

### Disappointing Margins & Volume Growth

**Est. Vs. Actual for Q2FY25:** Revenue: **MISS**; EBITDA: **MISS**; PAT: **MISS**

#### Change in Estimates post Q2FY25

**FY25E/FY26E:** Revenue: -9%/-7%; EBITDA: -9%/-2%; PAT: -24%/-16%

#### Recommendation Rationale

- Lower-than-expected Volume Growth:** During the quarter, the company delivered a YoY volume growth of 7%, which is below our expectations. While Food & FMCG packs achieved 28% volume growth, overall growth was dragged down by subdued paints pack volumes and a degrowth in lubes-packs. The volumes were impacted by a delay in ramp-up at the Mahad plant, which is now expected to occur from Dec'24 onwards. As a result, the company has revised its volume growth expectations downwards to double-digit growth, compared to the earlier guidance of 15%. The management remains positive about the ramp-up at the Mahad plant and an increase in pharma volumes from Q4FY25 onwards. It also expects printing constraints to be eliminated by next year.
- Margins to remain low:** The company in earlier quarters had set a target of achieving EBITDA/Kg of Rs 40 or above in FY25. However, delays in capacity ramp-up and additional expenses related to pharma impacted the EBITDA margins during the quarter, leading the management to revise the target to an EBITDA/Kg of Rs 38 for FY25. Additional depreciation and interest expenses related to investments made in the past two years further impacted the margins at the PAT level. The management is hopeful of margin improvements from FY26 onwards as the contribution from the high-margin pharma business increases and operating leverage kicks in. The company is also reorganizing its facilities/machinery, which will allow for better utilization and operational efficiencies.

**Company Outlook & Guidance:** The company's volume growth rate is expected to accelerate from Q4FY25 onwards as new capacities and products in FF, Paint, and Pharma Packaging begin contributing to the top line. While the company expects the volume growth to be lower than earlier expectations (double-digit growth vs the earlier guidance of 15%), it anticipates strong momentum from FY26 onwards. The company has also lowered the target for EBITDA/Kg to Rs 38/Kg for FY25, with the improvement in EBITDA margins now delayed by a couple of quarters.

**Current Valuation:** 22x FY27E (Earlier: 25x FY26E)

**Current TP:** Rs 785/share (Earlier: Rs 882/share)

**Recommendation:** We have revised our rating on the stock from BUY to HOLD as volume and margin recovery is now expected in FY26E and onwards.

**Financial Performance:** Mold-Tek Packaging's Q2FY25 numbers missed estimates on all fronts. The company reported revenue of Rs 191 Cr (up 12% YoY and -3% QoQ), missing estimates by 8%, as volumes degrew by 5% QoQ to 9,381 MT. EBITDA was Rs 34 Cr (up 4% YoY and -6% QoQ), missing estimates of Rs 39 Cr. EBITDA per kg in Q2FY25 declined to Rs 36.7 per kg from Rs 37.1 per kg in Q1FY25. PAT stood at Rs 14 Cr, down 10% YoY and 15% QoQ, primarily due to significantly higher depreciation and finance costs associated with investments exceeding Rs 250 Cr made over the past two years.

#### Key Financials (Consolidated)

(Rs Cr)	Q2FY25	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	191	12%	-3%	208	-8%
EBITDA	34	4%	-6%	39	-15%
EBITDA Margin	17.5	-131bps	-61bps	19.0	-145bps
Net Profit	14	-10%	-15%	20	-28%
EPS (Rs)	4.3	-10%	-15%	5.9	-28%

Source: Company, Axis Securities Research

(CMP as of 7<sup>th</sup> November 2024)

CMP (Rs)	737
Upside /Downside (%)	7%
High/Low (Rs)	940/670
Market cap (Cr)	2,453
Avg. daily vol. (1m) Shrs.	55,172
No. of shares (Cr)	3.32

#### Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	32.8	32.8	32.7
FIIs	14.1	14.4	13.1
DIIIs	22.2	22.7	23.7
Retail	30.9	30	30.5

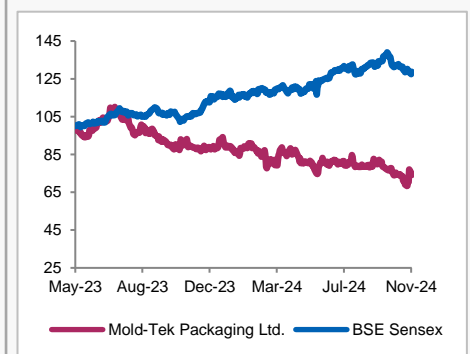
#### Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	699	798	962
EBITDA	133	144	188
Net Profit	67	66	95
EPS (Rs)	20.6	20.4	29.5
PER (x)	35.8	36.2	25.0
P/BV (x)	4.1	3.8	3.3
EV/EBITDA (x)	19.3	18.0	13.5
ROE (%)	9.1%	10.2%	13.1%

#### Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-9%	-7%
EBITDA	-9%	-2%
PAT	-24%	-16%

#### Relative performance



Source: Ace Equity, Axis Securities Research

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## Outlook

- We remain optimistic about Mold-Tek Packaging's increasing contribution from the Pharma segment and customer additions leading to volume growth and margin improvement going forward. However, the margin recovery may now start only from FY26 onwards due to delays in ramp-ups. As a result, the company may continue to face margin pressures over the next two quarters as it works to recoup volumes and incurs expenses related to new capacities. The company is expected to see a significant improvement in performance in FY26/FY27 with operations stabilizing and new revenue streams making meaningful contributions.

## Valuation & Recommendation

- We have revised our FY25 and FY26E estimates downwards to factor in the delay in expected recovery/ramp-up. We have also rolled forward our estimates to FY27, which reflect the contributions from recent/ongoing capex investments. **Accordingly, we value the stock at 22x FY27E earnings (earlier 25x FY26E earnings), translating into a revised target price of Rs 785/share, implying an upside of 7% from the current market price (CMP). We revise our rating on the stock from BUY to HOLD.**

## Key Concall Highlights

- **Financial Performance:** Sales increased by ~13% YoY and -3% QoQ to ~Rs 191 Cr, with sales volume growth of 7% YoY and -5% QoQ. EBITDA for the period increased by 5% to Rs 34 Cr from Rs 33 Cr but declined by 7% QoQ. Net Profit declined by 10.05% to Rs 14 Cr from Rs 16 Cr in the corresponding period of the previous year, impacted by increased interest and depreciation owing to more than Rs 250 Cr in investments over the last two years.
- **Volumes:** Mold-Tek delivered a decent overall volume growth of 7% YoY during this quarter. Food & FMCG-Packs achieved 27% volume growth, followed by Paints-Pack, which posted growth of 5%, while Lubes-Packs registered a negative growth of 5%. Pharma-Pack started during the quarter. Paints contributed 50% to the total volumes, while Lubes, F&F, Q pack, and Pharma contributed 22%, 12%, 16%, and 0.6%, respectively, to the total volumes.
- **New Capacities:** Mold-Tek started commercial supply from its Satara plant in Q2 to Grasim Industries located at Mahad. To fulfil the increasing demand from the Aditya Birla Group, the company also started capacity enhancement at Cheyyar, Panipat, and Satara, which is anticipated to be ready by Jan 2025. The ramp-up at the Mahad plant was delayed due to certain pending approvals, but it is expected to happen during Q3. Utilization levels at the Panipat and Cheyyar plants are slowly improving, currently around 60% of initial capacity (less than 50% in Q1).
- **IML Sales:** The company witnessed a significant increase in sales for IML with rising IML adoption in the Paint industry. This is expected to improve further as the company is making arrangements to boost IML printing & die-cutting capacities. The process of shifting all printing facilities to one location has begun and is expected to be completed by Jan 2025. IML sales now constitute 72.5% of total sales (66.7% last year).

- Pharma Packaging:** The company has successfully completed audits for ISO and also received DMF (Drug Master File – USA) certification for CT caps, tables pails, EV tubes, and CR caps. Commercial supplies to major clients have started from the end of September in a small way and are expected to pick up in volume by Q4 of FY25. Orders for a couple of new products have been received and are expected to start commercial production in Jan'25. Current capacity utilization is around 10% and is expected to reach 30-40% by Q4 of FY25. Sales from pharma in the month of October were around Rs 75 Lc. With accumulated orders, the management foresees pharma capacity utilization to reach 50% and above in the next financial year.
- Guidance/Outlook:** The management mentioned that the earlier target of 15% volume growth and EBITDA/Kg of more than Rs 40 for FY25 may not be achieved, given the delays in ramp-up. However, the management is hopeful of achieving double-digit revenue growth and EBITDA/Kg of Rs 38 during the year. The company also expects strong momentum from FY26 onwards with increasing contributions from Pharma and other new products. The management expects to spend Rs 85-90 Cr for capacity expansion in FY25.

### Key Risks to Our Estimates and TP

- Slower ramp-up or de-growth in customer industries, more specifically at the clients where Mold-Tek is highly concentrated
- Delay in setting up new facilities affecting the ROCE
- Lower volume off-take could have a negative effect on operating leverage

### Change in Estimates

	Revised		Old		Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Sales	798	962	872	1,036	-9%	-7%
EBITDA	144	188	157	192	-9%	-2%
PAT	66	95	86	113	-24%	-16%
EPS	20.4	29.5	26.7	35.0	-24%	-16%

Source: Company, Axis Securities Research

**Q2FY25 Results Review**

	Q2FY24	Q1FY25	Q2 FY25E Axis Estm	Q2FY25	YoY	QoQ	Axis Variance
<b>Net Sales</b>	<b>170</b>	<b>197</b>	<b>208</b>	<b>191</b>	<b>12%</b>	<b>-3%</b>	<b>-8%</b>
<b>Expenditure</b>							
Net Raw Material	97	113	118	108	11%	-4%	-9%
Gross Profit	73	84	89	83	14%	0%	-7%
<b>Gross Margin (%)</b>	<b>42.9</b>	<b>42.5</b>	<b>43.0</b>	<b>43.5</b>	<b>62bps</b>	<b>102bps</b>	<b>49bps</b>
Employee Expenses	12	14	16	15	29%	7%	-1%
Other Exp	29	33	34	34	18%	2%	0%
Total Expenditure	138	161	168	158	14%	-2%	-6%
<b>EBITDA</b>	<b>32</b>	<b>36</b>	<b>39</b>	<b>34</b>	<b>4%</b>	<b>-6%</b>	<b>-15%</b>
<b>EBITDA Margin (%)</b>	<b>18.9</b>	<b>18.2</b>	<b>19.0</b>	<b>17.5</b>	<b>-131bps</b>	<b>-61bps</b>	<b>-145bps</b>
Oth. Inc	1	1	1	1	10%	-41%	12%
Interest	2	3	3	4	98%	20%	40%
Depreciation	10	12	11	12	25%	3%	7%
<b>PBT</b>	<b>21</b>	<b>22</b>	<b>26</b>	<b>19</b>	<b>-12%</b>	<b>-16%</b>	<b>-29%</b>
Tax	6	6	7	5	-19%	-19%	-30%
<b>PAT</b>	<b>16</b>	<b>17</b>	<b>20</b>	<b>14</b>	<b>-10%</b>	<b>-15%</b>	<b>-28%</b>
<b>EPS</b>	<b>4.7</b>	<b>5.0</b>	<b>5.9</b>	<b>4.3</b>	<b>-10%</b>	<b>-15%</b>	<b>-28%</b>

Source: Company, Axis Securities Research

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Total Sales</b>	<b>730</b>	<b>699</b>	<b>798</b>	<b>962</b>	<b>1,069</b>
Total RM Consumption	436	397	463	553	609
Staff Costs	44	50	56	63	64
Other Expenses	115	119	136	159	180
Total Expenditure	594	565	654	774	853
<b>EBITDA</b>	<b>135</b>	<b>133</b>	<b>144</b>	<b>188</b>	<b>216</b>
Depreciation	30	38	48	55	58
EBIT	105	95	96	133	158
Interest & Finance charges	4	7	9	7	5
Other Income	1	1	2	2	2
EBT (as reported)	103	89	88	127	154
Tax	22	22	22	32	39
PAT	80	67	66	95	115
Other Comprehensive	30	(13)	1	1	1
<b>APAT</b>	<b>111</b>	<b>54</b>	<b>67</b>	<b>96</b>	<b>116</b>
<b>EPS</b>	<b>24</b>	<b>21</b>	<b>20</b>	<b>29</b>	<b>36</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	17	17	17	17	17
Reserves	542	578	634	716	814
<b>Net worth</b>	<b>559</b>	<b>594</b>	<b>651</b>	<b>733</b>	<b>831</b>
Total loans	47	126	161	126	91
Deferred tax liability (Net)	21	23	23	23	23
Long Term Provisions	4	5	5	5	5
Other Long-Term Liability	0	6	6	6	6
<b>Capital Employed</b>	<b>597</b>	<b>677</b>	<b>757</b>	<b>823</b>	<b>906</b>
<b>Net block</b>	<b>366</b>	<b>467</b>	<b>509</b>	<b>505</b>	<b>497</b>
CWIP	17	11	11	11	11
Inventories	85	104	120	145	170
Sundry debtors	123	136	149	184	211
Cash and bank	5	0	32	37	67
Loans and advances	1	1	1	1	1
Other Current Assets	24	31	31	31	31
Total Current assets	239	274	335	400	481
Total Current liabilities	99	143	164	159	149
Net Current assets	141	130	171	241	332
<b>Capital Deployed</b>	<b>597</b>	<b>677</b>	<b>757</b>	<b>823</b>	<b>906</b>

Source: Company, Axis Securities Research

**Cash Flow**

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
PBT	103	89	88	127	154
Depreciation & Amortization	31	39	48	55	58
Finance costs	4	7	9	7	5
Changes in WC	46	(38)	(19)	(46)	(42)
Net Cash Flow from Operations	3	159	79	104	112
(Incr)/ Decr in Gross PP&E	(145)	(141)	(88)	(50)	(50)
Proceeds from the sale of fixed asset	-	-	-	-	-
Cash from Investing Activities (B)	(148)	(143)	(88)	(50)	(50)
(Decr)/Incr in Debt	(4)	(12)	35	(35)	(35)
Payment of finance costs	(4)	(7)	(9)	(7)	(5)
Dividend	(26)	(20)	(10)	(14)	(17)
Cash From Financing Activities (C )	(10)	59	16	(57)	(58)
Incr/(Decr) in Balance Sheet Cash	1	(5)	32	5	30
Cash at the Start of the Year	4	5	0	32	37
Cash at the End of the Year	5	0	32	37	67

Source: Company, Axis Securities Research

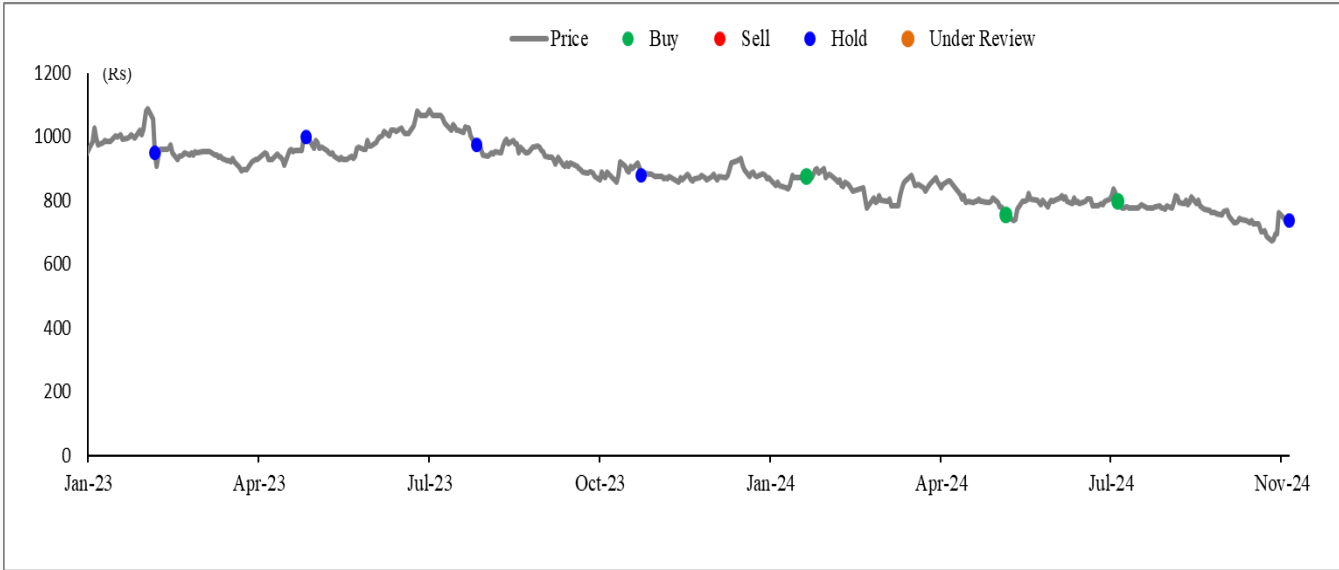
**Ratio Analysis**

(%)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth (%)</b>					
Total Sales	15.6%	-4.3%	14.2%	20.5%	11.2%
<b>EBITDA</b>	<b>12.2%</b>	<b>-1.7%</b>	<b>7.8%</b>	<b>30.6%</b>	<b>15.1%</b>
APAT	54.5%	-51.3%	23.4%	44.2%	20.8%
<b>Profitability (%)</b>					
EBITDA Margin	18.6%	19.1%	18.0%	19.5%	20.2%
<b>Net Profit Margin</b>	<b>15.2%</b>	<b>7.7%</b>	<b>8.3%</b>	<b>10.0%</b>	<b>10.8%</b>
ROCE	17.6%	14.0%	12.7%	16.2%	17.4%
<b>ROE</b>	<b>19.8%</b>	<b>9.1%</b>	<b>10.2%</b>	<b>13.1%</b>	<b>13.9%</b>
<b>Per Share Data (Rs)</b>					
<b>EPS</b>	<b>24.4</b>	<b>20.6</b>	<b>20.4</b>	<b>29.5</b>	<b>35.6</b>
<b>BVPS</b>	<b>172.9</b>	<b>178.9</b>	<b>195.9</b>	<b>220.5</b>	<b>250.1</b>
<b>Valuations (x)</b>					
<b>PER (x)</b>	35.9	42.5	36.2	25.0	20.7
<b>P/BV (x)</b>	<b>5.1</b>	<b>4.9</b>	<b>3.8</b>	<b>3.3</b>	<b>2.9</b>
EV/EBITDA (x)	21.2	22.8	18.0	13.5	11.5
<b>Turnover days</b>					
Debtor Days	87	64	62	56	63
Payable Days	35	31	27	26	28

Source: Company, Axis Securities Research

## Mold-Tech Pack. Price Chart and Recommendation History



Date	Reco	TP	Research
08-Feb-23	Hold	1,000	Result Update
04-May-23	Hold	990	Result Update
08-Aug-23	Hold	990	Result Update
09-Nov-23	Hold	950	Result Update
12-Feb-24	BUY	1,030	Result Update
03-Jun-24	BUY	928	Result Update
05-Aug-24	BUY	882	Result Update
08-Nov-24	Hold	785	Result Update

Source: Axis Securities Research

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<b>Ratings</b>	<b>Expected absolute returns over 12 – 18 months</b>
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.