Mold-Tek Packaging

09 December 2020

Reuters: MOLT.NS; Bloomberg: MTEP IN

Company Update

Moulding a better future

- **We believe that F&F pick-up, new launches and ramp-up in Mysore and Vizag capacities (paints division) will improve overall revenue/kg from Rs169 (FY21 estimate) to Rs193 in FY23. Ongoing improvement in product mix along with a strong thrust on cost management can increase blended EBITDA/kg to Rs38 in FY23. We are building in ~13% EBITDA CAGR over FY20-23E (~25% over FY21-23E).**
- **The recent rights issue would strengthen MTEP's B/S significantly in our view. We expect overall debt to fall by ~75% by FY23E with the help of rights issue proceeds and internal accruals set aside after providing for capex. We are building in ~19% earnings CAGR over FY20-23E.**
- **We maintain Buy on MTEP after revising our estimates. In our view, EPS dilution on account of rights issue will be largely offset by savings in interest outgo. TP remains unchanged (based on Sept'22 earnings) with a potential upside of 39%.**

F&F continues to be a key driver: We highlight that in 1HFY21, revenue/kg from F&F was down at Rs207/kg (vs Rs237/kg in 1HFY20) due to a significant decline in Mondelez off-take, loss of ice-cream sales and lower input prices. While there have been some signs of recovery starting Oct'20, we expect significant volume from Arun (in South) and Kwality Wall's in 4QFY21 in the ice-cream segment. Outlook for Mondelez remains moderate, but our channel checks suggest some pick-up in off-take of Lickables and Cadbury Cocoa Powder from Oct'20. Higher off-takes from Ice-creams and Mondelez would improve the overall revenue/kg as these products enjoy >2x revenue/kg compared to generic containers, in our view. Also, addition of Handwash and Sanitizer Pumps would improve the product mix further. Despite a flattish FY21E, F&F revenue can grow 2x in the next 2 years, led by recovery in existing segments and new launches, in our view. We like MTEP's increasing focus on the Healthcare segment wherein the management is targeting Pharma companies.

Paints outlook remains strong: Faster-than-expected recovery in the Paints division in 2QFY21 has been driven by lower tier cities. However, managements are sounding positive about the overall demand outlook across regions after 2QFY21 (Check latest interview of APNT MD). As far as MTEP is concerned, the recovery in the Paints segment was mainly a function of strong volume from APNT. We believe that growth would remain on a strong footing considering improved off-takes by other players and capacity expansion scheduled in the next 1-2 years. Increasing salience of Heat Transfer Labelling (HTL) would lift the overall realisation in the Paints division.

Deleveraging B/S is a key positive: Rising debt in the last couple of years has been the key concern for investors. The recent rights issue of ~Rs713mn (to manage the debt profile of the company) along with internal cash flows can cut overall debt by ~75% in FY23 as per our estimates. Majority of the term loans carry a coupon of ~9% and repayment of the same will result in significant savings in interest costs. We believe that EPS dilution on account of the rights issue would be largely offset by lower interest costs over the next 3 years. Operating cash flows are sufficient for long-term loan payments, assuming MTEP continues with Rs300-400mn annual capex plan.

Outlook and valuation: We like MTEP on account of its niche product offerings, which add value to the end-user segments. Demand for hygienic packaging is on the rise, especially in the wake of the Covid-19 pandemic and we believe this trend is sustainable. Apart from the strong operational levers, we expect improvement in return ratios (ROCE 20.1% in FY20 to 23.2% in FY23E), led by deleveraging of the balance sheet. We value MTEP at ~20x PE (unchanged) multiple based on Sep'22 earnings and maintain Buy rating following the earnings revision. Our unchanged TP indicates an upside of ~39% from CMP.

BUY

Sector: Packaging

CMP: Rs288

Target Price: Rs400

Upside: 39%

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Key Data

Current Shares O/S (mn)	27.8
Mkt Cap (Rsbn/US$mn)	8.0/109
52 Wk H / L (Rs)	305/135
Daily Vol. (3M NSE Avg.)	34,545

Price Performance (%)

	1 M	6 M	1 Yr
Mold-Tek Packaging	4.7	55.8	6.0
Nifty Index	8.6	34.7	13.3

Source: Bloomberg

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	3,941	4,374	3,888	4,826	5,842
Growth YoY%	*16.1*	*11.0*	*-11.1*	*24.1*	*21.1*
Gross margin %	*39.4*	*41.3*	*42.0*	*42.2*	*42.5*
EBITDA	719	800	747	946	1,163
EBITDA margin %	*18.3*	*18.3*	*19.2*	*19.6*	*19.9*
Adj PAT	310	404	357	503	674
Growth YoY%	*-2.1*	*30.2*	*-11.8*	*41.1*	*34.1*
EPS (Rs)	*11.2*	*14.6*	*12.6*	*17.8*	*21.3*
RoCE (%)	*20.5*	*20.1*	*16.9*	*21.3*	*23.2*
RoE (%)	*16.7*	*20.8*	*16.8*	*20.4*	*21.3*
P/E (x)	25.7	19.7	22.8	16.2	13.5
EV/EBITDA	12.3	11.3	12.1	9.4	8.1
P/BV (x)	4.2	4.0	3.6	3.1	2.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in earnings estimates

Consolidated (Rsmn)	Old Estimates			New estimates			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	3,779	4,711	5,598	3,888	4,826	5,842	3%	2%	4%
EBITDA	726	923	1,114	747	946	1,163	3%	2%	4%
APAT	324	472	601	357	503	674	10%	7%	12%

Source: Nirmal Bang Institutional Equities Research

Exhibit 3: Change in valuation and TP

Old		New		Change	
Target PE	TP	Target PE	TP	Target PE	TP
20	400	20	400	-	-

Source: Nirmal Bang Institutional Equities Research

Exhibit 4: Per kg assumptions

Revenue/kg	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Industry wise							
Paints	158	164	172	170	156	164	172
Lubes	154	158	167	164	159	165	169
F&F	219	279	248	238	216	243	253
Total	**160**	**175**	**182**	**180**	**169**	**183**	**193**
Growth							
Paints	*-0.5%*	*4.2%*	*4.6%*	*-1.3%*	*-8.0%*	*5.0%*	*5.0%*
Lubes	*0.3%*	*2.7%*	*5.3%*	*-1.7%*	*-3.0%*	*4.0%*	*2.0%*
F&F	*1.4%*	*27.1%*	*-10.8%*	*-4.1%*	*-9.3%*	*12.3%*	*4.2%*
Total	***0.3%***	***9.7%***	***4.1%***	***-1.2%***	***-6.2%***	***8.3%***	***5.4%***
IML vs Non-IML							
IML	175	192	197	192	183	197	207
Non IML	148	156	162	160	147	157	164
Total	**160**	**175**	**182**	**180**	**169**	**183**	**193**
Growth							
IML	*2%*	*10%*	*2%*	*-2%*	*-5%*	*8%*	*5%*
Non IML	*-2%*	*6%*	*4%*	*-1%*	*-9%*	*7%*	*4%*
Total	***0%***	***10%***	***4%***	***-1%***	***-6%***	***8%***	***5%***
Gross profit/kg	**61**	**71**	**72**	**74**	**71**	**77**	**82**
EBITDA kg	**28**	**33**	**33**	**33**	**32**	**36**	**38**

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 5: Quarterly segment performance

Particulars	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
Revenue/kg IML vs Non-IML									
IML	206	197	189	196	197	190	186	180	181
Non IML	164	166	156	165	166	159	152	146	152
Total revenue/kg	**187**	**185**	**178**	**184**	**185**	**179**	**173**	**167**	**170**
Revenue/kg segment wise									
Paints	177	171	166	172	177	169	161	152	159
Lubes	169	172	163	170	167	164	155	157	166
F&F	270	248	223	238	236	234	246	203	210
Total revenue/kg	**186**	**185**	**178**	**184**	**185**	**179**	**173**	**167**	**170**
EBITDA/Kg	**33**	**33**	**34**	**32**	**34**	**34**	**31**	**25**	**37**

Exhibit 6: IML vs Non-IML

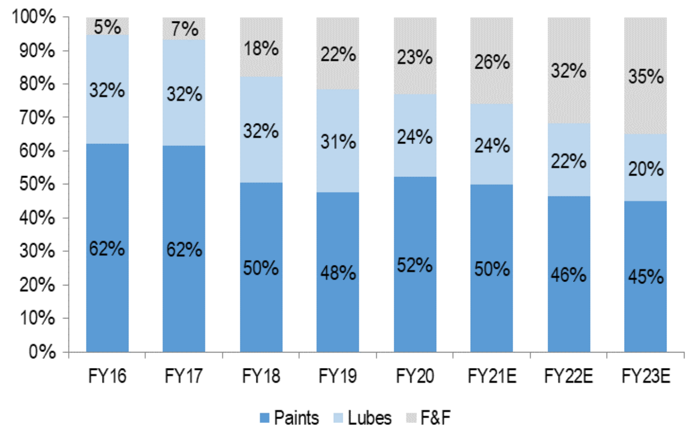
Particulars	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
Volume breakup (%)									
IML	*53.3*	*59.8*	*64.5*	*60.8*	*61.1*	*65.1*	*61.9*	*62.5*	*62.4*
Non IML	*46.7*	*40.2*	*35.5*	*39.2*	*38.9*	*34.9*	*38.1*	*37.5*	*37.6*
Revenue breakup (%)									
IML	*58.8*	*63.8*	*68.8*	*64.9*	*65.1*	*69.0*	*66.6*	*67.3*	*66.5*
Non IML	*41.2*	*36.2*	*31.2*	*35.1*	*34.9*	*31.0*	*33.4*	*32.7*	*33.5*
Volume growth (%)									
IML	*30.2*	*20.0*	*23.3*	*23.4*	*34.8*	*17.8*	*5.6*	*-39.5*	*15.3*
Non IML	*9.0*	*-6.0*	*-11.8*	*4.8*	*-2.1*	*-6.1*	*18.0*	*-43.8*	*9.0*
Revenue growth (%)									
IML	*37.5*	*23.4*	*21.0*	*23.1*	*29.0*	*13.6*	*3.5*	*-44.5*	*5.9*
Non IML	*15.7*	*3.9*	*-11.6*	*7.4*	*-1.2*	*-10.1*	*14.5*	*-50.1*	*-0.2*

Exhibit 7: Industry-wise classification

Particulars	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
Volume breakup (%)									
Paints	*52.4*	*49.6*	*49.1*	*51.9*	*59.4*	*51.5*	*59.5*	*48.9*	*57.6*
Lubes	*34.3*	*32.6*	*29.5*	*29.6*	*22.9*	*30.4*	*24.9*	*24.7*	*23.4*
F&F	*13.2*	*17.7*	*21.5*	*18.5*	*17.7*	*18.1*	*15.7*	*26.5*	*19.0*
Revenue breakup (%)									
Paints	*49.7*	*45.9*	*46.0*	*48.7*	*56.7*	*48.7*	*55.4*	*44.4*	*53.7*
Lubes	*31.1*	*30.3*	*27.0*	*27.4*	*20.7*	*27.7*	*22.3*	*23.3*	*22.9*
F&F	*19.1*	*23.8*	*27.0*	*24.0*	*22.7*	*23.6*	*22.3*	*32.3*	*23.4*
Volume growth (%)									
Paints	*2.1*	*9.1*	*4.9*	*17.0*	*33.1*	*12.4*	*33.4*	*-44.6*	*9.5*
Lubes	*37.5*	*-7.0*	*-10.8*	*-9.8*	*-21.7*	*0.6*	*-7.1*	*-51.0*	*15.7*
F&F	*77.4*	*47.2*	*68.3*	*94.8*	*57.8*	*10.4*	*-19.8*	*-15.9*	*20.7*
Revenue growth (%)									
Paints	*9.2*	*15.7*	*6.5*	*16.0*	*32.9*	*11.1*	*28.8*	*-51.2*	*-1.7*
Lubes	*49.3*	*3.6*	*-11.8*	*-6.5*	*-22.5*	*-4.1*	*-11.7*	*-54.6*	*14.8*
F&F	*58.0*	*35.7*	*47.8*	*68.5*	*38.3*	*4.4*	*-11.7*	*-28.1*	*7.3*

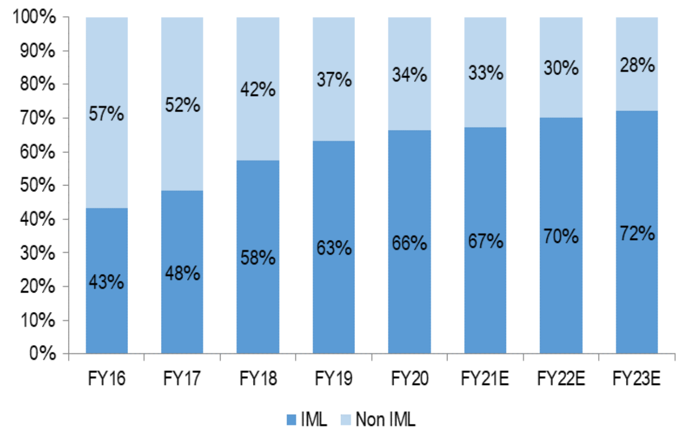
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Revenue share- industry wise



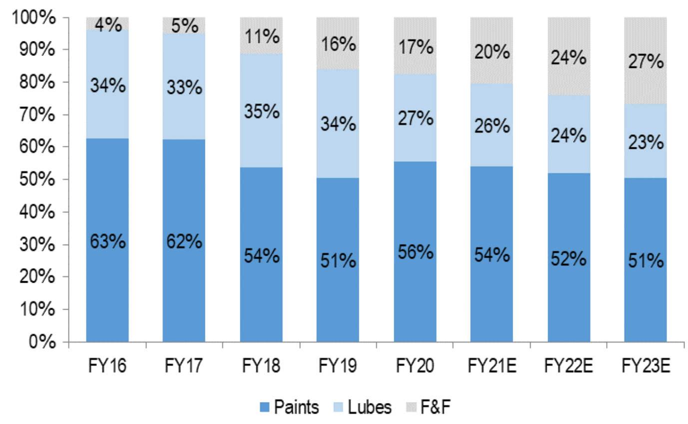
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Revenue share- IML vs Non-IML



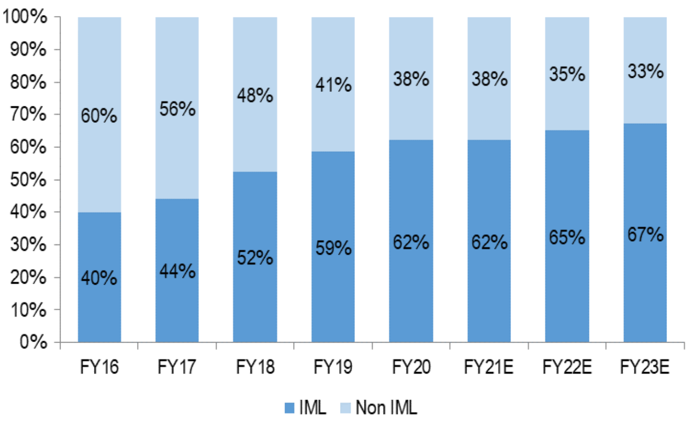
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Volume share- industry wise



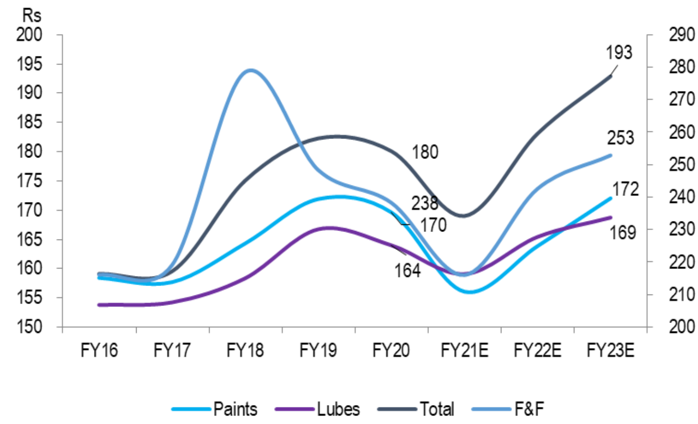
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Volume share- IML vs Non-IML



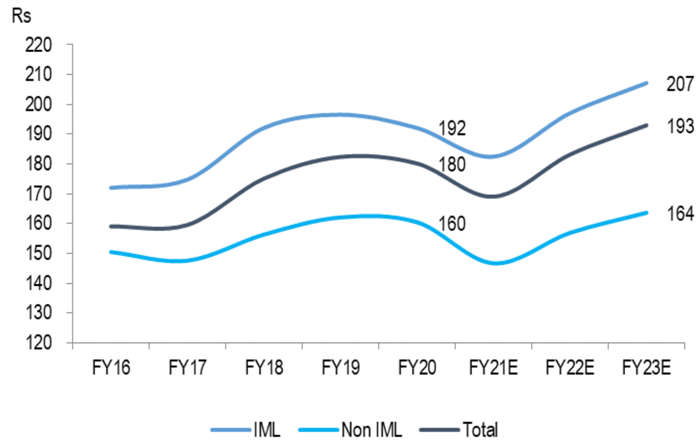
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Rev/kg- industry wise



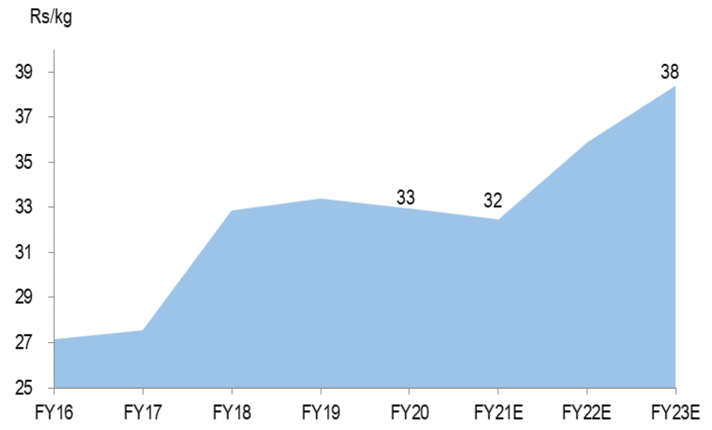
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Rev/kg- IML vs Non-IML



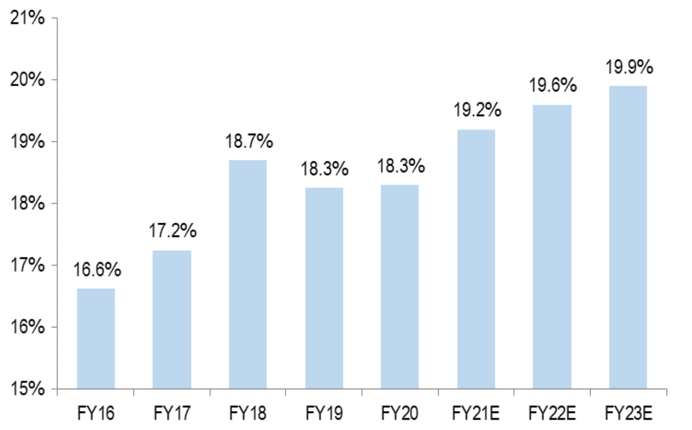
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: EBITDA/kg- we expect Rs38/kg in FY23



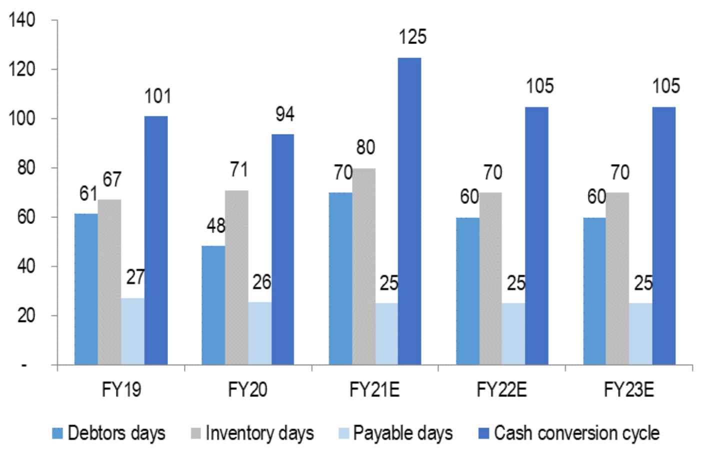
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: EBITDA margin trend



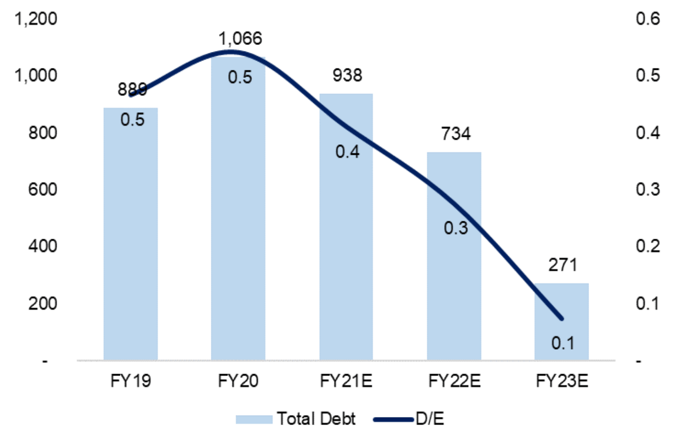
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Working capital cycle



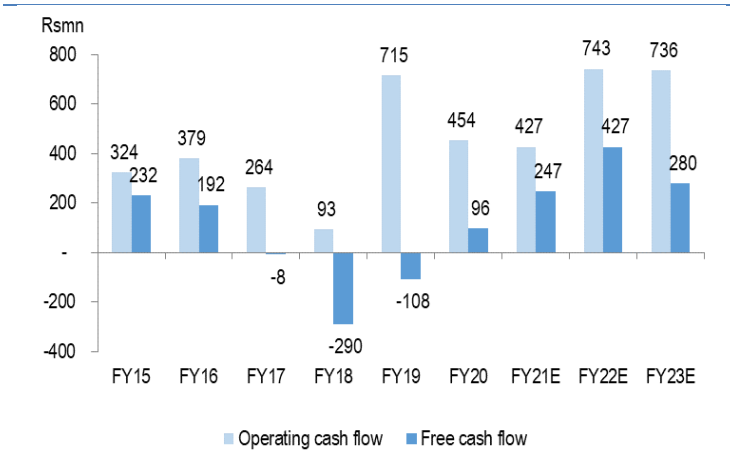
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Significant reduction of debt is likely



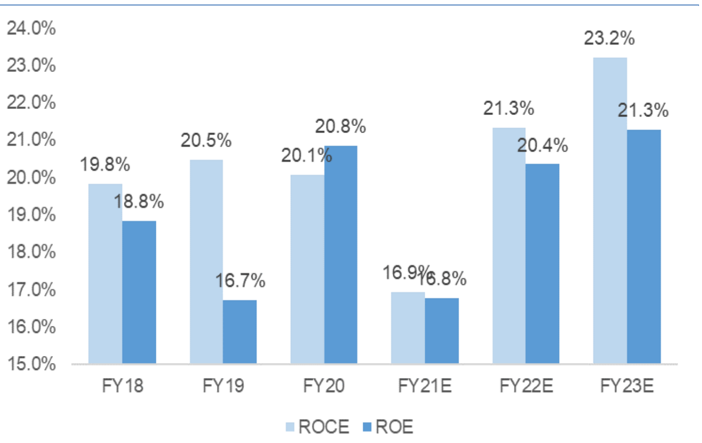
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Cash flow position remains strong; future capex could be comfortably funded through internal accruals



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Return ratios set to rise after deleveraging of Balance sheet and strong operational performance



Source: Company, Nirmal Bang Institutional Equities Research

Peer comparison: MTEP has been consistently ahead of the curve

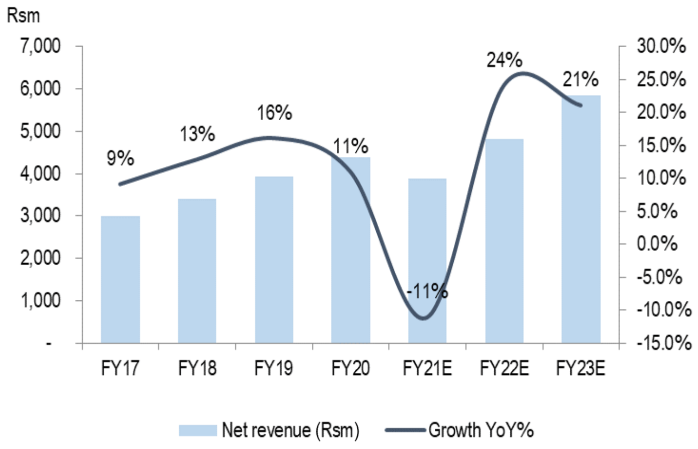
Exhibit 20: Comparison with peers - margin profile and return ratios

Gross margin	FY12/CY11	FY13/CY12	FY14/CY13	FY15/CY14	FY16/CY15	FY17/CY16	FY18/CY17	FY19/CY18	FY20/CY19
Mold-Tek Packaging	33.5%	35.1%	34.0%	35.0%	39.5%	38.2%	40.5%	39.4%	41.3%
Essel Propack	52.9%	52.7%	50.5%	49.4%	54.7%	55.3%	56.3%	55.1%	56.5%
Hutamaki PPL	30.6%	30.4%	29.4%	27.5%	30.5%	32.7%	33.0%	32.1%	33.7%
Time Technoplast	33.6%	33.6%	30.8%	30.3%	28.0%	28.3%	28.7%	28.0%	27.0%
HiTech Corp	39.0%	36.2%	34.9%	36.0%	40.3%	37.6%	38.8%	38.2%	40.3%
EBITDA margin	**FY12/CY11**	**FY13/CY12**	**FY14/CY13**	**FY15/CY14**	**FY16/CY15**	**FY17/CY16**	**FY18/CY17**	**FY19/CY18**	**FY20/CY19**
Mold-Tek Packaging	12.1%	10.4%	11.6%	14.0%	16.6%	17.2%	18.7%	18.3%	18.3%
Essel Propack	18.9%	19.9%	19.5%	18.7%	20.7%	19.9%	22.9%	21.0%	21.5%
Hutamaki PPL	10.8%	9.9%	9.9%	9.0%	10.5%	11.5%	10.3%	9.4%	11.3%
Time Technoplast	18.7%	18.2%	15.0%	15.0%	15.5%	15.5%	16.1%	15.1%	13.6%
HiTech Corp	14.1%	11.4%	10.7%	8.7%	11.6%	9.5%	9.6%	11.2%	13.0%
ROCE	**FY12/CY11**	**FY13/CY12**	**FY14/CY13**	**FY15/CY14**	**FY16/CY15**	**FY17/CY16**	**FY18/CY17**	**FY19/CY18**	**FY20/CY19**
Mold-Tek Packaging	17.1%	12.6%	19.1%	24.4%	24.2%	21.6%	19.8%	20.5%	20.1%
Essel Propack	5.3%	7.2%	8.3%	11.0%	13.1%	12.1%	14.3%	11.9%	9.1%
Hutamaki PPL	15.7%	14.4%	16.1%	11.5%	8.3%	16.7%	14.2%	14.4%	21.3%
Time Technoplast	13.0%	13.1%	10.9%	12.0%	10.7%	10.5%	10.9%	11.4%	9.4%
HiTech Corp	17.6%	14.0%	12.3%	13.3%	17.4%	8.7%	6.3%	8.7%	9.3%
ROE	**FY12/CY11**	**FY13/CY12**	**FY14/CY13**	**FY15/CY14**	**FY16/CY15**	**FY17/CY16**	**FY18/CY17**	**FY19/CY18**	**FY20/CY19**
Mold-Tek Packaging	20.5%	12.3%	18.3%	14.5%	18.8%	17.3%	17.5%	16.3%	20.5%
Essel Propack	7.4%	7.1%	7.5%	11.9%	19.0%	10.6%	12.5%	9.5%	15.2%
Hutamaki PPL	16.1%	12.8%	14.1%	11.5%	8.4%	16.1%	11.7%	6.3%	24.4%
Time Technoplast	11.6%	10.8%	10.4%	8.5%	10.7%	8.2%	9.1%	9.3%	6.8%
HiTech Corp	14.2%	8.6%	4.4%	6.0%	10.4%	6.5%	5.2%	10.0%	1.4%

Source: Company, Nirmal Bang Institutional Equities Research

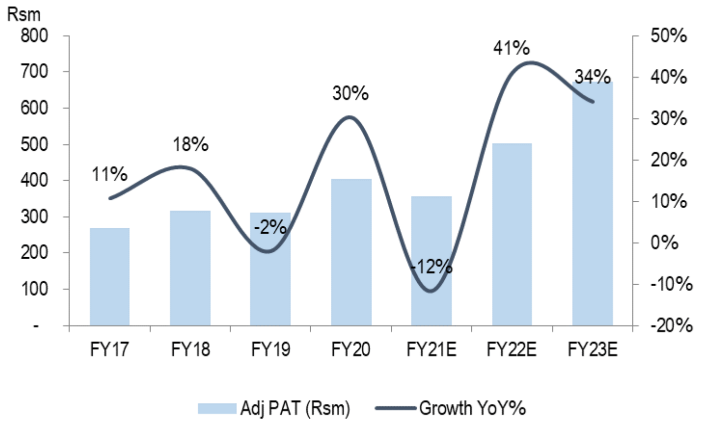
We are building in ~19% earnings CAGR over FY20-23E

Exhibit 21: Revenue growth- we are building in ~10% CAGR over FY20-23E



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: Earnings growth- we are building in ~19% CAGR over FY20-23E



Source: Company, Nirmal Bang Institutional Equities Research

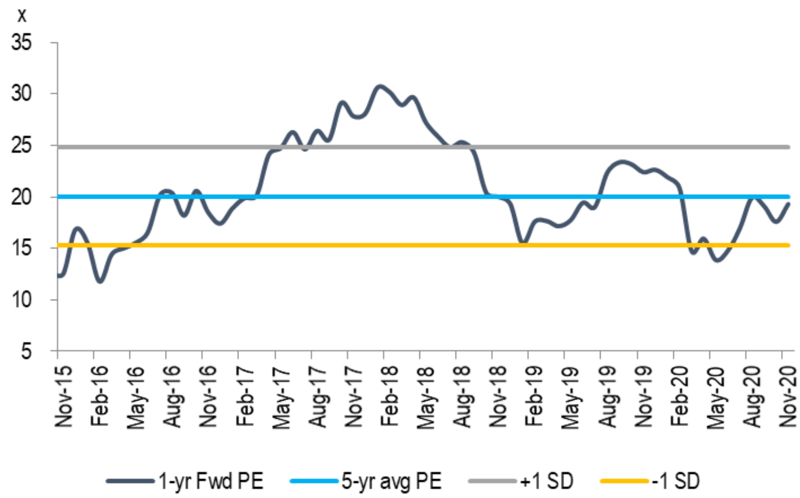
Maintain Buy on MTEP with TP of Rs400 indicating an upside of 39% from CMP

Exhibit 23: Valuation summary

Particulars	Details	Comments
Sept'22E EPS	20	
Target PE multiple (x)	20	*Broadly in-line with 5-yr median PE*
Target price	**400**	

Source: Nirmal Bang Institutional Equities Research

Exhibit 24: One-year forward P/E



Source: Bloomberg,Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 25: Income statement

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	**3,941**	**4,374**	**3,888**	**4,826**	**5,842**
Growth YoY%	*16.1*	*11.0*	*-11.1*	*24.1*	*21.1*
COGS	2,387	2,569	2,255	2,789	3,359
Gross margin %	***39.4***	***41.3***	***42.0***	***42.2***	***42.5***
Staff costs	405	494	459	550	666
Other expenses	430	511	428	541	654
EBITDA	**719**	**800**	**747**	**946**	**1,163**
Growth YoY%	*13.3*	*11.3*	*-6.7*	*26.7*	*22.9*
EBITDA margin %	***18.3***	***18.3***	***19.2***	***19.6***	***19.9***
Depreciation	147	191	201	222	246
EBIT	572	610	545	724	917
Interest	71	102	80	67	40
Other income	13	12	12	15	25
PBT (bei)	515	519	477	672	901
PBT	400	491	477	672	901
ETR	39.7	22.2	25.2	25.2	25.2
PAT	241	382	357	503	674
Adj PAT	**310**	**404**	**357**	**503**	**674**
Growth YoY%	***-2.1***	***30.2***	***-11.8***	***41.1***	***34.1***

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 26: Cash flow

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
PBT	**400**	**491**	**477**	**672**	**901**
Depreciation	152	194	201	222	246
Interest	71	102	80	67	40
Other adjustments	-96	-84	-12	-15	-25
Change in Working capital	324	-124	-200	-34	-200
Tax paid	-136	-125	-120	-169	-227
Operating cash flow	**715**	**454**	**427**	**743**	**736**
Capex	-822	-357	-180	-315	-457
Free cash flow	**-108**	**96**	**247**	**427**	**280**
Other investing activities	165	80	10	-15	-120
Investing cash flow	**-658**	**-278**	**-170**	**-330**	**-577**
Issuance of share capital	-	0	27	75	611
Movement of Debt	152	227	-128	-205	-462
Dividend paid (incl DDT)	-134	-301	-71	-201	-270
Other financing activities	-71	-102	-80	-74	-40
Financing cash flow	**-52**	**-175**	**-253**	**-405**	**-161**
Net change in cash flow	**5**	**1**	**4**	**7**	**-1**
Opening C&CE	9	9	10	13	21
Closing C&CE	9	10	13	21	19

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 27: Balance sheet

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Share capital	139	139	141	141	158
Reserves	1,768	1,832	2,142	2,518	3,518
Net worth	**1,906**	**1,971**	**2,283**	**2,660**	**3,676**
Long term debt	740	815	774	696	250
Short term debt	149	252	164	37	21
Total debt	**889**	**1,066**	**938**	**734**	**271**
Other non-current liabilities	153	143	143	136	136
Total Equity & Liabilities	**2,948**	**3,181**	**3,364**	**3,529**	**4,083**
Gross block	2,639	3,057	3,237	3,587	3,987
Accumulated depreciation	875	1,066	1,268	1,489	1,735
Net Block	**1,798**	**2,024**	**2,003**	**2,131**	**2,285**
CWIP	160	115	115	81	137
Intangible and others	-	-	-	-	-
Other non-current assets	98	135	135	135	135
Investments	97	73	75	105	250
Trade receivables	664	580	746	793	960
Inventories	438	500	494	535	644
Cash & Cash equivalents	9	10	13	21	19
Other current assets	169	189	198	198	198
Total current assets	**1,280**	**1,278**	**1,452**	**1,547**	**1,822**
Trade payables	179	180	154	191	230
Other current liabilities	307	265	261	279	316
Total current liabilities	**486**	**445**	**415**	**470**	**546**
Total Assets	**2,948**	**3,181**	**3,364**	**3,529**	**4,083**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 28: Key ratios

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Per share (Rs)					
Adj EPS	11.2	14.6	12.6	17.8	21.3
Book value	68.8	71.2	80.8	94.2	116.2
DPS	4.0	2.7	2.5	7.1	8.5
Valuation (x)					
P/Sales	2.0	1.8	2.1	1.7	1.6
EV/sales	2.2	2.1	2.3	1.8	1.6
EV/EBITDA	12.3	11.3	12.1	9.4	8.1
P/E	25.7	19.7	22.8	16.2	13.5
P/BV	4.2	4.0	3.6	3.1	2.5
Return ratios (%)					
RoCE	20.5	20.1	16.9	21.3	23.2
RoE	16.7	20.8	16.8	20.4	21.3
Profitability ratios (%)					
Gross margin	39.4	41.3	42.0	42.2	42.5
EBITDA margin	18.3	18.3	19.2	19.6	19.9
PAT margin	7.8	9.2	9.1	10.4	11.5
Liquidity ratios (%)					
Current ratio	1.0	1.0	1.2	1.3	2.3
Quick ratio	0.7	0.6	0.8	0.9	1.5
Solvency ratio (%)					
Debt to Equity ratio	0.5	0.5	0.4	0.3	0.1
Turnover ratios					
Fixed asset turnover ratio (x)	2.7	2.3	2.0	2.4	2.7
Debtor days	61	48	70	60	60
Inventory days	67	71	80	70	70
Creditor days	27	26	25	25	25
Net Working capital days	101	94	125	105	105

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 April 2017	Buy	259	351
31 May 2017	Buy	287	387
8 September 2017	Buy	302	381
15 November 2017	Buy	315	426
7 February 2018	Buy	325	460
1 June 2018	Buy	321	450
6 August 2018	Buy	307	450
13 November 2018	Buy	266	400
31 January 2019	Buy	219	400
8 June 2020	Buy	195	300
1 August 2020	Buy	229	300
13 November 2020	Buy	295	400
09 December 2020	Buy	288	400

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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