May 29, 2023

MOLD-TEK Packaging Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	90.00	90.00	Rating reaffirmed at [ICRA]A+(Stable)
Long-term – Term Loans	34.44	25.12	Rating reaffirmed at [ICRA]A+(Stable)
Long-term - Unallocated	0.56	9.88	Rating reaffirmed at [ICRA]A+(Stable)
Short-term Non-Fund based limits	1.00	1.00	Rating reaffirmed at [ICRA]A1
Total	**126.00**	**126.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in expectation that healthy revenue growth along with sustained margins and cash flows over the medium term would support the credit profile of MOLD-TEK Packaging Limited (Moldtek). The ratings derive comfort from Moldtek's established presence in the plastic pail packaging segment and the nearly three-decade experience of its promoters in the packaging industry. The strong technological capabilities of the company and its track record of adopting the latest trends in packaging such as in-mould labelling (IML) and heat transfer labelling (HTL) supports the ratings. Moldtek witnessed a strong volume growth 16% supported by growth aided by healthy volume growth of 33% in food and FMCG (F&F) segment and 31% in lubes segment while growth in paints volume was relatively lower at 6%. New product launches with advanced technologies and addition of new customers supported the company's volume growth in FY2023; however, realisations moderated marginally on account of decline in raw material prices. The company is expected to record volume growth if 12-15% in FY2024 on the back of healthy demand across its segments. This apart, the company would incur capex of Rs. 200-250 crore over the next two years on 5 new plants, increasing Moldtek's capacity to 60,000 MTPA by FY2025 from 46,000 MTPA in FY2023. New plants are expected to be commercialized over the next 9-12 months; enhanced capacity along with healthy demand is expected to result in strong growth for the company in FY2025. While three of these plants are greenfield projects for meeting orders for Grasim Industries Limited's (Grasim) paint division, the other two plants would cater to paints, and food and FMCG segment. Further, the pharma division of its plant in Sultanpur is also expected to be commercialized by H2 FY2024. These are expected to be financed largely by internal accruals. The ratings also consider the company's healthy financial profile reflected in healthy operating margins of over 18%, and its healthy debt protection metrics. Although Moldtek's debt is expected to increase over the next two years on account of sizeable capex plans, its capital structure and coverage metrics are expected to remain comfortable.

The ratings are, however, constrained by the company's high customer concentration with the top 10 customers accounting for ~70% of its revenues; however, long-term associations with customers moderates the risk. The ratings also consider stiff competition in the industry which limits the company's pricing flexibility. However, its pricing terms with major customers allow for pass-through of changes in raw material costs, though with a time lag ranging from a month to a quarter. ICRA also notes that receivables cycle is long (90-100 days) in the paints segment, which accounted for ~50% of the company's revenues in the past two years, resulting in moderate working capital intensity. The company is dependent on a single supplier, i.e. Reliance Industries Limited (RIL), for the major portion of its key raw material requirements and is thus exposed to supply disruption risks in case of force majeure events. Nonetheless, Moldtek can sustain operations with imported raw materials or procure raw materials from alternate domestic manufacturers, albeit at higher prices.

The Stable outlook on the rating reflects ICRA's opinion that Moldtek will continue maintain a healthy credit profile as its technical capabilities and strong relationships with key customers would support growth in revenues and earnings.

Key rating drivers and their description

Credit strengths

Extensive experience in plastic pail packaging industry – Founded in 1985 to manufacture rigid plastic packaging materials, the company is a well-established player in the decorative plastic pail packaging segment with nearly three decades of operations. It mainly caters to the paint, lubes, food, and FMCG industries where it has developed established relationships with marquee customers which helps in facilitating repeat orders.

Healthy financial profile – The company's operating income has grown at a CAGR of ~16% over the last 4 years to Rs. 729.9 crore in FY2023 from Rs. 405.7 crore in FY2019. The company's financial profile is healthy marked by healthy profitability, low leverage, and comfortable coverage indicators. Its coverage indicators improved in FY2023 with improvement in cash flows due to healthy earnings and reduction in working capital intensity on the back of reduced inventory holding given the moderation in raw material prices and lower receivebles on account of higher proportion of sales from the F&F segment where collections are faster. Capital structure has also shown sequential improvement from FY2020 with infusion of over Rs. 175 crore in the last three years through rights issue and QIP. While the company's debt is expected to increase given the sizeable capex plans for next two years, its capital structure is expected to remain comfortable in the medium term on the back of healthy accrual generation.

Reputed customer base - Moldtek enjoys long-standing relationships with marquee customers across the paints, lubes, and food segments which ensures repeat orders.

Diversification into new product/customer segments – The company is present in the paints, lubes, and food and FMCG segments; paints segment accounted for most (50-55%) of its revenues in the past three years. New products launched in last two years, including 'QR code printed IML' and diesel exhaust fluid (DEF), have aided revenue growth in FY2023. The F&F segment is also expected to benefit from orders from newly onboarded clients such as Kisan Jam, and Horlicks. The company is also likely to benefit from the increased usage of IML products by new customer segments in the medium term. Further the company's proposed entry into the pharma segment through its upcoming plant at Sultanpur, addition of plants in Panipat and Daman for the F&F segment to improve its reach in Northern and Western markets, as well as addition of Grasim Industries as a customer would help in diversifying its revenue streams.

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

Credit challenges

Stiff competition and susceptibility of margin to raw material price movements - The company has a moderate scale of operations and faces intense competition, which limits the pricing flexibility and exposes its margin to volatility in raw material prices; although the ability to pass-through the fluctuations in raw material costs with a time lag of one month to a quarter mitigates the risk to some extent.

High customer concentration - The top ten customers account for ~70% of the company's revenues. However, strong credit profile and long-term associations with its major customers like Asian Paints Ltd, Gulf Oil Lubricants Ltd, Castrol, etc. mitigate this risk to an extent. Further Moldtek is involved with its customers in developing products and enjoys significant wallet share with some of its major customers which mitigates the concentration risk to some extent.

High supplier concentration – As most of the raw materials are procured from RIL, the company is exposed to the risk of supply disruptions in case of force majeure events. However, the risk is mitigated as Moldtek can use imported raw materials or procure raw materials from alternate manufacturers to sustain operations.

Moderate working capital intensity – The receivables cycle is long (90-100 days) in the paints segment, which accounted for ~50% of the company's revenues in the past two years, resulting in moderate working capital intensity. However, working capital intensity has reduced to 25.3% in FY2023 from 33.2% in FY2022 on the back of higher proportion of sales from the F&F segment which has lower receivables period and reduction in inventory days due to decrease in raw material price. It is expected to be at similar levels going forward.

Environmental and Social Risks

Environmental considerations - Environmental risks are moderate for packaging manufacturers as they are subject to a range of environmental, health and safety laws, including those governing discharges to air, soil and water, the handling and disposal of hazardous substances and the investigation and remediation of contamination resulting from the release of hazardous substances. Moldtek manufactures many products, which are generally disposed of after use (food and rigid plastic packaging), which could result in some environmental damage. However, all process rejections are recycled and re-used. There could be an increasing emphasis on recyclability and, potentially, manufacturing plastic products from more biodegradable substrates. The company needs to continue to focus on building quality products and adapting to an evolving regulatory environment.

Social considerations – Social risks for packaging manufacturers are high as packaging operations involve petrochemical and their derivative products and heavy equipment, which could cause casualties/ accidents to the workforce in case of any gaps in safety practices. A necessity of responsible operations is high since instances of accidents/ non-compliance of environmental norms will have an adverse impact on the local community, which may result in increased social risks in the form of protests that might constrain the company's ability to operate or expand capacity.

Liquidity position: Adequate

Liquidity is expected to remain adequate. The company has free cash balance of Rs. 4.9 crore, and undrawn working capital limits of ~Rs. 68 crore as on March 31, 2023. It is expected to generate retained cash flows of Rs. 70-80 crore in FY2024. It is expected to incur capex of Rs. 140-150 crore in FY2024 and has repayment obligations of 11.7 crore over the next 12 months. The company is expected to raise some debt in the form of term loans and/or enhance its working capital limits as additional funding if required.

Rating sensitivities

Positive factors – Strong growth in revenues and profitability on a sustained basis with material diversification of customer base and end user industry base.

Negative factors – The ratings may witness downward pressure if there is sustained moderation in scale and profit margin due to increased competition or reduced demand. Ratings may also be revised downward, if stretch in working capital cycle or higher-than-expected debt-funded capex puts pressure on the liquidity profile. Specific triggers which may lead to a downgrade would be TD/OPBITDA of more than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on standalone financial statements of the company

About the company

Moldtek is involved in manufacturing injection moulded decorative packaging containers, mainly pails (cylindrical containers) for paint, lube, food and other products. The company has integrated manufacturing facility to manufacture the packaging product and apply different kind of labels. The company also has in house facilities to design and manufacture moulds, labels for In Mold Label (IML) products and manufacture robots used for IML process. The company has manufacturing facilities at multiple locations in India, with combined capacity of 46,000 MTPA.

Key financial indicators (audited)

Moldtek	FY2022	FY2023
Operating income	631.5	729.9
PAT	63.7	80.4
OPBDIT/OI (%)	19.1%	18.6%
PAT/OI (%)	10.1%	11.0%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	0.4	0.3
Interest coverage (times)	12.9	34.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					May 29, 2023	May 30, 2022	-	Feb 15, 2021
1	Fund Based – Cash Credit	Long-term	90.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	[ICRA]A (Stable)
2	Term Loans	Long-term	25.12	25.12	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	[ICRA]A (Stable)
3	Unallocated	Long-term	9.88	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	[ICRA]A (Stable)
4	Non-Fund Based	Short-Term	1.0	-	[ICRA]A1	[ICRA]A1	-	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-Based	Simple
Long-term Fund-based – Term Loan	Simple
Long-term - Unallocated	Not Applicable
Short-term Non-fund Based facilities	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	FY2019		FY2024	2.22	[ICRA]A+ (Stable)
NA	Term Loan 2	FY2020		FY2025	6.65	[ICRA]A+ (Stable)
NA	Term Loan 3	FY2022		FY2027	12.19	[ICRA]A+ (Stable)
NA	Term Loan 4	FY2022		FY2027	4.06	[ICRA]A+ (Stable)
NA	Cash Credit				90.00	[ICRA]A+ (Stable)
NA	Long-Term Unallocated				9.88	[ICRA]A+ (Stable)
NA	Short term – Non-Fund Based				1.00	[ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

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

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

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