

Mold-Tek Packaging (MOLPAC)

CMP: ₹ 936

Target: ₹ 1045 (12%)

Target Period: 12 months

HOLD

November 8, 2022

Customer additions drive volume offtake in Q2...

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 (three-year average)

Q2FY23 Results: Continuous customer addition in Q2 drives overall volume growth

- Revenues were up ~14% YoY to ~₹ 183 crore led by ~11% volume growth. Customer additions in the FMCG and lubes segment drove overall volumes. Paint segments volume offtake was hit by extended monsoons
- Stabilising raw material prices and improved sales mix led to marginal increase in gross margin. However, EBITDA margin declined 142 bps YoY dragged by higher power & fuels and logistic costs
- PAT up ~10% YoY to ~ ₹ 19 crore; tracking sales growth, lower interest cost in Q2

What should investors do? Mold-Tek's share price has grown by ~3x over the past five years (from ₹ 311 in November 2017 to ~₹ 936 levels in November 2022).

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

Target Price and Valuation: We value the stock at ₹ 1045 i.e. 30xP/E on FY24E EPS

Key triggers for future price performance:

- Capacity addition (23% in 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/kg to ₹ 42/kg from ₹ 35/kg in FY22. High margin FMCG & pharma products to drive EBITDA/kg
- Balance sheet to remain healthy with low debt, high RoCE, RoEs

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

- SIL is market leader in PVC pipe industry with value market share of 15%. We expect piping segment to report 19% volume CAGR in FY22-24E supported by revival in agri, housing, infrastructure pipe demand. It has a robust b/s with RoE & RoCE of 24% & 27%, respectively (five-year average)
- BUY with a target price of ₹ 2600



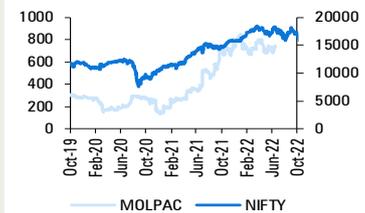
Particulars

Particular	Amount
Market cap (₹ crore)	3112.8
Total Debt (FY22) (₹ crore)	44.0
Cash & Inves (FY22) (₹ cror)	16.4
EV (₹ crore)	3140.4
52 Week H/L	1058/ 644
Equity Capital (₹ crore)	15.6
Face Value(₹)	5.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	33.7	32.1	33.5	34.2	34.1
FII	9.2	10.3	10.5	12.0	13.9
DII	15.0	16.2	15.7	16.8	20.1
Others	42.1	41.3	40.3	37.0	31.8

Price Chart



Recent event & key risks

Key Risk: (i) Strong growth in the FMCG segment (ii) EBITDA margin expansion will be limited delay in utilisation

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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	804.8	976.1	24.3
EBITDA	70.3	76.8	94.5	120.7	19.1	151.7	193.1	26.5
EBITDA Margin (%)	17.3	17.5	19.7	19.1		18.8	19.8	
Net Profit	31.9	37.5	48.0	63.7	21.4	88.6	114.3	34.0
EPS (₹)	11.5	13.4	17.2	20.4		26.7	34.4	
P/E (x)	81.2	69.7	54.5	46.0		35.1	27.2	
RoE (%)	16.7	19.0	18.7	13.9		24.3	24.3	
RoCE (%)	18.0	18.6	20.1	18.6		27.6	27.9	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Customer additions in FMCG & lubes segment drive volume offtake in Q2

- Revenue up 14% YoY to ₹ 183 crore led by ~11% volume growth in Q2FY23. FMCG and lube segment reported strong volume growth of 27%, 31% YoY, respectively, led by customer additions and wallet share gains of existing customers. Paint segment volume offtake was flattish mainly due to extended monsoons
- On a three-year basis, revenues grew at 17% CAGR led by 11% volume growth. Segment wise while paints revenue grew at 15% CAGR, the other two segments FMCG and lubes revenue grew at a CAGR of 19% each led by customer additions
- Stabilising raw material prices and improved sales mix (tilt towards high margin pharma/FMCG business) led to marginal increase in gross margins. However, EBITDA margin declined ~142 bps YoY to 18.7% mainly due to sharp increase in power & fuel cost and logistic costs
- PAT was up ~10% YoY to ~₹ 19 crore, tracking higher topline growth and lower interest costs

Q2FY23 Earnings Conference Call highlights

Demand Outlook:

- The management has guided volume CAGR of ~20% over FY22-24E supported by launch of new products, customer additions and wallet share gains of existing customers

Margins:

- The management expects EBITDA margin of ~20-21% supported by stabilising raw material prices, improved sales mix (tilt towards pharma/FMCG products that command higher margin than paints/lubes) and positive operating leverage led by improved utilisation of new plants
- OTC pharma commands higher EBITDA per kg (in the range of ₹ 180-200/kg) compared to ₹ 80-120 EBITDA per kg of F&F and ₹ 30-40 EBITDA/kg of paints and lubes, respectively

New product launches:

- The company is likely to start manufacturing packaging product for GSK's OTC product Iodex
- It takes ~three to six months to get approval for OTC pharma products. The commercial production of pharma products is likely to start from Q3FY24 onwards
- The company has developed new moulds for 1 kg, 2 kg SKUs for Horlicks and manufacturing will start from Q4FY23 onwards

Capex:

- The company plans to expand its manufacturing capacity by ~25,000 MT by FY24 (up 51% in FY22). It is likely to incur capex of ₹ 125 crore in FY23

Others:

- There was loss of production due to delay in installation of IML printing machines (amid shortage of semiconductors). The company would have recorded 15% volume growth in Q2FY23 had there not been a delay in the supply of IML printing machines
- These machines are expected to be commissioned by end of December 2022. This will lead to normalisation of EBITDA margin from Q4FY23 onwards

- Hyderabad will be one of the largest pharma hubs in the next two years (as 15000 acres of lands has been allotted to multiple pharma players to boost manufacturing). Mold-Tek Packaging is confident of receiving meaningful businesses from large pharma players for its IBM packaging products due to its strong R&D driven product launches and lower lead distance
- Mold Tek witnessed poor volume offtake of its dispensing pumps products from Wipro. The company is taking ~2-3 lakh pumps/month from Mold Tek vs. expectation of ~20-30 lakh pumps. The company has added other customers such as 'Himalaya' for the same product. However, the offtake is still lower at 10 lakh pumps per month vs. overall manufacturing capacity of 50-60 lakh pumps
- The company has invested ₹ 12-13 crore for its dispensing pump machines and moulds. While the machines are fungibles and can be used to produce other FMCG products, the sunk cost of total investment will be limited to cost of moulds, which is ~ ₹ 2-3 crore (in case of business loss)
- There was a delay in launching QR based packaging products. The key customers under Lubes 'Volvoline' and 'Castrol' has asked Mold Tek for modification in the QR coded products. Mold Tek expects fresh orders from one of these customers from Q4FY23 onwards
- The company has received a letter of intent from Aditya Birla Group (ABG) to set up a facility at Panipat, Haryana. It is planning to acquire 2 acres of land at Panipat to set up a new plant with an investment of ₹ 30 crore to cater to the requirements of Aditya Birla Group and Food & FMCG clients (to cater Baddi based clients). The manufacturing facility will be ready by end of CY23
- The company expects volume of ~2000 MTPA from ABG group from FY25 onwards

Exhibit 1: Peer Comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Shaily Eng	1,630	361	566	702	863	17	14	14	16	22	35	44	72	11	11	13	17	12	10	11	15	67	46	37	23
Mold Tek	3,113	479	631	805	976	20	19	19	20	48	64	89	114	20	19	28	28	19	14	24	24	54	46	35	27
Time Technoplast	2,397	3005	3650	4202	4725	13	14	14	14	108	192	228	296	9	11	13	15	6	9	11	13	22	12	10	8
EPL	4,740	3092	3433	3738	4077	20	17	18	19	244	221	272	334	16	13	16	18	15	12	15	17	19	21	17	14

Source: Company, ICICI Direct Research

We believe, Mold-Tek’s Q2FY23 EBITDA margin recovery was encouraging given the multiple challenges such as delay in machine installations and higher power & fuel and logistic costs. The management has guided for improvement in EBITDA margin from Q4FY23 onwards supported by stabilising raw material prices, improving sales mix and easing of operational difficulties associated with new machine installations. Mold-Tek plans to incur capex of ₹ 125 crore in FY23, 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 Q4FY23 onwards and the incremental revenue flow will start from Q3FY24E (as OTC pharma products approval takes three to six months). We revise our revenue estimates upward by 1.4% and 7%, respectively, for FY23E-24E and model revenue CAGR of ~24% in FY22-24E led by strong volume growth of 20%. However, we see a limited upside in the EBITDA margin (in line of FY21 EBITDA margin) factoring in low operating leverage from new capacities in the initial period of operations. While we maintain our positive stance on the stock we believe the current market price is discounting all its near term positives. We maintain our HOLD rating on the stock with revised target price of ₹ 1045/share (valuing stock at 30x FY24E EPS).

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	182.6	159.5	14.4	207.8	-12.2	Revenue growth was led by ~11% volume growth
Other Income	0.2	0.2	-18.6	0.1	45	
Raw Material Exp	108.0	94.7	14.0	129.0	-16.3	Gradual price hikes and improved sales mix result in ~25 bps gross margin expansion on a YoY basis
Employee cost	11.0	9.4	17.5	10.9	1.0	
Other Expenditure	29.6	23.4	26.1	30.8	-4.1	Sharp increase in power and transportation costs led to increase other expenses in Q2
Total Expenditure	148.5	127.5	16.5	170.7	-13.0	
EBITDA	34.1	32.0	6.3	37.2	-8.4	
EBITDA Margin (%)	18.7	20.1	-142 bps	17.9	77 bps	EBITDA margin declined by 142 bps mainly due to higher other costs
Depreciation	7.4	6.5	13.1	7.1	3.5	
Interest	0.8	2.8	-71.6	1.0	-22.4	
PBT	26.1	23.0	13.5	29.2	-10.6	
Total Tax	6.7	5.4	23.7	7.4	-10.6	
PAT	19.4	17.6	10.4	21.7	-10.6	PAT up by ~10% YoY tracking higher topline growth

Key Metrics

Paints	98.2	94.5	3.9	101.8	-3.6	High base and extended monsoon season result in flattish volume offtake in this segment
Lubes	40.2	30.7	30.8	55.1	-27.1	Segment volumes were up by 27% YoY led by customer additions
FMCG	44.2	33.0	33.9	50.9	-13.2	Segment volumes were up by 31% led by customer additions and wallet share gains from existing customers

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	793.4	804.8	1.4	915.5	976.1	6.6	We revise our revenue estimates upward for FY23E-24E factoring in new client additions and capacity additions. We build in revenue CAGR of 24% FY22-24E led by volume CAGR of 20%
EBITDA	144.6	151.7	4.9	180.8	193.1	6.8	
EBITDA Margin (%)	18.2	18.8	65bps	19.7	19.8	8bps	We revise our EBITDA margin estimate upward for FY23E on the back of easing commodity prices and positive operating leverage from new plants
PAT	80.7	88.6	9.8	102.6	114.3	11.4	
EPS (₹)	24.3	26.7	9.8	30.9	34.4	11.4	

Source: ICICI Direct Research

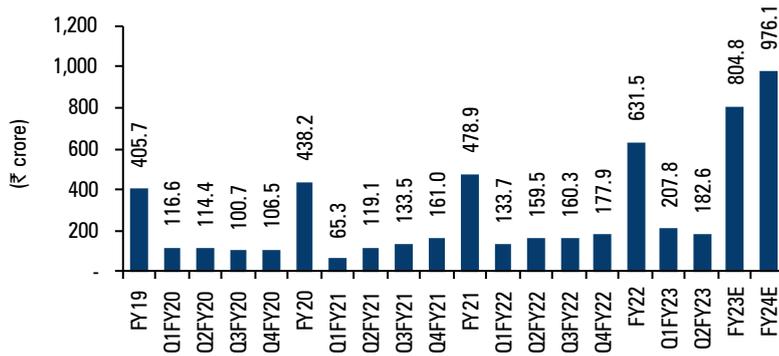
Exhibit 4: Assumptions

	Current (%)					Previous		Comments
	FY20	FY21	FY22E	FY23E	FY24E	FY23E	FY24E	
Paints	22.5	10.1	36.5	16.9	15.5	18.0	10.3	We model segment revenue CAGR of 16% in FY22-24E led by capacity additions and incremental demand from existing clients
Lubes	(11.1)	(2.2)	33.0	38.4	6.9	26.3	2.3	We tweak our revenue estimate upward for FY23E factoring in new customer addition in H1FY23 and launch of new products
FMCG	18.9	19.9	20.9	40.0	28.4	39.1	15.7	We model segment revenue CAGR of 34% for FY22-24E supported by new product launches and customer additions

Source: ICICI Direct Research

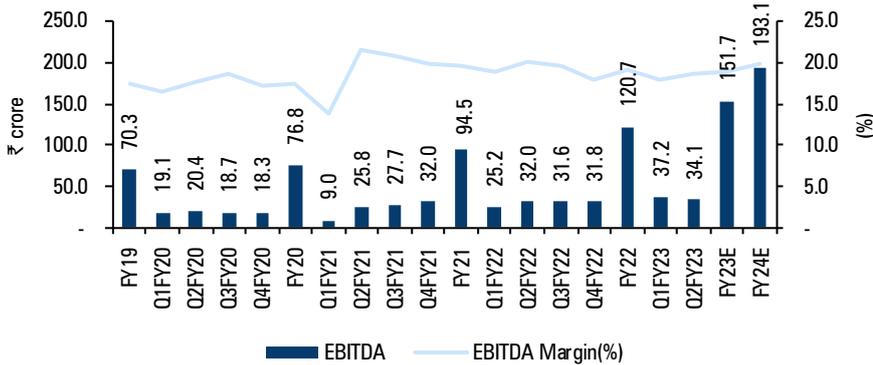
Financial story in charts....

Exhibit 5: Volume driven revenue growth



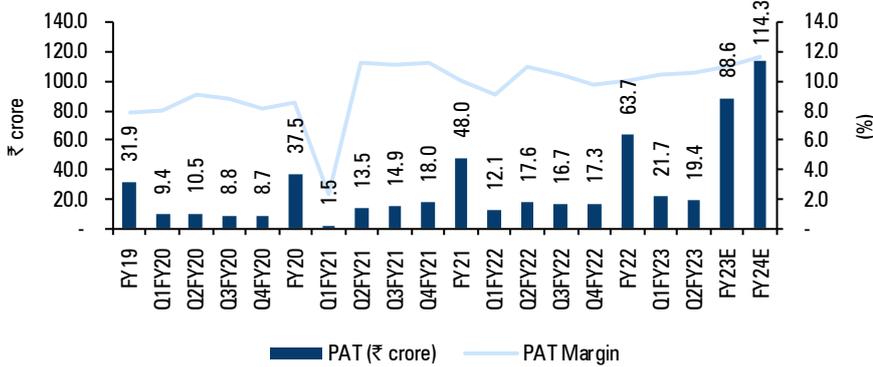
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margin recovery led by improved sales mix



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	804.8	976.1	
Growth (%)	9.3	31.9	27.4	21.3	
Raw material expens	272.4	384.8	481.4	578.5	
Employee expenses	32.9	38.7	46.0	54.6	
Other expenses	79.1	95.5	125.7	149.8	
Total Operating Exp	384.4	510.8	653.1	783.0	
EBITDA	94.5	120.7	151.7	193.1	
Growth (%)	23.1	27.7	25.7	27.3	
Depreciation	21.5	26.4	29.8	35.1	
Interest	9.9	9.3	3.5	5.2	
Other Income	0.9	1.6	0.7	0.9	
PBT	63.9	86.5	119.1	153.7	
Total Tax	16.0	22.9	30.5	39.3	
PAT	48.0	63.7	88.6	114.3	

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	88.6	114.3	
Add: Depreciation	21.5	26.4	29.8	35.1	
(Inc)/dec in Current Assets	-41.1	-85.4	58.4	-81.7	
Inc/(dec) in CL and Provisions	22.3	-11.6	92.2	29.1	
Others	9.9	9.3	3.5	5.2	
CF from operating activities	60.6	2.4	272.5	102.1	
(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	-182.2	-5.2	
CF from financing activities	-7.2	73.3	-163.9	4.8	
Net Cash flow	6.2	9.0	-6.4	7.0	
Opening Cash	1.1	7.4	16.4	10.0	
Closing Cash	7.4	16.4	10.0	17.0	

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	348.8	453.1	
Total Shareholders funds	255.9	457.1	365.4	469.8	
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	444.5	568.8	
Assets					
Gross Block	315.7	365.4	490.4	590.4	
Less: Acc Depreciation	76.3	102.7	132.5	167.6	
Total Fixed Assets	251.0	276.5	371.7	436.6	
Investments	0.0	0.0	0.0	0.0	
Inventory	70.8	95.9	77.2	107.0	
Debtors	90.1	143.0	99.2	147.1	
Loans and Advances	0.3	0.6	0.6	0.6	
Other CA	7.8	14.9	19.0	23.0	
Cash	7.4	16.4	10.0	17.0	
Total Current Assets	176.4	270.8	206.0	294.6	
Creditors	32.2	28.1	99.2	120.3	
Provisions	4.4	4.9	17.2	20.8	
Other CL	33.0	25.0	33.8	38.2	
Total Current Liabilities	69.6	58.0	150.2	179.3	
Net current assets	106.8	212.8	55.8	115.3	
Other non current assets	9.1	26.9	17.0	16.9	
Total Assets	366.9	516.2	444.5	568.8	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	17.2	20.4	26.7	34.4
Cash EPS	24.9	28.8	35.6	44.9
BV	91.7	146.2	109.9	141.3
DPS	3.0	7.2	0.8	3.0
Operating Ratios (%)				
EBITDA Margin	19.7	19.1	18.8	19.8
PAT Margin	10.0	10.1	11.0	11.7
Asset Turnover	1.5	1.7	1.6	1.7
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	24.3	24.3
RoCE	20.1	18.6	27.6	27.9
RoIC	19.2	18.8	27.2	27.7
Valuation Ratios (x)				
P/E	54.5	46.0	35.1	27.2
EV / EBITDA	33.9	26.0	20.9	16.5
EV / Net Sales	6.7	5.0	3.9	3.3
Market Cap / Sales	6.5	4.9	3.9	3.2
Price to Book Value	10.2	6.4	8.5	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	2,97,674	33.4	32.2	40.8	54.2	92.8	96.5	76.0	57.3	60.4	61.4	50.6	38.9	29.6	27.1	32.5	38.7	25.0	23.0	27.3	32.1
Berger Paints (BERPAI)	Hold	59,638	7.4	8.6	9.9	12.3	82.9	71.6	62.0	49.9	50.0	45.0	39.5	32.5	24.9	23.3	27.6	31.0	21.3	21.2	25.2	27.7
Kansai Nerolac (KANNER)	Hold	24,413	9.8	6.9	10.1	12.9	46.0	65.2	44.8	35.1	29.0	37.6	27.2	21.7	17.2	12.1	17.0	19.9	13.2	9.2	13.1	15.1
Pidilite Industries (PIDIND)	Hold	1,33,501	22.2	23.8	27.8	39.9	118.5	110.6	94.5	65.9	79.2	72.1	63.1	44.9	23.8	22.2	23.9	30.0	20.2	18.8	20.2	25.0
Sheela Foam (SHEFOA)	BUY	14,122	48.7	44.5	51.8	65.9	59.4	65.0	55.9	43.9	39.1	45.5	38.8	30.8	24.3	18.0	19.6	22.6	20.1	15.6	16.4	18.8
Bajaj Electricals (BAJELE)	BUY	13,346	16.5	10.8	21.0	31.7	70.4	107.3	55.2	36.7	44.8	53.0	36.5	25.5	15.1	13.5	19.6	24.2	10.7	7.8	14.4	18.3
Crompton Greaves(CROGR)	Hold	22,439	9.8	9.2	8.9	11.1	36.4	38.8	40.2	32.2	29.7	29.3	25.9	21.5	34.4	16.2	16.6	20.5	31.9	24.0	21.7	23.4
Havells India (HAVIND)	Buy	77,160	16.7	19.1	17.6	27.1	73.9	64.6	69.8	45.5	48.5	42.7	46.5	31.7	24.9	23.7	23.0	33.8	20.1	20.0	19.4	28.7
Polycab India (POLI)	Buy	41,082	59.3	61.4	76.3	86.8	46.4	44.8	36.0	31.7	36.2	31.6	23.0	20.4	20.6	20.2	24.7	23.8	17.9	15.6	18.4	18.0
Symphony (SYMLIM)	Hold	5,890	15.3	17.3	26.1	34.8	55.1	48.7	32.2	24.2	41.1	35.5	24.7	18.6	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	Hold	11,093	4.7	5.3	5.3	7.1	54.9	48.6	48.7	36.5	34.7	32.7	31.5	23.7	23.9	21.2	23.4	27.8	16.7	16.2	17.7	21.2
Voltas Ltd (VOLTAS)	Hold	27,616	16.0	15.3	16.1	23.0	52.2	54.6	51.7	36.3	42.3	39.5	38.8	27.6	15.0	14.0	16.3	20.1	10.6	9.2	11.0	14.1
Amber Enterprises (AMBEN)	Hold	6,783	24.7	33.0	45.7	73.7	81.4	60.9	44.0	27.3	30.6	25.9	20.4	15.1	7.7	6.8	10.2	13.2	5.2	6.4	8.7	12.3
Dixon Technologies (DIXTEC)	Buy	26,886	27.3	32.1	57.9	85.4	166.1	141.3	78.2	53.1	93.8	71.3	44.0	32.1	23.5	17.7	27.8	31.5	21.7	19.1	31.8	34.2
Supreme Indus (SUPIND)	Buy	29,966	77.0	76.2	63.1	80.4	30.6	30.9	37.4	29.3	22.7	23.7	25.8	20.0	33.1	25.9	22.6	27.1	30.9	25.2	20.5	23.6
Astral Ltd (ASTPOL)	Hold	42,125	20.3	24.4	25.8	35.9	103.2	85.9	81.4	58.4	64.7	55.0	48.5	36.9	27.5	26.6	25.5	29.3	21.5	21.0	19.6	23.1
Time Techno (TIMTEC)	BUY	2,397	4.8	8.5	10.1	13.1	22.2	12.5	10.5	8.1	7.7	6.2	5.3	4.5	8.7	11.3	12.8	14.6	5.7	9.3	10.7	12.5
Moldtek Packaging (MOLPLA)	Hold	3,113	17.2	20.4	26.7	34.4	54.5	46.0	35.1	27.2	33.9	26.1	20.9	16.5	20.1	18.6	27.6	27.9	18.7	13.9	24.3	24.3

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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