May 30, 2022

MOLD-TEK Packaging Limited: Long-term ratings upgraded; Short-term 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	85.00	90.00	Upgraded to [ICRA]A+(Stable) from [ICRA]A(Stable)
Long-term – Term Loans	28.83	34.44	Upgraded to [ICRA]A+(Stable) from [ICRA]A(Stable)
Long-term - Unallocated	11.17	0.56	Upgraded to [ICRA]A+(Stable) from [ICRA]A(Stable)
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 rating action factors in the improvement in credit profile of MOLD-TEK Packaging Limited (Moldtek) on the back of healthy scale-up of operations and significant equity infusion. The company is expected to record healthy volume growth of 12-15% in FY2023 on the back of recovery in demand in food and FMCG segment and higher order inflow in paints and lubes segment. Revenue growth remained healthy in FY2022 as well on the back of healthy growth in volumes and realisations. Periodic capacity additions and established relationships with its reputed customers in the paints, lubricants (lubes), and food and FMCG segment has supported the company's growth over the years. Moreover, the company has raised over Rs. 170 crore since FY2021 through rights issue and a QIP which would be utilised to fund its planned capex in the pharma segment and meet working capital requirements. Over the medium term, stable growth of existing segments and ramp-up in pharma division is expected to support growth prospects.

The ratings draw further comfort from Moldtek being an established player 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 also has a track record of diversifying its product base through addition of new products within existing segments and entry into new segments like sanitizer pumps. It is also developing capacities to enter into the pharma segment. In addition, Moldtek's financial profile remains strong with comfortable capital structure and coverage metrics.

The ratings are, however, constrained by the company's moderately high working capital intensity and the limited pricing flexibility owing to stiff competition in the industry. 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. Given the significant increase in input costs over the past few months, the company's ability to pass on these increased costs to customers remains crucial for it to maintain its margins. MPL also faces high customer concentration, with the top 10 customers accounting for over 70% of its revenues, although long-term associations with customers moderates 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, 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. 631.5 crore in FY2022 from Rs. 346.9 crore in FY2018. The company's financial profile is healthy marked by healthy profitability, low leverage, and comfortable coverage indicators. Its coverage indicators including DSCR and ICR have improved in FY2022 to 5.5 times and 13.0 times, respectively, from 3.8 and 9.5 times, respectively in FY2021 with improvement in earnings and paring down of working capital debt. Similarly, capital structure has also shown sequential improvement from FY2020 with infusion of over Rs. 170 crore through rights issue and QIP in FY2021, FY2022, and Q1 FY2023. Capital structure is expected to remain comfortable in the medium term with company funding capex through equity infusion and accruals

Reputed customer base - Moldtek enjoys long-standing relationships with marquee customers across the paints, lubes, and food segments which ensures repeat orders. Moldtek is able to pass on raw material costs on a monthly basis for some of its customers and on a quarterly basis for the others which enables it to recover any increase in raw material costs although with a time lag.

Diversification into new product/customer segments – The company is present in the paints, lubes, and food and FMCG segments out of which the paints segment contributes 55% to its revenues. New products launched in last two years such as dispending pumps (used for hand santisers and other FMCG products) and 'QR code printed IML' are expected to aid revenue growth. 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 would help in further 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 to 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 over 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.

Moderately high working capital intensity - The company's working capital intensity (NWC/OI) increased to 31.8% in FY2022 from 25.3% in FY2021 on account of the sharp increase in realizations in February and March 2022 because of significant increase in raw material prices which has resulted in a high receivable balance at year-end.

Liquidity position: Adequate

Liquidity is expected to remain adequate. The company has free cash balance of Rs. 4.1 crore, and undrawn working capital limits of ~Rs. 85 crore as on March 31, 2022. It is expected to generate retained cash flows of Rs. 40-50 crore in FY2023. The company has raised Rs. 24 crore equity since April 2022 through conversion of warrants. As against these means of funding, Moldtek has repayment obligations of Rs. 10.4 crore and capex plans of Rs. 80-100 crore in FY2023.

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 consolidated financial statements of the company

About the company

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 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)

Consolidated	FY2021	FY2022
Operating Income (Rs. crore)	478.9	631.5
PAT (Rs. crore)	48.0	63.7
OPBDIT/OI (%)	19.8%	19.2%
PAT/OI (%)	10.0%	10.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.3
Total Debt/OPBDIT (times)	1.1	0.4
Interest Coverage (times)	9.5	13.0

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of May 25, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 30, 2022	-	Feb 15, 2021	Jan 07, 2020
1	Fund Based – Cash Credit	Long-term	90.00	5.2*	[ICRA]A+ (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Term Loans	Long-term	34.44	34.44	[ICRA]A+ (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Unallocated	Long-term	0.56	-	[ICRA]A+ (Stable)	-	[ICRA]A (Stable)	-
4	Non-Fund Based	Short-Term	1.0	1.0	[ICRA]A1	-	[ICRA]A1	[ICRA]A1

*As on March 31, 2022

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 analyzing 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, is available on ICRA's 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	Term Loan 1	FY2019		FY2024	4.44	[ICRA]A+ (Stable)
NA	Term Loan 2	FY2020		FY2026	10.00	[ICRA]A+ (Stable)
NA	Term Loan 3	FY2022		FY2027	15.00	[ICRA]A+ (Stable)
NA	Term Loan 4	FY2022		FY2027	5.00	[ICRA]A+ (Stable)
NA	Cash Credit				90.00	[ICRA]A+ (Stable)
NA	Long-Term Unallocated				0.56	[ICRA]A+ (Stable)
NA	Short term – Non-Fund Based				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

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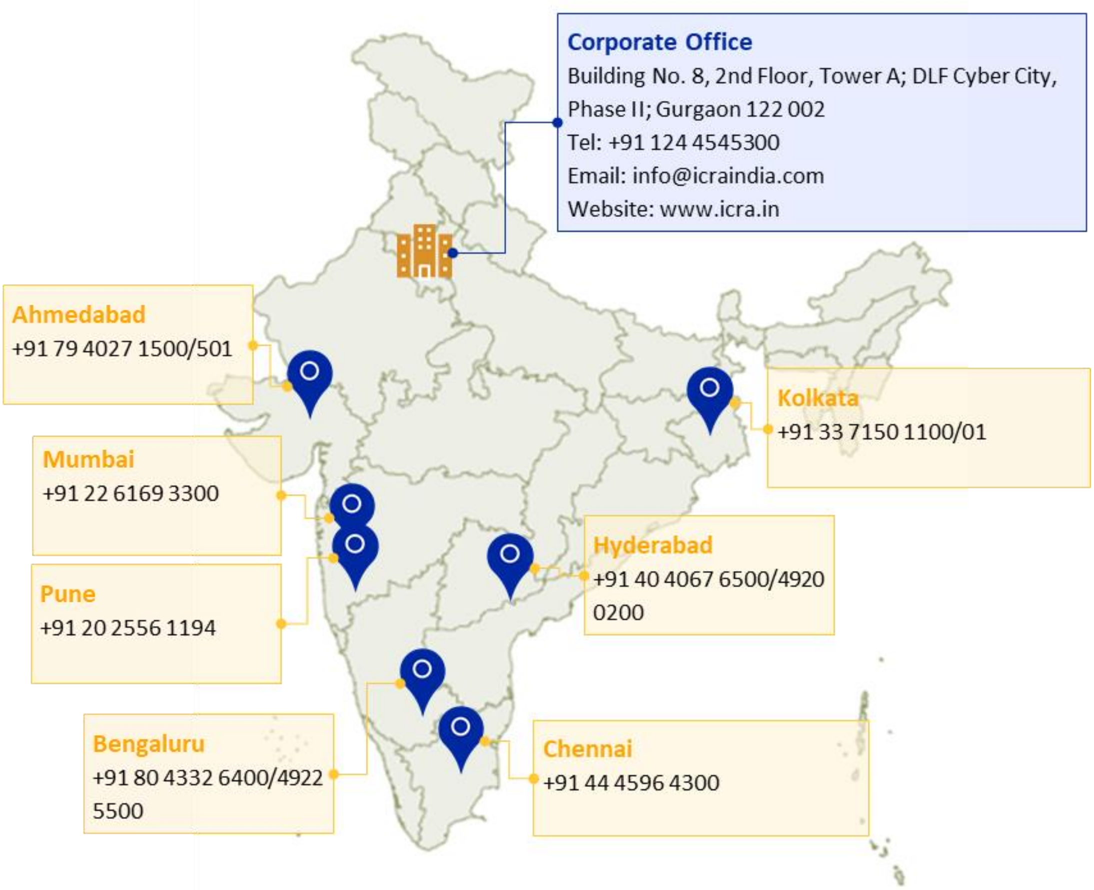

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