

August 16, 2024

## MOLD-TEK Packaging Limited: Ratings reaffirmed; Rated amount enhanced

### 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	95.00	[ICRA]A+ (Stable); Reaffirmed and assigned for enhanced amount
Long-term – Fund-based – Term Loan	25.12	53.46	[ICRA]A+ (Stable); Reaffirmed and assigned for enhanced amount
Long-term – Unallocated Limits	9.88	0.54	[ICRA]A+ (Stable); Reaffirmed
Short-term – Non-fund based Limits	1.00	11.00	[ICRA]A1; Reaffirmed and assigned for enhanced amount
<b>Total</b>	<b>126.00</b>	<b>160.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings consider ICRA's expectation that Mold-TEK Packaging Limited's (Mold-Tek) credit profile would be supported by healthy revenue growth, owing to increased capacity and demand from its customers, and margin resulting in improved earnings and cash flows. In FY2024, the company's revenues declined by 4.3% due to a contraction in realisations amid the softening raw material costs and lower sales volumes in the paints segment, owing to production disruptions at one of its key customer's manufacturing units.

However, the company commenced its supply to Grasim Industries Limited (Grasim) in Q1 FY2025 from its newly commissioned units in Panipat and Cheyyar, which is expected to support volume growth in the paints division in FY2025. Besides, healthy demand from foods and lubricant segments is expected to aid 10-15% revenue growth for the company in FY2025. Additionally, a new plant at Sultanpur, Telangana, commenced operations in Q1 FY2025, catering to the pharmaceutical and food divisions. However, revenues from the pharma segment are expected to remain lower during the initial years and ramp-up gradually, given the long lead times for quality checks and audit closures.

Operating margins are expected to remain healthy at 17-20% despite some pressure on margins in H1 FY2025 on account of overheads for the new units. The company is expected to incur capex of ~Rs. 80-110.0 crore in FY2025 for capacity expansion and regular maintenance, which is expected to be funded through term loans and internal accruals. Despite the planned debt-funded capex, the company's debt profile is expected to remain comfortable. The ratings derive comfort from the company's established presence in the plastic pail packaging segment and the promoters' experience of nearly three decades within 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), further support the ratings.

The ratings are, however, constrained by the company's high customer concentration, with the top 10 customers accounting for ~65% of its revenues. Nevertheless, long-term associations with customers moderate the risk. The ratings also consider stiff competition in the industry, limiting the company's pricing flexibility. However, its pricing terms with major customers allow for a pass-through of changes in raw material costs, although with a time lag ranging from a month to a quarter. The company is dependent on a single supplier, Reliance Industries Limited (RIL), for a major portion of its key raw material requirements and is exposed to supply disruption risks in case of force majeure events. Nonetheless, Mold-Tek 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 Mold-Tek will maintain a healthy credit profile as its technical capabilities and strong relationships with key customers, along with capacity additions, 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, lubricant, Food and FMCG industries, where it has developed established relationships with marquee customers, facilitating repeat orders.

**Healthy financial profile** – The company's financial profile is healthy, marked by strong profitability, low leverage and comfortable coverage indicators. As on March 31, 2024, Mold-Tek's capital structure remained comfortable with a gearing of 0.2 times. The coverage indicators also remained healthy, with a debt service coverage ratio (DSCR) of 6.0 times and an interest coverage ratio (ICR) of 17.8 times (34.2 times in FY2023) in FY2024. Although the company's debt-funded capex plans of ~Rs. 80 -110.0 crore for FY2025 are expected to marginally moderate its debt metrics, which are projected to remain comfortable owing to healthy accrual generation.

**Reputed customer base** – Mold-Tek enjoys established relationships with marquee customers across the paints, lubricant, and food segments, which ensures repeat orders. The company is also engaging with major pharmaceutical players in India, which will support its revenue growth over the medium term.

**Diversification into new product/customer segments** – The company has a presence across the paints, lubes, and food and FMCG segments. The paints segment accounts for the majority of the company's revenues (47% of the revenues in Q1 FY2025, 43% in FY2024), followed by food and FMCG (F&F) (including Q-packs) (27% in Q1 FY2025 and 32% in FY2024) and lubricants. Going forward, the company is also likely to benefit from the increased usage of IML products by new customer segments in the medium term. Increased sales volumes to Grasim in the paints division along with, the ramp-up in volumes from the pharmaceutical division and addition of customers in the F&F division are expected to support the diversification of MoldTek's 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. It has also invested in R&D to develop in-house capabilities and facilitate cost-efficient operations (mould design and manufacturing, and development of IML robots). Mold-Tek also offers other labelling options such as heat transfer labelling (HTL), screen printing and shrink sleeve. Further, the company has a history of product innovations such as the development of tamper-proof 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 encounters intense competition, limiting the pricing flexibility and exposing its margin to raw material price volatility. However, the company's ability to pass on 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 10 customers account for ~65% of the company's revenues. However, strong credit profile and long-term associations with its major customers such as Asian Paints Ltd, Gulf Oil Lubricants Ltd, Grasim Industries Limited, Castrol mitigate this risk to an extent. Moreover, Mold-Tek involves its customers in product development operations and enjoys a significant wallet share with some of its major customers, mitigating the concentration risk to some extent.

**High supplier concentration** – As most 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 the company imports raw materials or procures the materials from other manufacturers to sustain operations.

**Moderate working capital intensity** – The receivable cycle is long (90-100 days) in the paints segment, which accounted for more than 40% of the company’s revenues over the past two years. This has resulted in moderate working capital intensity. However, the working capital intensity is expected to reduce going forward. This is owing to the anticipated higher proportion of sales from the F&F and pharma segments, which generally have lower receivable periods.

## 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. These laws govern discharges to air, soil and water, the handling and disposal of hazardous substances, and the investigation and remediation of contamination from the release of hazardous substances. Mold-Tek manufactures several products that 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 reused. There may be an increasing emphasis on recyclability and manufacturing plastic products from more biodegradable substrates. The company needs to continue focusing 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 derivative products as well as heavy equipment, which could cause casualties/ accidents to the workforce if there are any gaps in safety practices. The necessity of responsible operations is high since accidents/ non-compliance with environmental norms can adversely impact the local community, leading to 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** with anticipated retained cash flows of Rs. 75-95.0 crore in FY2025 and a buffer of ~Rs. 10.0 crore in its working capital limits as on June 30, 2024, against repayment obligations of ~Rs. 6-10.0 crore in FY2025. The company is expected to incur a capex of Rs. 80-110.0 crore in FY2025, which will be partly funded through debt and internal accruals.

## 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 along with improvement in the liquidity profile.

**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 a stretch in the working capital cycle or higher-than-expected debt-funded capex, weakening the liquidity profile. Specific triggers that may lead to a downgrade include TD/OPBITDA of more than 1.5 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on standalone financial statements of the company

## About the company

Mold-Tek Packaging Limited (MPL) 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. In 2000, the promoters also commenced outsourcing engineering services to clients in US and EU, and the company's name was changed to Mold-tek Technologies Limited.

Subsequently, Mold-Tek Plastics Limited was renamed as Mold-Tek Packaging Limited (Mold-Tek) (the rated entity). Mold-Tek is involved in the manufacturing of injection-moulded decorative packaging containers, mainly pails (cylindrical containers), for paint, lubricant, food and other products. The company has an integrated manufacturing facility for product packaging and labelling operations. It also commenced commercial production of plastic products for the pharmaceutical industry in June 2024. The company has in-house facilities for mould design and manufacturing, including labels for IML products and the robots used for the IML process. Mold-Tek has manufacturing facilities at 11 locations in India, with a combined capacity of over 50,000 MTPA. The company has received the 'Great Place to Work' certificate in July 2024.

## Key financial indicators (audited)

Standalone	FY2023	FY2024	Q1 FY2025*
Operating income	729.9	698.6	196.7
PAT	80.4	66.6	16.5
OPBDIT/OI	18.6%	19.1%	18.2%
PAT/OI	11.0%	9.5%	8.4%
Total outside liabilities/Tangible net worth (times)	0.2	0.4	-
Total debt/OPBDIT (times)	0.3	0.9	-
Interest coverage (times)	34.2	17.8	12.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; \* Unaudited Numbers

## Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

Instruments	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	August 16, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund-based – Cash Credit	Long Term	95.00	[ICRA]A+ (Stable)	May 29, 2023	[ICRA]A+ (Stable)	May 30, 2022	[ICRA]A+ (Stable)	-	-
Fund-based – Term Loan	Long Term	53.46	[ICRA]A+ (Stable)	May 29, 2023	[ICRA]A+ (Stable)	May 30, 2022	[ICRA]A+ (Stable)	-	-
Unallocated Limits	Long Term	0.54	[ICRA]A+ (Stable)	May 29, 2023	[ICRA]A+ (Stable)	May 30, 2022	[ICRA]A+ (Stable)	-	-
Non-fund based Limits	Short Term	11.00	[ICRA]A1	May 29, 2023	[ICRA]A1	May 30, 2022	[ICRA]A1	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Long-term – Fund-based – Term loan	Simple
Long-term – Unallocated Limits	Not Applicable
Short-term – Non-fund based Limits	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	Fund based – Cash Credit	NA	NA	NA	95.00	[ICRA]A+ (Stable)
NA	Fund based – Term Loans	FY2020	NA	FY2030	53.46	[ICRA]A+ (Stable)
NA	Unallocated Limits	NA	NA	NA	0.54	[ICRA]A+ (Stable)
NA	Non-fund based Limits	NA	NA	NA	11.00	[ICRA]A1

Source: Company

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**Annexure II: List of entities considered for consolidated analysis – Not Applicable.**

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