected to commence revenue contribution from Q2FY20.
- ✓ **Value breakup:** Paint/Lube/ FMCG, 46/27/27% resp.
- ✓ **Volume breakup:** Paint/Lube/ FMCG, 49/29.5/21.5% resp.
- ✓ The company got allotted 4.3 acres (Rs. 50cr) of industrial land by TSIIC at Sultanpur for its future expansion (11,000MT) in Hyderabad.
- ✓ New orders from major companies like Goodricke, Ozone, Haldiram, Prestige, Arun, Rajyalakshmi and Pankaj in Food and FMCG are bagged and supplies started during 4QFY19. Healthy pipeline of customers is noted as company is in advanced talks with a leading MNC manufacturing HFD for one of their products.

F&F led by Edible Oil continue to drive rise in IML share



EBITDA Margin sustained led by higher IML rev. share



Source: Company, Axis Securities

Results Update

(Rs.Cr.)	Quarterly Performance					Financial Year Ending			
	Q4FY19	Q4FY18	% Change (YoY)	Q3FY19	% Change (QoQ)	FY19	FY20E	FY21E	2Yr CAGR
Sales	104	95	10	99	6	406	477	556	17%
Other Op. Inc	0.0	0.0		0.0		0	0	0	
Total Revenue	99	85	10	99	6	406	477	556	17%
Expenditure									
Net Raw Material	62	56	9	60	3	245	286	332	
Staff cost	11	10	16	11	5	43	52	60	
Other Exp	12.7	11.9	7	11	12	47	56	64	
Total Expenditure	86	78	10	82	5	336	394	455	17%
EBIDTA	19	16	12	17	10	70	84	100	19%
OPM (%)	17.8%	17.4%	+40bps	17.1%	+70bps	17.3%	17.5%	18.0%	
Oth. Inc.	0.2	0.2	(1)	0.3	(27)	1.1	1.3	1.5	
Interest	2.1	1.5	44	2.0	9	8	8	7	
Depreciation	4.5	3.5	29	4.0	12	16	16	18	
PBT	12	11	3	11	8	48	61	76	26%
Tax	3.3	4.9	(32)	3.6	(7)	16	23	28	
PAT	8.8	6.8	29	7.6	15	32	39	48	23%
NPM (%)	8.5%	7.2%	+130bps	7.7%	+80bps	7.8%	8.1%	8.7%	
Adjusted PAT	8.8	6.8	29	7.6	15	32	40	49	25%
EPS (Rs.)	3.2	2.5		2.8		11.3	14.3	17.6	25%

Source: Company, Axis Direct Research

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