

## Robust volume led growth continues

Mold-Tek Packaging (MTEP) reported numbers were an all round beat to our and consensus estimates owing to better than expected traction in demand from its key end-user industry Paints, Lubes and F&F. Net Sales at Rs.134cr were up 33% YoY (est Rs. 116cr) as Paints and F&F segment reported a robust volume growth of 55%/24%/21% respectively in Q3FY21. The average utilization levels for Q3 stood at ~73% while in some segments it breached 90% levels. EBITDA was up 48% YoY at Rs. 27.7cr (estm Rs. 25cr) driving EBITDA Margin expansion to 20.7% up by ~217bps YoY versus 18.7% in Q3FY20 despite GM contraction. The healthy EBITDA/kg was driven by improved product mix in favour of IML (65% in value terms), lower other expenses and some inventory gains. Recurring PAT of Rs. 14.9cr up 69% YoY a 15% outperformance vs our/consensus estimate of Rs. 13cr/Rs. 8.5cr. Although volumes grew at a robust 36% YoY. Realizations at Rs. 175/kg were 3% lower YoY due to relatively lower F&F mix which however, is recovering QoQ. EBITDA/kg a key metric of profitability too improved to Rs. 36-37/kg, led by increased sales of IML packs. We retain BUY and raise our Target Price to Rs. 435/share (Rs. 351 earlier) as we roll forward our estimates to FY23E continuing to value at 17x PE its FY23E. At CMP stock trades at 13x PE which is fairly attractive as compared to its 5 year average PE of 20x. Further, management guided to close FY21 with positive 8-10% volume growth as compared to flat growth guidance in Q2FY21 indicating MTEPs leadership position in IML packaging in the industry. Key risk – uncertainty on spread of COVID, sudden spike in RM prices and inability to pass on to customers.

## Our Take On Q3FY21 Results Concall

- Q3FY21 Volumes healthy:** For Q3FY21, MTEP reported 36% volume growth at 7,642MT driven by a robust offtake recovery across segments led by Paints and F&F while Lubes is seen to gradually recover QoQ. For Q3FY21, capacity utilization stood at 73%. Volume in Paints increased by 48% aided by significant improvement in utilization levels at Mysuru and Vizag plants aided by Asian Paints. F&F volumes grew 494% YoY on the back of a strong demand for packaged food items, traction in ice-cream thin wall pails and new product launches. Lubricant volumes were higher 21% YoY. Paints/Lubes/FMCG volumes stood at 4,241MT/1,834MT/1,567MT resp. For FY21, MTEP has guided to achieve 8-10% positive growth in volumes vs flattish growth guidance earlier. IML/Non-IML volume mix was 63%/37% in Q3FY21, while in value terms share of IML/Non-IML was 65.4%/34.6%.
- EBITDA/kg sharp improvement seen:** GM in Q3FY21 stood at 42.7% vs 43.9% in Q2FY20 due to 20-25% rise in RM cost resulting in a 113bps YoY decline. Despite GM contraction, EBITDA Margin expanded YoY by 217bps to 20.7% on account of improved mix (higher IML share in value terms), new product launches and lower opex. EBITDA/kg stood at Rs. 36-37/kg (Rs. 33/kg in Q3FY21). Management guided that EBITDA/Kg of ~Rs. 37/kg is sustainable in FY22E with a target of Rs. 40/kg in next 2-3 years. Focus will remain on both volumes and profitability with adherence to pricing discipline.
- New product innovation:** During Q3FY21, MTEP has seen improving traction to its innovative product - 'QR Code Printed IML' which offers traceability and anti-counterfeit solutions in the supply chain. This product has particularly gained encouraging responses from the MNC Lubricant customers. MTEP also intends to supply superior IML based packaging solution to sweet boxes, adhesive square packsetc. These innovations have widened the technological gap for MTEP versus competition thus maintaining its leadership position in our view.
- Guidance:** To close FY21 with 8-10% volume growth despite sharp negative in Q1FY21. EBITDA/Kg to improve to Rs. 40/kg over the next 2-3 years on the back of increasing IML contribution and innovative product launches.

## Key Financials (Consolidated)

(Rs. Cr)	FY20	FY21E	FY22E	FY23E
Net Sales	438.2	456.1	536.4	625.3
EBITDA	76.8	80.3	104.6	129.4
Net Profit	37.4	37.4	54.5	71.2
EPS (Rs.)	13.5	13.5	19.6	25.7
PER (x)	24.2	24.3	16.7	12.7
EV/EBITDA (x)	13.2	12.6	9.3	7.2
P/BV (x)	4.6	3.9	3.3	2.7
ROE (%)	17.5%	16.6%	20.0%	21.3%

Source: Company, Axis Research

(CMP as of Jan 20, 2020)

CMP	327
Upside /Downside (%)	33%
High/Low (Rs)	349/143
Market cap (Cr)	908
Avg. daily vol. (6m) Shrs.	50,968
No. of shares (Cr)	2.8

## Shareholding (%)

	Jun-20	Sep-20	Dec-20
Promoter	34.8	34.8	35.1
FIs	9.5	9.4	9.3
MFs / UTI	12.2	12.2	12.2
Banks / Fls	0.1	0.0	0.1
Others	34.8	34.8	35.1

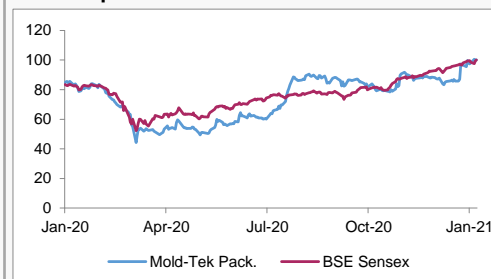
## Financial & Valuations

Y/E Mar (Rs. Cr)	2021	2022E	2023E
Net Sales	456.1	536.4	625.3
EBITDA	80.3	104.6	129.4
Net Profit	37.4	54.5	71.2
EPS (Rs.)	13.5	19.6	25.7
PER (x)	24.3	16.7	12.7
EV/EBITDA (x)	12.6	9.3	7.2
P/BV (x)	3.9	3.3	2.7
ROE (%)	16.6%	20.0%	21.3%

## Change in Estimates (%)

Y/E Mar	FY21E	FY22E	FY23E
Sales	(0.5)	(2.9)	-
EBITDA	(0.5)	(0.8)	-
PAT	(2.9)	(2.5)	-

## Relative performance



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## Other Key Concall Takeaways

### Segmental Highlights:

- ✓ **Paints:** robust demand continues to be driven by Asian Paints. All 3 plants (Satara, Mysore, Vizag) have been expanded by 12-15% at a capex of Rs. 7-8cr in Q3. New plants for Asian Paints at Mysuru and Vizag are running at 80% utilization levels and Asian Paints has added to capacity ahead of time. MTEP aims to expand Mysuru/Vizag plants from 2500MT to 6500MT in next 3 years. In FY22 Paints segment to contribute 52% led by growth from Berger Paints and Kansai Nerolac who are adapting to IML based paints. Paints sector reported 55% rise in volumes in Q3FY21 on a YoY basis.
- ✓ **Food & FMCG (F&F):** Ice-cream packs and Cadbury's (Mondelēze) segment growth is coming back on track with robust growth in Q3FY21 at ~25-30% levels. F&F Segment to report stellar 30-35% growth in coming quarters given normalcy resuming back. Contribution from F&F is likely to 27-28% from 24,5% currently.
- ✓ **Lubes:** growth to be modest given the industry is highly mature. Growth likely to range between 5-7% going ahead.
- ✓ **Overall Growth Guidance:** Management is hopeful of achieving positive volumes growth of 8-10% in FY21, further in Q4FY21 it expects a smart recovery on the back of unlock and progressive normalization of the economy. In FY22 it expects volumes to grow at 30% YoY. Going forward, MTEP is confident of achieving double digit growth on the back of improved profitability led by widening of product range which has higher value additions.

### 2) Business Highlights:

- ✓ IML /Non IML breakup: 63 % / 37% in volume terms, in value terms its 65.4%/34.6% resp. in Q3
- ✓ Paints/Lubes/F&F contribution in volume terms stood at 55.7%/22.5%/22% in Q3FY21 vs 49%/28%/23% in Q3FY20.

### 3) Mysuru and Vizag plants steer Paints demand for paint: Combined volumes from Vizag/Mysuru stood at 1400MT while in 9MFY21 it stood at 3400MTPA.

### 4) Pumps business update: MTEP has confirmed orders from customers like Godrej, Reckit Beckinser, Wipro, ITC, Apollo Hospitals etc to start revenue contribution from Q1FY22. At peak utilization MTEP expects to clock revenues of Rs .60cr annually with an asset turnover of 4x (invested Rs. 15cr for setting up dispensing pumps facility) to be achieved in next 2 years. This is a margin accretive product with huge entry barriers and company sees a lot of value in this space given use of advanced technology in the manufacturing process like automatic lines, precision molds and strict leak resistant tests being conducted under high degree temperature. Given lack of technological prowess of competitors it has high entry barriers. So far company has incurred Rs. 16cr capex and it further aims to enhance product range for shampoos within the next few months.

### 5) Capacity: In March 2020, MTEP had capacity of 37,000MTPA. This is expanded to 41,500MTPA in FY21 and from FY22E onwards it will have a capacity of 44,500MTPA with additional capacity expansion of 1500MT each at Mysuru and Vizag and 500MTPA at Satara plant for an outlay of Rs. 7-8cr.

### 6) New Product innovations: Has helped MTEP to maintain its technological edge vs peers and thereby maintain its market leadership in rigid packaging segment.

- ✓ Hinge pack, Sweet packs, Square packs, Adhesive packs are slowly getting traction and will drive growth in the coming years. Demand for new segments for square packs is growing rapidly post COVID given higher preference for hygiene and safety.
- ✓ In Pumps business, MTEP has successfully established and started commercial production and supplies of pumps. In addition to Twist & Lock & Lockdown pumps, the company is now exploring additional range of caps & closures like trigger pumps for shampoos.

### 7) Healthy EBITDA/kg to sustain: In Q3FY21, EBITDA/kg was Rs. 36/kg despite sharp 20-25% rise in RM costs. This improvement in profitability was driven by better product mix, economies of scale, new product launches, improving traction in ice-cream paints as demand shows speedy recovery QoQ. Management indicated it does not compromise on margins and thus expects to report sustainable EBITDA/kg of Rs. 36-37/kg levels in FY21/FY22 an improvement over Rs. 30-32/kg EBITDA/kg band reported in pre-COVID times. Also management has guided to achieve Rs. 40/kg EBITDA/kg levels in the next 2-3 years on the back of innovative product launches, growing acceptance of IML packaging in F&F sector and Paints industry. Key drivers for improved profitability are

- ✓ QR Coded IML Labels for complete traceability and safe guarding brands against duplication and promotions/schemes
- ✓ Entry into higher margin personal/healthcare packaging products like pumps (an import substitution opportunity)
- ✓ Expanding IML product range for F&F which has better EBITDA Margins.

8) **Cautious on RM price volatility:** Crude prices in Q3 surge by 15-20% YoY as price of key RM Poly Propylene increased from Rs. 88/kg in Q2FY21 to Rs. 108/kg in Q3FY21 and is expected to remain at Q3 levels in Q4FY21. While, rise in RM prices impacts absolute topline on an immediate basis, the same is nullified and offset as MTEP passes on RM price variations to its clients. Management guided for lower RM prices going ahead as plants in Middle East which remained shut are likely to reopen and operate.

9) **Balance Sheet strength to improve further:** MTEP raised Rs. 72cr through the Rights and Share Warrants Issue. The proceeds will be utilized for reducing working capital debt and some long term debt and thus improve D:E mix to 0.2x in FY21E from 0.6x currently.

**10) Others:**

- ✓ Capex: FY21 Capex to be approximately Rs.50cr. FY21 capex would include capex on moulds, closures, pumps for sanitizer and cosmetic products Rs. 15cr. Brownfield expansion of 1250MT each at Mysuru and Vizag and 3000MT capex at its Satara plant which is likely to be completed by March/April. This shall start contributing to revenues from FY22 beginning. In North India, MTEP is likely to set up a plant with a small initial capacity of 600-800MT which is likely to come up in FY23E for Berger Paints and depending on the demand scenario the same can be expanded further.
- ✓ Debtors days at 30-60 days is not a major concern as company caters to clients which are majorly bluechip companies.
- ✓ IML/Non-IML margin difference if ~8-10%
- ✓ Paints & Lubes EBITDA/Kg is Rs. 25-30/kg while for Food & FMCG (F&F) EBITDA/kg ranges between Rs. 40-80/kg. F&F has higher EBITDA/Kg as the pails are small in size and involve huge volumes on consistent basis.
- ✓ Healthcare & Pumps EBITDA/Kg is similar to F&F levels but currently difficult to assess given that this business presently is at a small scale.
- ✓ Edible Oil packs demand has surged rapidly post COVID which witnessed a robust 35% growth in Q3FY21. Total customers in Edible Oil sector are up from 105 to 165 in FY21. For FY21 revenue from Edible Oil packs is estimated to be ~Rs. 45-50cr, in 9MFY21 it was Rs. 36cr.
- ✓ Hinge & Sweet Packs: This business has a potential to generate Rs. 30-40cr revenues from FY22 onwards and thereafter can be cash cow business in next 2-3 years.

## Q3FY21 Financial Snapshot (Consol)

	Q3FY21	Q3FY21E Axis Estm	Var (%)	Q3FY20	% Change (YoY)	Q2FY21	% Change (QoQ)
<b>Net Sales</b>	<b>133.5</b>	<b>115.8</b>	<b>15.3</b>	<b>100.7</b>	<b>32.6</b>	<b>119.1</b>	<b>12.1</b>
<b>Expenditure</b>							
Net Raw Material	76.5	64.0	19.4	56.5	35.2	66.5	15.0
Gross Profit	57.1	51.5	10.9	44.2	29.2	52.6	8.5
<b>Gross Margin (%)</b>	<b>42.7</b>	<b>44.4</b>	<b>-170bps</b>	<b>43.9</b>	<b>-113bps</b>	<b>44.2</b>	<b>-144bps</b>
Employee Expenses	14.0	12.4	12.9	12.6	11.4	12.7	10.1
Other Exp	15.4	14.0	9.9	12.9	19.1	14.1	9.2
Total Expenditure	105.8	90.8	16.6	82.0		93.3	
<b>EBITDA</b>	<b>27.7</b>	<b>25.1</b>	<b>10.4</b>	<b>18.7</b>	<b>48.0</b>	<b>25.8</b>	<b>7.3</b>
<b>EBITDA Margin (%)</b>	<b>20.7</b>	<b>21.6</b>	<b>-92bps</b>	<b>18.6</b>	<b>217bps</b>	<b>21.7</b>	<b>-94bps</b>
Oth. Inc	0.1			0.0	176.1	0.2	(30.8)
Interest	2.5			2.6	(5.7)	2.4	5.2
Depreciation	5.3			4.9	7.1	5.5	(4.8)
<b>PBT</b>	<b>20.1</b>			<b>11.2</b>	<b>79.2</b>	<b>18.1</b>	<b>10.8</b>
Tax	5.1			2.3	118.5	4.6	10.3
<b>PAT</b>	<b>14.9</b>	<b>13.0</b>	<b>14.9</b>	<b>8.8</b>	<b>68.8</b>	<b>13.5</b>	<b>11.0</b>
<b>EPS</b>	<b>5.4</b>	<b>4.7</b>	<b>14.5</b>	<b>3.2</b>	<b>68.4</b>	<b>4.9</b>	<b>10.7</b>

Source: Company; Axis Sec

## Valuation & Outlook

Management remains hopeful of scaling back to positive volume growth trajectory in FY21 despite a sharp decline in volumes in Q1FY21 (impacted by pandemic). This is expected to be driven by the new opportunities presented by COVID of providing customers with quality pumps used in hand sanitizers, there exists a long term opportunity for MTEP to capitalize upon this and also ramp up production at its Paints capacities at Vizag and Mysuru. Further with improved product mix in favour of higher margin IML and value added products, we expect EBITDA/Kg to remain healthy supported by strict cost control measures despite RM price volatility. **Reain BUY, with TP of Rs. 435 (earlier Rs. 351) as we roll forward to our FY23E/ Over FY20-23E we expect MTEP to report a Revenue/EBITDA/PAT CAGR of 13%/19%/24% respectively.**

**Financials (consolidated)**
**Profit & Loss**
**(Rs Cr)**

Y/E March	FY20	FY21E	FY22E	FY23E
<b>Total Sales</b>	<b>438.2</b>	<b>456.1</b>	<b>536.4</b>	<b>625.3</b>
Total RM Consumption	257.5	262.2	306.8	355.8
Staff Costs	50.0	55.2	61.2	68.2
Other Expenses	53.9	58.4	63.8	71.9
Total Expenditure	361.4	375.8	431.8	495.8
<b>EBITDA</b>	<b>76.8</b>	<b>80.3</b>	<b>104.6</b>	<b>129.4</b>
Depreciation	19.2	20.7	23.0	25.2
EBIT	57.6	59.5	81.6	104.2
Interest & Finance charges	10.4	11.1	10.6	10.1
Other Income	1.2	1.5	1.8	1.8
EBT (as reported)	48.3	50.0	72.8	95.9
Tax	10.9	12.6	18.4	24.6
PAT	37.4	37.4	54.5	71.2
Other Comprehensive	(2.8)	0.8	0.8	0.8

Source: Company, Axis Securities

**Balance Sheet**
**(Rs Cr)**

Y/E March	FY20	FY21E	FY22E	FY23E
Equity Share Capital	13.9	13.9	13.9	13.9
Reserves	183.6	216.0	263.0	324.3
<b>Net worth</b>	<b>197.5</b>	<b>229.9</b>	<b>276.9</b>	<b>338.1</b>
Total loans	106.6	113.6	108.6	103.6
Deferred tax liability (Net)	11.6	11.6	11.6	11.6
Long Term Provisions	2.6	2.6	2.6	2.6
Other Long Term Liability	0.1	0.1	0.1	0.1
<b>Capital Employed</b>	<b>318.4</b>	<b>357.9</b>	<b>399.8</b>	<b>456.1</b>
Gross Block	255.0	275.0	305.0	335.0
Depreciation	55.4	76.1	99.1	124.4
<b>Net block</b>	<b>198.4</b>	<b>198.9</b>	<b>205.9</b>	<b>210.6</b>
CWIP	11.5	11.5	11.5	11.5
Inventories	50.0	62.5	66.1	77.1
Sundry debtors	58.9	85.0	92.6	107.9
Cash and bank	1.1	12.4	45.7	81.4
Loans and advances	0.2	0.2	0.2	0.2
Other Current Assets	18.0	18.0	18.0	18.0
Total Current assets	128.3	178.1	222.7	284.7
Total Current liabilities	44.9	55.4	64.9	75.5
Net Current assets	83.4	122.8	157.7	209.2
<b>Capital Deployed</b>	<b>318.4</b>	<b>357.9</b>	<b>399.8</b>	<b>456.1</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
<b>PBT</b>	<b>47.8</b>	<b>48.3</b>	<b>50.4</b>	<b>73.7</b>
Depreciation & Amortization	16.5	19.6	20.7	23.0
Finance costs	7.6	10.4	11.1	10.6
<b>Cash From Operations before changes in Working capital</b>	<b>75.2</b>	<b>82.6</b>	<b>107.2</b>	<b>132.0</b>
<b>Changes in WC</b>	<b>(4.7)</b>	<b>(28.1)</b>	<b>(1.7)</b>	<b>(15.7)</b>
<b>Net Cash Flow from Operations</b>	<b>83.2</b>	<b>57.9</b>	<b>41.9</b>	<b>87.1</b>
<b>(Incr)/ Decr in Gross PP&amp;E</b>	<b>(82.9)</b>	<b>(41.0)</b>	<b>(20.8)</b>	<b>(30.0)</b>
Proceeds from sale of fixed asset	11.4	10.1	-	-
Sale/destroyed of fixed assets	11.4	10.1	-	-
<b>Cash from Investing Activities (B)</b>	<b>(75.6)</b>	<b>(23.4)</b>	<b>(20.8)</b>	<b>(30.0)</b>
<b>(Decrease)/Increase in Debt</b>	<b>7.7</b>	<b>7.0</b>	<b>(5.0)</b>	<b>(5.0)</b>
Payment of finance costs	(10.4)	(11.1)	(10.6)	(10.1)
Dividend	-	(5.7)	(8.3)	(10.8)
<b>Cash From Financing Activities (C )</b>	<b>(34.3)</b>	<b>(9.8)</b>	<b>(23.9)</b>	<b>(25.9)</b>
<b>Increase/(Decrease) in Cash</b>	<b>0.2</b>	<b>0.4</b>	<b>11.7</b>	<b>44.9</b>
Cash at the Start of the Year	<b>0.4</b>	<b>11.7</b>	<b>44.9</b>	<b>80.6</b>
<b>Cash at the End of the Year</b>	<b>0.2</b>	<b>11.3</b>	<b>33.2</b>	<b>35.7</b>

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Y/E March	FY20	FY21E	FY22E	FY23E
<b>Growth (%)</b>				
Total Sales	8.0%	4.1%	17.6%	16.6%
EBITDA	<b>9.2%</b>	<b>4.5%</b>	<b>30.3%</b>	<b>23.7%</b>
APAT	10.2%	10.3%	44.8%	30.3%
<b>Profitability (%)</b>				
EBITDA Margin	17.5%	17.6%	19.5%	20.7%
Net Profit Margin	7.9%	8.4%	10.3%	11.5%
ROCE	18.1%	16.6%	20.4%	22.8%
ROE	<b>17.5%</b>	<b>16.6%</b>	<b>20.0%</b>	<b>21.3%</b>
<b>Per Share Data (Rs.)</b>				
EPS	13.5	13.5	19.6	25.7
BVPS	16.6	16.6	16.6	16.6
<b>Valuations (x)</b>				
PER (x)	24.2	24.3	16.7	12.7
P/BV (x)	4.6	3.9	3.3	2.7
EV/EBITDA (x)	13.2	12.6	9.3	7.2
<b>Turnover days</b>				
Debtor Days	53.8	57.6	60.4	54.0
Payable Days	25.7	25.4	23.7	22.1
<b>Gearing Ratio</b>				
D/E	0.5	0.5	0.4	0.3

Source: Company, Axis Securities

**About the analyst****Analyst:** Suvarna Joshi**Contact Details:** suvarna.joshi@axissecurities.in**Sector:** FMCG, Retail, Sp. Chemicals, Mid-Caps**Analyst Bio:** Suvarna Joshi is MBA (Finance) from Mumbai University with about 10 years of experience in Equity market and research.**Disclosures:**

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