

We spoke with Mr Laxman Rao – CMD, Moldtek India to take an update on the progress of the new expansions, break even at RAK as well as outlook on raw material costs. Mentioned below are the key highlights:

The new Asian Paints plants on verge of starting commercial production

There has been a slight delay in commencement of production at the Mysuru plant from December end to Mid January. As of now supplies to Asian Paints are being met from the Hyderabad plant. The Vizag plant will go on stream by end of February. Hence both plants will begin to contribute to production March onwards. The company expects to clock in volumes of ~2,200 MT from both these plants in FY20E (~10% growth over volumes of 22,198 MT in FY19E).

The company is also planning to set up a capacity in North India for both paints and Food & FMCG in the next 12 months.

Break even at RAK pushed further behind

~1,200 MT from the RAK capacity is being shifted to Hyderabad and Daman. Machines for larger packages are being moved and the ones for smaller packages are being retained at RAK based on the demand. At a monthly run rate of ~100 MT, they expect to achieve break even. Currently that plant is still operating at a monthly run rate of ~75MT due to the slow pickup in demand. It looks unlikely that they will be able to break even during FY19.

Food & FMCG (F&F) witness good traction

Contribution from F&F is expected to increase during Q4 due to:

- Good traction from the ice cream segment (January to July is the ice cream season). MTEP is already supplying to clients like Arun ice cream, Vadilal and Amul. During Q2, MTEP had added HUL as a client in this segment. But commercial supplies are expected to commence starting Q4.
- In concurrence with the guidance provided by the management during the Q2 concall, Ghee square packs are witnessing strong demand from customers such as Damani, NK Protein and other major soya oil companies from North and Central India. Thus revenues from Edible Oils are expected to double from Rs 60-70m in FY18 to Rs 120-150m in FY19E to Rs 250-300m in FY20E.

Key financials (Y/e March)	2017	2018	2019E	2020E
Revenues (Rs m)	3,014	3,468	4,212	5,142
Growth (%)	9.3	15.1	21.4	22.1
EBITDA (Rs m)	504	615	727	953
PAT (Rs m)	242	278	349	481
EPS (Rs)	8.8	10.0	12.6	17.4
Growth (%)	8.1	15.1	25.4	37.9
CEPS (Rs)	8.7	14.8	18.1	23.9
Net DPS (Rs)	3.2	2.0	2.0	2.0
Profitability & Valuation	2017	2018	2019E	2020E
EBITDA margin (%)	16.7	17.7	17.3	18.5
RoE (%)	15.1	16.2	17.6	20.6
RoCE (%)	14.8	16.7	18.8	21.4
EV / sales (x)	2.6	2.4	1.9	1.6
EV / EBITDA (x)	15.4	13.4	10.9	8.5
PE (x)	30.0	26.2	20.9	15.1
P / BV (x)	4.5	4.0	3.4	2.9
Net dividend yield (%)	1.2	0.8	0.8	0.8

Source: Company Data, PL Research

Concall Update

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Rating	BUY
Price	Rs 263
Target Price	Rs 365
Implied Upside	39%
Sensex	35,514
Nifty	10,672
Bloomberg Code	MTEP.IN
Reuters Code	MOLT.BO

(Prices as on January 03, 2018)

Tracking Data

Market Cap (Rs bn)	7.3
Shares O/s (m)	27.7
3M Avg. Daily Value (Rs m)	19.0

Major Shareholders

Promoters	35.6
Domestic Inst.	12.5
Public & Others	51.9

Stock Performance

(%)	1M	6M	12M
Absolute	0.3	(24.9)	(17.1)
Relative	(0.7)	(22.9)	(19.7)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019E	12.6	12.3	2.4
2020E	17.4	16.1	8.1

Raw Material Prices correct and now likely to remain sober

During Q2FY19 raw material prices dropped from Rs 99/kg to Rs 95/kg for a month and then bounced back and thereafter hovered around similar levels. Till Mid Nov, RM prices were increasing hence margins were lower although in absolute terms they were stable. Post Nov 22, RM prices cooled off, hence margins were higher as pricing was based on higher RM costs. YTD RM prices have corrected post November 22 by ~18%. Hence January onwards margins should improve.

Revenue and Volume guidance maintained

The company is likely to deliver 15% volume growth and ~18% value growth (due to higher RM prices) during FY19E. During FY20 they have guided volume growth of 20% which will result in a similar value growth as the RM prices are expected to remain sober.

While the company continues to face headwinds at the RAK plant, they have already taken steps to course correct and in accordance are moving surplus unutilized capacity to India, which coupled with the two new plants at Vizag and Mysuru, good traction in edible oil and ice cream segments and continued addition of new marquee clients across segments provide visibility for achieving the growth guidance for FY20E.

Although optimal benefits of operating leverage are not visible currently, we expect it to improve once the two new plants are stabilized. At CMP, the stock is trading at PER of 20.9x FY19E and 15.1x FY20E EPS estimates of Rs 12.6 and Rs 17.4 respectively. **We maintain our BUY rating on the stock with a TP of Rs 365 (21x FY20E EPS).**

Income Statement (Rs m)

Y/e March	2017	2018	2019E	2020E
Net Revenue	3,014	3,468	4,212	5,142
Raw Material Expenses	1,862	2,059	2,559	3,070
Gross Profit	1,151	1,409	1,653	2,072
Employee Cost	286	364	440	530
Other Expenses	361	430	486	590
EBITDA	504	615	727	953
Depr. & Amortization	103	132	153	180
Net Interest	24	46	68	70
Other Income	8	10	15	16
Profit before Tax	385	447	521	718
Total Tax	143	169	172	237
Profit after Tax	242	278	349	481
Ex-Od items / Min. Int.	(1)	-	-	-
Adj. PAT	243	278	349	481
Avg. Shares O/S (m)	27.7	27.7	27.7	27.7
EPS (Rs.)	8.8	10.0	12.6	17.4

Cash Flow Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
C/F from Operations	(168)	(398)	63	(249)
C/F from Investing	49	9	(50)	(40)
C/F from Financing	266	447	86	95
Inc. / Dec. in Cash	147	58	100	(194)
Opening Cash	83	333	(44)	(37)
Closing Cash	10	9	10	408
FCFF	(119)	(388)	13	(289)

Key Financial Metrics

Y/e March	2017	2018	2019E	2020E
Growth				
Revenue (%)	9.3	15.1	21.4	22.1
EBITDA (%)	15.1	22.1	18.1	31.1
PAT (%)	8.1	15.1	25.4	37.9
EPS (%)	10.0	14.5	25.4	37.9
Profitability				
EBITDA Margin (%)	16.7	17.7	17.3	18.5
PAT Margin (%)	8.0	8.0	8.3	9.4
RoCE (%)	14.8	16.7	18.8	21.4
RoE (%)	15.1	16.2	17.6	20.6

Balance Sheet

Net Debt : Equity	0.3	0.5	0.3	0.3
Net Wrkng Cap. (days)	89.0	106.7	83.0	83.0

Valuation

PER (x)	30.0	26.2	20.9	15.1
P / B (x)	4.5	4.0	3.4	2.9
EV / EBITDA (x)	15.4	13.4	10.9	8.5
EV / Sales (x)	2.6	2.4	1.9	1.6

Earnings Quality

Eff. Tax Rate	37.2	37.7	33.0	33.0
Other Inc / PBT	0.0	0.0	0.0	0.0

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
Non-Current Assets	1,367	1,656	1,706	2,043
Net fixed assets	1,081	1,324	1,446	1,716
Capital Work In Progress	97	148	-	-
Other Intangible Assets	2	3	3	2
Intangibles under development	-	1	-	-
Investment property	1	1	-	-
Non-Current Investments	112	103	153	193
Other financial assets	2	2	22	42
Other Non-Current Assets	71	74	82	90
Current Assets	1,094	1,482	1,865	2,144
Inventories	367	523	480	586
Trade receivables	615	845	819	1,000
Cash & Bank Balance	9	10	408	347
Loans	1	1	2	2
Other financial assets	18	27	30	34
Current Tax Assets	8	7	12	17
Other Current Assets	75	70	115	160
Total Assets	2,461	3,138	3,571	4,188

Equity

Equity Share Capital	139	139	139	139
Other Equity	1,388	1,599	1,886	2,305
Total Networth	1,527	1,738	2,025	2,444
Non-Current Liabilities	211	212	224	236
Long Term borrowings	118	88	88	88
Provisions	19	20	30	40
Deferred tax liabilities	75	104	104	104
Other financial liabilities	-	-	2	4
Current Liabilities	722	1,188	1,321	1,508
ST Debt / Current of LT Debt	388	863	950	1,045
Trade payables	147	202	199	239
Other current liabilities	99	102	112	123
Short term provisions	70	3	3	3
Other current liabilities	16	15	50	85
Current Tax liabilities	3	3	8	13
Total Equity & Liabilities	2,461	3,138	3,571	4,188

Quarterly Financials (Rs m)

Y/e March	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Net Revenue	834	924	990	983
EBITDA	156	170	181	171
<i>% of revenue</i>	<i>18.7</i>	<i>18.4</i>	<i>18.3</i>	<i>17.4</i>
Depr. & Amortization	31	32	34	35
Net Interest	10	13	15	16
Other Income	3	1	5	6
Profit before Tax	118	126	137	127
Total Tax	40	49	47	43
Profit after Tax	77	77	90	84

Source: Company Data, PL Research.

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