February 15, 2021

MOLD-TEK Packaging Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund based	85.00	85.00	[ICRA]A (Stable); Reaffirmed
Long-term, Term Loans	40.00	28.83	[ICRA]A (Stable); Reaffirmed
Long-term, Unallocated	0.00	11.17	[ICRA]A (Stable); Reaffirmed
Short-term, Non-fund based Limits	1.00	1.00	[ICRA]A1; Reaffirmed
Total	**126.00**	**126.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings favourably consider MOLD-TEK Packaging Limited's (MPL) healthy financial profile, supported by continued new customer acquisitions, established relationship with existing marquee customers and continued favourable shift in product/customer mix towards higher-margin segments. MPL is an established player in the plastic pail packaging segment with nearly three decades of operations and enjoys 'preferred vendor' status from marquee customers that results in repeat orders. Its track record of new technology adoption and development of in-house technical capabilities and conducive industry prospects with increasing use of pails (especially in mould label (IML) products) by food, paint, lube and FMCG sectors is another credit strength. ICRA notes that the aforementioned factors helped the company in the current fiscal to withstand the adverse impact of Covid-19 pandemic, which had resulted in significant contraction in revenue and margin in Q1 FY2021, but has witnessed sharp recovery in subsequent quarters, resulting in healthy financial performance during 9m FY2021. Going forward, the financial performance is also expected to improve aided by ramp up at Vizag and Mysore plants.

The ratings also draw comfort from the company's healthy capital structure and coverage indicators, despite some increase in gearing recent years due to capital expenditure (capex) incurred. The company mainly funded the capex through internal accruals and partial debt funding, which in turn led to high utilisation of working capital debt. However, going forward, although MPL is expected to incur moderately high capex over the next few years, the anticipated growth in cash flows from operations and fund raise through rights issue are likely to result in moderation in working capital debt utilisation levels.

The ratings are, however, constrained by the company's moderately high working capital intensity and limited pricing flexibility owing to stiff competition. However, its pricing terms with major customers allows for partial pass-through of change in raw material costs. Further, the risk is mitigated to some extent due to the increasing share of value-added products. MPL faces high customer concentration with the top five customers accounting for 65-70% of the sales, although the long-term association with customers and letter of intent (LoI) for future orders moderates the risk. The company is also dependent on a single supplier, i.e. Reliance Industries Limited (RIL), for a major portion of its key raw materials, and is thus exposed to supply disruption risks in case of force majeure events. Nonetheless, MPL can sustain operations with imported raw materials. It can also procure raw materials from alternate domestic manufacturers, albeit at higher prices. The company's performance is also susceptible to the underlying cyclicality of end-customer segments (such as lubes and paint), although the favourable medium-term outlook for these industry segments partly mitigates the risk.

ICRA notes the company's decision to raise Rs 71.30 Crore through rights issue which was concluded on November 11, 2020. The company has raised ~ Rs 17.83 crore (25% of the total rights issue amount) and remaining Rs. 53.47 Crore (75% of the total rights issue amount) will be raised consecutively through one or more subsequent call(s) as determined by Rights Committee. The proceedings from the rights issue of Rs 52.83 crore will be for the reduction in working capital borrowings and the remaining Rs. 17.61 Crore will be for general corporate purposes

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that MPL will continue to benefit from the extensive experience of its promoters and the long standing track record in plastic pail packaging industry and advantages of backward integration/in-house technical capabilities of IML products.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in plastic pail packaging industry - Founded in 1985 to manufacture rigid plastic packaging materials, the company is a well-established player in the decorative plastic pail packaging segment with nearly three decades of operations. It mainly caters to the paint, lubes, food, and FMCG industries.

Strong customer base - MPL enjoys a reputed customer profile with 'preferred vendor' status from marquee customers in the paint and lube segment, which ensures repeat orders and assured realisations. The company has received LoI for catering to new capacities of key customers and has undertaken large capacity enhancement in the recent years. Further, it has added several new customers in the last few years in the food and FMCG segment and is looking at several new customers in the same segment which, if converted, will lead to further diversification and improvement in profitability as these products enjoy better margins.

Adoption of latest trends in packaging and developing in-house capabilities to reduce production cost - The company has a track record of adopting the latest trends in packaging like IML and investing in R&D to develop in-house capabilities to implement the same at a lower cost (mould design and manufacturing and development of IML robots), which is provides competitive advantage. It also provides other labelling options like heat transfer labelling (HTL), screen printing and shrink sleeve, etc. Further, MPL has a history of product innovations such as development of tamperproof lids and square pails (to ensure better stacking), which has also helped in acquiring customers.

Diversification into new product/customer segments - The company continued to witness a favourable shift in its product mix in FY2020, with revenue contribution from higher-margin segments like IML food and IML non-food segments accounting for 23% and 43% of sales. The remaining sales were driven by traditional non-IML products. The growth in the IML food segment was mainly driven by orders from the edible oil/ghee segments, although there are other segments like sweet packs etc., which was added in current fiscal due to focus on hygienic packaging. Further some of the new products launched in current fiscal like dispending pumps (used for hand santisers and other FMCG products) and 'QR code printed IML' are also expected to aid revenue growth going forward. The advantageous trend of increased usage of IML products by new customer segments will also aid in revenue and margin growth for MPL in the medium term. MPL's new plants at Vizag and Mysore have also witnessed ramp up in capacity utilisation in current fiscal and management will be undertaking additional capacity expansion at those facilities. The company is also planning to add some capacities in Kanpur to cater to new paint segment customer.

Healthy financial profile - The company's strong financial profile is characterised by healthy profit margins, low gearing and comfortable coverage indicators. In the last few years, it witnessed revenue growth and margin improvement aided by repeat orders from the existing customers, new customer acquisition in food segments and favourable shift in product mix towards the higher-margin IML segment. While, the company witnessed revenue growth of ~8.0% in FY2020, it witnessed around 4.2% decline in 9M FY2021, mainly due to sharp contraction in Q1 FY2021 due to impact of Covid-19 pandemic and resultant containment measures, although the impact was mitigated by recovery in subsequent two quarters. The profit margins have also continued to witness improvement in FY2020 and during 9m FY2021, despite the impact of Covid-19.

While, the capital structure and coverage indicators remain healthy, the gearing has witnessed some increase in recent years due to high capex incurred, which was mainly funded with internal accruals and partial debt funding, leading to higher utilisation of working capital debt. Going forward, while the company has moderately high capex plans for the next few years, the expected improvement in cash accruals and fund raised through rights issue are expected to result in moderation in working capital debt utilisation.

Credit challenges

Moderate scale of operations, stiff competition and susceptibility of margin to raw material price movements - The company has moderate scale of operations and faces intense competition, which limits the pricing flexibility and exposes its margin to volatility in raw material prices, although the ability to partially pass-through the fluctuations in raw material costs mitigates the risk to some extent. Further, increasing value addition and favourable shift in product/customer mix towards the IML segment, where the company has competitive advantage, partly moderates the risk.

High customer concentration - The top five customers have accounted for 65-75% of the total sales for several years. However, long-term association with the top customers, preferred vendor status and LoI for future orders from customers like Asian Paints mitigates the risk. Further, the high credit profile of its customers assures realisation.

High supplier concentration - Most of the raw materials are procured from RIL, which exposes the company to the risk of supply disruptions in case of force majeure events. However, the risk can be mitigated as MPL can use imported raw materials or procure raw materials from alternate manufacturers to sustain operations.

Cyclicality in end-user industries - MPL's performance is exposed to the underlying cyclicality of end-customer segments (such as lubes and paints). However, the growth outlook for these segments remains comfortable in the medium term.

Moderately high working capital intensity - The company's working capital is moderately high with NWC/OI in the range of 25-35% during FY16 to FY19, however in FY2020 the working capital intensity moderated to 21.6%, given the company's efforts to improve collection period, resulting in some moderation in receivable days.

Liquidity position: Adequate

The company had positive Fund flow from operations (consolidated operations) in the last few years (Rs. 54.4 crore in FY2020). However, due to moderate capex in FY2020 and H1 FY2021, the free cash flows were constrained, and the working capital debt utilisation was very high in the last 12-month period ending December 2020. While the company has repayment obligations of ~ Rs. 11.0 crore and Rs. 9.1 crore in FY2021 and FY2022 respectively, the capex is expected around ~Rs. 30.0 crore per annum in FY2021 and FY2022. The liquidity profile is however expected to be adequate on the back of the expected growth in cash flow from operations and funds of ~Rs. 17.83 crore raised in current fiscal through rights issue. Going forward, with additional funds of Rs. 53.47 crore to be raised through rights issue, the liquidity profile is expected to witness improvement.

Rating sensitivities

Positive factors – Healthy growth in revenues and profitability improvement on a sustained basis, supported by new customer addition and favourable product diversification, while maintaining working capital intensity and healthy capital structure. Further, completion of planned funds raise through rights issue leading to sustained moderation in working capital limits utilisation, thereby leading to improvement in liquidity profile could result in upward revision in ratings.

Negative factors – The ratings may witness downward pressure, if there is sustained moderation in scale and profit margin due to increased competition or reduced demand. Ratings may also be revised downward, if stretch in working capital cycle or higher-than-expected debt-funded capex puts pressure on the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	Not Applicable
Consolidation/Standalone	Rating is based on consolidated financial statement of MPL

About the company

MPL traces its origin to Mold-Tek Plastics Private Limited founded in 1985 by Mr. J. Lakshmana Rao and A. Subrahmanyam to manufacture rigid plastic packaging materials with units located in Andhra Pradesh. The company was listed in BSE in 1993. Subsequently, in 2000, the promoters commenced outsourcing services for engineering to overseas clients in the US and the EU and it was renamed as Mold-Tek Technologies Limited. Thereafter, in 2008, the company underwent a restructuring process, post which two demerged listed entities were formed – Mold-Tek Plastics Limited (MTPL) that deals in plastic packaging business and Mold-Tek Technologies Limited (MTTL) that is mainly involved in offering KPO services for engineering and design, specialising in civil, structural and mechanical engineering. Subsequently, Mold-tek Plastics Limited was renamed as MOLD-TEK Packaging Limited (the rated entity). The company has manufacturing facilities at nine locations in India, with a combined capacity of 38,732 MTPA as on March 31, 2020. The company also set up a plant in Ras-al-Khaimah in the UAE with a capacity of 3,000 MTPA under a subsidiary in FY2017. However, the unit's operations have been closed in Q4 FY2019 with only legal presence being maintained.

MPL is involved in manufacturing injection-molded decorative packaging containers, mainly pails (cylindrical containers) for paint, lube, food and other products. The company has integrated manufacturing facilities to develop the packaging product and apply different kind of labels. It also has in-house facilities to design and manufacture moulds, labels for IML products and manufacture robots used for IML process. In FY2020, at the consolidated level, the company reported a net profit of Rs. 37.4 crore on an operating income (OI) of Rs. 438.2 crore compared to a net profit of Rs. 31.9 crore on an OI of Rs. 405.7 crore in the previous year.

Key financial indicators (audited)

MPL Consolidated	FY2019	FY2020	9M FY2021*
Operating Income (Rs. crore)	405.7	438.2	317.9
PAT (Rs. crore)	31.9	37.4	29.9
OPBDIT/OI (%)	17.4	17.6	19.7
PAT/OI (%)	7.9	8.5	9.4
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.8	-
Total Debt/OPBDIT (times)	1.6	1.5	-
Interest Coverage (times)	9.2	7.4	8.8

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; * Provisional numbers*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Rating	FY2020	FY2019		FY2018
					Feb 15, 2021	Jan 07, 2020 Dec 30, 2019	Oct 25, 2018	Sep 24, 2018	Sep 18, 2017
1	Fund Based	Long Term	85.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Term Loans	Long Term	28.83	28.83	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-
3	Non Fund Based	Short Term	1.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Unallocated	Long Term/ Short Term	-	-	-	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1
5	Unallocated	Long Term	11.17	-	[ICRA]A (Stable)	-	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	85.00	[ICRA]A(stable)
NA	Term Loan-I	FY2019	8.70%	FY2022	3.33	[ICRA]A(stable)
NA	Term Loan-II	FY2019	8.70%	FY2024	7.77	[ICRA]A(stable)
NA	Term Loan-III	FY2020	7.50%	FY2025	17.73	[ICRA]A(stable)
NA	Non-Fund Based	NA	NA	NA	1.00	[ICRA]A1

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Mold-Tek Packaging FZE	100.00%	Full Consolidation

Source: *MPL annual report FY2020*

Note: *ICRA has taken a consolidated view of the parent (MPL), its subsidiaries and associates while assigning the ratings.*

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Sai Krishna
+91 44 4596 4304
sai.krishna@icraindia.com

Satish Kumar S
+91 44 4297 4312
satish.s@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.