



**HIDDEN GEMS**

**UNEXPLORED MULTIBAGGER SMALL CAP STOCKS**

**EQUITY RESEARCH REPORT**

<b>MOLD-TEK PACKAGING LTD.</b>	BSE CODE: 533080 NSE CODE: MOLDTKPAC
Industry: Containers & Packaging	CMP: Rs. 218.50 (22/03/2015)
Market Cap: 3024.20 (INR in Millions)	Target Price: Rs. 450.00
Date: March 22, 2015	Time Period: 12 – 24 months



**Saral Gyan Capital Services**

An Independent Equity Research Firm

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## 1. Company Background



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 the company was renamed as Mold-Tek Technologies Limited.

Thereafter in 2008, the company underwent a restructuring process, post which two de-merged listed entities were formed - Mold-Tek Plastics Limited (MTPL), engaged in plastic packaging business and Mold-Tek Technologies Limited (MTTL), which is mainly engaged in offering KPO services for Engineering and Design, specializing in civil, structural and mechanical engineering. Subsequently Mold-tek Plastics Limited was renamed as Mold-tek Packaging Limited.

Mold-Tek Packaging Limited is involved in the manufacturing of injection molded containers for lubes, paints food, FMCG and other products. Mold-Tek Packaging Limited is the leader in rigid plastic Packaging in India with 25% market share. Company clientele include Castrol, Exxon, Shell, Valvoline, Gulf, IOCL, HPCL, BPCL, Asian Paints, Kansai Nerolac Paints, Akzonobel (ICI Paints), Amul, Cadbury, Heinz, Hindustan Unilever. Company also exports to UAE, Singapore, Malaysia, Nepal and Bangladesh.

The Company has seven manufacturing units of which four are in Andhra Pradesh (all near Hyderabad), one in Daman, one in Hosur (Tamilnadu) and one in Satara (Maharashtra). The combined production capacity is ~25,000 MT per year with over 63 injection moulding machines (Ferromatik, Toshiba, etc.) Multi-location presence helps company to drive cost efficiency and optimizing logistics.

UNIT	CAPACITY (MT p.a.)	LOCATION
I	8750	Annaram (near Hyderabad)
II	3500	Quthbullapur (near Hyderabad)
III	7500	Daman
IV	1500	Alinagar (near Hyderabad)
V	750	Hosur
VI	5 mn sq m	Quthbullapur (Label Manufacturing)
VII	3000	Satara

The Company has four warehouses in Chennai, Hosur, Kolkata and Kanpur and a marketing office in Mumbai.

Today, the rigid packaging industry in India is driven by pails and plastic containers and the evident shift from other packaging forms to plastics is proof of the various advantages that it offers

- More hygienic, rust-free, non-reactive when compared to other packaging solutions
- Developed through a hands-free process in clean environment for food products
- Completely leak proof as they are made as a single unit
- Drop resistance due to exceptional structural strength
- Tamper evidence due to our patented locking system
- Very attractive aesthetics with exquisite decoration to project your product
- Easy to store and stack due to compact size and mould design
- End user benefits due to many secondary uses of pails and plastic containers

### Mold-Tek Product Range

- 100ml to 5ltrs Thin wall containers
- Injection Molded, 750ml to 75ltrs plastic pails (with in-mould or external spouts), for packing lubes, greases, chemicals, paints, Bulk Drugs, Inks, Synthetic Adhesives
- 35, 50 & 75 liters bulk packs for chemicals, agro and other applications.

PAINTS: 1 kg to 25 kg packs for Paints & Emulsions

LUBES: 1/2 litre to 25 litre for Lubes and Grease packs

FOOD & FMCG: 100 ml to 1000 ml thin wall containers



### Strong Clientele from Oil, Paint, FMCG and Food Sector:



### Infrastructure:

Mold-tek has world class integrated facility right from product inception to Mold designing, processing and decorating the products. All the plants of Mold-tek are ISO certified. MTPL has around 60 injections molding machines and growing every year. MTPL uses four different types of decorating process viz Screen printing, Sleeving, Hot transfer label and IML according to the needs of the clients.

### Tool Room

- HAAS, USA make Horizontal machining centre
- Deckel Maho, Germany make CNC vertical machining centre
- PINACHO, Spain make CNC lathe
- Electrical Discharge Machine
- Surface & Cylindrical Grinding machine
- Radial Drilling machine
- Traditional Lathe machine

### Molding

More than 60 Injection Molding machinery upto 650Ton incl. Cincinnati, Angel, Demag, KraussMaffei, Niigata all electric machine etc.

### Decoration

- Automatic Screen printing
- Offset printing KASE-USA
- Shrink sleeving
- HTL Decoration
- IML-Robotic Decoration

### Decoration Techniques

**Heat Transfer Labeling:** Heat transfer labeling is a process where the design that is printed on the release layer is transferred on to the object by Heat transfer machine. When heat is applied to the release the layer of printed design will be transferred to the containers. Mold-tek has in house heat transfer labeling facilities and also label printing facilities. Heat Transfer labeling is a post molding operation involving different machines & labour. Heat Transfer labeling gives 80% coverage of print on the product.

**Screen Printing:** Screen printing is a process where ink is squeezed through exposed screen to the surface of the product. Design is applied color after color in different settings Screen printing is economical when compared to other decoration options. Mold-tek has automatic screen printing which ensures better alignment of different

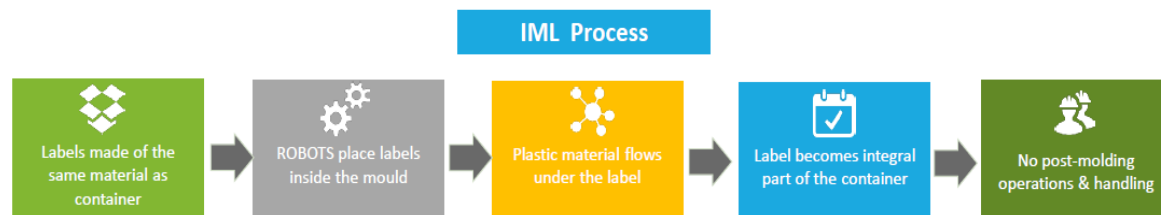
colour. It is the most economical decoration with limitations in picture quality. It is suitable for paints and lubricant pails but is not for food and FMCG product containers.

**Sleeving:** Mold-tek has in house capability to manufacture Shrink sleeves. The aesthetics as compared to Screen printing are better. The picture resolutions are far superior then Screen Printing.

**In-Mould Labeling:** In-Mould Labeling (IMP) integrates preprinted labels into the injection molding process, producing outstanding picture quality and everlasting decoration.

### In Mold Labeling (IML) – World Best Technique

Mold-Tek Packaging developed In Mold Labeling (IML) decorated packaging for the first time in India. In a growing sector like packaging, IML decoration would be the first choice to improve product's brand image. IML decorated thin wall containers are suitable for storage conditions like microwave, dishwasher and the deep freeze and are used for food and FMCG products world over.



IML APPLICATION		
▪ Beverages	▪ Dry Fruits	▪ Milk Powders
▪ Biscuits	▪ Fast foods	▪ Oleo resins
▪ Butter	▪ FMCG	▪ Paints
▪ Cheese	▪ Gherkins	▪ Pickles
▪ Chocolates	▪ Honey	▪ Supplements
▪ Coffee	▪ Ice creams	▪ Toiletries
▪ Cosmetics	▪ Lubricants	▪ Yoghurt

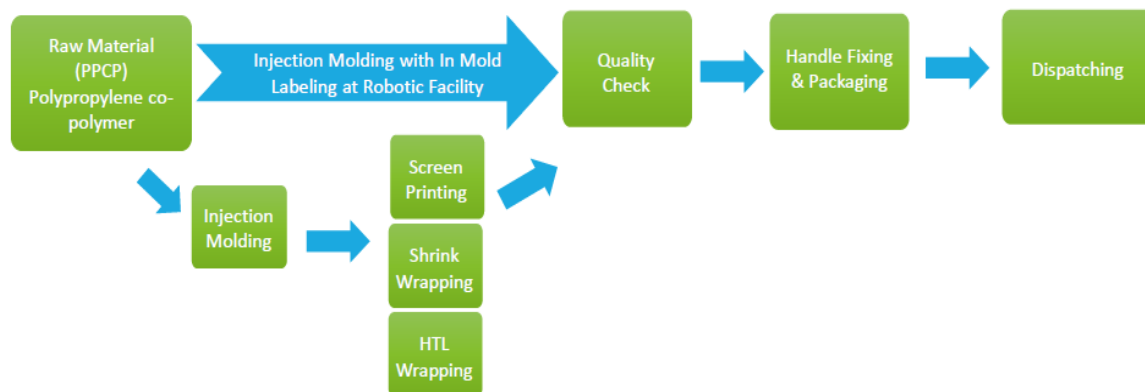
The advantages of IML over traditional decoration include:

- IML offers outstanding quality decoration, and picture quality.
- Photographic quality and complete container coverage.
- The IML operations are hands free as handling is done by ROBOTS. Thereby the packaging is hygienic for D2F (Direct to fill) operations.
- IML can assist in improving the barrier properties to extend the shelf life of the filled goods.
- The label becomes an integral part of the pail and offers a no-label look. It offers better heat, moisture and chemical resistance.

Mold-Tek offers integrated cost-effective In Mold Labeling (IML) solution with in house label manufacturing and die-cutting machines to enable quick production:

- Lower prices for IML decoration complying with international standards
- Quick delivery, customizability and maintenance
- No chance of a stock out situation due to in house labels/mould maintenance

#### Production Process for In-Mold Packaging



In-Mould Labeling (IML) eliminates the cumbersome decoration step by clubbing it with the production of pail. This results in better efficiencies (50% better lead time) and adherence to container.

#### New Roto Lock Pack with IML

- Roto Lock packs are suitable for Yoghurt, Shrikhand, Creams and other food products.
- Roto Lock pack prevents contamination by Insects, Pests and external strong aroma when placed in refrigerator or shelves.
- Roto Lock pack with induction lid assures hygiene unlike direct induction sealed containers which are not suitable for repeat use of products.



## 2. Recent Development

### Shares of Mold-Tek Packaging lists on NSE – 19<sup>th</sup> Feb 2015

Mold-Tek Packaging informed that the Company, vide circular dated 19 February 2015 has received an approval from National Stock Exchange of India for listing the securities on National Stock Exchange and commencement of trading with the effect from 23 February 2015.

Listing in National Stock Exchange is a good move as it will increase trading volumes and allow Investors to do transaction in both the exchanges.

### Mold-Tek Packaging allots 24,98,350 equity shares – 03 Feb 2015

Mold-Tek Packaging informed that in respect of the QIP, the QIP Committee of the Company has at its meeting held on 03 February 2015, inter alia, approved the following.

- Closure of the QIP on 03 February 2015;
- Adopted the Placement Document ("PD") dated 03 February 2015 in connection with the QIP;
- Company has issued 24,98,350 equity shares of Rs. 10/- each to QIBs pursuant to Qualified Institutional Placement at issue price of Rs. 220.17 /- per share.

Below is the list of Allottees who have been allotted more than 5% of the securities offered in the issue:

S.No	Name of Allottees	No. of Shares Allotted	Percentage of the Issue Size
1	DSP Blackrock 3 Years Close Ended Equity Fund	6,13,000	24.54
2	SBI Magnum Midcap Fund	4,06,504	16.27
3	SBI Magnum Multicap Fund	2,21,097	9.09
4	SBI Equity Opportunities Fund - Series I	3,63,355	14.54
5	Principal Emerging Blue Chip Fund	2,01,600	8.07
6	Amundi Funds Equity India Select	2,27,000	9.09
7	Canara Robeco Mutual Fund	1,29,000	5.16
	<b>Total</b>	<b>21,67,556</b>	<b>86.76</b>

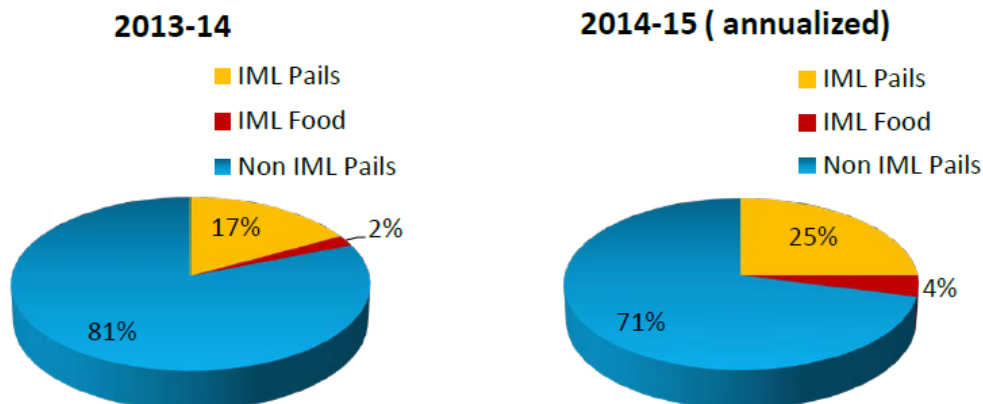
Company has raised Rs. 55 crores by issuing 24,98,350 equity shares at price of Rs. 220.17 per share through QIP. This will be used by Company to set up new plants in the United Arab Emirates and two plants in India apart from expanding the existing tool room, FMCG and food packaging capacities.



### In Mould Labeling (IML) Segment to Drive Future Growth

Company's in-house manufacturing of labels and robots considerably reduces the IML costs, hence will lead to improvement in EBITDA margins. Most of the clients of the company started shifting to IML decorated pails from traditional silk screen printing.

As IML offers photographic finish and hands free operation, most of the paint, lube and food companies are gradually shifting to IML. This enables Mold-Tek to lead from the front, as it is way ahead of the rest of the competition in IML decoration in India.



Currently, IML Pails and IML Food contribute only 25% and 4% of total sales and have registered strong growth in last one year. Company's revenue from IML & IML Food segment is gradually increasing which is a good sign as IML segment have higher EBITA margins. Contribution from IML is expected to improve significantly in future.

### 3. Financial Performance

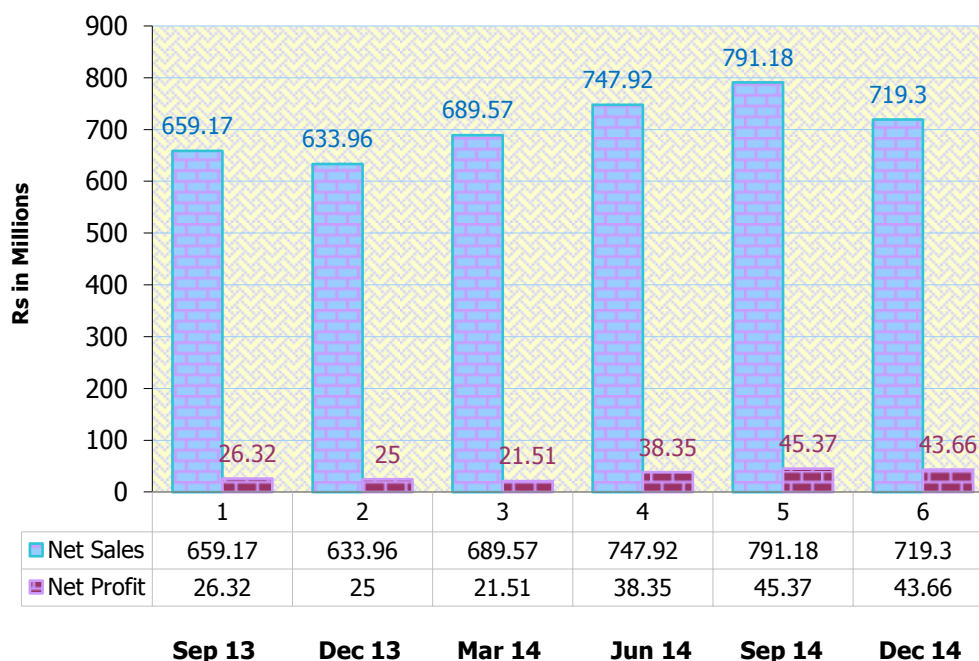
#### Mold-Tek Packaging standalone net profit rises 74.80% in the Dec 2014 quarter

Net profit of Mold-Tek Packaging rose 74.80% to Rs 43.7 million in the quarter ended December 2014 as against Rs 25.0 million during the previous quarter ended December 2013. Sales rose 13.45% to Rs 719.3 million in the quarter ended December 2014 as against Rs 634.0 million during the previous quarter ended December 2013.

#### Mold-Tek Packaging standalone net profit rises 72.62% in the Sept 2014 quarter

Net profit of Mold-Tek Packaging rose 72.62% to Rs 45.4 million in the quarter ended September 2014 as against Rs 26.3 million during the previous quarter ended September 2013. Sales rose 20.02% to Rs 791.2 million in the quarter ended September 2014 as against Rs 659.2 million during the previous quarter ended September 2013.

**Last 6 Quarters Net Sales & Profit**



## Current & Expected Earnings

### Quarterly Ended Profit & Loss Account

Particulars (Rs in Millions)	Mar 2014	Jun 2014	Sep 2014	Dec 2014	Mar 2015 E	Jun 2015 E
Audited / UnAudited	UA	UA	UA	UA	UA	UA
<b>Net Sales</b>	<b>689.57</b>	<b>747.92</b>	<b>791.18</b>	<b>719.3</b>	<b>825.79</b>	<b>928.48</b>
Total Expenditure	620.45	650.55	681.23	615.41	713.26	765.81
PBIDT (Excl OI)	69.12	97.37	109.95	103.89	112.53	163.67
Other Income	1.05	2.01	0.62	1.47	1.44	2.21
Operating Profit	70.17	99.38	110.57	105.36	113.97	125.88
Interest	19.53	21.1	21.13	20.74	21.45	21.83
Exceptional Items	0	0	0	0	0	0
PBDT	50.64	78.28	89.44	84.62	92.52	104.05
Depreciation	18.25	20.16	20.83	20.64	21.27	22.51
Profit Before Tax	32.39	58.12	68.61	63.98	71.25	81.54
Tax	10.43	19.76	22.57	21.64	23.68	26.21
Provisions & contingencies	0	0	0	0	0	0
Profit After Tax	21.96	38.36	46.04	42.34	47.57	65.33
Extraordinary Items	0	0	0	0	0	0
Prior Period Expenses	-0.45	-0.01	-0.67	1.31	0	0
Other Adjustments	0	0	0	0	0	0
<b>Net Profit</b>	<b>21.51</b>	<b>38.35</b>	<b>45.37</b>	<b>43.66</b>	<b>47.57</b>	<b>65.33</b>
Equity Capital	112.77	113.02	113.42	113.42	138.40	138.40
Face Value (IN RS)	10	10	10	10	10	10
Reserves	412.23	450.48	493.32	539.87	563.25	525.49
<b>Calculated EPS</b>	<b>1.95</b>	<b>3.39</b>	<b>4.06</b>	<b>3.73</b>	<b>3.44</b>	<b>4.72</b>
Calculated EPS (Annualised)	7.79	13.58	16.24	14.93	13.75	18.88
No of Public Share Holdings	6447000	6504000	6487000	6499000	NA	NA
% of Public Share Holding	57.17	57.55	57.19	57.3	NA	NA

### Expected Earnings in coming Quarters:

With ongoing expansion, we believe Mold-tek stands out to be the leading player to capture the rising demand of rigid plastic usages in the organised retail space. Moreover, increased thrust on In-Mold Labeling (IML) will help company to improve its profit margins by offering value added products to various clients from different sectors.

Company is setting up new IML plants in UAE and Gwalior to meet growing demand of its products. Company has also expanded its tool room and IMP thin wall container facility at Hyderabad.

## 4. Peer Group Comparison

PEER GROUP	MOLD-TEK PACKAGING	MANJUSHREE TECHNOPACK	HITECH PLAST	HINDUSTAN TIN WORKS
CMP	218.50	447.30	99.20	59.10
52 W H/L	260.00/36.00	491.00/152.00	144.95/44.50	116.80/30.15
Market Cap	3024.15	6059.89	1505.43	614.62
Results (in Million)	Dec-14	Dec-14	Dec-14	Dec-14
Sales	719.30	1125.92	777.98	699.39
PAT	42.34	49.33	25.49	18.34
Equity	113.49	135.48	151.76	104.00
EPS	10.74	24.87	5.14	9.07
P/E	20.34	17.98	19.29	6.52

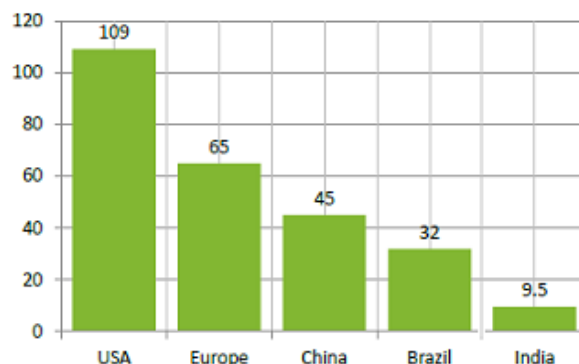
## 5. Key Concerns / Risks

- The company's capacity addition has come with rising debt levels and debt-equity ratio stood at 1.4 times. Fall in demand of company's products offering can adversely impact the profitability of the company.
- Low rupee value augurs well for focusing on exports mainly to nearby countries like Middle East. Company is exporting its products to UAE, Singapore, Malaysia, Nepal and Bangladesh. The Company is adding new robots manufactured in-house to enhance capacity to meet the growing demand for IML products. Appreciation in rupee may have negative impact on exports of the company.
- Rising cost of capital equipment is also a concern for the company. Company needs to make huge investments towards latest technology / machinery to remain ahead of competition. Rapid advances in other packaging products can adversely impact the performance of the company.
- As Packaging Industry is a highly fragmented with lot many unorganized players, retaining qualified and skilled manpower is a challenge.

## 6. Saral Gyan Recommendation

✚ Per Capital consumption of Plastic in India is 9.5 Kg which is much below compared to developed countries like US, Europe, China and Brazil. Plastic Industry in India grew by 15 percent annually, however flexible packaging growth was at 18 percent which is expected to grow at faster pace with increase in per capita consumption in India and rising exports. According to the Indian Institute of Packaging, the packaging industry in India (pegged at around Rs 170,000 crore) is the 6th largest in the world, and is expected to grow by 12% over next 4-5 years. With unorganized players making up 85% of the industry, it is highly fragmented and localised. But there's plenty of room to grow in a country where per capita consumption of packaging is significantly low compared to other countries.

Global Per Capita Plastic Consumption (kg)



✚ Indian plastics exports have grown at a rate of 20% since 2007-08. India is one of the most promising exporters of plastics among developing countries. The Indian plastics industry produces and exports a wide range of raw materials. With low rupee value, Mold-Tek started focusing on exports mainly to nearby countries in Middle East.

✚ Company's EBITDA and PAT margins are expected to increase significantly with entry into high value added products. Company has achieved revenue CAGR of 20% with ROE of 21.4% over period of last 5 years.

Important Ratios	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014
<b>Margin Ratios</b>					
Core EBITDA Margin(%)	12.74	11.44	11.01	9.30	10.38
EBIT Margin(%)	10.40	9.27	8.85	6.90	7.91
PAT Margin (%)	5.74	4.93	4.87	2.69	3.18
<b>Performance Ratios</b>					
ROA(%)	11.15	9.69	8.72	4.34	5.84
ROE(%)	32.09	29.81	25.02	12.20	17.96
ROCE(%)	25.15	23.10	19.75	13.38	18.28
<b>Financial Stability Ratios</b>					
Total Debt/Equity(x)	1.20	1.45	1.17	1.49	1.39

Total Debt to Equity ratio is 1.4 which is on higher side. However, Company is going through aggressive expansion plan to increase its capacity for In-Mold Labeling and expected to deliver strong revenue growth, hence it's a concern only in short term.

- ✚ Mold-Tek Packaging Limited is the only company with integrated facilities for manufacturing In-Mold labeled containers and is India's fastest growing packaging company with CAGR of 20%. To meet increasing demand and to tap opportunities in other consumer segments, company is about to set manufacturing units in UAE, Andhra Pradesh and North India. Company has already raised 55 Crores through QIP route and is working towards capacity expansion to cater the growing demand during next 2-3 years.
- ✚ Mold-Tek is taking all necessary steps to increase product offerings by expanding its product range. Company offers Food & FMCG packaging solutions with superior technology, in house tool room, robots, hot runner and IML labels. Mold-Tek is a dominant player with strong clientele which include companies like Castrol, Heinz, Asian Paints, ICI Paints, HUL, ITC, Cadbury, Indian Oil, British Petroleum etc.
- ✚ Management has rewarded shareholders by paying consistent dividend since last 7 years. Company has been maintaining a healthy dividend payout above 27% during last 5 years, dividend yield at current market price is 1.4%. With expected increase in revenue and profitability in coming quarters, we believe company dividend payout will increase going forward.

YEAR	Mar'10	Mar'11	Mar'12	Mar'13	Mar'14
EPS	9.20	10.00	8.33	5.12	8.03
Dividend Payout Ratio	27.04%	45.75%	50.38%	40.83%	30.87%

- ✚ As per our estimates, Mold-Tek Packaging Ltd can deliver bottom line of 255.4 million for full financial year 2016, annualized EPS of Rs. 18.4. With forward P/E ratio of 11.9X for FY16, valuations look attractive for a company which is expected to deliver strong revenue growth with increase in profit margins.
- ✚ On equity of Rs. 138.4 million, the estimated annualized EPS for FY 15-16 works out to Rs. 18.4 and the Book Value per share is Rs. 86.9. At current market price of Rs. 218.50, stock price to book value is 2.5.

Considering company's aggressive expansion plans, focus towards high margin IML segment and recent allotment of equity shares to QIBs above current market price, Saral Gyan team recommends **"Buy"** on **Mold-Tek Packaging Ltd** at price of Rs. 218.50 for target of Rs. 450 over a period of 12 to 24 months.

#### Buying Strategy:

- 80% at current market price of 218.50
- 20% at price range of 180-200 (in case of correction in stock price in near term)

**Portfolio Allocation: 4% of your equity portfolio.**

## 7. Disclaimer

**Important Notice:** Saral Gyan Capital Services is an Independent Equity Research Company.

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