Mold-Tek Packaging

26 April 2017

Reuters: MOLT.BO; Bloomberg: MTEP IN

Initiating Coverage

Breaking The Mould

Mold-Tek Packaging (MPL), a pioneer in pail manufacturing business, is all set to take a leap into the high-growth and high-margin orbit. The management of MPL has taken the right strategic call to transform the company's business from a mere 'polymer converter' to a niche technology-driven 'in-mould labeler.' Our investment thesis is based on three key pillars: 1) Strong earnings visibility from newly established capacity at Ras Al-Khaimah (UAE) and the plan to set up capacity to meet the needs of Asian Paints in Vizag and Mysuru. 2) Rising contribution to revenues from in-mould labeling (IML) for food and FMCG (F&F) sector, driving margins northwards. 3) High growth potential for IML market in India whose size currently is very miniscule. We believe that MPL derives its economic moat from the following: 1) It has the first mover advantage in IML business in India. 2) Enjoys cost efficiency from being a sole backward integrated IML label supplier. 3) Adoption of customer-focused and innovation-led business model resulting in high customer stickiness. On account of all these reasons, we believe MPL will increase its volume/sales/EBITDA/PAT at a CAGR of 16%/20%/24%/24%, respectively. We value the stock at 25x FY19E EPS with target price of Rs351, an upside potential of 36% from CMP.

Capacity expansion to drive MPL's growth in the medium term: MPL currently has capacity of 27,000tn in India spread across its seven plants. During FY16, MPL started setting up a plant at Ras Al Khaimah (RAK) in the UAE with a capacity of 3,000tn. RAK plant is going to make meaningful contribution from 1QFY18. MPL has also commenced supplying IML containers to Mondelez (earlier Cadbury) for its 'Lickables' product in 4QFY17. The company also received a Letter of Intent from Asian Paints for setting up two new dedicated pail manufacturing plants at Vizag in Andhra Pradesh and Mysuru in Karnataka with total 6,000tn capacity. With incremental capacity addition of 9,000tn during the next two years, we believe MPL is well placed to deliver strong volume growth of 16% over FY17E- FY19E.

Higher contribution from IML – F&F sector to drive the margins northward: Until 2010, MPL was purely a pail manufacturer for paint and lube industries. The company introduced IML technology by importing two robots and labels. Since then, IML's sales contribution increased to ~47% by the end of 9MFY17. Since FY14, MPL also started getting meaningful contracts for IML containers from the F&F sector. Sales to F&F sector increased from 1.3% in FY14 to 5.5% in 9MFY17. With rising contribution from IML and F&F segments, MPL's margins improved from 12.4% in FY11 to 16.5% in 9MFY17. We expect IML sales volume contribution to increase from 40% in FY16 to 52.4% in FY19E and sales in value terms from IML to increase from 44.2% of total sales in FY16 to 56.4% in FY19E. With higher contribution from IML, operating margin is expected to increase from 16.6% in FY16 to 17.6% in FY19.

Financial summary

Y/E March (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
Revenue	2,850	2,757	3,000	3,620	4,319
YoY (%)	*11.7*	*(3.3)*	*8.8*	*20.7*	*19.3*
EBITDA	400	458	496	616	759
% of sales	*14.0*	*16.6*	*16.5*	*17.0*	*17.6*
Adj. PAT	169	241	251	312	388
YoY (%)	*85.8*	*43.0*	*4.0*	*24.3*	*24.5*
Adj. EPS (Rs)	7.2	8.7	9.1	11.3	14.0
RoE (%)	*20.0*	*19.7*	*18.4*	*20.6*	*22.7*
RoCE (%)	*18.9*	*20.0*	*18.7*	*20.8*	*22.5*
P/E (x)	36.1	29.7	28.6	23.0	18.5
P/BV (x)	5.3	5.6	5.0	4.5	3.9

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Packaging

CMP: Rs259

Target Price: Rs351

Upside: 36%

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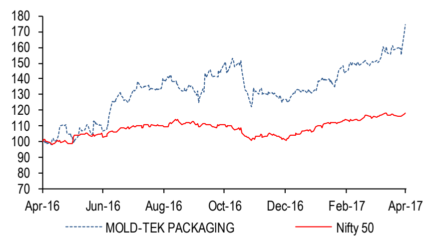
Key Data

Current Shares O/S (mn)	27.7
Mkt Cap (Rsbn/US$mn)	7.2/112.9
52 Wk H / L (Rs)	268/144
Daily Vol. (3M NSE Avg.)	57,644

Shareholding (%)	3QFY17	2QFY17	1QFY17
Promoter	35.8	35.3	34.8
Public	64.2	64.7	65.2
Others	-	-	-

One-Year Indexed Stock



Price Performance (%)

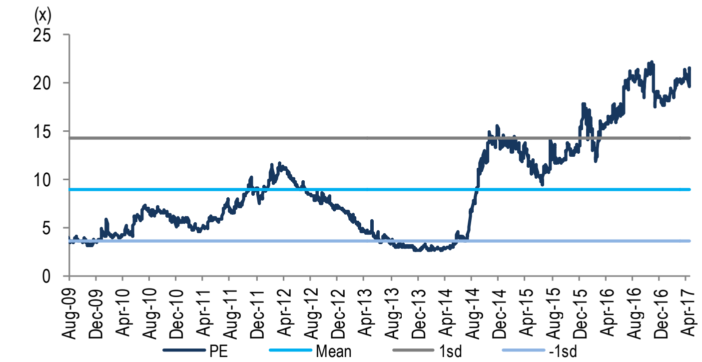
	1 M	6 M	1 Yr
Mold-Tek Packaging	15.9	15.8	74.4
Nifty Index	2.0	6.9	18.3

Source: Bloomberg

Valuation

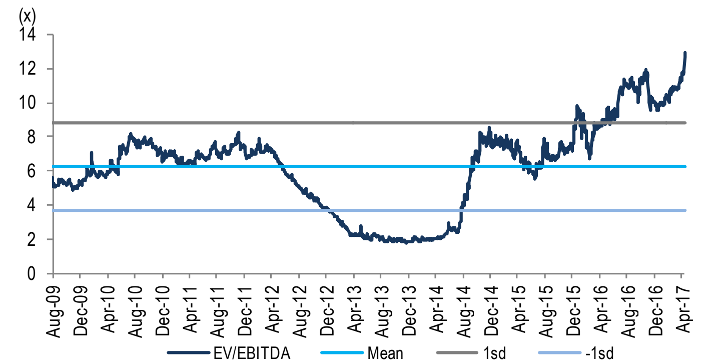
We have assigned Buy rating to MPL with a 12-month target price of Rs351, up 36% from the current market price. Our growth estimates are driven by the following key factors: 1) Multiple capacity expansion plans to drive medium-term growth. 2) Rising contribution from F&F segment to improve IML contribution and drive high-margin growth. MPL is expected to clock volume/sales/EBITDA/PAT CAGR of 16%20%/24%/24%, respectively, over FY17-FY19E. MPL stock currently trades at P/E of 28x FY17E earnings, 22.5x FY18E earnings, and 18x FY19E earnings. We have valued the stock based on 25x FY19E earnings supported by PEG ratio of 1x (FY17E – FY19E earnings CAGR of 24.4%).

Exhibit 1: P/E 1-year forward trend



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 2: EV/EBITDA 1-year forward trend



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Economic moat

We believe that MPL enjoys a durable competitive advantage over its rivals and which will protect its long-term profitability and market share in the injection moulded packaging segment. **We are of opinion that MPL's competitive advantage is durable in the long run on account of its superior in-house technology, cost advantage that it enjoys because of backward integration, long-term relationship with its blue-chip clients and smart business strategies adopted by the technocrat management.**

MPL operates in the rigid packaging segment where most of the businesses are commoditised. Though the sales of established organised players in this segment come from big, stable consumer brands, there is hardly any pricing power which packaging companies enjoy. Supply side (raw material providers) is a group of behemoth conglomerates that supply polymer/resin to these packaging companies as key raw ingredients. The packaging industry is highly fragmented with over 22,000 players operating in this segment at various scales, leaving little headroom for sustainable competitive advantage. The industry is capital-intensive, requiring companies to keep adding capacity to maintain their growth rate and thus leave little room for margin of error. **Despite all these challenges in the industry, MPL is one of the rare entities which have been able to succeed and grow at a healthy rate, keeping profitability in focus.**

Exhibit 3: Not just a mere "converter"

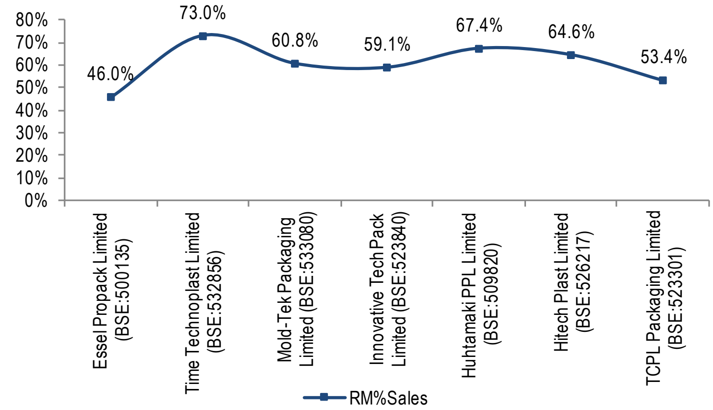
Source: EY analysis, Nirmal Bang Institutional Equities Research

Packaging companies in material industry terminology are usually known as 'converters'

These companies are engaged in converting raw materials (polymers in case of rigid/flexible packaging, paper and board for carton packaging, aluminum for collapsible foils, tubes, etc and glass in case of bottles, jars, jugs etc) into value-added products for consumers or industrial users. As a result, packaging companies are theoretically in a vulnerable position along the value chain.

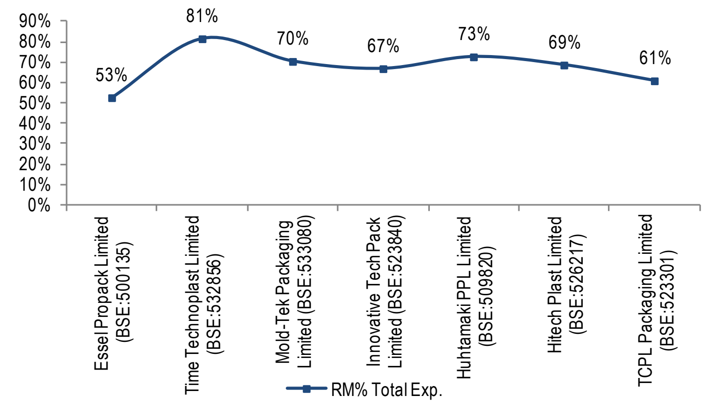
On the raw material side, key suppliers are usually large global producers that have the power to pass on the increased commodity costs to their clients (packaging companies), resulting in increased raw material costs for packaging players. In case of MPL, key raw material is polypropylene (PP) which is mainly supplied by Reliance Industries. On the customer side of packaging companies, there are large powerful consumer goods companies like Hindustan Unilever, Mondelez, Asian Paints etc. who usually have high bargaining power. Many a times they do not want to pass on the rise in raw material costs to their customers and use the threat of switching their packaging product supplier, thereby putting packaging companies in a weak position.

Exhibit 4: Raw material costs as a percentage of total sales of packaging players in India



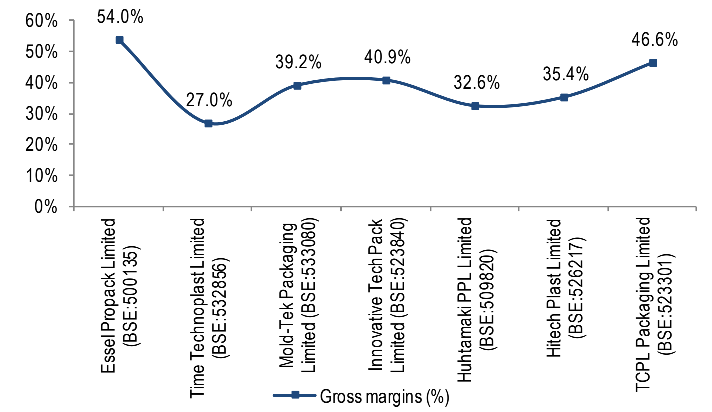
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Raw material costs as a percentage of total expenses of packaging players in India



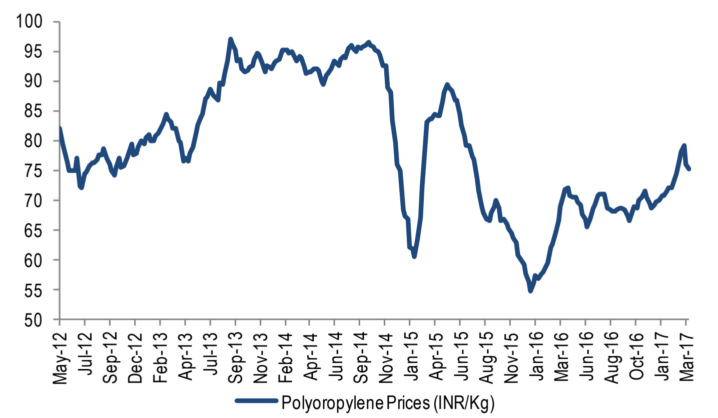
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Gross margin of packaging players in India



Source: Company, Nirmal Bang Institutional Equities Research

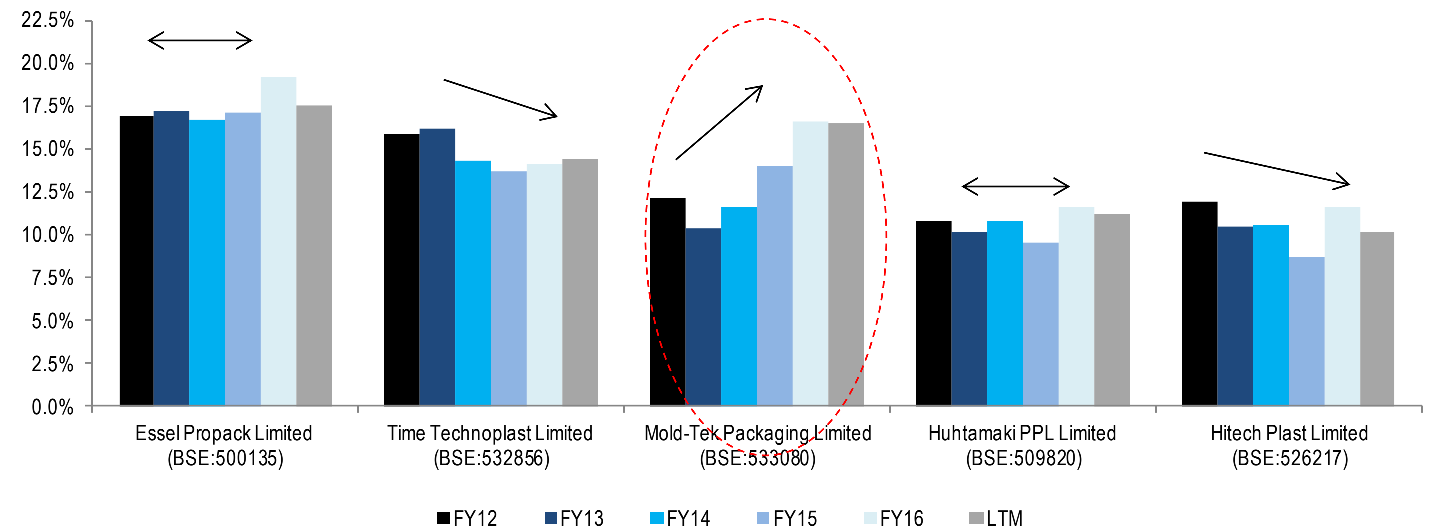
Exhibit 7: Polypropylene prices (Rs/kg)



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Raw material costs of most packaging companies account for more than 50% of total net sales while raw material costs as a percentage of total expenses are more than 60% in most cases. As a result, most packaging companies are caught between "a rock and a hard place" in the value chain and can be dangerous to financial health of the company.

Exhibit 8: Operating margin of packaging players



Source: Company, Nirmal Bang Institutional Equities Research

What separates MPL from rest of the pack is its ability to adapt and innovate

MPL was smart enough to realise way back in 2011 that its core bread-and-butter business of pail manufacturing for paint and lubricant industries has little product innovation left. The paint industry was growing at a healthy rate (13% over FY08-FY12) and was expected to continue doing so. Although healthy volume growth in paint industry would have taken care of MPL's top-line growth, its margin profile would have stagnated. As there was little product differentiation left in pail manufacturing, it would not have been able to retain pricing power, especially during the downtrend in commodity cycle.

As a result, **MPL was the first company to introduce IML technology in India** by importing two robots from Taiwan and IML labels in 2011. MPL's management realised the benefits which the company can offer to clients and hence grabbed the opportunity aggressively. After importing the technology, **MPL's management was able to convince its existing clients in lube and paint industry to move to IML technology from screen printing and heat transfer labeling (HTL) technology.** Until 2011, the entire rigid packaging industry in India was using either screen printing or HTL for decorating the containers. Since then almost **60% of MPL's clients in lube industry have moved to IML technology while 25%-30% of its clients in paint industry have moved to HTL or IML. All its F&F clients use IML technology.**

Later, MPL's management realised the need to improve cost economics of IML and thereby decided to go for backward integration. **MPL started manufacturing in-house robots and labels.** MPL set up a capacity of 5mnsqm for label manufacturing in Telangana. Promoters' strong technical background (Mr. J. Lakshmana Rao – chairman and managing director holds a bachelor's degree in engineering, while Mr. A. Subrahmanyam – deputy managing director, apart from holding a bachelor's degree in engineering was responsible for manufacturing many precision tools including moulds before joining MPL) came in handy in doing backward integration. MPL started manufacturing in-house robots that were cheaper by ~40% - 65% (depending on single/multiple cavity) compared with imported robots (~Rs5mn-Rs6mn). Backward integration helped MPL to register an improvement in its margin profile.

Since 2014, MPL started expanding its product range. **It entered into the F&F segment** realising that margins will be even higher than what IML commands in paint and lube industries. Sales to F&F segment for MPL increased from 1.3% in FY12 to 7.5% in 9MFY17. In F&F segment, MPL sold ~3mn pieces to Proctor & Gamble or P&G of its Ariel detergent, netting ~Rs60mn in sales during FY17. MPL expects incremental orders from P&G for its Ariel product to continue in FY18. Apart from this, the company recently initiated its contract with Mondelez, manufacturing plastic containers for its 'Lickables' product. MPL expects an order run-rate of 3mn pieces/ month from Mondelez in FY18. **Sales to F&F segment are expected to touch 15% of total sales by the end of FY18**. IML in F&F segment commands highest margin and is in the range of 21%-22%.

Thus, in the past three to four years, MPL moved from its commoditised business of screen printing/HTL for paint and lube industries to more specialised niche business of IML.As IML (non F&F) commands a margin of 17%-18% as against screen printing which commands a margin of 13%-14%, **MPL's blended operating margin profile improved from 10.4% in FY13 to 16.5% in the first nine months of FY17.** With a rising proportion of IML sales (from ~20% in FY14 to ~47% in 9MFY17) and higher contribution from F&F segment in the past three years (from ~1.3% in FY12 to 5.5% in 9MFY17), MPL improved its pricing power despite crude oil price fluctuations. Going forward, we expect sales from IML segment to continue to contribute more to total sales of MPL (47.5%in FY17E,54.5% in FY18E,56.4% in FY19E) and completely move away from the 'converter' tag, which is the norm for most players in the industry.

MPL is lone packaging player in India which has gone for backward integration

MPL has an integrated business model with a centralised tool room to design, develop, manufacture and maintain moulds and robots.

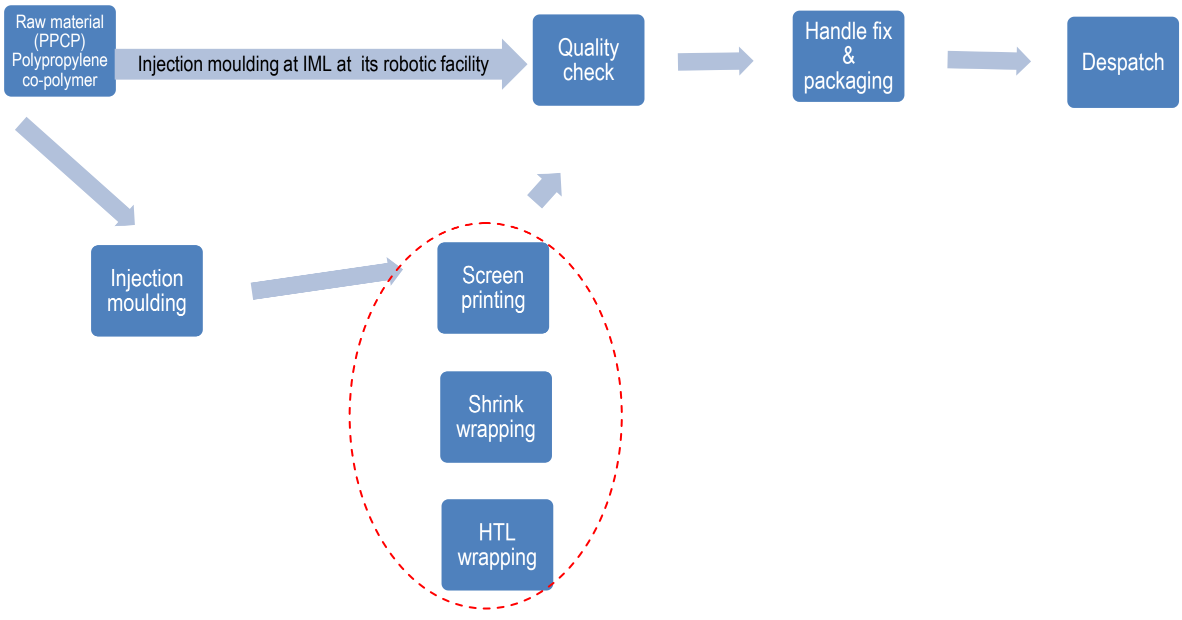
In-house tool room facility

MPL is among the few players in the rigid plastic packaging industry to have an in-house tool room facility. It has developed a centralised tool room to design, develop, manufacture and maintain the moulds and robots which are used for manufacturing a variety of products of different sizes, shapes and models with various decoration technologies. The in-house tool room is equipped with three-dimensional CNC machine from the US supported by latest CAD/CAM facility which enables MPL to design and develop complex moulds including 2 – 8 cavity moulds. **The centralised tool room enables quick robot and mould maintenance so as to ensure uninterrupted supply.**

Fully integrated IML manufacturing facility

In-mould labeling uses paper or plastic labels in the manufacture of containers by blow moulding and injection moulding or thermoforming process. IML for injection moulding means the decoration of the product takes place in the mould itself. An IML label is inserted in the mould. During the injection process, the injected molten polymer fuses with the mould label. The end result is decorated packaging part produced in one step. The demand for in-mould labels is very high because of consumer acceptability and response through high purchase behaviour ever since this packaging style was introduced. ***Currently, the in-mould labeling segment accounts for 2% of the world's label printing volume and the market forecasts an average 5.6% growth rate by 2020.***

Exhibit 9: Benefits of in-mould labeling

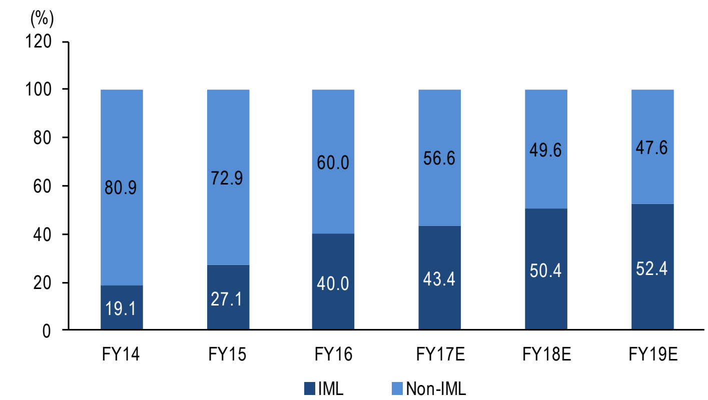


Source: Company, Nirmal Bang Institutional Equities Research

As the label is integral to the container, neither handing nor shipment-induced scuffling can compromise its good look. IML labeling is strong and resilient and protects the product. IML also improves aesthetic value of the product. It also helps improve efficiency which allows the elimination of a separate label application step and move from moulding to filling. ***IML results in better efficiency with 50% better lead time and zero human contact.***

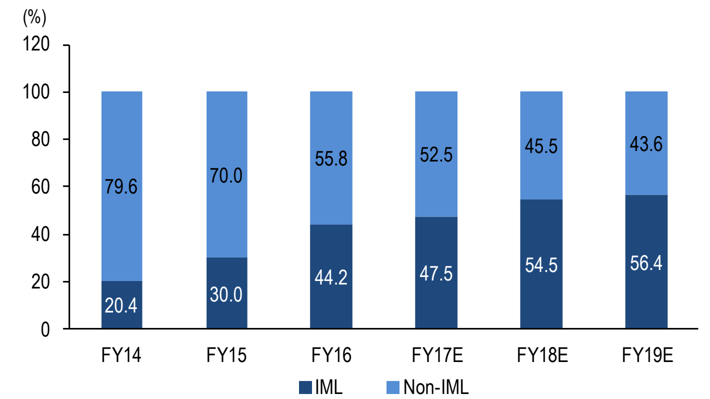
In-mould labelling technology has been in the market since almost two decades now. Despite being introduced in the market in early 2000s, IML has not been able to capture the labelling market in a big way. One of the key deterrents in adopting IML technology has been restricted number of IML technology suppliers***. Very few global players have succeeded in IML technology, mainly on account of higher initial capital outlay requirement and complex IML supply chain which involves dependency on multiple players across the value chain*** – polymer/resin manufacturers, label manufacturers, mould manufacturers, and ink and dye manufacturers. Any delay across the value chain can lead to bottlenecks. MPL was smart enough to realise this during the early stage of its IML business and it decided to start manufacturing in-house IML labels in 2012. In-house label manufacturing has reduced the company's dependency on third party label manufacturing vendors. MPL currently has 5mnsqm capacity to manufacture IML labels at its Telangana facility. MPL imported two robots from Taiwan way back in 2010-11. After getting acquainted with robot technology, MPL started making in-house robots in 2013 and thus became **the only packaging company in the world to manufacture in-house robots**. In-house robots are cheaper by ~40% (one cavity) and by ~65% (multi-cavity) than imported robots. Imported robots usually cost in range of Rs5mn – Rs60mn. MPL does in-house maintenance of robots and moulds which has enabled uninterrupted production and supply. **MPL is the only company in India which is fully integrated with facilities ranging from label making, mould adaptation to in-house robot manufacturing*.*** With a fully integrated facility, MPL has got better control over its processes and as a result its product defect rate is one of the lowest in the industry and product quality on par with global peers. MPL has manufactured ~43 robots in-house, ranging from single-cavity to multi- cavity (2, 4, 8 cavity).

Exhibit 10: IML volume contribution



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: IML sales contribution

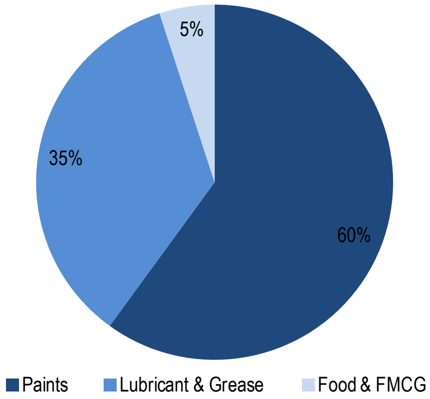


Source: Company, Nirmal Bang Institutional Equities Research

Strong client base with high stickiness

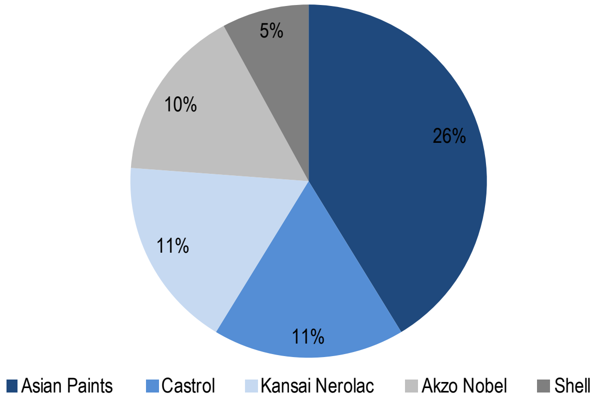
IML operations began in late 80's with a tool room. In early 90's when the paint industry was still using tin containers for packaging, Asian Paints approached MPL to convert tin packaging to injection moulded plastic pail packaging. MPL was able to successfully manufacture pails for Asian Paints. Looking at MPL's success with Asian Paints, other paint manufacturers in India started giving contracts to MPL. Some years down the line, MPL was able to create similar packaging for lube manufacturers such as Castrol, Gulf Oil, etc.

Exhibit 12: Industry-wise sales contribution



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Top clients' sales contribution



Source: Company, Nirmal Bang Institutional Equities Research

MPL is a pioneer and innovator in pail packaging in India. It introduced spouts and in-mould spout concepts for paint and lube industries. The company mainly serves paint, lubricant and grease, and food and FMCG industries. Paint industry accounts for ~60% of total sales of the company. **MPL is one of the major packaging product suppliers for Asian Paints and takes care of ~20% of the latter's needs.** Hitech Plast and Jolly Containers are some of the major packaging product suppliers to Asian Paints. Currently, packaging product needs of Asian Paints are taken care of by the Satara plant of MPL while the company is in the process of setting up two dedicated plants for Asian Paints in Vizag and Mysuru. These plants are expected to be operational by FY19. Other big clients that MPL serves in the paint industry are Akzo Nobel and Kansai Nerolac.

MPL is also a major packaging player in the lubricant and grease industry. Lubricant industry accounts for ~35% of the company's sales. **MPL takes care of more than 90% of Castrol's packaging needs.** Only small grease packs and packaging for a couple of Castrol's industrial brands are being taken care of by some other player. Gulf Oil has ~28 brands and has completely shifted to IML technology. **MPL takes care of more than 90% of Gulf Oil's packaging product needs. MPL recently bagged contracts from Shell and Exxon Mobil for exclusive packaging product supply for a period of five years.**

MPL is slowly making progress in F&F segment. Currently, this segment accounts for ~6% of total sales, which the management expects to rise going forward as the FMCG industry shifts towards IML labeling. **Procter & Gamble is one of the major clients in FMCG segment for MPL.** The company has received a contract from Mondelez and is expected to commence sales from 4QFY17. **Other meaningful clients in FMCG segment are Amul, Heinz, Haldiram, etc.**

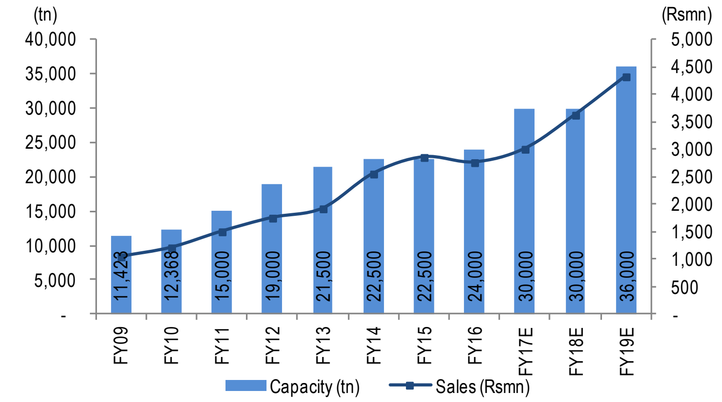
MPL's relationship with most of its major clients dates back to at least 15 years. MPL has not lost any of its major clients since inception of the business contract with them. In paint segment, MPL's clients are the largest paint companies in India. Asian Paints, with more than 55% market share in decorative segment in India, is biggest customer of MPL since early 90's. With 26 manufacturing plants, the packaging demand created by Asian Paints is unprecedented. Likewise, other paint companies such as Kansai Nerolac, Berger Paint and Akzo Nobel and also lube manufacturers such as Castrol, Gulf Oil, Shell, etc. depend heavily on their preferred packaging vendors. Any delay can financially impact these companies in a big way. Similarly, these pail containers are transported across the country. Poor road quality can cause damage to these containers leading to leakage and loss to companies. **Overall costs of these pail containers to customers in paint and lube industry is not more than 2% of their total raw material costs.** Hence, these clients of MPL cannot take chances in terms of product quality and supply chain. Having established itself as a pioneer in pail manufacturing with almost three decades of experience, MPL has become their key vendor for meeting packaging needs. **As a result, switching costs for these clients is very high, thus resulting in very high customer stickiness to MPL.**

Investment arguments

Capacity expansion to fuel medium-term growth

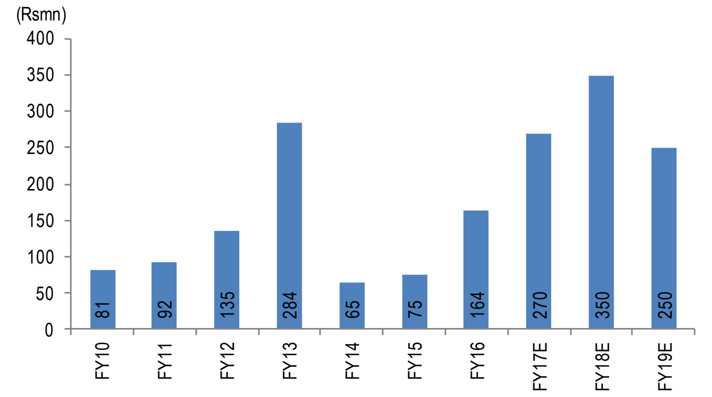
MPL has consistently added capacity since FY09 on account of growing demand from paint and lube industries. From FY09 to 9MFY17, MPL increased its capacity by ~19,000tn. During the same period, the company's sales increased from Rs1,047mn in FY09 to Rs3,008mn in FY17E. **Capacity increased by two-and-a- half times and sales tripled during the past nine years (FY09 – FY17E).**

Exhibit 14: Capacity addition and sales growth



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Capital expenditure



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Plant location

Unit	Location	State	Capacity (mt)
Unit - I	Annaram village	Telangana	8,750
Unit - II	Dommarapochampally village	Telangana	3,500
Unit -III	Bhimpore	Daman	7,500
Unit - IV	Mendak	Telangana	1,500
Unit - V	Hosur	Tamil Nadu	750
Unit - VI	Jeedimetla	Telangana	2,000
Unit - VII	Mhavashi village, Satara	Maharashtra	3,000
Label manufacturing unit	Quthbullapur	Telangana	5mn sq. m
New plant	Ras Al Khamiah (RAK)	UAE	3,000
Not commissioned yet	Vizag	Andhra Pradesh	3,000
Not commissioned yet	Mysuru	Karnataka	3,000

Source: Company, Nirmal Bang Institutional Equities Research

MPL currently has total capacity of 27,000tn in India spread across seven units. Through these units, MPL is serving - paints, lubes, and F&F segments for screen printing, HTL and IML labeling. Of the 27,000tn, currently 8,000tn capacity is used for IML labeling while the rest is used for screen printing and HTL. All these manufacturing units are strategically located near client locations. MPL ends up saving lot on transportation costs, given the fact that its units are near client locations. The added benefit of having units near clients' plants is that MPL can deliver on time and any urgent incremental order can be executed without any further delay.

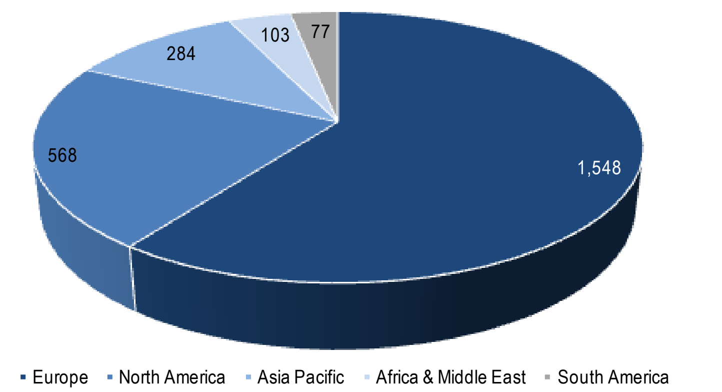
Exhibit 17: Capacity across various plants of MPL

Capacity (MT)	FY17	FY19E	FY22E
India - Existing	27,000	-	-
RAK (UAE)	3,000	-	-
Vizag – Asian Paints	-	3,000	4,000
Mysuru – Asian Paints	-	3,000	4,000
Total	**30,000**	**36,000**	**44,000**

Source: Company, Nirmal Bang Institutional Equities Research

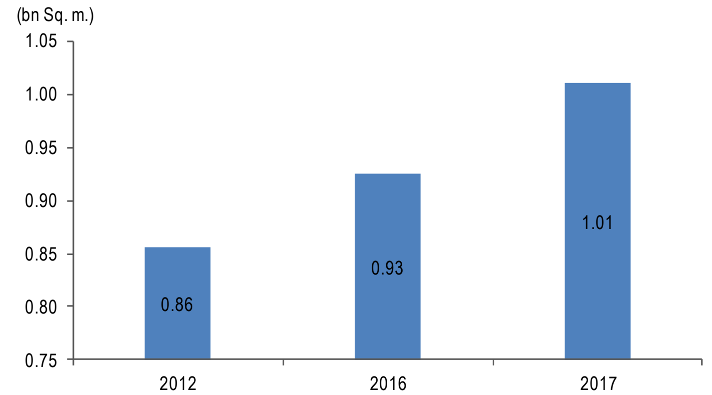
MPL has commenced its operations in Ras Al Khaimah (RAK), a free trade zone, with an initial capacity of 3,000tn. Through RAK plant, the company will be selling mostly IML containers catering to paint, lubricant and dairy industries. MPL has received orders from Shell, Akzo Nobel, RAK Paints etc. MPL has also received approval from few dairy companies. Some large companies involved in IML technology in the UAE are – JRD Internationals, Taghleef Industries, Schober, etc.

Exhibit 18: Target market size for IML – MENA region (USmn$)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: In-mould label volume – Global

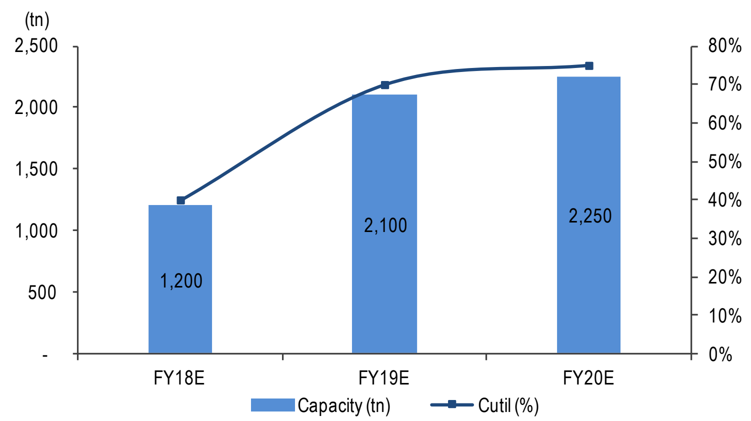


Source: Company, Nirmal Bang Institutional Equities Research

MPL's products are comparable or better in quality (in some cases) than its competitors in the Middle East. Its products are tamper-proof, better in aesthetic value and strength, and are leak-proof. The management wants to leverage its expertise and expand to untapped market of the Middle East and also serve the MENA region. The company has received clearance from various authorities in the UAE to begin commercial production. For F&F clients, clearance is obtained only after the company submits product samples that are manufactured at its UAE plant.

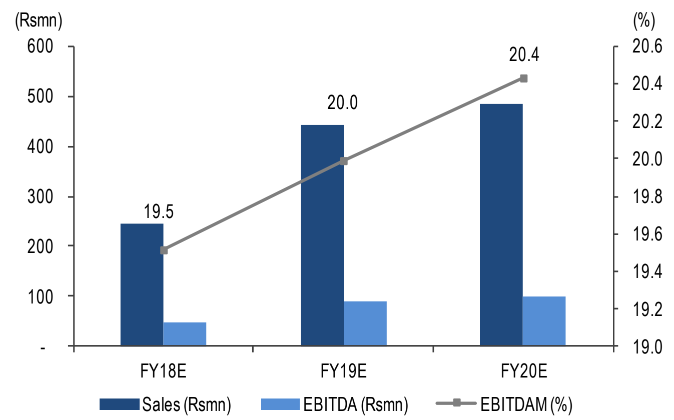
We expect RAK plant to hit capacity utilisation level of 40% by FY18 and increase subsequently to 70% and 75% by FY19 and FY20, respectively. At 75% utilisation level, we expect sales from RAK unit to touch ~Rs480mn. As sales from RAK plant will be coming through IML with a healthy proportion coming from the dairy industry, we believe that operating margin will be better than blended margin of the company. **Total capex incurred on RAK plant is ~Rs200mn.**

Exhibit 20: Capacity & utilisation levels at RAK plant



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Sales & operating profit of RAK plant



Source: Company, Nirmal Bang Institutional Equities Research

Reasons behind starting operations in the UAE

- Through the RAK facility, MPL will be able to serve Middle East countries such as the UAE, Oman, Muscat, Kuwait etc. and African countries, thus giving enough scope for it to grow.
- The rapid growth of the Middle East economy (real GDP growth at 4.5% over 2010-14) has been a boon for the packaging industry. Injection moulded thin-wall in-mould labelling pails, buckets, round containers and pallets are in demand. Sales of packaging industry during the same period (2010-14) grew 6.3%.
- The packaging industry in the MENA region is pegged at US$41.1bn in 2014 and is expected to grow during 2014-19 at a CAGR of 5.0% to US$52.4bn, according to an industry report. Of the US$41.1bn packaging market, ~28% is rigid packaging valued at US$11.5bn. **In-mould labelling market is pegged at slightly over 1% i.e. ~US$100mn+.**
- Growth in IML segment in the MENA region is expected to come from F&F segment. MPL has developed strong expertise in IML since foraying into this segment in 2011. Thus, apart from strong technical know-how, MPL will have strong industry tailwinds.
- The Gulf region has high amount of gas and oil resources and as a result comparatively its energy prices are low resulting in lower polymer prices. Also, the realisation of IML products is relatively higher compared with India. As a result, we believe MPL's RAK unit will help improve its overall blended margin.
- RAK is a free trade zone and as a result sales generated from RAK plant for MPL will be tax-free.

Two dedicated plants for Asian Paints

MPL has received a Letter of Intent from Asian Paints for setting up dedicated pail manufacturing units for the latter's upcoming plants at Vizag in Andhra Pradesh and Mysuru in Karnataka. Manufacturing capacity of these two plants will be the largest among Asian Paint's units. These two plants will have total capacity of 5,00,000KL and 6,00,000KL per year. We expect these two plants to be operational by the second-half of FY19 with an initial capacity of 3,000tn each and an ability to increase the capacity by 14,000tn by 2022. Total capex for these two plants is expected to be Rs350mn–Rs400mn which will be incurred during FY18-FY19. During FY17, the company spent ~Rs60mn on land purchase for these plants. We expect ~10% utilisation of total 6,000tn capacity during FY19. Major incremental sales from these two plants will start flowing in from FY20. With these two major plants to be set up in the next two years, MPL is poised for healthy double-digit volume growth in the next five years.

IML market in India is still in a nascent stage

As of today, MPL is the only decent size player operating in in-mould labeling in India. ***Apart from MPL, Kap Cones and Milan Décor (annual turnover Rs100mn – Rs250mn) are the only two smaller players in IML segment in India.*** These two players mainly manufacture small-sized IML containers for dairy industry. IML technology is still the latest development in packaging industry in the world. Though developed countries adopted IML decoration for containers since the past 10 years, it was introduced in India only recently by MPL.

Hygienic and world class decorated containers build brand image for the product, IML decorated thin wall containers are going to rule the rigid packaging segment in the coming years, especially in the F&F space The purchasing power and disposable income in India has grown rapidly in the past few years. Changing lifestyle pattern has shifted consumers' preference towards branded, well packaged and presented products including packaged/ready-to-eat food products. In this sense, packaging plays a crucial role in marketability of a product. As a result, MPL sees a huge opportunity in the packaging business, especially rigid packaging, in the food, paint and FMCG segments. As per the industry report, Indian Packaged Food Market is expected to be worth of $50bn by end of 2017 from $32bn in 2016. There has been major shift in food habits in metropolitan cities. As per the Associated Chamber of Commerce and Industry of India (Assocham) ~79% of the households in metro cities prefer of have instant food. ~76% of the parents working in big cities prefer to have ready-to-serve meals at least 10-12 times per month as per the Assocham survey.

Currently, major clients of MPL comprises players in the paint and lubricant industries, but MPL initiated entry into the F&F space by offering latest IML decorated containers to players in the food industry since 2014.

The scope and opportunity in the food segment is huge. Products that can be packed in IML decorated containers are Ice creams, jams, milk and nutrition powders, yoghurt, butter, cheese, noodles, cosmetics etc.

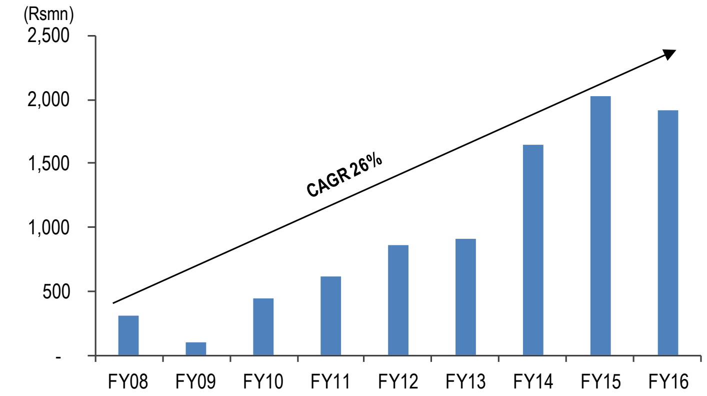
The potential for packaging in the ice-cream segment alone stands at around Rs1,500mn annually in India which is growing 25% annually. In Europe alone, the demand for IML containers topped 10.8bn pieces a year and even a part of this is adopted in India it translates into a huge business opportunity where MPL is positioned as a frontrunner.

Even if India's IML market is at 10% of European market size (~$1.5bn), it works out to be $150mn i.e. ~Rs10bn opportunity where MPL stands tall over its competitors who are still at a very early stage. India's FMCG sector is poised to touch US$43bn by 2013 and US$74bn by 2018. **Within this, packaging product demand will be about US$2.5bn.** Having acquired the in-house ability to manufacture moulds, labels and robots, an advantage no other packaging company can offer, Going forward, MPL expects this segment to contribute significantly to top-line as well as bottom-line. With a rising thrust on the FMCG space, MPL's revenue mix is expected to change to include increased contribution from this segment.

Improved margin profile

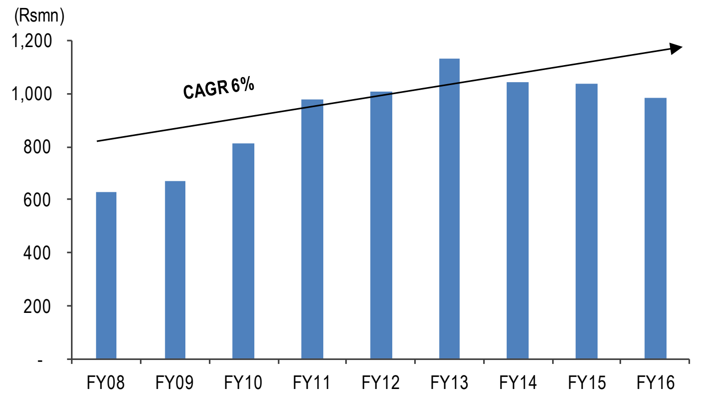
MPL has been consistently adding value-added products to its portfolio. Until 2011, MPL was catering purely to paint and lube industries through screen printing and HTL. In 2011, the company introduced IML technology by importing robots and labels. Since FY14, sales from IML have consistently been contributing more to the total sales of the company. Volume contribution from IML containers increased from 19% in FY14 to 43.4% by the end of 9MFY17. We believe that with growing demand for packaged food in India, MPL will keep increasing the contribution of IML to its total volume. We expect the IML volume to post a CAGR of 24% over FY16-FY19E. Sales from IML during the same period are expected to post a CAGR of 26%.

Exhibit 22: Contribution from paint segment



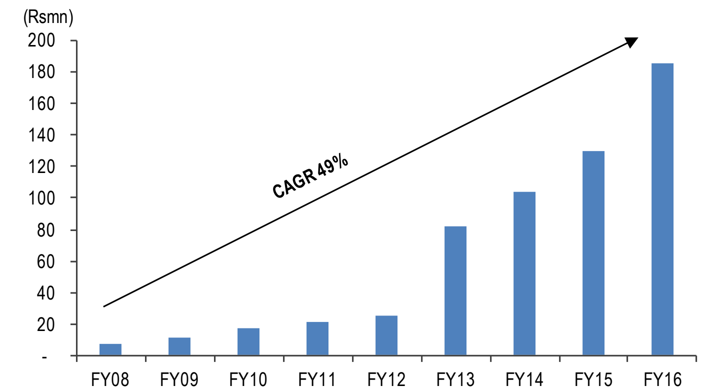
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: Contribution from lube segment



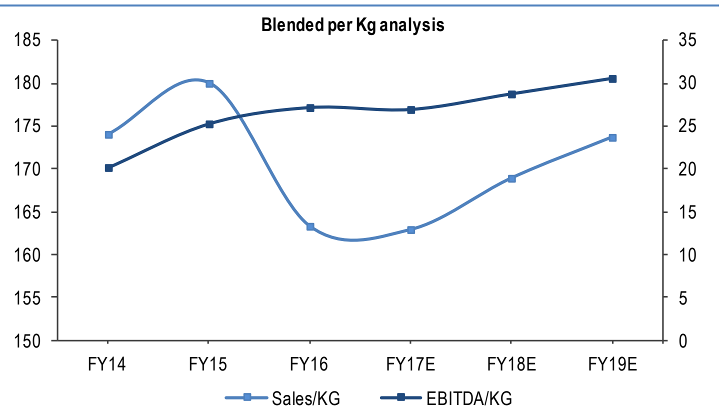
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Contribution from food & FMCG segment



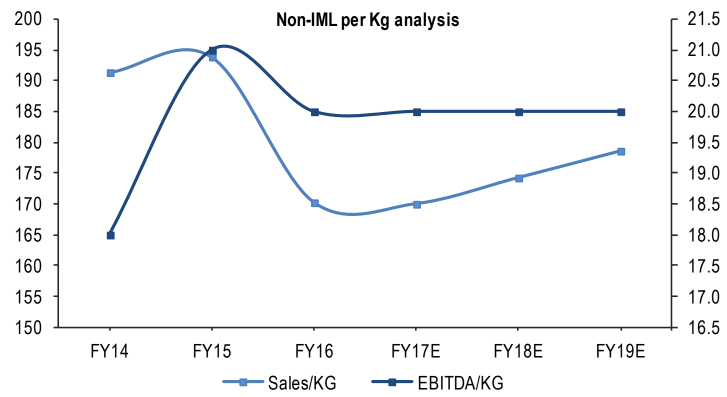
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 25: Blended per/kg analysis



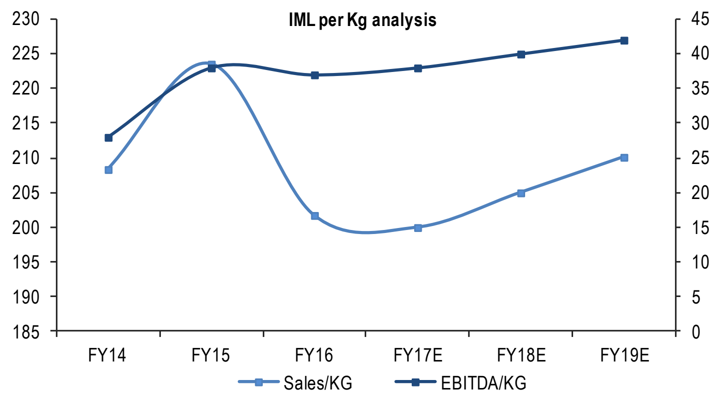
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 26: Non-IML per/kg analysis



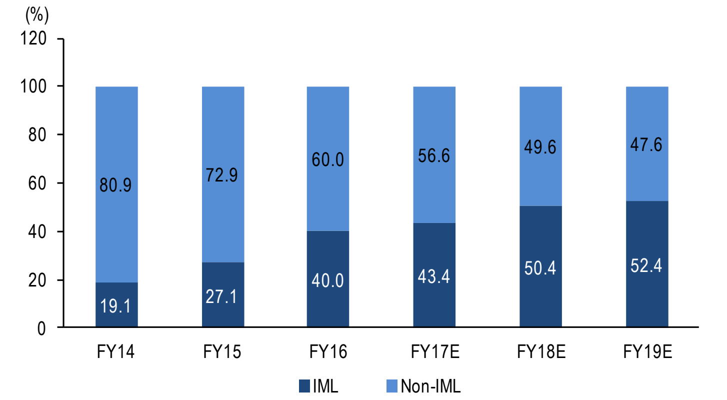
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 27: IML per/kg analysis



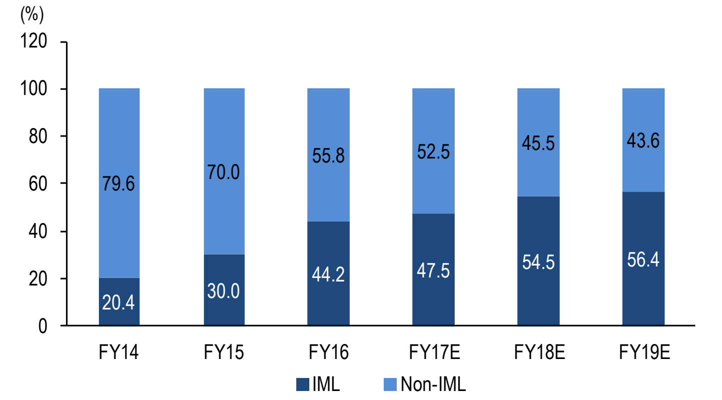
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 28: IML volume contribution



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 29: IML sales contribution



Source: Company, Nirmal Bang Institutional Equities Research

MPL forayed in the F&F segment in 2014 by manufacturing thin-walled containers for dairy industry. Since 2014, sales from IML – F&F segment have been steadily on the rise. In FY14, sales from this segment accounted for a meagre 1.3% of total sales while its contribution by the end of 9MFY17 increased to 5.5%. IML – F&F segment is the highest margin profile segment for MPL commanding EBITDA margin of 20%-22%. We expect its contribution to increase to ~15% by the end of FY18.

Exhibit 30: Competitor analysis

Mold-Tek Packaging	FY12	FY13	FY14	FY15	FY16
Sales	1,754	1,923	2,556	2,858	2,764
EBITDA	211	200	295	400	458
PAT	93	58	91	169	241
EBITDAM (%)	*12.1*	*10.4*	*11.6*	*14.0*	*16.6*
RoCE *(%)*	*15.6*	*10.9*	*14.5*	*18.9*	*20.0*
RoE *(%)*	17.9	20.0	19.7	18.4	20.6
Debt/Equity	1.1	1.4	1.2	0.1	0.2
Asset Turnover (x)	1.4	1.3	1.5	1.7	1.4
WC Cycle	90	103	84	91	94
P/E (x)	49.1	98.1	63.0	35.4	29.1
EV/EBITDA (x)	24.5	32.3	22.0	15.6	16.2

Source: Company, Nirmal Bang Institutional Equities Research

Hi-Tech Plast	FY12	FY13	FY14	FY15	FY16
Sales	3,852	4,379	4,583	4,630	3,914
EBITDA	461	462	488	405	455
PAT	106.4	90.4	63.5	67.9	133.4
EBITDAM (%)	*12.0*	*10.5*	*10.6*	*8.7*	*11.6*
RoC (%)	*8.8*	*7.8*	*8.3*	*6.8*	*9.0*
RoE (%)	*12.7*	*9.9*	*6.5*	*5.5*	*9.5*
Debt/Equity	1.02	0.85	0.75	0.47	0.22
Asset Turnover (x)	1.5	1.7	1.7	1.8	1.6
WC Cycle	87	70	66	70	81
P/E (x)	32.5	38.3	54.5	51.0	25.9
EV/EBITDA (x)	7.7	7.7	7.2	8.7	7.8

TPL Plastech	FY12	FY13	FY14	FY15	FY16
Sales	1,286	1,538	1,901	1,832	1,867
EBITDA	144	159	174	182	210
PAT	59	63	72	76	86
EBITDAM (%)	*11.2*	*10.3*	*9.2*	*9.9*	*11.3*
RoC (%)	*11.1*	*10.7*	*11.1*	*11.6*	*14.2*
RoE (%)	*22.3*	*20.5*	*20.2*	*18.5*	*18.3*
Debt/Equity	1.5	1.2	1.1	1.0	0.5
Asset Turnover (x)	1.4	1.4	1.6	1.5	1.5
WC Cycle	52.5	51.4	48.4	68.3	52.9
P/E (x)	64.7	60.5	52.8	49.9	44.2
EV/EBITDA (x)	28.2	25.4	23.2	22.2	19.2

Time Techno	FY12	FY13	FY14	FY15	FY16
Sales	15,282	17,978	21,911	24,796	24,736
EBITDA	2,431	2,920	3,131	3,421	3,495
PAT	898	1,035	954	1,096	1,383
EBITDAM (%)	*15.9*	*16.2*	*14.3*	*13.8*	*14.1*
RoCE (%)	*8.1*	*8.5*	*7.9*	*8.4*	*8.0*
RoE (%)	*12.6*	*13.0*	*10.9*	*11.2*	*10.8*
Debt/Equity	0.9	0.9	0.9	0.7	0.6
P/E (x)	29.9	25.9	28.1	24.5	19.4
EV/EBITDA (x)	13.6	11.4	10.6	9.7	9.5

Essel Propack	FY12	FY13	FY14	FY15	FY16
Sales	**15,837**	**18,318**	**21,266**	**23,230**	**21,846**
EBITDA	2,671	3,158	3,553	3,971	4,236
PAT	514	810	1,078	1,406	1,821
EBITDAM (%)	*16.9*	*17.2*	*16.7*	*17.1*	*19.4*
RoCE (%)	*5.4*	*6.3*	*7.9*	*9.5*	*10.7*
RoE (%)	*7.2*	*8.9*	*13.1*	*18.9*	*20.7*
Debt/Equity	1.0	1.0	1.4	1.2	0.7
P/E (x)	72.5	46.0	34.5	26.5	20.4
EV/EBITDA (x)	16.6	14.0	12.4	11.1	10.4

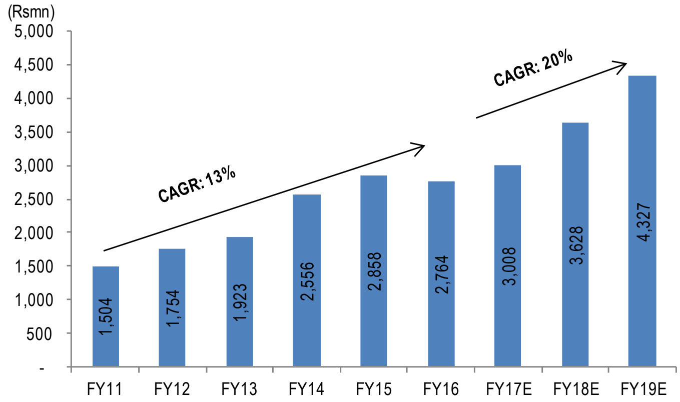
Pearl Polymers	FY12	FY13	FY14	FY15	FY16
Sales	2,145	2,185	2,251	1,988	1,774
EBITDA	151	78	148	86	121
PAT	(4)	142	5	(25)	5
EBITDAM (%)	*7.1*	*3.6*	*6.6*	*4.3*	*6.8*
RoCE (%)	*4*	*(1)*	*5*	*1*	*4*
RoE (%)	*(1)*	*26*	*1*	*(4)*	*1*
Debt/Equity	0.8	0.8	0.6	0.6	0.5
P/E (x)	(167.7)	4.3	114.2	(24.5)	132.6
EV/EBITDA (x)	5.4	10.5	5.5	9.5	6.7

Kanpur Plastipack	FY12	FY13	FY14	FY15	FY16
Sales	1,861	1,761	2,132	2,476	2,481
EBITDA	240	226	275	281	365
PAT	104	69	109	114	165
EBITDAM (%)	*12.9*	*12.9*	*12.9*	*11.3*	*14.7*
RoCE (%)	*16.0*	*11.9*	*12.0*	*11.6*	*15.3*
RoE (%)	*42.8*	*21.8*	*26.6*	*22.6*	*26.3*
Debt/Equity	2.1	2.1	1.9	1.3	0.9
P/E (x)	18.1	27.1	17.2	16.4	11.4
EV/EBITDA (x)	10.5	11.1	9.1	8.9	6.9

Source: Company, Nirmal Bang Institutional Equities Research

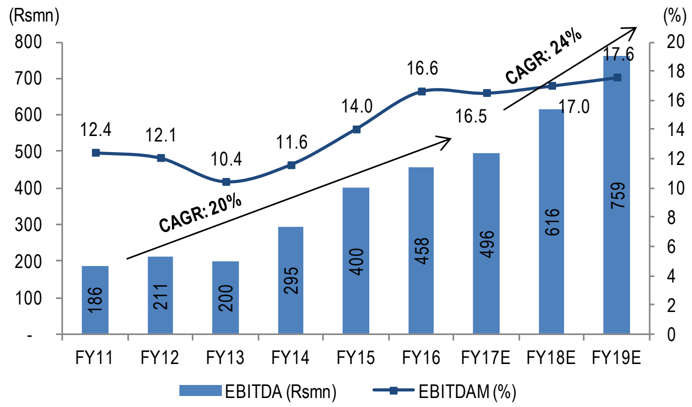
Healthy financials

Exhibit 31: Net sales



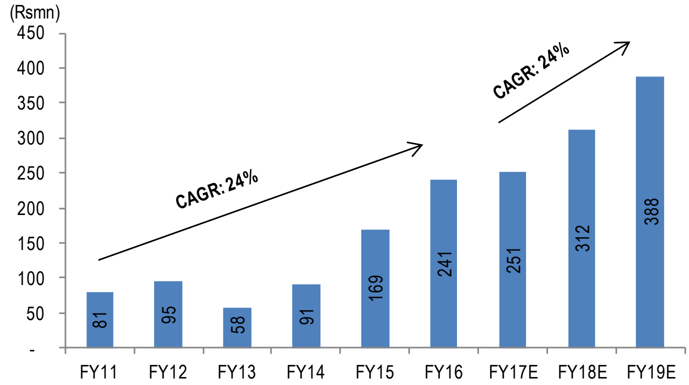
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 32: EBITDA



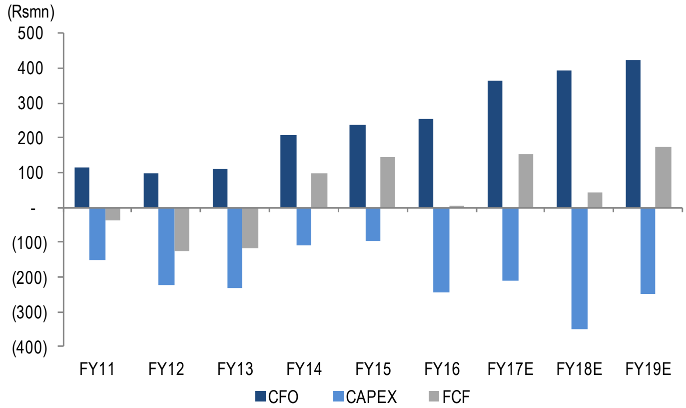
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 33: PAT



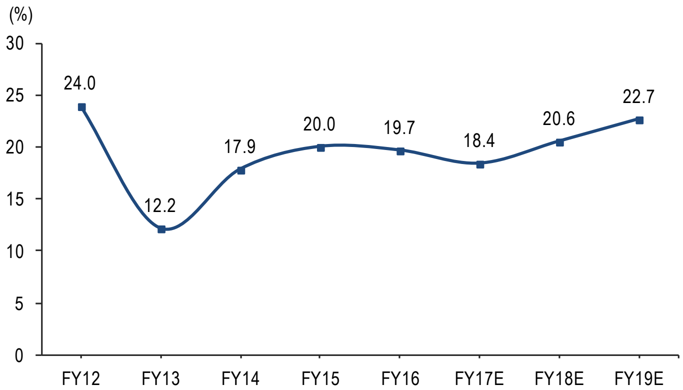
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 34: Cash flow from operations versus free cash flow



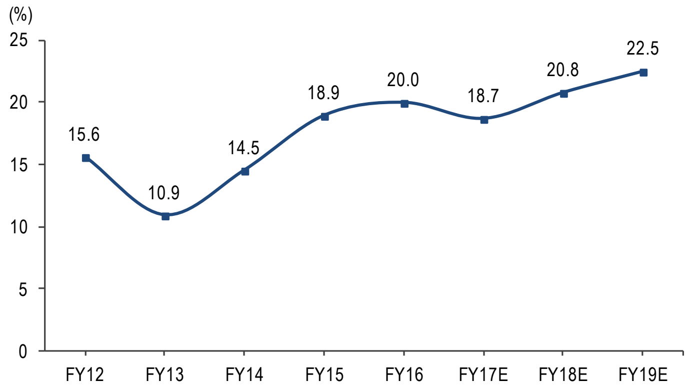
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 35: Return on Equity (RoE)



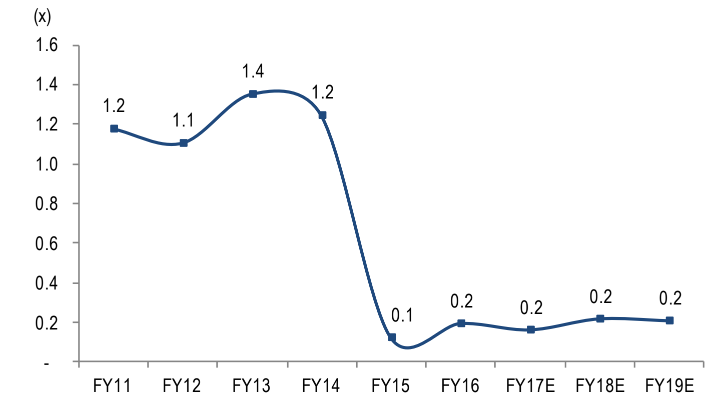
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 36: Return on Capital Employed (RoCE)



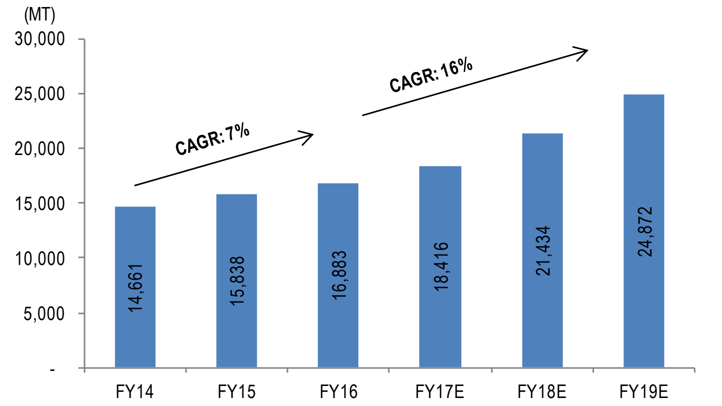
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 37: D/E ratio



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 38: Volume of polymer processed



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 39: Quarterly performance

Particulars (Rsmn)	3QFY16	2QFY17	3QFY17	*YoY (%)*	*QoQ (%)*	9MFY16	9MFY17	*YoY (%)*
Revenues	677	759	677	*0.1*	*(10.7)*	2,052	2,269	*10.6*
Raw material	401	459	402	*0.1*	*(12.5)*	1,262	1,368	*8.4*
Staff costs	61	68	66	*8.7*	*(2.3)*	174	203	*16.9*
Other expenses	47	54	58	*23.8*	*7.6*	140	170	*21.0*
Total expenditure	561	631	575	*2.6*	*(8.9)*	1,725	1,893	*9.8*
EBITDA	116	128	102	*(12.0)*	*(20.0)*	327	375	*14.9*
EBITDAM (%)	*17.2*	*16.8*	*15.1*	*210bps*	*170bps*	*15.9*	*16.5*	*60bps*
Depreciation	22	25	25	*14.4*	*2.1*	63	74	*17.1*
Interest	2	4	4	*105.7*	*14.1*	8	12	*60.3*
Other income	1	1	9	*571.3*	*616.7*	4	14	*215.6*
PBT	92	101	82	*(11.0)*	*(18.7)*	259	303	*16.9*
Tax	32	35	27	*(17.2)*	*(23.6)*	89	103	*14.8*
Net profit	60	66	56	*(7.7)*	*(16.1)*	169	200	*18.8*
EPS (Rs)	2.2	2.4	2.0	*(7.7)*	*(16.1)*	6.1	7.2	*18.8*

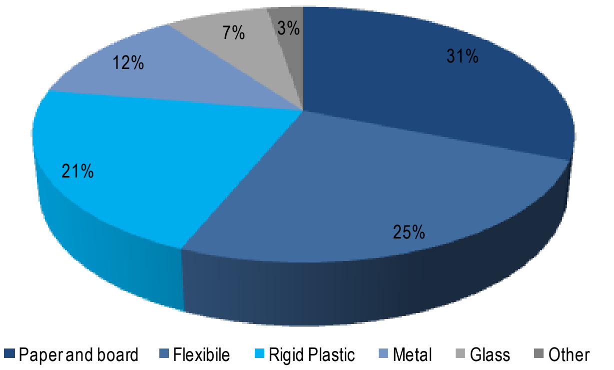
Source: Company, Nirmal Bang Institutional Equities Research

Packaging industry

Scenario

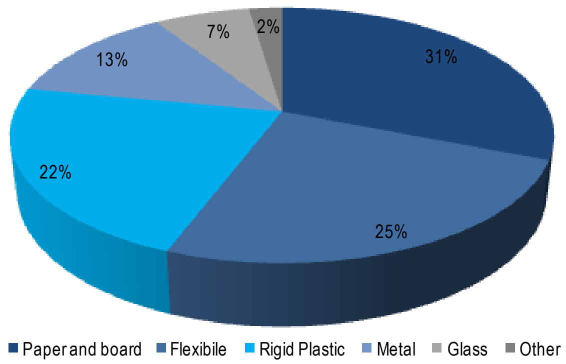
Packaging industry in India and overseas has been growing at a rapid pace. Growth rate of packaging industry has been more than GDP growth in most countries. The global packaging market was estimated at around US$840bn in 2015 and set to touch US$998bn by 2020, posting a CAGR of 5%. In India, the packaging industry has posted a healthy CAGR of 16% over 2011-15 and touched the US$32bn mark. Despite growing at such a healthy pace, Indian packaging industry still accounts for just 4% of global packaging industry, which is estimated at US$840bn. Per capita packaging product consumption in India stands at 4.3kg compared to Germany whose per capita packaging consumption is 42kg. Going forward, Indian packaging industry is expected to grow at a healthy pace of 18% per annum wherein flexible packaging is expected to grow 25% per annum and rigid packaging is supposed to grow 15% annually.

Exhibit 40: Global packaging industry – segmentation – 2015



Source: IBEF, Company, Nirmal Bang Institutional Equities Research

Exhibit 41 : Global packaging industry – segmentation – 2020

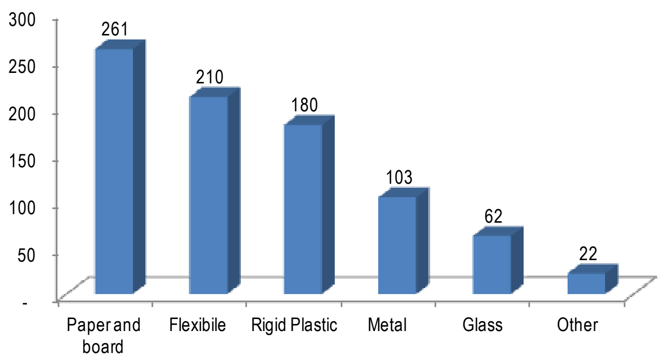


Source: IBEF, Company, Nirmal Bang Institutional Equities Research

Rigid packaging

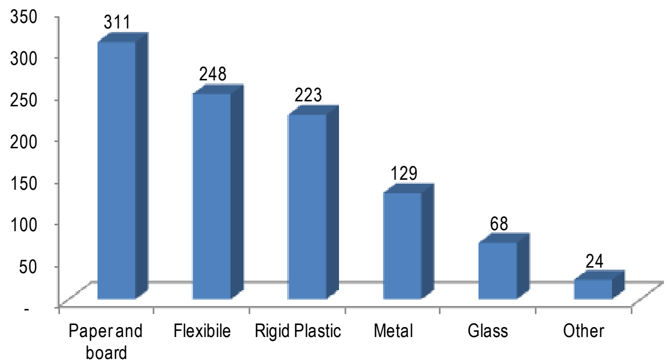
Rigid packaging is expected to grow at the fastest space at a CAGR of 4.4% and touch US$223bn by 2020. Within rigid packaging, PET bottles are expected to remain the leader and global consumption is likely to touch 21.1mt by 2021. Africa and the Middle East will be growth drivers in rigid packaging for the next five years.

Exhibit 42: Global packaging industry in 2015 (US$bn)



Source: all4Packs, Company, Nirmal Bang Institutional Equities Research

Exhibit 43: Global packaging industry in 2020 (US$bn)



Source: all4Packs, Company, Nirmal Bang Institutional Equities Research

Flexible packaging

Demand for flexible packaging (paper, plastic, and complex/multi-D layer materials) increased significantly in the past 10 years and **the market size grew to US$210bn in 2015**. It expects to post a CAGR of 3.4% and touch a market size of US$248bn by 2020. Asian market is going to remain the biggest consumer, with a market share of ~45% by 2020. Food industry is going to be the leading sector accounting for 70% of flexible packaging amounting in 2015.

Paper and board packaging

Paper and board packaging (folding, corrugated board or cardboard for liquids) holds on to its leadership position in global consumption, **amounting to US$261bn in 2015**. It is forecast to retain this position in 2020 with a CAGR of 3.5%. In 2015, China was the biggest market, ahead of the US, and will account for nearly a quarter of global consumption in 2020. India and South Korea are forecast to post high growth. Strong demand from the e-commerce segment has been a major growth driver for paper and board packaging. We expect the e-commerce segment to continue to be the demand driver for this segment.

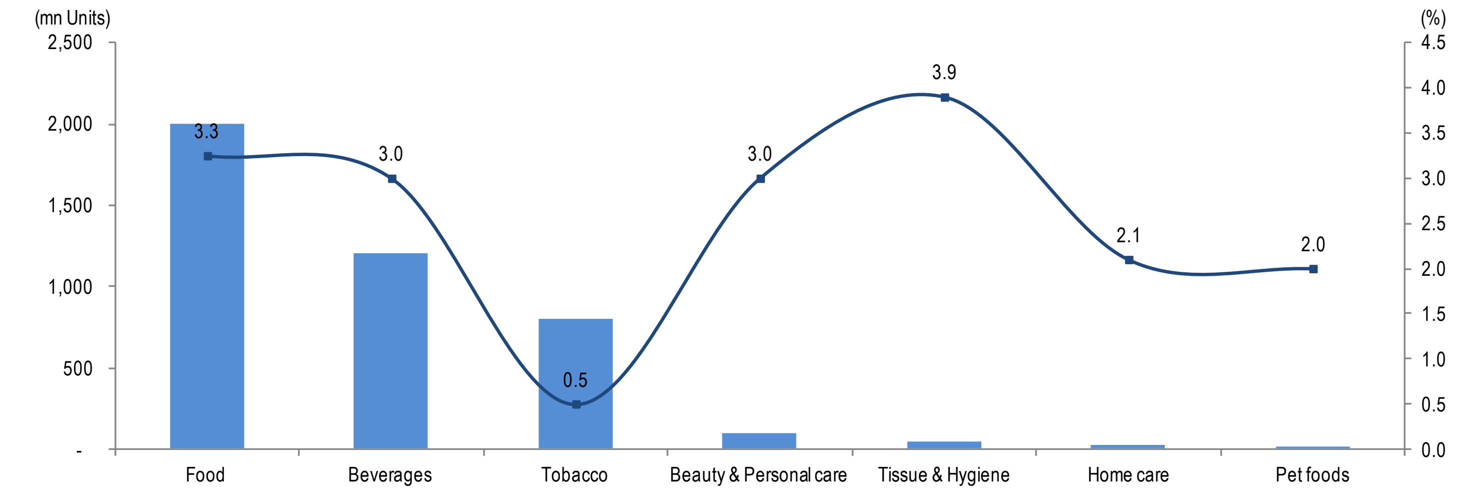
Metal packaging

Metal packaging segment **accounted for US$103bn at the end of 2015**. It is forecasted to touch US$132bn by 2021, posting a CAGR of 4.5%. Metal cans for beverages make up 65% of metal packaging. In Asia, China has been a major growth driver for metal packaging. Growth in metal packaging in China has mainly come from aerosols and personal hygiene, cosmetics and cleaning products. In North America, canned foods and beverages have been growth driver for metal packaging.

Glass packaging

Glass packaging is forecast to register lowest growth rate by 2020, at US$64bn. Mainly dedicated to drinks and perfumes, it has become a symbol of luxury, and sometimes transgression with high-end and sophisticated creations.

Exhibit 44 : Packaging – Industry- wise growth rate over 2015-19E

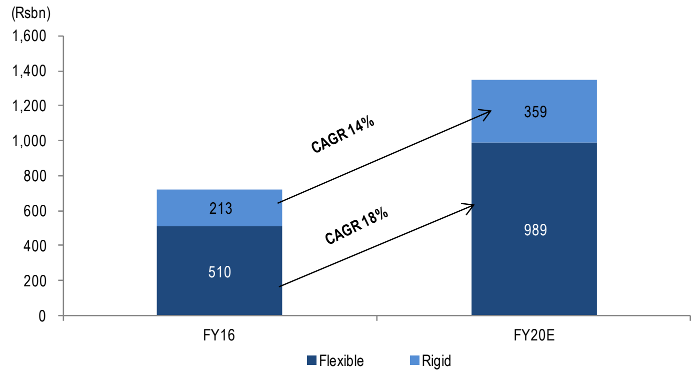


Source: Packaging, Industry Report,, Nirmal Bang Institutional Equities Research

India

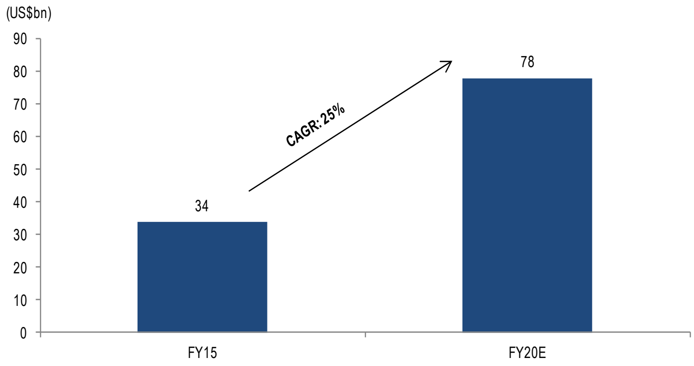
Indian packaging industry is valued at US$32bn (~Rs2,000bn) and offers employment to more than 1mn people. Packaging industry in India is highly fragmented with over 22,000 companies. Packaging industry in India is expected to post a CAGR of 15% to touch US$65bn. **Rigid packaging currently accounts for ~US$3.2bn while flexible packaging accounts for ~8bn.** Indian rigid packaging industry is expected to post a CAGR of 14% while flexible packaging industry is likely to register a CAGR of 18% over FY16-FY20E. Growth in rigid packaging industry is mainly going to come from four main sectors – paint & lube industry, food & beverages, packaged food industry and pharmaceutical industry.

Exhibit 45: Indian packaging industry



Source: Ficci, Company, Nirmal Bang Institutional Equities Research

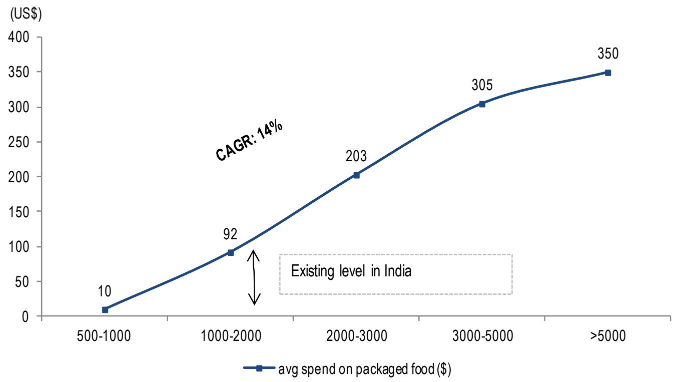
Exhibit 46: Indian food & beverage industry growth



Source: all4Packs, Company, Nirmal Bang Institutional Equities Research

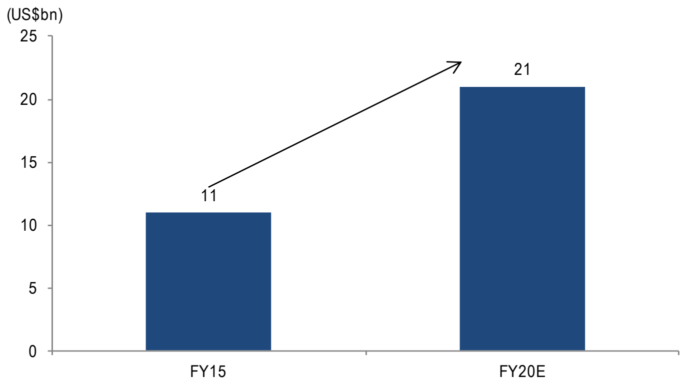
Indian retail industry is one of the most dynamic and fast-growing industries. As per industry reports, it is believed that Indian retail industry will grow from US$598bn to US$1,256bn. Indian retail market has attracted many MNCs and as a result, it has boosted the demand for F&B, consumer products, cosmetics etc. With rising income level, retail market is moving more towards the organised segment, leading to improved demand for innovative and attractive packaging solutions. Within the retail space, food & beverage (F&B) segment is one of the biggest end-users of packaging. Growth in F&B segment will drive growth in plastic packaging. With rising per capita income, urbanisation and rising working women population in India, packaged food industry in India is at inflection point. There is growing demand for ready-to-eat and ready-to-serve products. We believe the plastic packaging industry will be one of the major beneficiaries of increased packaged food demand in India. Apart from F&B segment, we believe the pharmaceutical industry will help grow India's plastic packaging industry.

Exhibit 47: Spending on packaged food in India



Source: Ficci, Company, Nirmal Bang Institutional Equities Research

Exhibit 48: Indian pharmaceutical industry



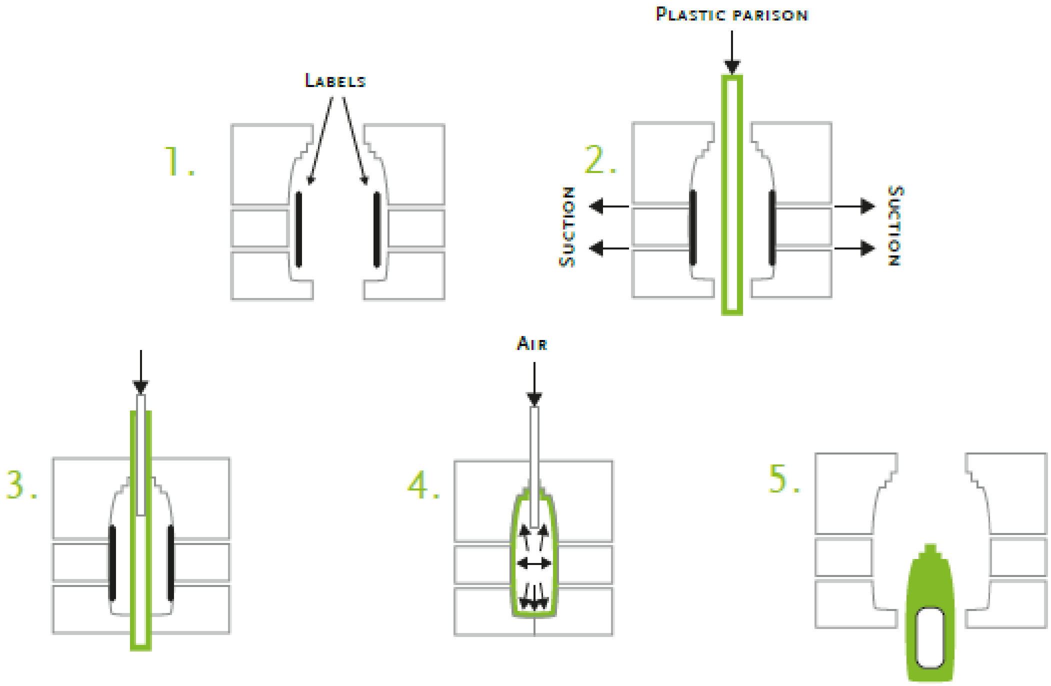
Source: Ficci, Company, Nirmal Bang Institutional Equities Research

Packaging and labeling is equally important as the product inside it. This view is shared by manufacturers, marketers and consumers. Hence, in-mould labeling has a lucrative future with good supply and demand. MPL has been smart enough and is the first entity to introduce IML technology in India. The company is shifting gear as it moves into the highly growing, profitable and brand-driven industries like packaged food & FMCG. While its competitors in injection moulding have many entry barriers in IML technology, MPL has already backward integrated into IML labels and even makes robots in-house. MPL already offers specialised solutions for industry leaders such as Procter & Gamble, Mondelez, MTR Foods, Hindustan Unilever and Haldirams.

What is in-mould labeling?

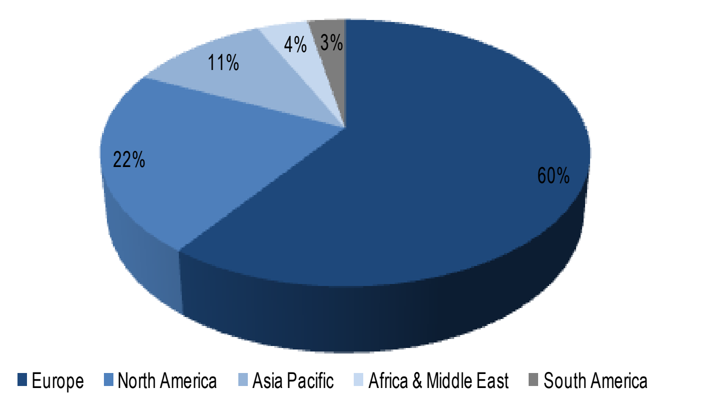
The In-mould Decorating Association (IMDA) defines the process as "labeling or decorating a plastic object while the object is being formed in the mould." While a glue-applied or PS label is stuck on the surface of an object, the IML label is "imbedded in the wall of the object".

Exhibit 49: In-mould labeling process



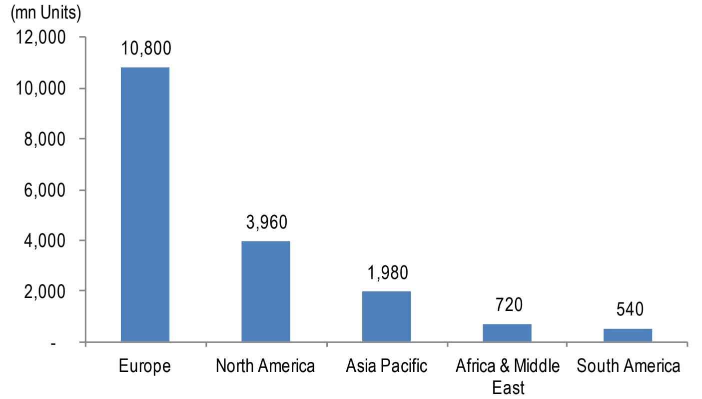
Source: In-Mold Decorating Association (IMDA), Nirmal Bang Institutional Equities Research

Exhibit 50: IML market share – Region-wise



Source: AWA "Global In-Mold Label Market Study", Nirmal Bang Institutional Equities Research

Exhibit 51: IML market share – No. of units (mn)



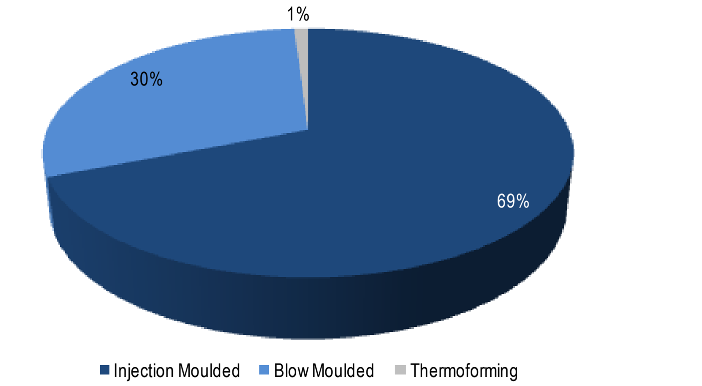
Source: AWA "Global In-Mold Label Market Study", Company, Nirmal Bang Institutional Equities Research

IML, although expected to be the fast-growing segment, the technology still remains niche. ***IML currently accounts for only 2% of total global labeling market, while pressure-sensitive labels and glue-applied labels account for 39% and 36%, respectively.*** Though the market size is currently small for IML, it is expected to grow 4%-6% globally by 2020.

As per industry data, the demand for in-mould labels is the highest in Europe, which accounts for 60% of global IML label demand. Followed by Europe, North America has a market share of 22% in IML labeling while Asia remains the third-biggest market for IML at 11%. South America has 3% market share while Africa and the Middle East account for 4% of total IML market. Globally, ~18bn packages decorated with IML labels were sold in 2015. Of the 18bn packages with IML labels, ~11bn were sold in Europe followed by North America at ~4bn units. Africa and the Middle East are poised for biggest gains at 3.6% through 2018. Asia is expected to be the second-fastest growing market in IML at 3.4% through 2018. North America and South America are expected to grow 2.6% and 2.2%, respectively.

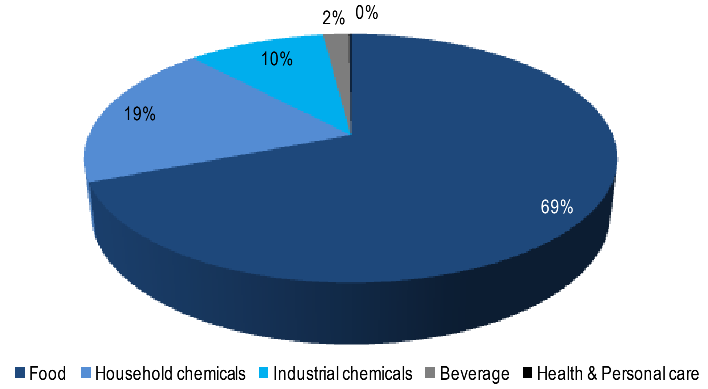
Few of the international players operating in IML space are - CCL Industries, Canada, Verstraete, Belgium, Constantia Flexibles, Austria, Illig, Germany, Xeikon, Netherlands, EVCO, USA, Coveris, Germany.

Exhibit 52: IML labeling market share – Moulding method



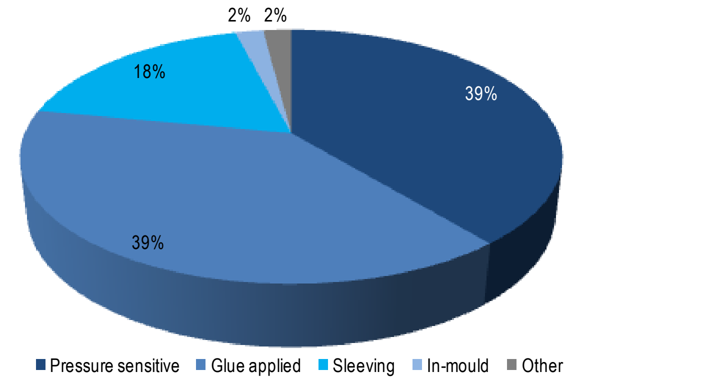
Source: AWA "Global In-Mold Label Market Study", Nirmal Bang Institutional Equities Research

Exhibit 53: IML usage – Industry-wise



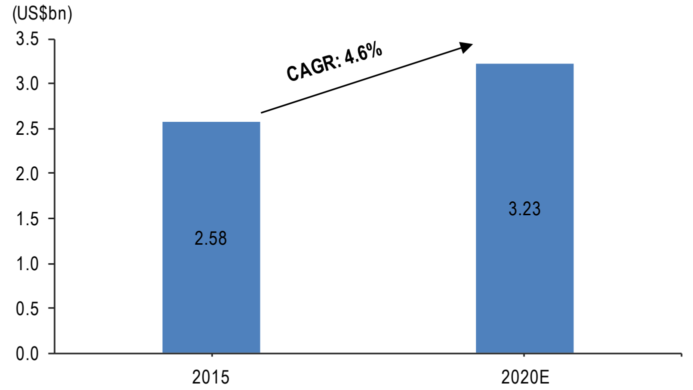
Source: AWA "Global In-Mold Label Market Study", Nirmal Bang Institutional Equities Research

Exhibit 54: Global market share based on labeling technology



Source: AWA "Global In-Mold Label Market Study",, Nirmal Bang Institutional Equities Research

Exhibit 55: IML global market



Source: Markets & Markets, Nirmal Bang Institutional Equities Research

A major portion of IML comprises injection moulded applications (69%), while the rest comprises extrusion blow moulding (30%) and a minuscule proportion is accounted for by thermoforming (1%). However, region-wise this share of IML application varies. IML for injection moulded applications is growing at a healthy rate in North American market while African and the Middle East markets are doing well in extrusion blow format. European market has done well in both - IML – injection moulded and IML – extrusion blow moulded applications.

Growth drivers

Food and FMCG is going to be key driver going forward for IML labeling. European food and dairy markets have adopted IML. Dairy food products such as cheese, margarine, sauces and ice-cream are well suited for food applications because the label is protected from water, ice and other environmental factors (as the label is a part of the container itself). Other than this, IML labeling method involves zero-human contact. For food & FMCG industry where hygiene is of utmost importance, zero-human touch makes IML an apt method for packaging. IML offers better aesthetic value than other traditional methods such as screen printing and heat transfer labeling. As a result, brand recall value of products improves dramatically.

Company background

MPL was established in 1986 by two technocrats – Mr. Lakshmana Rao and Mr. Subramanyam. MPL is the market leader in rigid plastic packaging in India with over two decades of experience. MPL is involved in manufacturing injection moulded packaging containers, mainly pails (cylindrical containers) for paint, lube, food and other products. The company has world class integrated facility, right from product inception to mould designing, processing and decorating the products. It has seven processing plants in India, three stock points and ~70 moulding machines. MPL has capacity of ~27,000tn in India and 3,000tn in the UAE. In 2011, MPL imported two robots and labels from Taiwan to utilise them in IML for decorative packaging. MPL is the sole player in India to use IML technology for labeling. The company did backward integration and started manufacturing in-house robots (currently has 45 robots) so as to reduce costs and improve quality control. MPL currently is the only backward integrated player in IML technology globally.

Exhibit 56: Capabilities

Capabilities	Key features
In-mould labeling (IML)	• MPL introduced IML decorated packaging for the first time in India. • Only company in India to have completely integrated facilities ranging from label making, mould manufacturing, to in-house robot manufacturing. • No dependency on imports – in-house labels, robots and mould manufacture and maintenance.
Heat transfer labeling	• Design is printed on the release layer of a label and upon application of heat it is transferred to the container. • MPL has in-house heat transfer labeling and label printing facilities.
Shrink sleeving	• Label is slipped onto the container and upon heating the label shrinks and fits the container snugly. • Aesthetics and picture resolutions are better than screen printing. • MPL has in-house capability to manufacture shrink sleeves.
Screen printing	• Process where ink is squeezed through exposed screen to the surface of product. • Most economical option among decorative options. • Suitable for paints and lubricant pails, but is not preferred for food and FMCG containers. • MPL has automatic screen printing, ensuring better alignment of different colours.

Source: Company, Nirmal Bang Institutional Equities Research

Products

Lube packaging: MPL is involved in the manufacture of injection-moulded containers for lubes. These containers are completely leak-proof as they are made as a single unit. These units are tamper-proof because of patented locking system. As result of compact size and mould design, these containers are easy to store and stack. MPL manufactures containers with the size ranging from 5 litre to 25 litre. Castrol (10%-12%) and Shell Oil (5%-6%) are some of its top clients in this segment. Lube packaging as a whole accounts for ~35% of total sales of MPL.

Paint packaging: MPL is a leading packaging specialist for paints. It has developed strong expertise in manufacturing pails of numerous sizes, designs and shapes (classic oval, rectangular and square). Pails are provided with tamper-proof lids so as to ensure complete safety against adulteration. The company has expertise in in-mould labeling on packaging pails that helps improve brand recall. Around 60% of MPL's total sales come from paint packaging with major clients being Asian Paints (25%-28%), Kansai Nerolac (10%-12%) and Akzo Nobel (10%). Product portfolio includes containers ranging from 1kg to 20kg in size.

Food and FMCG: MPL has latest technology and experience in manufacturing food packaging for automatic filling. MPL has capability to manufacture containers of different sizes to satisfy the needs of bulk customers as well as end consumers. This segment currently caters to ice cream, dairy products and drink powder consumers. Amul and Mother Dairy are MPL's key clients in dairy product segment. MPL's capability to execute the in-mould labeling process allows spectacular brand visual presentation. This segment currently contributes ~5%-7% to the company's total sales. However, the management is confident that this segment will contribute substantially in the next three to five years. Current product portfolio includes containers with capacities ranging from 100ml to 1,000ml.

Exhibit 57: Product Portfolio

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 58: MPL's management team

Mr. J. Lakshmana Rao	Chairman & managing director	He holds a bachelor's degree in civil engineering and post graduate diploma in management from IIM, Bangalore. He promoted MPL in 1985-86 with overall project cost of Rs5.5mn. He has over 30 years of experience. Under his leadership, MPL went public in 1993 and got listed on NSE and BSE.
Mr. A. Subramanyam	Deputy managing director	He holds a bachelor's degree from REC, Suratkal. After working for three years in Nizam Sugar and ACC, he promoted MPL along with Mr. Lakshamana Rao. He has over three decades of experience and is currently looking at in-house research and development division and in-house tool room for designing and development of new products.
Mr. P. Venkateswara Rao (P.V.Rao)	Deputy managing director	He holds a bachelor's degree in arts from Osmania University. He also holds a diploma degree in materials management. He has over 27 years of experience with over 10 years of experience in project execution and co-ordination.

Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 59: Income statement

Y/E March (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales (incl. OOI)	**2,850**	**2,757**	**3,000**	**3,620**	**4,319**
% growth	*11.7*	*(3.3)*	*8.8*	*20.7*	*19.3*
Other income	8	7	8	8	8
Total Income	**2,858**	**2,764**	**3,008**	**3,628**	**4,327**
Raw Material	1,854	1,667	1,809	2,147	2,520
Staff	213	240	279	321	369
Other expenses	186	192	224	283	381
Total Expenditure	2,451	2,299	2,504	3,004	3,560
EBITDA	**400**	**458**	**496**	**616**	**759**
% growth	*35.4*	*14.6*	*8.2*	*24.2*	*23.3*
EBITDA margin (%)	*14.0*	*16.6*	*16.5*	*17.0*	*17.6*
Depreciation	82	85	102	124	145
EBIT	**317**	**373**	**394**	**492**	**615**
EBIT margin (%)	*11*	*14*	*13*	*14*	*14*
Interest	73	10	17	20	26
Profit Before Tax	**253**	**368**	**385**	**480**	**597**
% growth	*82.3*	*45.2*	*4.6*	*24.7*	*24.5*
Tax	85	127	134	168	209
Effective tax rate (%)	*33.4*	*34.5*	*34.8*	*35.0*	*35.0*
Net Profit	**169**	**241**	**251**	**312**	**388**
% growth	*85.8*	*43.0*	*4.0*	*24.3*	*24.5*
EPS (Rs)	**7.2**	**8.7**	**9.1**	**11.3**	**14.0**
% growth	*78.0*	*21.5*	*4.0*	*24.3*	*24.5*
DPS (Rs)	2.4	3.3	3.4	4.2	5.2
Payout (%)	*33*	*37*	*37*	*37*	*37*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 61: Balance sheet

Y/E March (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
Share Capital	138	139	139	139	139
Reserves and Surplus	1,019	1,152	1,292	1,465	1,679
Shareholder's Funds	**1,157**	**1,291**	**1,431**	**1,603**	**1,818**
Non Current Liabilities					
Deferred tax liabilities (Net)	44	54	54	54	54
Long Term Borrowings	110	66	48	80	80
Long term Provisions	16	21	21	21	21
Current Liabilities					
Short term borrowings	35	186	186	271	301
Trade payables	100	143	149	176	207
Other current liabilities	109	114	108	140	153
Short term provisions	122	166	177	219	272
Total Liabilities	**1,694**	**2,041**	**2,174**	**2,564**	**2,905**
Total Gross Block	**1,155**	**1,320**	**1,590**	**1,940**	**2,190**
Accumulated Depreciation	440	510	612	736	880
Net Fixed assets	**745**	**897**	**1,004**	**1,230**	**1,336**
Long term loans and advances	36	43	45	45	45
Other Non-Current Assets/Invest	37	43	43	43	43
Current Assets					
Inventories	277	241	273	323	380
Trade receivables	442	548	575	645	769
Cash and carry equivalents	10	8	12	13	18
Short term loans and advances	136	252	211	254	303
Other current assets	12	11	11	11	11
Total Assets	**1,694**	**2,041**	**2,174**	**2,564**	**2,905**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 60: Cash flow

Y/E March (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
EBIT	317	373	394	492	615
(Inc.)/Dec in working capital	(86)	(89)	(7)	(62)	(133)
Cash flow from operations	**232**	**285**	**386**	**430**	**482**
Depreciation	84	87	102	124	145
Tax paid	(85)	(127)	(134)	(168)	(209)
Net cash from operations	**231**	**245**	**354**	**386**	**417**
Capital expenditure	(94)	(245)	(209)	(350)	(250)
Net cash after capex	137	0	145	36	167
(Increase)/Decrease in Investments	-	(4)	-	-	-
Other Investing activities	31	-	-	-	-
Net cash from investing activities	**(91)**	**(243)**	**(209)**	**(350)**	**(250)**
Cash from Financial Activities	**(144)**	**(11)**	**(149)**	**(43)**	**(169)**
Opening cash	6	10	8	12	13
Closing cash	10	8	12	13	18
Change in cash	4	(2)	4	0	6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 62: Key ratios

Y/E March	FY15	FY16	FY17E	FY18E	FY19E
Profitability & Return ratios					
EBITDA margin (%)	14.0	16.6	16.5	17.0	17.6
EBIT margin (%)	11.1	13.5	13.1	13.6	14.2
Net profit margin (%)	5.9	8.7	8.3	8.6	9.0
RoE (%)	20.0	19.7	18.4	20.6	22.7
RoCE (%)	18.9	20.0	18.7	20.8	22.5
Working capital & Liquidity ratios					
Receivables (days)	57	73	70	65	65
Inventory (days)	54	53	55	55	55
Payables (days)	20	31	30	30	30
WC days	91	94	95	90	90
Current ratio (x)	2.4	1.7	1.7	1.5	1.6
Quick ratio (x)	1.6	1.3	1.3	1.1	1.2
Valuation ratios					
EV/Sales (x)	2.2	2.7	2.5	2.1	1.7
EV/EBITDA (x)	15.6	16.2	14.9	12.2	9.9
Adj. P/E (x)	36.1	29.7	28.6	23.0	18.5
Adj. P/B (x)	5.3	5.6	5.0	4.5	3.9
Growth (%)					
Sales	11.8	(3.3)	8.8	20.6	19.3
EBITDA	35.4	14.6	8.2	24.2	23.3
PAT	85.8	43.0	4.0	24.3	24.5
Dupont Formula					
Profitability	5.9	8.7	8.3	8.6	9.0
Asset Turnover	1.7	1.4	1.4	1.4	1.5
Leverage	2.0	1.7	1.6	1.7	1.7
RoE (%)	20.0	19.7	18.4	20.6	22.7

Source: Company, Nirmal Bang Institutional Equities Research

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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