February 15, 2021

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	85.00	85.00	[ICRA]A (Stable); Reaffirmed
Long-term Term Loans	40.00	28.83	[ICRA]A (Stable); Reaffirmed
Long-term Unallocated	0.00	11.17	[ICRA]A (Stable); Reaffirmed
Short-term Non-fund based Limits	1.00	1.00	[ICRA]A1; Reaffirmed
Total	**126.00**	**126.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings favourably consider MOLD-TEK Packaging Limited's (MPL's / the company) healthy financial profile, supported by new customer acquisitions, established relationship with existing marquee customers and favourable shift in product/customer mix towards higher-margin segments. MPL is an established player in the plastic pail packaging segment, with nearly three decades of operations, and enjoys a 'preferred vendor' status from marquee customers, which ensures repeat orders. Its track record of new technology adoption and development of in-house technical capabilities to cater to the increasing demand for pails (especially in mould label (IML) products) from the food, paint, lube and FMCG sectors, is another credit strength and has enabled the company to withstand the adverse impact of the Covid-19 pandemic. Though the pandemic-induced slowdown affected the revenue and margin in Q1FY2021, both witnessed sharp recovery in subsequent quarters, resulting in healthy financial performance in 9MFY2021. Going forward, the financial performance is also expected to improve, aided by ramp up at Vizag and Mysore plants.

The ratings also draw comfort from the company's healthy capital structure and coverage indicators, despite some increase in the gearing in recent years due to capital expenditure (capex). The company funded the capex through internal accruals and partial debt funding, which in turn led to high utilisation of working capital debt. Although MPL is expected to incur moderately high capex over the next few years, the anticipated growth in cash flows from operations and funds raised through rights issue are likely to moderate the working capital debt utilisation levels.

The ratings are, however, constrained by the company's moderately high working capital intensity and the limited pricing flexibility owing to stiff industry competition. However, its pricing terms with major customers allow for partial pass-through of changes in raw material costs. Further, the challenges are mitigated to some extent by 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 the letter of intent (LoI) for future orders moderate the risk. 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, MPL can sustain operations with imported raw materials or procure raw materials from alternate domestic manufacturers, albeit at higher prices. The company's performance is also susceptible to the underlying cyclicality of end-customer segments (such as lubes and paint), although the favourable medium-term outlook for these industry segments partly mitigates the risk.

ICRA notes the company's decision to raise Rs 71.30 crore through rights issue was concluded on November 11, 2020. The company has raised Rs 17.83 crore (25% of the total rights issue amount) and the remaining Rs. 53.47 crore (75% of the total rights issue amount) will be raised consecutively through one or more subsequent call(s) as determined by the Rights Committee. The proceedings from the rights issue of Rs 52.83 crore will be used to reduce the working capital borrowings and the remaining Rs. 17.61 crore will be for general corporate purposes.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that MPL will continue to benefit from the extensive experience of its promoters and its long-standing track record in plastic pail packaging industry. The company also benefits from the backward integration/in-house technical capabilities of IML products.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters 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.

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 undertaken large capacity enhancement in the recent years. Further, it has added several new customers in the last few years in the food and FMCG segment and is looking at several new customers in the same segment, which if converted, will lead to further diversification and improvement in profitability as these products enjoy better margins.

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 such as IML 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 to acquire customers.

Diversification into new product/customer segments - The company continues to witness a favourable shift in its product mix in FY2020, with revenue contribution from higher-margin segments such as IML food and IML non-food segments accounting for 23% and 43% of sales. The remaining sales were driven by traditional non-IML products. The growth in the IML food segment was mainly driven by orders from the edible oil/ghee segments, although there are other segments, such as sweet packs, which were added in the current fiscal due to focus on hygienic packaging. Further, some of the new products launched in the current fiscal such as dispending pumps (used for hand santisers and other FMCG products) and 'QR code printed IML' are also expected to aid revenue growth. The company is likely to benefit from the increased usage of IML products by new customer segments in the medium term. MPL's new plants at Vizag and Mysore have witnessed ramp up in capacity utilisation in the current fiscal and the management will be undertaking additional capacity expansion at those facilities. The company is also planning to add some capacities in Kanpur to cater to the new paint segment customer.

Healthy financial profile - The company's strong financial profile is characterised by healthy profit margins, low gearing and comfortable coverage indicators. In the last few years, it 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. While the company witnessed revenue growth of 8.0% in FY2020, it witnessed 4.2% decline in 9MFY2021 mainly because the Covid-19 pandemic and the resultant containment measures led to a sharp contraction in Q1FY2021; however, the impact was mitigated by recovery in subsequent two quarters. The profit margin continued to witness improvement in FY2020 and 9MFY2021, despite the impact of Covid-19.

While the capital structure and coverage indicators remained healthy, the gearing has witnessed some increase in recent years due to high capex, which was funded with internal accruals and partial debt funding, leading to higher utilisation of working capital debt. Going forward, while the company has moderately high capex plans for the next few years, the expected improvement in cash accruals and funds raised through rights issue are expected to moderate the working capital debt utilisation.

Credit challenges

Moderate scale of operations, 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 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.

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 such as Asian Paints mitigate the risk. Further, the high credit profile of its customers assures realisation.

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 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.

Moderately high working capital intensity - The company's working capital is moderately high, with NWC/OI in the range of 25-35% during FY2016 to FY2019; however, in FY2020 the working capital intensity moderated to 21.6%, as the company's efforts to improve collection period moderated the receivable days.

Liquidity position: Adequate

The company witnessed positive fund flow from operations (consolidated operations) in the last few years (Rs. 54.4 crore in FY2020). However, the moderate capex in FY2020 and H1FY2021 constrained the free cash flows, increasing the working capital debt utilisation in the last 12-month period ending December 2020. While the company has repayment obligations of Rs. 11.0 crore and Rs. 9.1 crore in FY2021 and FY2022, respectively, the capex is expected at Rs. 30.0 crore per annum in FY2021 and FY2022. The liquidity profile is, however, expected to be adequate on the back of steady cash flow from operations and funds of Rs. 17.83 crore raised in the current fiscal through rights issue. Going forward, with additional funds of Rs. 53.47 crore to be raised through rights issue, the liquidity profile is expected to improve.

Rating sensitivities

Positive factors – Healthy growth in revenues and profitability on a sustained basis, supported by new customer addition and favourable product diversification, while the company ensures healthy working capital intensity and healthy capital. Further, completion of planned funds raised through rights issue, leading to sustained moderation in working capital limits utilisation and improvement in liquidity profile could result in upward revision in ratings.

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.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Rating is based on consolidated financial statement of MPL

About the company

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. Subsequently, in 2000, the promoters commenced outsourcing services for engineering to overseas clients in the US and the EU and it was renamed as Mold-Tek Technologies Limited. Thereafter, in 2008, the company underwent a restructuring process, post which two demerged listed entities were formed – Mold-Tek Plastics Limited (MTPL) that deals in plastic packaging business and Mold-Tek Technologies Limited (MTTL) that 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 nine locations in India, with a combined capacity of 38,732 MTPA as on March 31, 2020. The company also set up a plant in Ras-al-Khaimah in the UAE with a capacity of 3,000 MTPA under a subsidiary in FY2017. However, the unit's operation was closed in Q4 FY2019 with only legal presence being maintained.

MPL manufactures injection-molded 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 FY2020, at the consolidated level, the company reported a net profit of Rs. 37.4 crore on an operating income (OI) of Rs. 438.2 crore compared to a net profit of Rs. 31.9 crore on an OI of Rs. 405.7 crore in the previous year.

Key financial indicators (audited)

MPL Consolidated	FY2019	FY2020	9M FY2021*
Operating Income (Rs. crore)	405.7	438.2	317.9
PAT (Rs. crore)	31.9	37.4	29.9
OPBDIT/OI (%)	17.4	17.6	19.7
PAT/OI (%)	7.9	8.5	9.4
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.8	-
Total Debt/OPBDIT (times)	1.6	1.5	-
Interest Coverage (times)	9.2	7.4	8.8

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; * Provisional numbers*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Rating	FY2020	FY2019		FY2018
					Feb 15, 2021	Jan 07, 2020 Dec 30, 2019	Oct 25, 2018	Sep 24, 2018	Sep 18, 2017
1	Fund Based	Long Term	85.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Term Loans	Long Term	28.83	28.83	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-
3	Non Fund Based	Short Term	1.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Unallocated	Long Term/ Short Term	-	-	-	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1
5	Unallocated	Long Term	11.17	-	[ICRA]A (Stable)	-	-	-	-

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 click here

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	85.00	[ICRA]A(stable)
NA	Term Loan-I	FY2019	8.70%	FY2022	3.33	[ICRA]A(stable)
NA	Term Loan-II	FY2019	8.70%	FY2024	7.77	[ICRA]A(stable)
NA	Term Loan-III	FY2020	7.50%	FY2025	17.73	[ICRA]A(stable)
NA	Unallocated	NA	NA	NA	11.17	[ICRA]A(stable)
NA	Non-Fund Based	NA	NA	NA	1.00	[ICRA]A1

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Mold-Tek Packaging FZE	100.00%	Full Consolidation

Source: *MPL annual report FY2020*

Note: *ICRA has taken a consolidated view of the parent (MPL), its subsidiaries and associates while assigning the ratings.*

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