September 18, 2017

Mold-Tek Packaging Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long-term Term Loans	3.50	[ICRA]A (Stable); Upgraded from [ICRA]A-(Stable)
Long-term Fund-based Limits	70.00	[ICRA]A(Stable); Upgraded from [ICRA]A-(Stable)
Short-term Non-fund based Limits	1.00	[ICRA]A1; Upgraded from [ICRA]A2+
Long-term/Short-term Unallocated Limits	2.50	[ICRA] A (stable)/[ICRA]A1; Upgraded from [ICRA]A-(Stable)/[ICRA]A2+
Total	**77.00**	

Rating action

ICRA has upgraded the long-term rating outstanding on Rs. 3.50 crore^ term loans (and Rs. 70.0 crore fund based bank facilities of Mold-Tek Packaging Limited (Mold-Tek/'the company') from [ICRA]A- (pronounced ICRA A minus) to [ICRA]A (pronounced ICRA A)†; ICRA has also upgraded the rating outstanding on Rs. 1.00 crore short-term fund based facilities of Mold-Tek from [ICRA]A2+ (pronounced ICRA A two plus)† to [ICRA]A1 (pronounced ICRA A one). The long term rating for the proposed facilities of Rs. 2.50 crore has been revised from [ICRA]A- to [ICRA]A and the short term rating has been revised from [ICRA]A2+ to [ICRA]A1. The outlook on the long-term rating is 'stable'.

Rationale

The rating upgrade takes into account the continued improvement in the financial profile of the company aided by healthy demand from existing customers, new customer acquisition and favorable shift in product/customer mix towards higher margin segments. ICRA further takes note of the company's efforts to increase the presence in food and FMCG segment and the large order received from Mondelez India Foods Private Limited during FY2017, which will aid in revenue growth and margin improvement going forward. Moreover, the commencement of new plant in Ras-al Khaimah (RAK) is also expected to provide benefits of geographic diversification and access to newer markets, although the plant is currently in ramp up phase and achieving early break even will be crucial for improvement in credit profile of the company. The ratings favorably consider the established position of the Company in the plastic pail packaging segment with nearly three decades of operations. Other positive rating factors are its reputed customer profile with 'preferred vendor' status from marquee customers resulting in repeat orders; track record of new technology adoption and development of in-house technical capabilities and favorable industry prospects with increasing use of pails by food, paint, lube and FMCG sectors. ICRA also draws comfort from the strong financial profile of the company characterized by healthy profit margins, low gearing and comfortable capital structure.

The ratings are however constrained by the Company's moderately high working capital intensity; limited pricing flexibility due to competitive pressure although the company's pricing terms with major customers allows for partial pass through of change in raw material costs and with increasing share of

^ 100 lakh = 1 crore = 10 million

† For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

value added products the risk is mitigated to some extent. The company faces high customer concentration with the top five customers accounting for 70-75% of the sales, although the long term association with customers and LOI for future orders moderates the risk. The company is also dependent on a single supplier - Reliance Industries Limited for majority of key raw materials, exposing the company to supply disruption risks in case of force majeure events; although Mold-tek can sustain operations with imported raw materials. Company can also procure raw materials from alternate domestic manufacturers, albeit at higher prices.

Further, the company's performance is also susceptible to the underlying cyclicality of end customer segments (such as lubes and paint), although the favorable outlook for these industry segments in the medium term, partly mitigates the risk.

ICRA also takes note of the large capex plans in the medium term, which includes setting up of two green field projects in Mysore and Vizag to cater to Asian Paints. While the company plans to use internal accruals for capex, it may go for some debt funding if required, which may put some pressure on capital structure and coverage indicators. Nonetheless they are expected to remain at healthy levels.

Key rating drivers

Credit strengths

- **Experience of Promoter:** Founded in 1985 to manufacture rigid plastic packaging materials, the Company is well established player in the decorative plastic pail packaging segment with nearly three decades of operations.
- **Strong Customer Base**: Reputed customer profile with 'preferred vendor' status from marquee customers in paint and lube segment, which ensures repeat orders and assured realizations. The company has received letter of intent for catering to new capacities of key customers and to cater to the same Mold-tek is also undertaking capacity enhancement
- **Track record of adoption of latest trends in packaging and developing in house capabilities to reduce production cost:** Company has track record of adoption of latest trends in packaging like In Mold Labeling (IML) and investing in R&D to develop in house capabilities to implement them at a lower cost (mold design and manufacturing and development of IML robots), which is a source of competitive advantage. The company also provides other labeling options like Heat Transfer Labeling (HTL), screen printing and shrink sleeve etc. Further, the company also has history of product innovations such as development of tamper proof lids and square pails (to ensure better stacking), which has also helped in acquiring customers
- **Diversification into new product/customer segments:** The company continued to witness favorable shift in product mix during FY2017, with revenue contribution from higher margin segments like – IML food and IML non food segments accounting for 6% and 43% respectively compared to 3% and 41% in FY2016, while remaining sales were driven by traditional non IML products. Receipt of large order from Mondelez during H2 FY2017, is expected to increase the share of the higher margin IML food segment in current fiscal. Favorable trend of increased usage of IML products by new customer segments will also aid in revenue and margin growth for the Company in the medium term. The company has also set up a plant in Ras-Al-Khaimah in UAE, which commenced operations during FY2017 and is currently in the ramp up phase and will provide access to new markets and benefits of geographical diversification
- **Strong Financial Profile:** Company has strong financial profile characterized by healthy profit margins, low gearing and comfortable capital structure. In the last few years, the company has witnessed revenue growth and margin improvement aided by repeat orders from existing customers, new customer acquisition and favorable shift in product mix. Subsequent to raising funds through a QIP in FY2015, the company had witnessed decline in debt levels and capital structure and

improvement in coverage indicators. During FY2017, the improvement in the financial profile has continued and despite some increase in debt levels (mainly working capital debt), the gearing has remained healthy at 0.4x as on March 31, 2017 at consolidated level

Credit weaknesses

- **Moderate scale of operations, high competition and susceptibility of margin to raw material price movements:** The company has moderate scale of operations and faces high competition, which limits the pricing flexibility and exposes the company's margin to volatility in raw material prices, although ability to partially pass through the fluctuations in raw material costs mitigates the risk to some extent. Further increasing value addition and favorable shift in product/customer mix towards IML segment, where the company has competitive advantage partly moderates the risk.
- **High customer concentration**: Top five customers have accounted for 70-75% of total sales for several years. However, long term association with top customers, preferred vendor status and LOI for future orders from customers like Asian paints mitigates the risk. Further high credit profile of customers assures realization.
- **High Supplier Concentration:** Major portion of raw materials are procured from Reliance Industries Limited (RIL), exposing the company to risk of supply disruptions in case of force majeure events. However, the risk can be mitigated as the company can use imported raw materials or procure raw materials from alternate manufacturers to sustain operations.
- **Cyclicality in end user industries:** MPL's performance is exposed to the underlying cyclicality of end customer segments (such as lubes and paints). However, the growth outlook for these segments remains comfortable in the medium term.
- **High Capex plans**: Company has high capex plans in the medium term including setting up of two green field plants in Mysore and Vizag for catering to Asian Paints. Apart from that the company is also modernizing its existing facilities and expanding capacity for label production and food segment. The company plans to fund the same through internal resources, although it may debt fund part of the capex if required, which may put some pressure on capital structure and coverage indicators, although these are expected to remain at healthy levels
- **Moderately high working capital intensity:** The working capital intensity of the company remained moderately high during FY2017 with NWC/OI of 22.4%, although the same was lower compared to 26.6% in FY2016. The company maintains inventory of 30-45 days and extends credit period of 30-60 days to its customers. It makes advance payments to RIL but gets credit period of 30-40 days from other suppliers

Analytical approach:

Links to applicable criteria

Corporate Credit Rating Methodology

Company Profile

Mold-Tek Packaging Limited traces its origin to Mold-Tek Plastics Private Limited founded in 1985 by Mr. J Lakshmana Rao and A Subrahmanyam to manufacture rigid plastic packaging materials with units located in Andhra Pradesh. The company was listed in BSE in 1993. Subsequently, in 2000, the promoters also commenced outsourcing services for engineering to overseas clients in the USA and EU and the company was renamed as Mold-Tek Technologies Limited. Thereafter in 2008, the company underwent a restructuring process, post which two de-merged listed entities were formed - Mold-Tek Plastics Limited (MTPL), engaged in plastic packaging business and Mold-Tek Technologies Limited (MTTL), which is mainly engaged in offering KPO services for Engineering and Design, specializing in civil, structural and mechanical engineering. Subsequently Mold-tek Plastics Limited was renamed as Mold-tek Packaging Limited (the rated entity). The company has manufacturing facilities at seven locations in India, with combined capacity of 27000 MTPA and has also set up a plant in Ras-al-Khaimah in UAE with capacity of 3000 MTPA, which commenced operations during FY2017.

MPL 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 facilities 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 products and manufacture robots used for IML process.

In FY2017, on a consolidated basis incorporating RAK operations, company reported a profit after tax (PAT) of Rs. 24.3 crore on a total operating income of Rs. 309.3 crore. On standalone basis, company reported PAT of Rs 27 crore on total operating income of Rs. 308.7 crore as against a PAT of Rs. 24.1 crore on a total operating income of Rs. 275.8 crore in the previous financial year. During Q1 FY2018, on a standalone basis, company reported a PAT of Rs. 8.05 crore on a total operating income of Rs. 88.4 crore as against a PAT of Rs. 7.8 crore on a total operating income of Rs. 83.2 crore in the Q1 FY2017. In Q1 FY2018, on consolidated basis, Company has reported a PAT of Rs. 7.1 crore on an operating income of Rs. 89.9 crore.

Key Financial Indicators (KFIs)

	FY2016	FY2017	FY2017(consol)*
Operating Income (Rs. crore)	275.8	308.7	309.3
PAT (Rs. crore)	24.1	27.0	24.3
OPBDIT/ OI (%)	16.8%	16.7%	16.3%
RoCE (%)	25.6%	24.9%	22.7%
Total Debt/ TNW (times)	0.2	0.3	0.4
Total Debt/ OPBDIT (times)	0.6	0.8	1.1
Interest coverage (times)	47.3	28.7	26.1
NWC/ OI (%)	26.6%	22.4%	23%

**In FY2017, Company has started operations at RAK, UAE. Financial consolidates RAK plant operations*
OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					September 2017	Aug 2016	Feb 2016	May 2015
1	Term Loans	Long-Term	3.50	3.50	[ICRA]A (Stable)/ Upgraded	[ICRA]A- (Stable)/ Upgraded	[ICRA]BBB+ (Stable)/ Upgraded	[ICRA]BBB (Stable)/ Reaffirmed
2	Fund-based	Long-Term	70.00	70.00	[ICRA]A (Stable)/ Upgraded	[ICRA]A- (Stable)/ Upgraded	[ICRA]BBB+ (Stable)/ Upgraded	[ICRA]BBB (Stable)/ Reaffirmed
3	Non-fund based	Short-term	1.00	1.00	[ICRA]A1/ Upgraded	[ICRA]A2+/ Reaffirmed	[ICRA]A2+/ Upgraded	[ICRA]A2/ Reaffirmed
	Unallocated Limits	Long-term/ Short-Term	2.50	2.50	[ICRA]A (Stable)/ [ICRA]A1 Upgraded	[ICRA]A- (Stable)/ [ICRA]A2+ Reaffirmed	[ICRA]BBB+ (Stable)/ [ICRA]A2+ Upgraded	[ICRA]BBB (Stable)/ [ICRA]A2 Reaffirmed

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term Loans	FY2013	-	FY2018	3.50	[ICRA]A(Stable)
Fund-based (Cash Credit)	-	-	-	70.00	[ICRA]A(Stable)
Non-fund based (Bank Guarantee)	-	-	-	1.00	[ICRA]A1
Unallocated Limits (Cash Credit)	-	-	-	2.50	[ICRA]A(stable)/ [ICRA]A1

Source: the company

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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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