PG Foils Limited

February 03, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	65.00 (reduced from 90.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long term/Short term Bank Facilities	55.00	CARE A-; Stable/ CARE A1 (Single A Minus; Outlook: Stable/A One)	Reaffirmed
Total Facilities	120.00 (Rupees One Hundred Twenty Crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PG Foils Limited (PGFL) continue to derive strength from the vast experience of its promoters in aluminium foil manufacturing with more than three decades of operational track record and its diversified clientele with whom PGFL has a long-standing business relationship. The ratings also factor in PGFL's moderate scale of operations, moderate debt coverage indicators, comfortable capital structure and adequate liquidity supported by cushion available in the form of substantial investments which exceeded its outstanding debt as on September 30, 2020.

The ratings, however, continue to remain constrained by PGFL's moderate operating profitability which is further susceptible to raw material price volatility as well as foreign exchange rate fluctuation, long working capital cycle and presence in an intensely competitive aluminium foil industry.

Rating Sensitivities

Positive Factors

- Volume driven growth in its scale of operations with total operating income (TOI) above Rs.500 crore along with PBILDT margin and ROCE above 15% on sustained basis while maintaining its leverage.
- Improvement in operating cycle to less than 90 days through better collection efficiency on a sustained basis leading to reduced reliance on bank borrowings for funding working capital requirements.

Negative Factors

- Significant decline in scale of operations or decline in PBILDT margin to below 10% on sustained basis
- Major debt funded capex for manufacturing of unrelated products wherein no synergy with existing business operations exist which adversely affects its leverage and debt coverage
- Any unfavorable outcome of the long ongoing court case in the matter of forgery of FDRs of PGFL affecting its credit profile
- Any stress on liquidity arising from declaration of large dividend, non-recoupment of its investments or extension of loans and advances to unrelated entities

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters: Mr. Pankaj P. Shah, a commerce graduate, is the promoter of PGFL and its Managing Director since 1989. He looks after the overall operations of PGFL. He is assisted by Mr. Sahil Shah, Whole Time Director, who looks after product development and marketing functions. There are four non-executive and three independent directors on the six member board of PGFL.

Established track record in aluminium foil manufacturing and diversified clientele: Incorporated in November 1979, PGFL has established track record of more than three decades in manufacturing of aluminium foils and has long-standing relationship with its key clientele in pharmaceutical and fast moving consumer goods (FMCG) industries as well as manufacturers of packing products for dairy industry.

Also, clientele of PGFL is well-diversified with top five customers accounting for 25% of gross sales in FY20 (~30% in FY19). Moreover, PGFL has been able to acquire and retain its major clients through continuous focus on quality and customer service. The company predominantly remains a domestic player with only around 13% of gross sales from exports and has a

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

geographically diversified presence with marketing offices located at Ahmedabad, Mumbai, Delhi, Jaipur, Chennai, Hyderabad, Bengaluru and Kolkata.

Moderate scale of operations and profitability: During FY20, PGFL's TOI declined by 15% y-o-y but remained moderate at Rs.227.15 crore. The moderation in TOI was mainly on account of decline in sales volume of aluminium foil, its key product, due to overall sluggish demand which was also impacted by outbreak of covid-19 pandemic along with discontinuation of a product by one of its major pharmaceutical customers. Sales realization largely remained stable.
PGFL's operating profit (PBILDT) margin, after registering over 500 bps y-o-y decline during FY19, improved by 229 bps y-o-y during FY20 due to lower raw material costs and remained moderate at 11.92%.
During H1FY21, PGFL's TOI grew by 11% y-o-y to Rs.137.45 crore with higher demand from pharmaceutical sector amidst the pandemic. Also, operating profit margin improved by 141 bps y-o-y to 14.96% on the back of lower overhead expenses incurred during the period.

Comfortable capital structure and moderate debt coverage indicators: PGFL's capital structure remained comfortable with overall gearing of 0.77x as on March 31, 2020 (0.61x as on FY19 end) with marginal deterioration in the same on account of higher outstanding bank borrowings. Nonetheless, the financial risk profile continued to remain healthy marked by nil debt on a net basis (netting off investments from debt) and nominal long-term debt as on September 30, 2020.
PGFL's debt coverage indicators remained moderate during FY20. While interest coverage was largely stable at 3.22x (3.06x in FY19), total debt/GCA and total debt/PBILDT moderated to 6.36x and 4.68x respectively due to higher outstanding debt (4.67x and 3.54x respectively during FY19).

Liquidity - Adequate: PGFL has adequate liquidity with moderate utilization of its working capital limits, sizeable investments against outstanding debt and minimal long-term debt.
Utilization of working capital limits remained moderate at ~53% for 12 months ended December 2020. Also, PGFL had healthy investments (comprising of mutual fund units, debt instruments and insurance policies) of Rs.218.35 crore vis-à-vis outstanding debt of Rs.145.11 crore as on September 30, 2020 and minimal long-term debt, providing additional support to the company's liquidity. Nominal scheduled debt repayment in FY21 is envisaged to be met comfortably from its cash accruals. Also, PGFL did not avail moratorium on its bank facilities, as available under the Covid-19 pandemic relief package of the Reserve Bank of India.
However, liquidity of the company is partially tempered by an elongated operating cycle of 152 days in FY20 (146 days in FY19). Also, PGFL had invested Rs.9 crore in non-convertible debentures of a real estate entity where in there is some delay in recovery of principal as well as interest payment due to slowdown in the sector which was further impacted by the pandemic. While this amount forms only 4% of PGFL's total investment portfolio as on September 30, 2020 and hence is not expected to have any major impact on its liquidity, any significant increase in investments towards such risky asset class could adversely impact its liquidity going forward.
Furthermore, in FY14, PGFL had placed FDs of Rs.69 crore with Dhanlaxmi Bank, which was misappropriated by certain parties in FY15. The company has recovered the entire amount misappropriated, but the same has been recovered from parties other than those with whom the FDRs were placed, which was shown as liabilities in books of accounts till FY16. In FY17, as the amount of FDs placed was fully recovered, the liability shown in books of PGFL was settled against the FDs, as per the advice received by the company. However, the outcome of the various legal cases and other complaints filed by PGFL is pending, which will be crucial from the credit perspective.

Key Rating Weaknesses
Vulnerability of profitability to volatility in prices of key raw materials and foreign exchange rate: Aluminium coil is the main raw material for PGFL and it comprised more than 80% of its total raw material purchase cost. The price of aluminium coil has exhibited volatility in the past on account of its linkage with price of primary aluminium in the domestic market, which is in turn governed by global demand-supply scenario and foreign exchange rate fluctuation.
PGFL is also exposed to foreign currency exchange rate fluctuation risk on its imports due to significant gap between consumption of imported raw material and exports with no active hedging policy to mitigate the risk. During FY20, PGFL reported a foreign currency loss of Rs.5.23 crore primarily on its forex denominated borrowings availed to fund these purchases. Due to these factors, PGFL's profitability could be impacted by any adverse movement in its input cost which is generally passed on to its customers with some time lag due to intense competition in the industry.

Long operating cycle: PGFL's operations are working capital intensive with long operating cycle of 152 days in FY20 with sizeable investment required in receivables due to credit period of around 2-3 months offered to clients. PGFL also requires maintaining raw material inventory to readily serve the varied requirements of its diversified clientele. On the other hand, credit period from suppliers is limited due to commodity nature of raw material and direct procurement from the manufacturers who have greater bargaining power which results in a long operating cycle for the entity.

Presence in an intensely competitive aluminium foil industry: The aluminium foil industry is intensely competitive on account of ample available production capacity along with imports of regular quality foils, particularly from China and South East Asian nations. While the demand for aluminium foils is expected to remain stable in the medium term with regular off-take from major end user industries including pharmaceutical and FMCG industries, the profitability of the industry players is expected to remain volatile on account of close linkage of raw material prices to global metal prices along with volatility in forex rates, particularly for imported raw materials.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Liquidity Analysis - Non Financial Sector]
[Rating Methodology - Manufacturing Companies]
[Financial ratios - Non- Financial Sector]

About the Company
PGFL, incorporated in November 1979, is the flagship company of the PG Foils group based out of Pali Marwar, Rajasthan. The company is engaged in manufacturing of aluminium foils and flexible packaging with an installed capacity of 11,700 metric tons per annum (MTPA) as on September 30, 2020. PGFL's clientele includes entities in pharmaceutical and FMCG industries and packaging manufacturers for dairy items. PGFL also has a wind mill based power generation capacity of 2.10 megawatt (MW) and a solar power plant of 2 MW as on September 30, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	267.32	227.15
PBILDT	25.75	27.08
PAT	16.18	14.96
Overall gearing (times)	0.61	0.77
Interest coverage (times)	3.06	3.22

A: Audited
Furthermore, as per its H1FY21 provisional results, PGFL reported a TOI of Rs.137.45 crore with net profit of Rs.9.63 crore as against TOI of Rs.123.77 crore and net profit of Rs.14.24 crore reported in H1FY20.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	-	-	-	55.00	CARE A-; Stable / CARE A1
Fund-based - LT-Cash Credit	-	-	-	65.00	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	55.00	CARE A-; Stable / CARE A1	-	1)CARE A-; Stable / CARE A1 (13-Feb-20)	1)CARE A-; Stable / CARE A1 (11-Mar-19)	1)CARE A-; Stable / CARE A1 (05-Mar-18)
2.	Fund-based - LT-Cash Credit	LT	65.00	CARE A-; Stable	-	1)CARE A-; Stable (13-Feb-20)	1)CARE A-; Stable (11-Mar-19)	1)CARE A-; Stable (05-Mar-18)

Annexure-3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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