

## MOLD-TEK PACKAGING LTD

### PACKAGING

#### Q3FY19: Consecutive 5<sup>th</sup> quarter of double-digit topline growth

Mold-Tek Packaging (MTEP) in Q3FY19 posted consolidated revenues of Rs. 98.7 Cr. (↑16% YoY, ↓2%QoQ) led by mix of volume and pricing growth. Volumes growth was on account of growth in Edible Oil packaging, Food & FMCG (F&F) and Paints segment. EBITDA during the quarter stood at Rs. 17Cr ↑11%/↑12% on YoY/QoQ basis respectively. EBITDA Margin at 17.1% was down 80bps YoY mainly due to RM pass through lag effect. PAT for the quarter came in at Rs. 7.6Cr ↑13%/↑5% YoY/QoQ respectively.

IML contribution remained strong at 60%/64% in volume/value terms during Q3FY19. We expect the momentum to continue, backed by rising contribution of F&F, healthy demand from Edible Oil (square IML packs), Generic Thin Wall containers (HUL & Hatsun roped in as customers for ice-cream packing), commercialization of Mysuru & Vizag plants for Asian Paints in Q4FY19. We expect, EBITDA/kg to sustain over Rs. 34/kg due to higher growth in F&F segment by FY20E which is 100% IML packaging by. We maintain BUY rating and our TP at Rs. 325 over the medium to long term.

CMP : Rs 229  
 Potential Upside : 31%  
 Relative to Sector : Positive

#### MARKET DATA

No. of Shares : 2.77 cr  
 FV (Rs) : 5  
 Market Cap (Rs Cr.) : 634  
 52-week High / Low : Rs 363/ Rs 210  
 Avg. Daily vol. (6mth) : 22,633 shares  
 Bloomberg Code : MTEP IN  
 Reuters Code : MOLT.BO  
 BSE Code : 533080  
 NSE Code : MOLDTKPAC

### Key Highlights

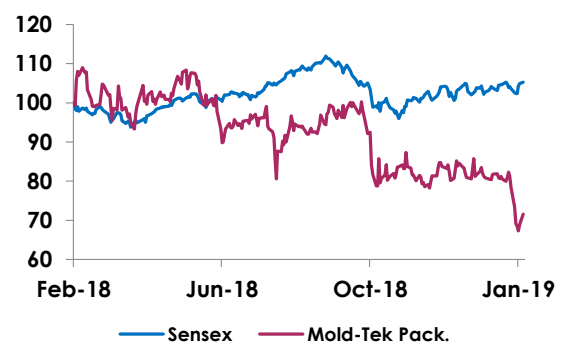
- F&F segment supports topline growth:** Topline growth of 16% was driven by volume growth of 8% wherein IML & Non-IML volume share grew by 60%/40% respectively. Overall volumes came in lower owing to sharp drop in volume sales from Lubes segment (7% lower YoY) while Paints & F&F reported healthy volume growth of 9%/47% YoY respectively. Growth in IML volumes is largely attributed to uptick in volumes across F&F and Paints segment. We expect Lubes volumes to stabilize going ahead with Paints segment starting to contribute incrementally from FY20 upon commercialization of Mysuru and Vizag plant. Share of F&F segment in Q3FY19 stood at 24% of total revenues as against 20% share in Q3FY18. Further, the company continues to gain traction in Edible Oil and Ghee segment. As a result, we believe, MTEP will report over 18% revenue growth over FY18-20E driven by growing contribution from F&F.
- New orders from HUL & Hatsun to keep F&F growth on strong wicket:** During Q3FY19, MTEP received orders from HUL and Hatsun Agro for their ice-cream packaging. These orders together are worth over Rs. 8-9crore and thus will keep the momentum in the F&F segment buoyant. Besides, MTEP also received orders from NK Proteins for their Edible Oil packaging. Management indicated that robust growth is being recorded in the Edible Oil segment driven by factors like stringent regulation, food safety and no human intervention thus ensuring end product quality to be maintained.

### FINANCIAL SUMMARY (Consolidated)

Y/E	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
March										
FY18	347	62	28	10.1	15.2	34.3	17.2	23.8	15.6	4.0
FY19E	406	71	34	12.4	22.9	20.6	21.8	26.6	10.0	4.0
FY20E	495	88	44	15.9	28.8	16.0	22.5	29.3	7.8	4.0

Source: Company, Axis Direct Research

### PRICE PERFORMANCE



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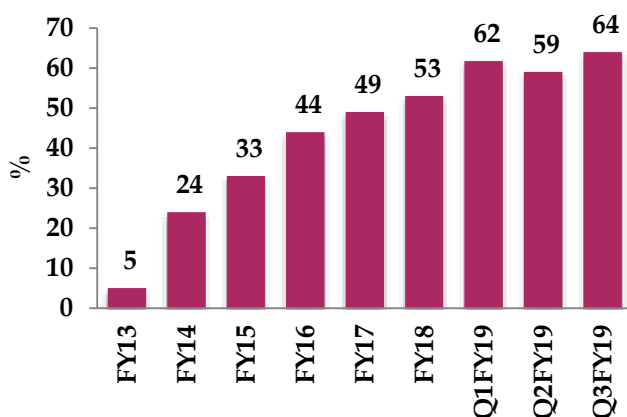
## Key Highlights (Cont'd)

- **EBITDA Margins decline led by 147bps YoY drop in Gross Margins:** During Q3FY19, MTEP's Gross Margins came in lower by 147bps YoY at 39.4% vis-à-vis 40.9% reported in Q3FY18. The decline in Gross Margins is owing to delay caused in passing through input price rise to its customers (75% of orders have RM pass through clause with lag of 1 month). However, input prices have now stabilized and are trading at around Rs. 90-91 per kg in Jan 2019. Owing to pressure seen in GMs, MTEP reported EBITDA Margins of 17.1% in Q3FY19 as against 17.8% (80bps contraction YoY) however, increased contribution from higher margin F&F segment arrested to margin fall to just 80bps YoY while sequentially it came in higher by 60bps. F&F segment formed 24% of total revenues (versus 20% in Q3FY18). IML volumes stood at 60% in Q3FY19. As a result, overall EBITDA/kg of India business was Rs. 34.1/kg as compared to Rs. 33/kg. The management maintained its target of achieving Rs. 35/kg over FY20E led by strong growth of IML pails. Further, value share of paints/lube segment in Q3FY19 was 44%/29% respectively.
- **Food & FMCG (F&F) Segment a consistent performer:** With IML being easily accepted in Food & FMCG given its inherent advantages, MTEP has witnessed a sharp rise in share of F&F segment to overall revenues. Testimony is IML's share in volume and value terms in Q3FY19 stood at 60%/64% respectively vs 54%/60% in Q3FY18. In Q3FY19 MTEP recorded 920tons of volume sales and Rs. 23crores of revenues in the F&F segment. This is an increase of 47%/35% YoY in the F&F space. This growth is despite a dip of ~30% YoY in Mondeleze sales which was impacted due to change in the product's package size. Mondeleze sales are likely to normalize in Q4FY19. During Q3FY19, MTEP received orders from HUL and Hatsun for their ice-cream packaging requirements during peak summer season. The order received from HUL is for delivery of 6 lakh pails translating into a business worth Rs. 1 crore on a monthly basis. Besides, the company also received sizeable orders from NK Proteins for Edible Oil packaging and thus expects other Edible Oil players to also adopt IML based packaging for Edible Oil. For FY19E, management expects the F&F sales full year contribution to rise to 21% from 20% led by rising traction in ice-cream packs, ghee packs and Edible Oil packaging. We believe launch of new products and growing acceptance of square packs and generic thin wall containers for ice-cream packs, Edible Oil packaging, cosmetics etc should drive growth (volume/price) for MTEP in the F&F segment thereby making it the leader domestically. For FY20, MTEP targets to achieve Rs. 25-30crore revenues from sales of ice-cream packs during summer season and ghee packaging during non-summer peak seasons. We note, in F&F segment 100% packaging is IML based and generated EBITDA/Kg of ~Rs. 70 vs Rs. 30-35 in the overall business. The increase in F&F share to raise overall EBITDA/ton for the company in the coming years despite an increase in relatively low-margin paint volumes.
- **RAK Plant Update:** MTEP started RAK plant about a year and half back in-order to cater to UAE and Iranian markets. However, due to weakness in UAE economy, re-imposition of sanctions on Iran and high price differential between metal and plastic containers (15-20%) the plant has been struggling and now is utilized at 20% rate. However, given the robust demand growth seen in Edible Oil square pails, management shifted 2 machines in end December 2018 to Hyderabad Unit to cater to this demand. Nonetheless, it is expecting a major order from a Paint company based on which it shall decide whether to continue the plant further or not. For

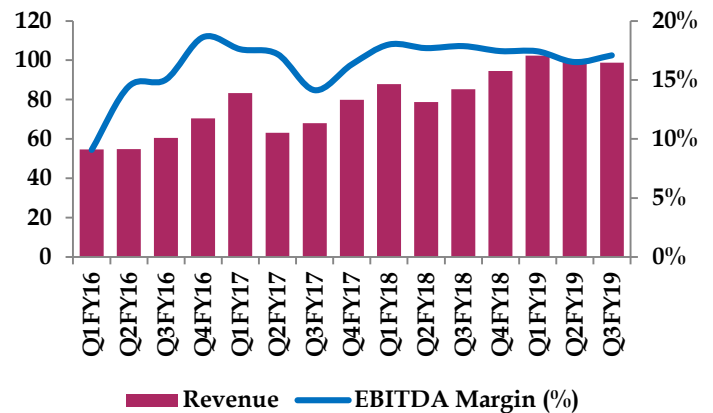
Q3FY19 RAK's volumes stood at 150 tons. MTEP had incurred expenses of ~Rs. 20crore on this unit which was on lease as per Government scheme. In case of discontinuation, MTEP will incur loss of Rs. 2crore (10% of capex). Mould and machines can be utilized in India.

- 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 19%/26% CAGR respectively over FY18-FY20E. Our confidence stems from the fact that management has raised its volume guidance to 20-25% over FY20E and encouraging demand outlook for Edible Oil Packaging to further aid performance of F&F Segment. Further, new order approvals from HUL and Hatsun for ice-cream packaging and also healthy demand from Ghee packs shall accelerate growth for MTEP over FY20E. We believe, EBITDA/kg to be in-line with management guidance at Rs. 35/kg by FY20E largely driven by favourable product mix (IML share rising) thereby reiterating our positive stance over Mold-Tek Packaging's long term growth trajectory. **We retain "BUY" with TP of Rs. 325 valuing it at 20x FY20E EPS.**
- Other Key-Takeaways:**
  - Capex:** FY19 is expected to be the most capex heavy year in the history of MTEP with a total capex requirement of approximately Rs. 60 crore. The company so far in 9MFY19 has incurred a capex of Rs. 52 crore with expected capex of Rs. 8crore in Q4FY19. Of the total capex of Rs. 60crore about ~60% is towards two plants for Asian Paints at Mysuru & Vizag. Capex requirement in FY20 is likely to be lower than FY19 and is estimated to be about Rs. 20-25crores depending on the growth in the business. This includes amount to be spent on setting up a small North India unit, expanding edible oil capacity at Hyderabad as existing capacity ramps up.
  - Update on Mysuru and Vizag plants:** Construction at both these plants has been completed and commercialization is expected to begin from mid Feb/mid-March (mid Q4FY19). 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)
  - Value breakup:** Paint/Lube/ FMCG, 44/29/23% resp.
  - Volume breakup:** Paint/Lube/ FMCG, 51/34/13% resp.

**IML Share on the rise aided by F&F segment**



**Growing F&F share aided higher EBITDA Margin**



Source: Axis Securities

## Results Update

(Rs.Cr.)	Quarterly Performance					Financial Year Ending			
	Q3FY19	Q3FY18	% Change (YoY)	Q2FY19	% Change (QoQ)	FY18	FY19E	FY20E	2Yr CAGR
<b>Sales</b>	<b>99</b>	<b>85</b>	<b>16</b>	<b>100</b>	<b>(2)</b>	<b>347</b>	<b>406</b>	<b>495</b>	<b>19%</b>
Other Op. Inc	0.0	0.0		0.0		0	0	0	0%
<b>Total Revenue</b>	<b>99</b>	<b>85</b>	<b>16</b>	<b>100</b>	<b>(2)</b>	<b>347</b>	<b>406</b>	<b>495</b>	<b>19%</b>
<b>Expenditure</b>									
Net Raw Material	60	50	19	61	(3)	206	237	288	
Staff cost	11	9	17	11	(1)	36	39	46	
Other Exp	11	10	8	12	(2)	43	59	73	
<b>Total Expenditure</b>	<b>82</b>	<b>70</b>	<b>17</b>	<b>84</b>	<b>(2)</b>	<b>285</b>	<b>335</b>	<b>407</b>	<b>19%</b>
<b>EBIDTA</b>	<b>17</b>	<b>15</b>	<b>11</b>	<b>17</b>	<b>2</b>	<b>62</b>	<b>71</b>	<b>88</b>	<b>20%</b>
OPM (%)	17.1%	17.9%	-80bps	16.5%	+60bps	17.7%	17.5%	17.8%	
Oth. Inc.	0.3	0.1	190	0.5	(36)	1.0	1.1	1.6	
Interest	2.0	1.1	70	1.7	13	5	6	7	
Depreciation	4.0	3.4	19	3.8	6	13	15	16	
<b>PBT</b>	<b>11</b>	<b>11</b>	<b>4</b>	<b>12</b>	<b>(3)</b>	<b>45</b>	<b>51</b>	<b>66</b>	<b>22%</b>
Tax	3.6	4.0	(12)	4.3	(17)	17	17	22	
<b>PAT</b>	<b>7.6</b>	<b>6.8</b>	<b>13</b>	<b>7.3</b>	<b>5</b>	<b>28</b>	<b>34</b>	<b>44</b>	<b>26%</b>
NPM (%)	7.7%	7.9%	-20bps	7.2%	+50bps	8.0%	8.4%	8.9%	
<b>Adjusted PAT</b>	<b>7.6</b>	<b>6.8</b>	<b>13</b>	<b>7.3</b>	<b>5</b>	<b>28</b>	<b>34</b>	<b>44</b>	<b>26%</b>
EPS (Rs.)	2.8	2.4		2.6		<b>10.1</b>	<b>12.4</b>	<b>15.9</b>	<b>37%</b>

Source: Company, Axis Direct Research

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