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The Trick Is To Spot Them At The Larval Stage

TINY TREASURE

May 2016

Mold-Tek Technologies

KPO IN NICHE GROWTH SEGMENT

BSE Code	:	**526263**
Time Duration	:	**1 year**
CMP	:	**₹45.25 (as on 25 May, 2016)**
Target Price	:	**₹82**

The tiny treasure for this month is Mold-Tek Technologies, a company which offers structural and mechanical engineering services to US and European markets, in an offshoring model. We picked the company due to its niche offering in offshoring space, growth prospects of the industry and its foray into IT services with emphasis on cloud infrastructure and mobile integration.

Industry to grow at double digit rate : Engineering service industry is characterized by a low degree of concentration and is dominated by small scale establishments. No one player accounts for more than 5% of the revenue. As per Hfs Research, engineering services has been one of the fastest growing segments within the Indian IT sector. It grew by 12.6% in 2015, higher than the 10.3% growth for IT services exports and 8.8% growth for BPM (business process management) exports. While Technavio's market research analysts predict the global KPO market to grow at a CAGR of around 23% from 2015 to 2019. As per IBIS World's Global Engineering Services global market research, growth in engineering services revenue is due to infrastructure, building and industrial construction in developing economies across the globe.

Niche Offshoring model: In this fragmented industry, Mold-Tek Technologies has an advantage of offshoring, while offering services at a much lesser cost than competitors. Company offers cost effective structural detailing work from India. As per HAYS (Staffing and Recruitment services provider), across the UK there has been a dramatic pick-up in the Civil and Structural Engineering market. This has led to demand and supply gap. We believe that with the buoyancy in Europe, Mold-Tek will grab this opportunity and grow its topline.

Structural services growth has been robust: Company has witnessed the highest growth in its structural services segment (84% of revenues) which has grown at the CAGR of 18.2% from FY11 to FY15. Company has grown at a rate above the US industry growth rate due to its offshoring model combined with engineering services offering. We are yet to receive the details from company on the segment growth in FY16.

Macro-economic parameters are showing positive indications. As per the latest, US housing stats data, building permits were up 3.6% in April and housing starts rose 6.6 percent. Another important indicator, Architecture Billing index (ABI) rose for three consecutive months which indicates the future construction spending in 6-9 months.

Due to above factors, we believe company will be able to see increase in topline in coming two to three quarters.

Potential high growth in IT services : The mobile integration and the digitalisation is the next wave hitting the IT market. Mold-Tek has been proactive in identifying this opportunity. Company has started working towards building capability in cloud infrastructure and mobile integration. We feel the company will be able to ride on this wave from third quarter of FY17.

As per Markets & Markets, the mobile BPM market is expected to grow from USD 1.18 Billion in 2015 to USD 3.26 Billion by 2020, at a CAGR of 22.5% from 2015 to 2020. The market is increasing accepting technologies such as cloud computing, business analytics, social media platforms, and process automation software.

Financials: We see that company has grown the top line phenomenally at the CAGR of 15.4% from FY2012 to FY2016 to reach a turnover of ₹52.9 crore in FY16. During the same period the bottom line has grown by CAGR of 51.3% to touch ₹5.7crore. During the last 5 years, company has been able to sustain margins in the range of 17-20%.

In Q4FY16, company witnessed margin pressures as the sales growth was flat QoQ to touch Rs11.34 crore vs ₹11.13 crore in Q4FY15. While company in the last quarters of June, September and December FY16 grew at the rate of 6.24%, 24.96% and 16.51%, respectively. We believe that the trend is due to lumpiness in the realisations and also the timing of receivables combined with the weakness in markets in Q4FY16.

On the debt part, debt increased in FY16 to ₹7.73 crore due to higher short term borrowing. However, the debt to equity ratio is comfortable at 0.26x as of FY16.

Inc/Exp Statement(Consolidated) (₹/Cr)

Description	2016	2015	2014	2013	2012
Net Sales	52.92	46.99	40.24	35.17	29.82
Total Income	57.00	48.33	41.14	36.73	31.04
Total Expenditure	46.18	37.84	34.12	30.45	25.03
PBIDT	10.82	10.49	7.02	6.28	6.01
PAT	5.77	5.23	2.08	1.20	1.10
Dividend %	40.00	35.00	18.00	12.00	10.00
Adj. EPS(Rs)	2.17	2.22	0.89	0.51	0.47

Valuation: We believe that company will be able to sustain the growth rate of 10% over the next year. The current P/B is 4.1x with book value of ₹29.4 crore. Company is currently trading at P/E ratio of 20.9x at share price of 45.25. We believe that considering 10% growth and improved economic activity along with benefit of rupee devaluation against USD and Euro, company should be able to see upside of 80% from current levels over the period of a year.