Mold-Tek Packaging Limited

September 24, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, term loans	3.50	0.00	-
Long-term, Fund based	70.00	70.00	[ICRA]A (Stable); Reaffirmed
Short-term, Non-fund based Limits	1.00	1.00	[ICRA]A1; Reaffirmed
Long-term/Short-term, Unallocated Limits	2.50	26.00	[ICRA]A (Stable)/[ICRA]A1; Reaffirmed
Total	**77.00**	**97.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed a long-term rating of [ICRA]A (pronounced ICRA A) to the Rs. 70.0-crore[1] fund-based facilities of Mold-Tek Packaging Limited (MPL or the company)[2]. ICRA has also reaffirmed a short-term rating of [ICRA]A1 (pronounced ICRA A one) to the Rs. 1.0-crore non-fund based bank facilities of MPL. ICRA has also reaffirmed long-term and short-term ratings of [ICRA]A and [ICRA]A1, respectively to the Rs. 26.00-crore unallocated facilities (revised from Rs. 2.50 crore) of MPL. The outlook on the long-term rating is Stable.

Rationale

The ratings favourably consider the company's healthy financial profile, supported by continued revenue growth from new customer acquisitions and orders from the existing customers, with a favourable shift in product/customer mix towards higher-margin segments, leading to an improvement in margin. The ratings favourably consider MPL's established position in the plastic pail packaging segment with nearly three decades of operations. ICRA also takes note of 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 conducive industry prospects with increasing use of pails (especially in mould label (IML) products) by food, paint, lube and FMCG sectors.

The ratings also draw comfort from the company's healthy capital structure and coverage indicators, although there has been some increase in gearing in the last two years due to its large capital expenditure, which was mainly funded through internal accruals and has led to an increase in its working capital debt requirements. Going forward, MPL is likely to incur high capex in the near term as it is setting up two greenfield plants in Mysore and Vizag (expected to be operational in Q3 and Q4 FY2019 respectively) and adding capacities at the existing location, which will be partly funded through debt (~Rs. 10.0 crore). It may incur additional capex in the medium term for expansion/new facilities depending on the business prospects and while MPL plans to use internal accruals for capex, it may go for some debt funding if required. This might put some pressure on capital structure and coverage indicators. Nonetheless the same are expected to remain at healthy levels. ICRA also takes note of the slower-than-expected ramp up of operations in Ras-al-Khaimah (RAK) unit. Improvement in scale of operations and achieving break even remains a key monitorable.

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[1] *100 lakh = 1 crore = 10 million*

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

The ratings are, however, constrained by the company's moderately high working capital intensity and limited pricing flexibility owing to stiff competition. However, its pricing terms with major customers allows for partial pass through of change in raw material costs. Further, the risk is mitigated to some extent due to the increasing share of value added products. MPL faces high customer concentration with the top five customers accounting for 65-70% of the sales, although the long-term association with customers and letter of intent (LoI) for future orders moderates the risk. The company is also dependent on a single supplier -Reliance Industries Limited (RIL) for a major portion of its key raw materials, and is thus exposed to supply disruption risks in case of force majeure events, though MPL can sustain operations with imported raw materials. It can also procure raw materials from alternate domestic manufacturers, albeit at higher prices. MPL's performance is also susceptible to the underlying cyclicality of end-customer segments (such as lubes and paint), while the favourable medium-term outlook for these industry segments partly mitigates the risk.

Outlook: Stable

ICRA believes MPL will continue to benefit from the extensive experience of its promoters and the extensive track record in plastic pail packaging industry and advantages of backward integration/in-house technical capabilities of IML products. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to Negative if cash accruals are lower than expected, or higher-than-expected debt-funded capital expenditure, or a stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of promoters in the 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.

Strong customer base - MPL enjoys a reputed customer profile with 'preferred vendor' status from marquee customers in the paint and lube segment, which ensures repeat orders and assured realisations. The company has received LoI for catering to new capacities of key customers and has been undertaking capacity enhancement. Further, it has added several new customers in the last few years in the food and FMCG segment.

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 in packaging like IML and investing in R&D to develop in-house capabilities to implement them at a lower cost (mould design and manufacturing and development of IML robots), which is provides competitive advantage. It also provides other labelling options like heat transfer labelling (HTL), screen printing and shrink sleeve etc. Further, MPL also has a 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 has continued to witness a favourable shift in its product mix in FY2018, with revenue contribution from higher-margin segments like IML food and IML non-food segments accounting for 18% and 40%, respectively compared to 6% and 43% in FY2017, while the remaining sales were driven by traditional non-IML products. The receipt of a large order from Mondelez in FY2018 resulted in an increase in the share of the higher-margin IML food segment in FY2018. In the current fiscal, it has received orders from the edible oil/ghee segments and is also in talks with several new food/FMCG customer segments, which will provide further diversification benefits. The advantageous trend of increased usage of IML products by new customer segments will also aid in revenue and margin growth for MPL in the medium term. MPL had commenced operations in RAK (UAE) in FY2017, which is likely to provide diversification benefits. However, the ramp up in operations has been slower than expected at RAK. Improvement in sales and achieving break even remains a key monitorable.

Healthy financial profile - The company has a strong financial profile characterised by healthy profit margins, low gearing and comfortable coverage indicators. In the last few years, it has witnessed revenue growth and margin improvement aided by repeat orders from the existing customers, new customer acquisition in food segments and favourable shift in product mix towards the higher-margin IML segment. Subsequent to raising funds through a QIP in FY2015, MPL witnessed a decline in debt levels and gearing with an improvement in its coverage indicators. However, in the last two years, due to the high capex incurred, there has been an increase in working capital borrowing leading to a rise in gearing to 0.6 times as on March 31, 2018 from 0.4 times as on March 31, 2017 and 0.2 times as on March 31, 2016. With high capex plans in the near term, which may be partly debt funded, there may be some pressure on its capital structure, but they are likely to remain at healthy levels.

Credit challenges

Moderate scale of operations, stiff competition and susceptibility of margin to raw material price movements - The company has 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 partially pass through the fluctuations in raw material costs mitigates the risk to some extent. Further increasing value addition and favourable shift in product/customer mix towards the IML segment, where the company has competitive advantage, partly moderates the risk. It is also enhancing its capacity by 9000 MT in the current fiscal at two new greenfield facilities at Mysore and Vizag plants, which will exclusively cater to Asian Paints.

High customer concentration - The top five customers have accounted for 65%-75% of the total sales for several years. However, long-term association with the top customers, preferred vendor status and LoI for future orders from customers like Asian Paints mitigates the risk. Further, the high credit profile of its customers assures realisation.

High supplier concentration - Major portion of raw materials are procured from RIL, exposing the company to the risk of supply disruptions in case of force majeure events. However, the risk can be mitigated as MPL 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.

Increase in working capital intensity - The company's working capital intensity increased in FY2018 with a NWC/OI of 34.4%, compared to 25.9% in FY2017. The rise in working capital intensity was driven by the higher credit period extended to some of the new customers and higher inventory maintained during the year end to avail discounts on raw material procurement. In the preceding three years, the working capital intensity had been moderately high in the range of 20% -25%.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

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 it was renamed as Mold-Tek Technologies Limited. Thereafter in 2008, the company underwent a re-structuring process, post which two de-merged listed entities were formed - Mold-Tek Plastics Limited (MTPL) deals in plastic packaging business and Mold-Tek Technologies Limited (MTTL), which is mainly involved in offering KPO services for engineering and design, specialising 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 a combined capacity of 27,000 MTPA and has also set up a plant in Ras-al-Khaimah in the UAE with a capacity of 3000 MTPA, which commenced operations in 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 develop the packaging product and apply different kind of labels. It also has in-house facilities to design and manufacture moulds, labels for IML products and manufacture robots used for IML process.

In FY2018, at the consolidated level, the company reported a net profit of Rs. 27.9 crore on an operating income (OI) of Rs. 346.8 crore, as compared to a net profit of Rs. 24.2 crore on an OI of Rs. 301.4 crore in the previous year.

Key financial indicators (audited)

	FY2017*	FY2018*
Operating Income (Rs. crore)	301.4	346.8
PAT (Rs. crore)	24.2	27.9
OPBDIT/OI (%)	16.7%	17.7%
RoCE (%)	22.8%	20.9%
Total Debt/TNW (times)	0.4	0.6
Total Debt/OPBDIT (times)	1.1	1.6
Interest Coverage (times)	20.7	13.3

**Consolidated financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs.crore)	Date &Rating Sept 2018	Date & Rating in FY2018 Sept 2017	Date & Rating in FY2017 Sep 2016	Date & Rating in FY2016 Feb 2016
1	Term Loans	Long Term	-	-	**-**	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2	Fund-based	Long Term	70.00	70.00	**[ICRA]A (Stable)**	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
3	Non-fund based	Short Term	1.00	1.00	**[ICRA]A1**	[ICRA]A1	[ICRA]A2+	[ICRA]A2
4	Unallocated	Long Term/ Short Term	26.00	26.00	**[ICRA]A (Stable)/ [ICRA]A1**	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	70.00	[ICRA]A (Stable)
NA	Non-fund based	NA	NA	-	1.00	[ICRA]A1
NA	Short-term/Long-term Unallocated limits	NA	NA	-	26.00	[ICRA]A (stable) / [ICRA]A1

Source: MPL

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About ICRA Limited:

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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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