January 07, 2020

# 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 | 80.00 | 85.00 | [ICRA]A (Stable); Reaffirmed |
| Long-term, Term Loans | 0.00 | 40.00 | [ICRA]A (Stable); Reaffirmed |
| Short-term, Non-fund based Limits | 1.00 | 1.00 | [ICRA]A1; Reaffirmed |
| Long-term/Short-term, Unallocated Limits | 16.00 | 0.00 | - |
| **Total** | **97.00** | **126.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

The ratings favourably consider MOLD-TEK Packaging Limited's (MPL) healthy financial profile, supported by continued revenue growth from new customer acquisitions. The company's financial profile is also supported by orders from the existing customers, given a favourable shift in product/customer mix towards higher-margin segments, leading to sustained healthy 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 that results in repeat orders. Its 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 is another credit strength. The ratings also draw comfort from the company's healthy capital structure and coverage indicators despite an increase in gearing in the last three years as it incurred large capital expenditure (capex). The company mainly funded the capex through internal accruals and partial debt funding, which in turn led to an increase in working capital debt requirements. However, going forward, MPL's capex levels are expected to be lower than FY2019, which coupled with the anticipated growth in cash flows from operations and some improvement in collection process is likely to result in some moderation in working capital debt utilisation levels.

ICRA also takes note of the slower-than-expected ramp up of operations in the Ras-al-Khaimah (RAK) unit, due to which the company has closed the operations and transferred the assets to domestic manufacturing facilities. While this has led to some impairment recognition in FY2019, the same is expected to result in improved margins going forward as the drag from RAK operations will no longer be there. Further, while the operations at the new plants in Vizag and Mysore have started since Q1 FY2020, these are in ramp up phase and the improvement in capacity utilisation at the new facilities remains a key monitorable. 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, i.e. 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. Nonetheless, MPL can sustain operations with imported raw materials. It can also 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), while the favourable medium-term outlook for these industry segments partly mitigates the risk.

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 the extensive track record in plastic pail packaging industry and advantages of 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 like 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), which is provides competitive advantage. It also provides other labelling options like heat transfer labelling (HTL), screen printing and shrink sleeve, etc. Further, MPL has a history of product innovations such as development of tamperproof 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 FY2019 and in H1 FY2020, with revenue contribution from higher-margin segments like IML food and IML non-food segments accounting for 20% and 43%, respectively compared to 18% and 40%, respectively in FY2018. The remaining sales were driven by traditional non-IML products. The growth in the IML food segment was driven by orders from the edible oil/ghee segments. The company 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. However, it has closed the operations at RAK unit in Q4 FY2019, since the revenues were lower than expected and the unit was reporting losses since its commencement in FY2017. The assets have been transferred to domestic manufacturing units. Though the company recorded impairment loss of Rs 11.5 crore in FY2019, going forward this will be favourable for profitability as the drag from RAK unit will not be there. MPL's new plants in Vizag and Mysore also commenced operations from Q1 FY2020 and are currently in ramp-up phase. The improvement in capacity utilisation at new plants remains a key monitorable.

**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. 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 three years, due to the high capex incurred, which was mainly funded with internal accruals and partial debt funding, there was an increase in working capital borrowing leading to a rise in gearing to 0.6 times as on March 31, 2019 from 0.6 times as on March 31, 2018 and 0.7 times as on March 31, 2017. Going forward, the capex plans are expected to moderate from FY2019 and the capital structure and coverage indicators are expected to remain healthy and witness gradual improvement from the current levels. The working capital debt utilisation levels are also expected to witness some moderation due to the expected growth in cash flow from operations, lower capex and improvement in collection process.

## 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.

**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 -** Most of the raw materials are procured from RIL, which exposes 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.

**Moderately high working capital intensity -** The company's working capital intensity increased in FY2018 with 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 at the year end to avail discounts on raw material procurement. In the preceding three years, the working capital intensity was moderately high in the range of 20-25%. However, in FY2019 the working capital intensity moderated to 24.8%, given the company's efforts to improve collection period, resulting in moderation in receivable days.

## Liquidity position: Adequate

The company had positive cash flow from operations (consolidated operations) in the last few years (Rs. 49.2 crore in FY2019). However, due to large capex in FY2019 and H1 FY2020, the free cash flows were constrained and the working capital debt utilisation increased to ~87% in the last 12 months. While the company has repayment obligations of ~Rs. 9.6 crore and Rs. 10.9 crore in FY2020 and FY2021 respectively, the capex is expected to moderate to ~Rs. 40.0 crore per annum in FY2020 and FY2021. The liquidity profile is expected to be **adequate** on the back of the expected growth in cash flow from operations and improved buffer in working capital limits, as the debt utilisation level is likely to witness some moderation.

## Rating sensitivities

**Positive triggers:** Substantial increase in scale of operations and further improvement in profit margin on a sustained basis, supported by new customer addition and favourable product diversification as well as maintenance of the working capital intensity and capital structure at healthy levels.

**Negative triggers:** The ratings may witness downward pressure, if there is moderation in scale and profit margin due to increased competition or regulatory restrictions. 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 | Parent/Group Company: 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 eight locations in India, with a combined capacity of 37,000 MTPA. 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 has been closed in Q4 FY2019.

MPL is involved in manufacturing 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 FY2019, at the consolidated level, the company reported a net profit of Rs. 31.9 crore on an operating income (OI) of Rs. 405.7 crore compared to a net profit of Rs. 26.8 crore on an OI of Rs. 346.8 crore in the previous year.

## Key financial indicators (audited)

| | FY2018 | FY2019 |
|---|---|---|
| Operating Income (Rs. crore) | 346.8 | 405.7 |
| PAT (Rs. crore) | 27.9 | 31.9 |
| OPBDIT/OI (%) | 17.7% | 17.4% |
| RoCE (%) | 20.9% | 19.5% |
| | | |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.8 | 0.9 |
| Total Debt/OPBDIT (times) | 1.6 | 1.6 |
| Interest Coverage (times) | 13.3 | 9.2 |
| DSCR | 6.0 | 5.0 |

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

## Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2020) | | | | Rating History for the Past 3 Years | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated | Amount Outstanding | Rating | FY2019 | | FY2018 | FY2017 |
| | | | | | Jan 07, 2020 | 25-Oct-2018 | 24-Sep-2018 | 18-Sep-2017 | 01-Sep-2016 |
| 1 | Fund Based | Long Term | 85.0 | - | [ICRA]A(stable) | [ICRA]A(stable) | [ICRA]A(stable) | [ICRA]A(stable) | [ICRA]A-(stable) |
| 2 | Term Loans | Long Term | 40.0 | 40.0 | [ICRA]A(stable) | - | - | - | - |
| 3 | Non Fund Based | Short Term | 1.0 | - | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 | [ICRA]A2+ |
| 4 | Unallocated | Long Term/Short Term | - | - | - | [ICRA]A/stable/ [ICRA]A1 | [ICRA]A (Stable)/ [ICRA]A1 | [ICRA]A (Stable)/ [ICRA]A1 | [ICRA]A- (Stable)/ [ICRA]A2+ |

*Amount in Rs. crore*

## 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 | 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 1 | FY2019 | - | FY2022 | 10.00 | [ICRA]A(Stable) |
| NA | Term Loan 2 | FY2019 | - | FY2024 | 10.00 | [ICRA]A(Stable) |
| NA | Term Loan 3 | FY2020 | - | FY2024 | 20.00 | [ICRA]A(Stable) |
| NA | Non Fund Based | NA | NA | - | 1.00 | [ICRA]A1 |

*Source: MPL*

## 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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## About ICRA Limited:

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