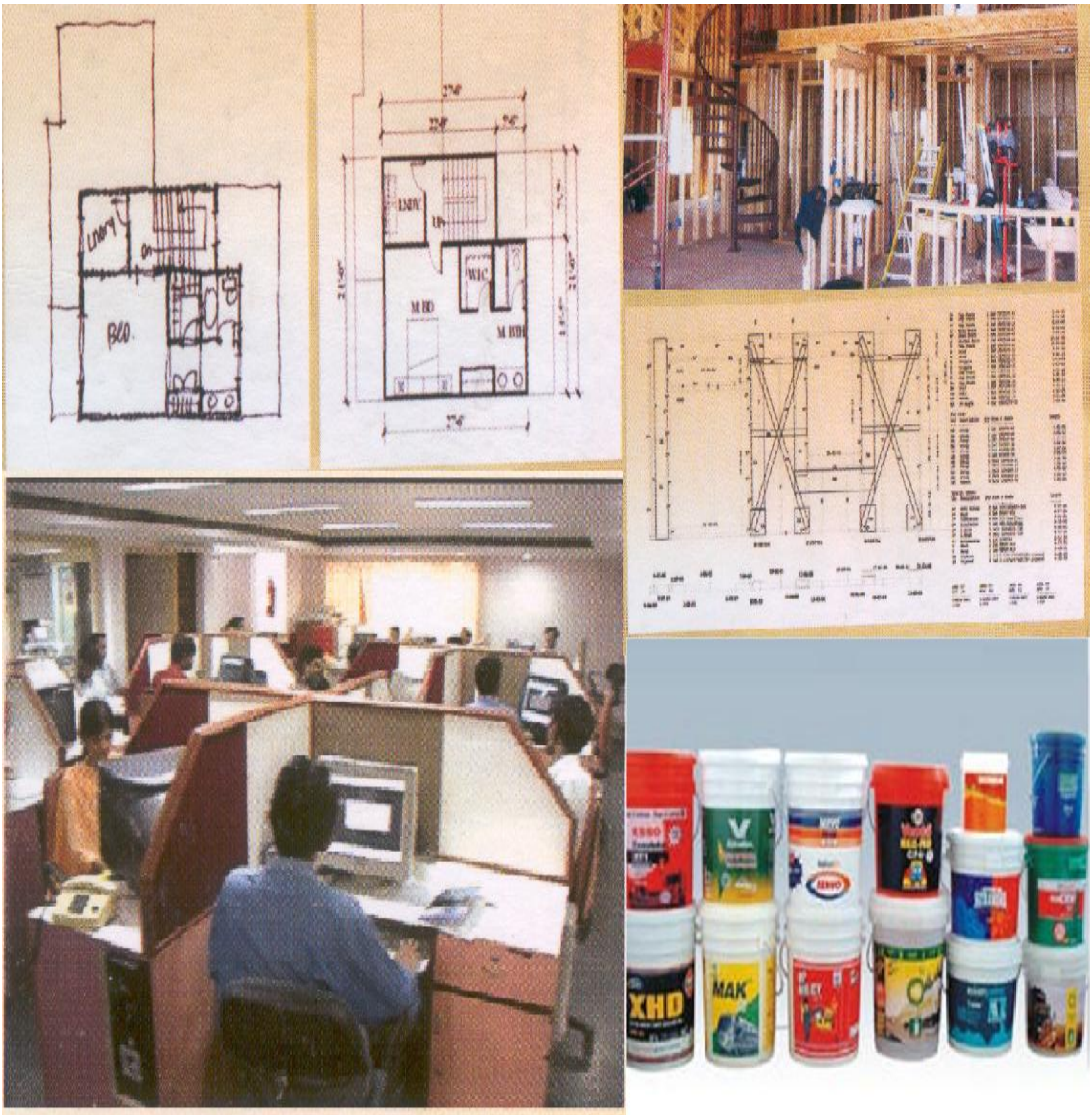
Mold–Tek Technologies Ltd.



Knowledge Restructured

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Mold–Tek Technologies Ltd. (MTL)

CMP: Rs 127 **BUY**

BSE Code	526263
NSE Code	MOLDPLAST

Key Data

Sensex	14380
52 week H/L (Rs.)	138/40
May month H/L (Rs.)	124/72
Market Cap (Rs cr)	130
Avg. daily vol. (6m)	36,000
Face Value	10

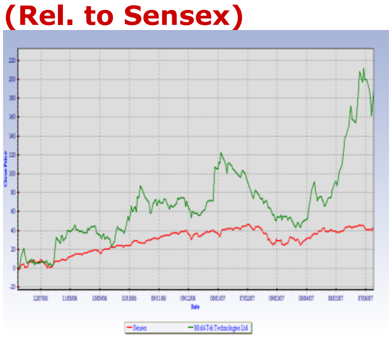
Source: Capitaline

Shareholding Pattern (%)

Promoters	42.93
Institution	0.08
Public & Others	57.00

Source: Capitaline

One-Year Performance (Rel. to Sensex)



Source: Capitaline

Background and Business

Mold-Tek technologies Ltd.(MTL), earlier known as Mold-Tek Plastics is one of the leading packaging and structural engineering KPOs in India.

MTL is a pioneer in Injection and blow moulded plastic packages in India. It is the only one-stop-shop in India to produce plastic containers, PET bottles and jars under one roof. It has manufacturing facilities in Chennai, Daman and Hyderabad.

Mold-Tek KPO is the only listed play available in structural engineering design and detailing space. There are significant growth opportunities for the firm from emerging knowledge process outsourcing business. More than 40% savings, value proposition for outsourcing designing and detailing work to players like Mold-Tek is quite attractive.

Plastics division

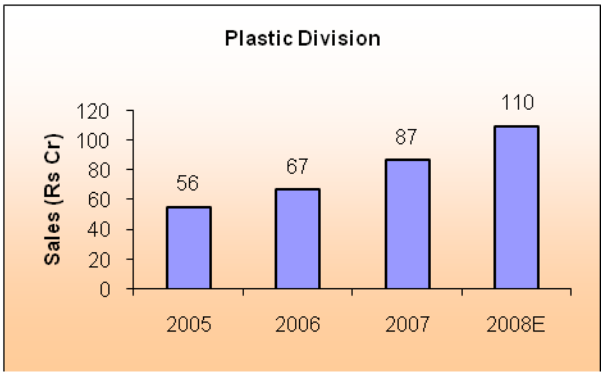
A pioneer in India for molded rigid plastic packing containers with air tight and pilfer proof features, offers containers (known as pails) ranging from 1/2 ltr/kg to 25 ltr/kg which are suitable for packing lubricants, greases, paints, chemicals, food products, edible oils, etc.

MTL has 38% market share in the Pail industry and its client list includes blue chip companies like P&G, ITC, Asian Paints, Ponds, Goodlass Nerolac, Balmer & Lawrie, Leo Toys and leading lube manufacturers like Indian Oil, Veedol, HPCL, amongst others. MTL’s strengths lies in its capability to develop new pails with innovative features. It has a cost advantage over its competitors and it has a far better productivity.

Capacity Expansion

MTL has set up a 3,000 MT plant in Daman at a capex of Rs 6 cr. MTL is expanding its manufacturing facility at Daman by 900 MT in 2007-08 and is also modernizing its plants at Hyderabad. A lot of lubricant and paint customers are located in the Southern India. The company is setting plants closer to its customers to save on transportation costs. By having manufacturing facility in various parts of India MTL saves substantial costs, helps reduce supply lead-time

Plastic Pails – Steady Growth



We expect the Paints and Lubes industries to gradually replace metal packaging with plastic pails packaging. In the Paints industry, the distemper segment has completely shifted to pails while the emulsions are gradually turning to pails. While the Lubes have also started moving to pails, the opening up of the chemical industry to pail packaging is expected to lead to huge growth in demand. MTL has developed pails for chemicals, inks and pharmaceutical packing products and has also received trial orders, which are expected to convert into regular orders in the near future.

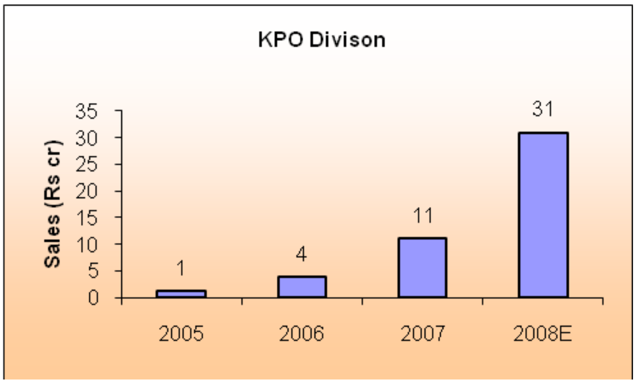
Pails segment is expected to grow at a CAGR of 25-27% for the next three years.

KPO - Explosive Growth Ahead.

KPO business is at a very nascent stage in India and the potential is enormous. Educated Indian youth provide unparalleled labour arbitrage to western firms. At more than 40% savings, the value proposition for outsourcing designing and detailing work to players like MTL is quite attractive. According to Commerce ministry, India is likely to capture 15% (Rs. 30,000 cr.) of over $54 billion (Rs. 2 lakh crore) KPO industry by 2010.

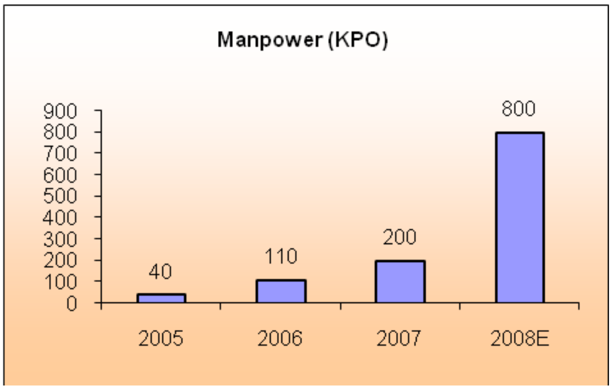
MTL entered engineering KPO in FY02 and today it provides complex engineering services like designing and CAD detailing for pre-engineered buildings, multi storied Steel/RCC structures, staircases and miscellaneous steel and residential buildings for its clients in USA. MTL's KPO division has established its credentials in Structural Engineering and has positioned itself as a reliable source for designing and detailing for American structural Engineering Fabricators, Builders and Contractors. With skills in designing Pre-Engineered Metal Buildings, the KPO is ramping up capacities in all the areas and is on the verge of achieving 100+% CAGR in the next few years. The net profit margins enjoyed in this business is quite healthy around 45%.

According to our estimates, current Non-Residential structural design and detailing industry in United States is more than Rs. 15000 crore and is expected to witness CAGR of 3% till 2010. If more than 2% of global structural design and detailing work is outsourced to India, we are staring at an opportunity of more than Rs 1000 crore for companies like MTL operating in this space.



New Facility

The company is building a 40,000 sq ft. campus at Jubilee hills to house more than 500 engineers at a total outlay of Rs 15 cr, funded by the capital raised through the preferential issue in April 2006 and a term loan from ICICI Bank. The new facility is likely to be operational by the year end.



Constraint faced by the company of housing new resources will be taken care of once the new facility comes into place, and we can expect a significant ramp-up in the business thereafter.

Creating Value through Acquisitions and Demergers

MTL recently acquired an American KPO Engineering and Detailing company, M/s. Cross Roads Detailing Inc., located in Indiana, USA promoted by an American "Professional Engineer". The business model adopted by Mold-Tek is quite robust where a Professional Engineer based in USA takes care of the front-end operations, client communications, marketing, quality and training of Indian Detailers while Indian Office with its dedicated resources for individual clients handles Designing and Detailing deliverables.

MTL is expected to merge Tech-Men Tools Ltd involved in making plastic packaging products. This will add to MTL's product portfolio of plastics business.

The management has decided to de-merge both the businesses and list them as separate entities. De-merger will result in better management focus and improve visibility of both the businesses. Demerger will help KPO business garner better valuations to raise funds for expansion. We believe, de-merger will unlock significant value for existing shareholders.

Investment Concerns

- Growth has its own challenges. The company's prospects can be hampered if management is unable to manage challenges thrown open by high growth expansion and build a successful organization which can attract and retain talent in engineering, managerial and financial functions.

- Any slowdown in the economy could impact demand for the packaging products.

Valuation and Recommendation

Improving margins in plastics business and enormous growth opportunities in KPO business make us believe that Mold-Tek Ltd. is a sound investment.

The pail segment of the packaging industry is expected to grow at a CAGR of 25-27% for the next three years. Setting up of facilities near clients and suppliers is expected to improve availability of raw materials and cut costs leading to margin expansions in plastics business.

Management is hopeful of expanding the KPO business by foraying into other Geographies like Europe; entering into different segments like residential (Wooden) buildings, exploring different lines like Mechanical engineering and oil platforms structural designs and inorganic growth opportunities in India and abroad.

At CMP of Rs 127, the stock trades at 8 times expected FY08 earnings of Rs 16 per share. The company has submitted a scheme of demerger for approval to BSE, and the process is expected to be over by November, 2007. Post de-merger, we believe KPO business will attract significantly higher valuations and unlock value for the existing share-holders. We recommend investors can buy the stock and hold it with a target of Rs 200 in 12-15 months.

Financial Snapshot

Annual Performance

Period to	FY05	FY06	FY07	FY08P
(Rs in Cr)	**(12)**	**(12)**	**(12)**	**(12)**
Net Sales	56.6	70.9	98.3	141.0
Operating expenses	(51.8)	(64.1)	(84.8)	(115.6)
Operating profit	4.8	6.7	13.5	25.4
Other income	0.1	0.2	0.0	0.1
PBIDT	4.9	7.0	13.5	25.5
Interest	(2.3)	(1.4)	(1.9)	(3.5)
Depreciation	(1.8)	(1.9)	(2.7)	(4.5)
Profit before tax (PBT)	0.8	3.7	9.0	17.5
Tax	0.0	(0.1)	0.0	(1.1)
Profit after tax (PAT)	0.8	3.6	9.0	16.4
Equity	8.4	8.8	10.5	10.5
EPS (Rs)	1.0	4.0	8.6	15.7

Balance Sheet

(Rs Cr)	FY05	FY06	FY07P	FY08P
Sources				
Share Capital	8.4	8.8	10.5	10.5
Reserves	1.0	3.9	11.6	31.2
Net Worth	9.5	12.7	22.1	41.6
Loan Funds	19.7	20.5	24.7	30.5
Def Tax liability	0.0	0.0	0.0	0.0
Total	29.1	33.3	46.8	72.1
Uses				
Gross Block	34.0	40.4	47.4	57.9
Accd Depreciation	(18.0)	(19.2)	(21.9)	(25.4)
Net Block	16.0	21.2	25.5	32.5
Capital WIP	0.9	1.6	4.5	11.0
Total Fixed Assets	16.9	22.9	30.0	43.5
Investments	0.1	0.1	0.1	0.1
Total Current Assets	22.7	28.2	39.4	59.1
Total Current Liabilities	(10.6)	(17.9)	(22.7)	(30.6)
Net Working Capital	12.1	10.3	16.7	28.5
Total	29.1	33.3	46.8	72.1

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