

Mold-Tek Packaging Limited

BUY



Asian Markets Securities Pvt. Ltd.

Sustained strong volume growth, robust margins

Institutional Research

CMP (Rs)	202
Target (Rs)	229
Earnings Revision	-

Nifty: 8,545 ; Sensex: 27,698

Key Stock Data

BSE Code	533080
NSE Code	MOLDTKPAC
Bloomberg	MTEP IN
Shares O/s mn(FV Rs 5)	27.7
Dividend Yield (%)	1.4
Market cap (Rs bn)	5.6
52-week high/low	214/98
3-m daily avg vol.	90,337

Rel. Performance

(%)	1m	3m	12m
MTEP	15.2	35.9	89.0
NIFTY	3.5	10.5	1.1
SENSEX	3.1	10.0	(0.5)

Shareholding Pattern

(%)	Dec15	Mar15	Jun16
Promoter	33.9	33.9	34.8
FII	2.7	2.7	2.6
DII	17.2	16.7	18.9
Others	46.2	46.7	43.7

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Mold Tek packaging reported strong set of results for 1QFY17 aided by 20% volume growth. Net earnings vaulted 37% with strong margin uptick. Contribution from IML products further improved to 47% compared to 44% in FY16. The management guided for 20% volume growth for FY17 aided by higher demand from paint, FMCG / food segments and commissioning of the RAK plant in the Middle East. Mold Tek has strong growth drivers in place in form of new products, new markets, new applications and new locations. Over the last three years, Mold tek has consolidated its leadership position in IML which will help it achieve higher growth going forward. Reaffirm Buy.

Soft polymer prices cap topline growth at 13% despite strong 20.5% volume growth

Mold Tek reported top line of Rs833mn (+13% yoy) aided by 20.5% jump in volumes at 5220 (4330MT in 1QFY16 and 4562MT in 4QFY16) while realization were low due to soft polymer prices. Volume growth was driven by paint and lube segments while food / FMCG industry grew at slow pace. The share of IML products increased to 47% for the year from 44% in FY16. Food and FMCG contribution increased to 5% from 3.88% a year ago while that of paint and lubricants stood at 58% and 37% respectively. Lube segment grew on account of new orders from Shell and government oil marketing companies for IML products.

Lower RM cost, higher IML contribution drive high margins as earnings grow by 37%

Increased contribution from high-end IML products along with lower RM cost led to a sharp improvement in EBIDTA at Rs146mn (+31%). EBIDTAM expanded to 17.4% (15% yoy and 18.5% qoq). Interest cost increased on a low base (due to higher WC borrowings) while depreciation too increased by 20%. Nevertheless, the net earnings increased to Rs78mn (up 37% yoy and 10% qoq). PATM stood at 9.4% (7.7% yoy and 10.1% qoq).

Expansion on track : Middle East plant commissioned, two more plants coming up for Asian Paints

The Company invested Rs240mn in FY16 for increasing capacity at all the three plants (Hyderabad, Daman and Satara), launch of IML pail for edible oil and Middle East plant. The capacity has increased to 28,000MT from 22,500MT last year and will further increase to ~30,000MT by 2HFY17. The Company got LOI from Asian Paints for setting up two plants at Vizag and Mysore (3000MT each) to supply pails to its upcoming new plants. Middle East plant (2500 MT, Rs200mn outlay) will be commissioned on August 5, 2016. The Company already got four orders for this plant. Total capex earmarked for FY17 is Rs180mn and another Rs360mn for the two upcoming plants over FY18-19.

Shift to IML, new launches to drive the growth

IML container for edible oil has seen slow pick up as price differential between blow molded and IML pails has widened. However, the Company bagged slew of orders from oil marketing companies and food / FMCG companies for IML products and is expecting more orders from leading FMCG companies. The management expects share of food/FMCG to go up to 7% in FY17 and 15/17% in FY18 and IML contribution moving to ~55% over the next two years.

Ample Growth levers in place, BUY

Long term growth opportunity in paint and lube/oil segments, fast growing food and FMCG market, acceptance of IML technology and expanding geographic foot print will provide big leg up to MOLDTEK's business. Mold tek has ample growth levers to sustain 15/18% volume CAGR as guided by the management. Margins and return ratios will continue to expand aided by improved product mix and expanding scale with EBIDTAM, ROCE and ROE of 18%, 30% and 27% in FY18E. We forecast MOLDTEK to post volume, revenue and earnings growth of 17%, 24% and 33% CAGR over FY16-18E. The stock is an excellent long term consumption play. We continue to maintain a BUY rating.

Exhibit 1: Key Financials (Standalone)

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Sales	2,537	2,850	2,757	3,248	4,243
yoy (%)	32.1	12.3	(3.3)	17.8	30.6
EBITDA	295	400	458	561	763.8
yoy (%)	47.7	35.4	14.6	22.6	36.1
PAT	93	168	244	293	423.1
yoy (%)	56.9	64.3	42.8	21.6	44.4
Equity	113	138	138	138	138.5
EPS (Rs)	4.0	6.1	8.7	10.6	15.3

Exhibit 2: Key Indicators

Y/E Mar	FY14	FY15	FY16	FY17E	FY18E
EBITDAM (%)	11.6	14.0	16.6	17.3	18.0
NPM (%)	3.6	5.9	8.7	9.0	10.0
PER (x)	49.2	20.1	23.3	19.2	13.3
P/BV (x)	8.5	2.9	4.4	3.9	3.3
EV/Sales (x)	2.4	1.3	2.1	1.9	1.5
EV/EBITDA (x)	21.0	8.9	12.9	10.8	8.1
RoACE (%)	18.3	24.3	25.2	26.1	29.7
RoANW (%)	17.9	20.1	19.7	21.4	26.7

Source: Company, AMSEC Research

Exhibit 3 IML Revenue is growing at rapid pace...

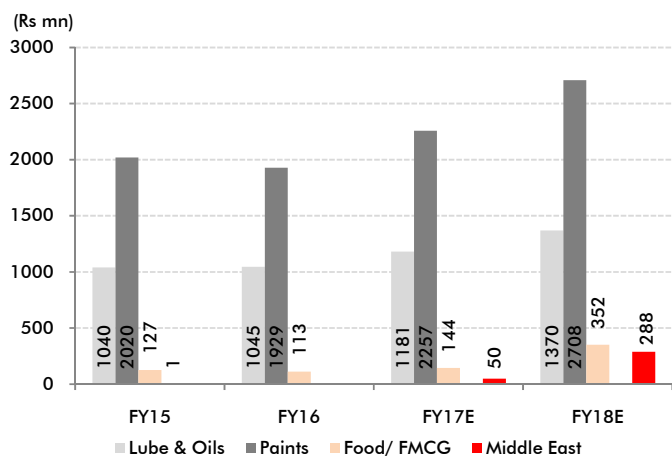
IML Revenue is growing at rapid pace	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
IML products	5%	14%	19%	30%	44%	50%	55%
Non-IML products	95%	86%	81%	70%	56%	50%	45%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Company, AMSEC Research

Exhibit 4 ...driving margins higher

	FY13	FY14	FY15	FY16	1QFY17
EBIDTA Rs per Kg	16.0	20.0	25.0	27.5	28.4
EBIDTAM / Sales %	10.4	11.6	14.0	16.6	17.3

Exhibit 5: Revenue Trend



Source: AMSEC Research

Exhibit 6: Revenue mix

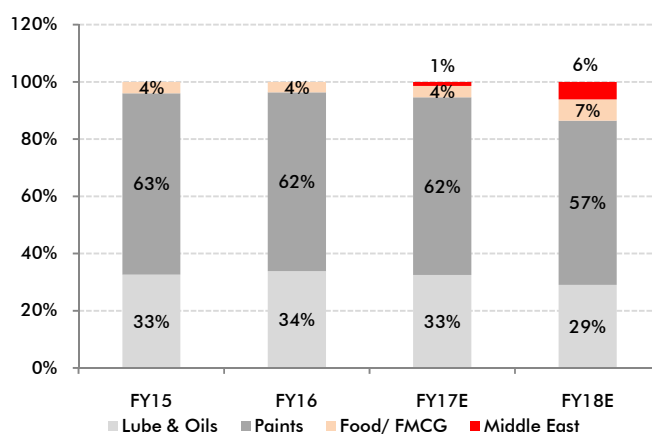


Exhibit 7: Mold-Tek Packaging Ltd. - Quarterly Results: Strong show

Y/E Mar (Rs mn)	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	yoy%	qoq%	FY16
Net sales	737	638	677	705	833	12.9	18.1	2,757
Other operating income	-	-	-	-	-	-	-	-
(Increase) / Decrease in Stock	5	(12)	16	14	1	(86.9)	(95.2)	23
Consumption of raw materials	467	401	385	391	507	8.4	29.6	1,644
Purchase of traded goods	-	-	-	-	-	-	-	-
Employee cost	55	58	61	66	69	24.7	4.5	240
Selling & Dis. Exp	51	46	52	51	52	2.1	0.8	200
Other expenditure	48	46	47	51	59	23.4	14.5	192
Total Expenditure	626	538	561	574	687	9.7	19.8	2,299
EBIDTA	111	99	116	131	146	31.1	10.8	458
Other income	1	2	1	3	3	152.7	(3.9)	7
Interest	3	2	2	2	5	44.3	135.4	10
Depreciation	20	21	22	22	24	19.8	7.4	85
Exceptional Expenses	-	-	-	-	-	-	-	-
Profit before tax	89	78	94	110	120	34.6	8.8	370
Provision for taxation	31	27	32	38	41	34.6	7.6	128
Adjustment	1	0	1	0	-	(100.0)	(100.0)	3
Net profit	57	51	60	72	78	37.3	9.7	240
Equity Capital (FV Rs 5)	138	138	138	138	138			138
EPS (Reported)	2.1	1.8	2.2	2.6	2.8	77bp	25bp	8.7
EBIDTA (%)	15.0	15.6	17.1	18.5	17.4	238bp	(113bp)	16.6
PATM (%)	7.7	8.0	8.9	10.1	9.4	167bp	(72bp)	8.7
Tax / PBT (%)	34.5	34.2	34.2	34.9	34.5	(2bp)	(41bp)	34.5
Gross Margin (%)	35.9	39.0	40.7	42.5	39.0	314bp	(351bp)	39.5
Raw material / Net sales (%)	63.4	62.8	56.9	55.5	60.9	(252bp)	541bp	59.6
Employee cost / Net Sales (%)	7.5	9.0	9.0	9.3	8.3	78bp	(107bp)	8.7
Selling & Dis. Exp. / Net Sales (%)	6.9	7.2	7.7	7.3	6.2	(66bp)	(107bp)	7.2
Other expenditure / Net Sales(%)	6.5	7.2	6.9	7.3	7.1	60bp	(22bp)	7.0

Source: AMSEC Research

Financial Trend

Exhibit 8: Revenue

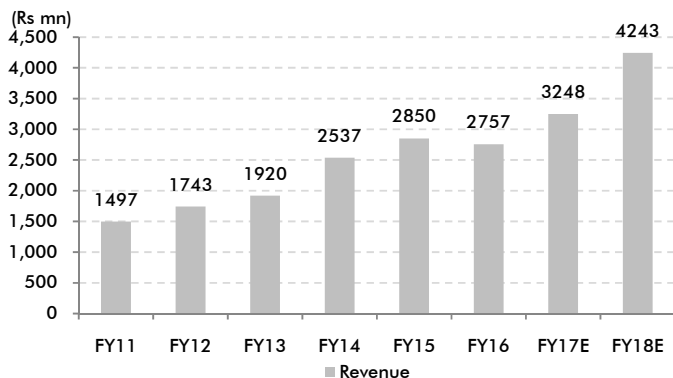


Exhibit 9: EBIDTA

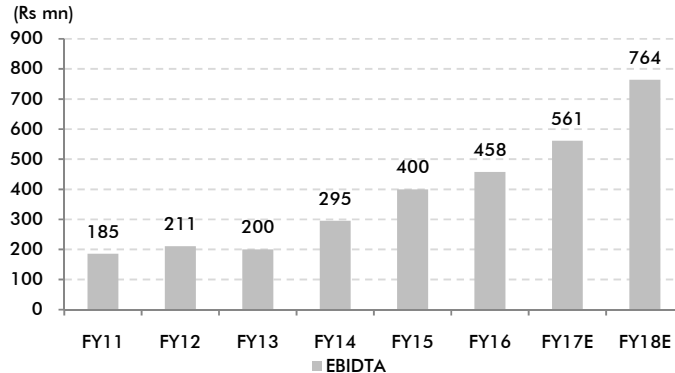


Exhibit 10: PAT

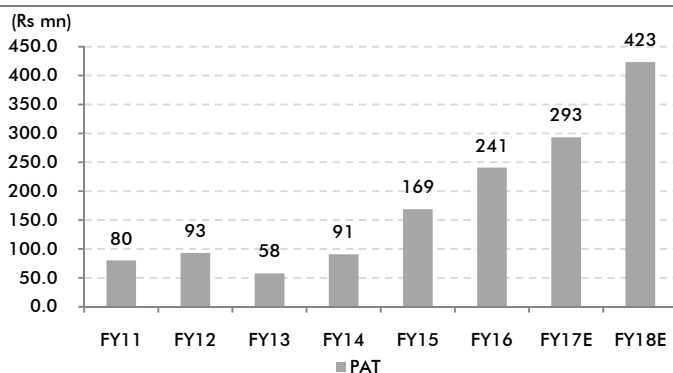


Exhibit 11: EBIDTAM & PATM

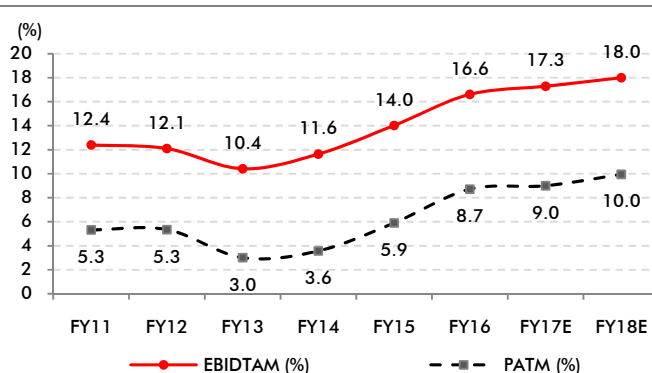


Exhibit 12: Return Ratios

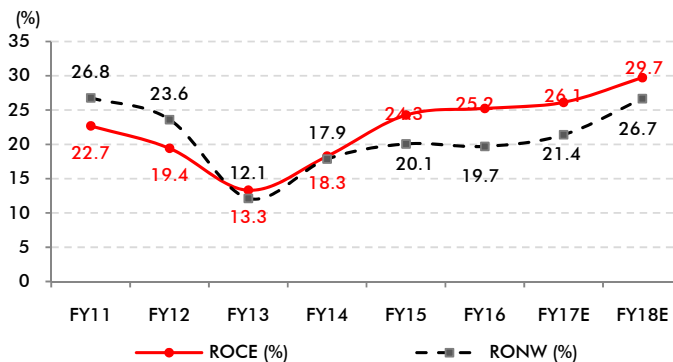


Exhibit 13: Gross Debt & D/E

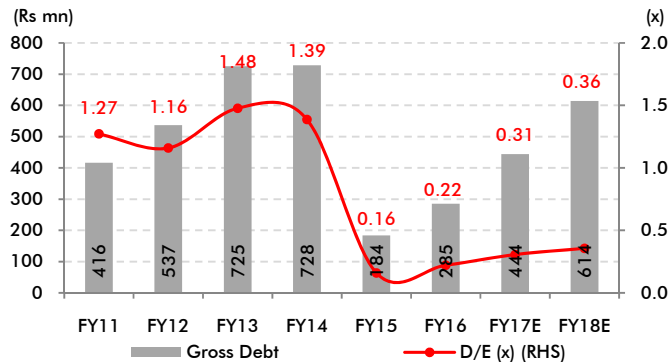


Exhibit 14: Cash Flows

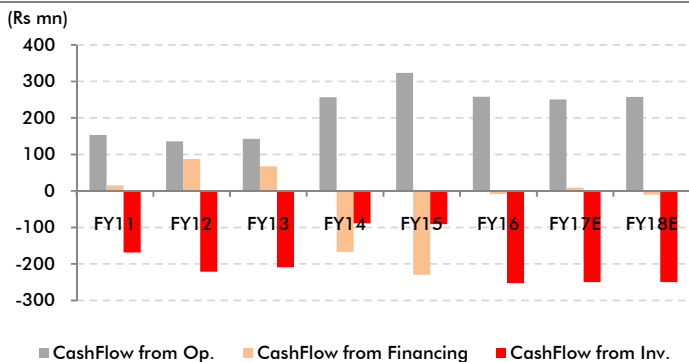
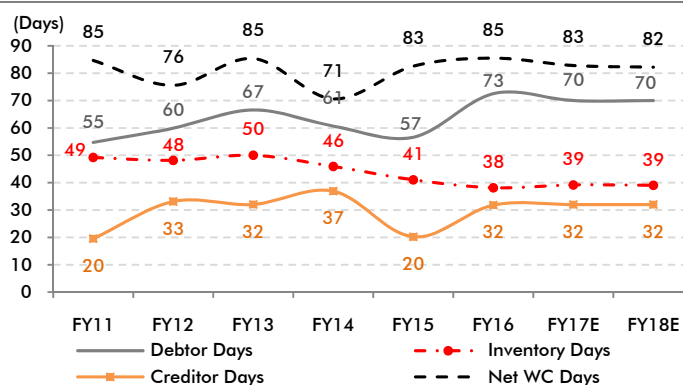


Exhibit 15: Working Capital



Source: Company, AMSEC Research

Financials (Standalone)**(Rs mn)**

Profit and Loss Account						Cash Flow Statement					
Y/E (Mar)	FY14	FY15	FY16	FY17E	FY18E	Y/E (Mar)	FY14	FY15	FY16	FY17E	FY18E
Net sales	2,537	2,850	2,757	3,248	4,243	PBT	147	253	370	444	622
Other operating income	-	-	-	-	-	Non-cash adjustments	156	156	92	125	150
Consumption of materials	1,721	1,807	1,644	1,949	2,567	Changes in working capital	(46)	(86)	(22)	(103)	(228)
Increase / (Decrease) in Stock	(39)	47	23	(18)	(31)	Tax & Interest Paid	-	-	(182)	(216)	(287)
Staff Expenses	197	213	240	288	360	Cash flow from operations	257	324	258	251	258
Other operating expenses	363	384	392	468	584	Capital expenditure	(89)	(91)	(237)	(250)	(250)
Total Expenditure	2,242	2,451	2,299	2,686	3,480	Change in investments	-	-	(15)	-	-
EBITDA	295	400	458	561	764	Other investing cash flow	1	-	-	-	-
Depreciation	70	82	85	100	120	Cash flow from investing	(88)	(91)	(252)	(250)	(250)
Operating profit	226	317	373	461	643	Issue of equity	7	538	-	-	-
Other income	5	8	7	8	9	Issue/repay debt	-	-	-	-	-
EBIT	231	325	380	469	652	Interest Paid	(84)	(73)	(10)	(25)	(30)
Interest	84	73	10	25	30	Inc. / (Dec) in Loan Funds	3	(544)	102	159	170
Exceptional items	6	-	-	-	-	Dividends paid	(40)	(67)	(100)	(125)	(150)
Profit before tax	147	253	370	444	622	Other financing cash flow	(54)	(84)	-	-	-
Tax	48	85	127	151	199	Cash flow from financing	(167)	(229)	(8)	9	(10)
Reported net profit	99	168	244	293	423	Change in cash & cash eq	2	4	(2)	10	(2)
EO Items	(6)	-	3	-	-	Opening cash & cash eq	4	6	10	8	18
Adjusted net profit	93	168	241	293	423	Closing cash & cash eq	6	10	8	18	15
Share O/s mn	23	28	28	28	28	Free cash flow to firm	331	221	(53)	136	90
Balance sheet						Ratios					
Y/E (Mar)	FY14	FY15	FY16	FY17E	FY18E	Y/E (Mar)	FY14	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS :						GROWTH YOY%					
Share Capital	113	138	138	138	138	Sales Growth	32.1	12.3	(3.3)	17.8	30.6
Reserves	412	1,018	1,151	1,311	1,585	EBITDA Growth	47.7	35.4	14.6	22.6	36.1
Total Shareholders Funds	525	1,157	1,290	1,450	1,723	Net Profit Growth	56.9	64.3	42.8	21.6	44.4
Non-Current Liabilities	253	170	141	174	218	Gross Fixed Asset Growth	6.4	7.0	15.5	13.5	3.3
Long term borrowings	195	110	66	79	98	PROFITABILITY					
Deferred tax liability	44	44	54	69	89	Gross Margins	21.6	29.9	31.6	29.8	29.5
Other long term liabilities	2	3	3	4	5	EBITDA / Net Sales (%)	11.6	14.0	16.6	17.3	18.0
Long-term provisions	12	13	17	21	27	NPM / Total income (%)	3.6	5.9	8.7	9.0	10.0
Current Liabilities	879	367	610	851	1,135	Raw Material/Net Sales (%)	67.8	63.4	59.6	60.0	60.5
Short term borrowings	460	35	186	330	480	Int/PBIT (%)	37.2	22.8	2.6	5.4	4.7
Trade payables	174	100	143	171	225	ROE (%)	17.9	20.1	19.7	21.4	26.7
Other current liabilities	159	109	114	133	160	ROCE (%)	18.3	24.3	25.2	26.1	29.7
Short term provisions	86	122	166	217	271	Tax / PBT (%)	32.8	33.5	34.2	34.0	32.0
Total Equity & Liabilities	1,656	1,693	2,040	2,475	3,077	TURNOVER (Days)					
APPLICATION OF FUNDS :						Net Working Cycle	71	83	85	83	82
Non Current Assets	806	816	992	1,153	1,298	Debtors Velocity	61	57	73	70	70
Gross block (Total)	1,080	1,155	1,334	1,514	1,564	Inventory	46	41	38	39	39
Less : Acc. Depreciation	360	440	525	625	746	Creditors Velocity	37	20	32	32	32
Net block (Total)	720	715	809	889	819	Gross Asset Ratio	2.4	2.6	2.2	2.3	2.8
Capital work in progress	25	28	86	156	356	Total Asset Ratio	1.6	1.7	1.5	1.4	1.5
Noncurrent investment	32	32	47	47	47	LIQUIDITY (x)					
Deferred tax assets	-	-	-	-	-	Gross Debt-Equity Ratio	1.4	0.2	0.2	0.3	0.4
Long term loans and advances	25	36	43	52	66	Net Debt-Equity Ratio	1.4	0.2	0.2	0.3	0.3
Other non-current assets	4	5	7	9	11	Interest Coverage	2.7	4.5	38.9	18.8	21.7
Current Assets	850	877	1,048	1,321	1,779	Current Ratio (x)	1.1	2.7	1.8	1.6	1.6
Current investment	-	-	-	-	-	Quick Ratio (x)	0.7	1.8	1.4	1.3	1.3
Inventories	283	277	241	289	373	PAYOUT					
Sundry debtors	422	442	548	623	814	Payout (%)	33	39	45	45	35
Cash and bank	6	10	8	18	15	Dividend (%)	30	40	65	80	90
Short loans and advances	74	136	240	379	562	Yield (%)	0.8	1.6	1.6	2.0	2.2
Others current assets	66	12	11	13	15	Du Pont Analysis					
Total Assets	1,656	1,693	2,040	2,475	3,077	NP / PBT (%)	73.9	66.6	65.5	66.0	68.0
Valuation Matrix						PBT / EBIT (x)	0.6	0.8	1.0	1.0	1.0
EPS Rs. (Reported)	4.0	6.1	8.7	10.6	15.3	EBIT / Sales (%)	0.1	0.1	0.1	0.1	0.2
EPS Rs (Adjusted)	4.6	6.1	8.7	10.6	15.3	Sales / Assets (x)	1.5	1.7	1.4	1.3	1.4
CEPS Rs.	7.6	9.1	11.8	14.2	19.6	Assets / Equity (x)	3.2	1.5	1.6	1.7	1.8
Book Value Rs.	23.3	41.8	46.6	52.4	62.2	ROE (%)	17.9	20.1	19.7	21.4	26.7
EV / Net Sales	2.4	1.3	2.1	1.9	1.5	<i>Source: Company, AMSEC Research</i>					
EV / EBITDA	21.0	8.9	12.9	10.8	8.1						
P / E Ratio	49.2	20.1	23.3	19.2	13.3						
P / BV Ratio	8.5	2.9	4.4	3.9	3.3						

Recommendation rationale

Buy: Potential upside of	> +15% (absolute returns)
Accumulate:	> +5 to +15%
Reduce:	+5 to -5%
Sell:	< -5%
Not Rated (NR):	No investment opinion on the stock

Sector rating

Overweight:	The sector is expected to outperform relative to the Sensex.
Underweight:	The sector is expected to underperform relative to the Sensex.
Neutral:	The sector is expected to perform in line with the Sensex.

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