Caprihans India Limited

September 05, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	41.75	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Reaffirmed
Short Term Bank Facilities	48.25	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	**90.00 (₹ Ninety Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Caprihans India Limited (CIL) continues to derive strength from the long operational track record of CIL in the packaging industry, established procurement and distribution network in domestic and export markets, along with its long-standing relationship with well-established/reputed clientele base. Furthermore, the ratings also take into account the growth in revenues albeit moderation in profit margins resulting into stable cash flows vis-à-vis growth in revenues on a y-o-y basis in FY22 (refers to the period April 01 to March 31).

CARE Ratings Ltd takes note of the fact that the increase in raw material prices, particularly resins (a derivative of crude), energy costs coupled with increase in freight costs has resulted in the moderations in the operating profitability margins of the company as well as increased the working capital intensity of the business. CARE Ratings Ltd, however, believes that at the global level, the surge in the prices of input costs, i.e., resins which is a derivative of crude being mainly imported is temporary in nature and is a fall out of the geo-political tensions and the same is expected to ease out in the near to medium term. This has resulted in subdued operating performance by the company in Q1FY23. However, CARE Ratings Ltd would continue to monitor the situation closely and in case of worsening of the current situation impacting the credit risk profile of the company, the same may act as a negative sensitivity.

Moreover, the ratings continue to derive strength from company's strong financial risk profile supported by low overall gearing, comfortable debt coverage indicators, moderate working capital cycle and adequate liquidity.

However, the rating strengths are tempered by weak credit profile of promoter company, 'Bilcare', relatively modest scale of operations, profitability margins susceptible to volatility in foreign exchange rates and raw material prices in the wake of higher commodity prices and energy costs as well as susceptible to government regulations. Furthermore, the ratings are tempered by prevailing competition in the industry due to low entry barriers.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in the scale of operations above Rs.500 crore and profit before interest, lease rentals, depreciation and taxation (PBILDT) margins above 13%.
- Improvement in the operating cycle below 90 days with sustained financial profile on a continuity basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decrease in PBILDT margins below 4% on a sustained basis.
- Increase in the operating cycle above 120 days owing to increase in the working capital intensity on a sustained basis
- Deterioration in the gearing levels to above 0.50x.
- Sustenance of adequate liquidity through maintenance of funds of around Rs.30 crore.
- Significant deterioration in debt coverage indicators or liquidity parameters owing to large capex or higher working capital cycle

Outlook: Stable

Detailed description of the key rating drivers

Key Rating Strengths

Well-established track record of the company in the packaging industry

CIL has been in the business of flexible polyvinyl chloride (PVC) products since 1957, thereby exhibiting a well-established track record of around six decades in the packaging industry. Over the years, the company has steadily expanded into decorative and industrial laminates, polystyrene sheets and plastic-corrugated sheets. It has diversified from flexible packaging products into manufacture of rigid PVC and polyvinylidene chloride (PVDC) films. The company caters to the packaging demand from pharmaceutical, fast-moving consumer goods (FMCG) and food industries. Besides, flexible PVC film and extruded products are used for a variety of other industrial applications. The company is managed by a eight-member Board having rich experience in the industry along with eminent and well-qualified professionals from relevant fields.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Established procurement and distribution network in domestic and export markets as well as reputed clientele
The company has established network for the procurement of raw materials and distribution of the packaging material domestically and to various countries in Asia, Africa and Europe. The exports contributed around 7.56% of the total income in FY22 (refers to the period April 1 to March 31). CIL has long-standing relationships with several of its customers and receives orders on a monthly basis. The company's manufacturing facilities are current good manufacturing practices (cGMP)-compliant and it has been able to maintain its customer base among its international buyers. The company has location advantage as its plants as well as most of the customer base- pharmaceutical and FMCG companies are in western India. The company has a very strong network, and the western zone contributes about 61% of the total domestic sales. CIL also has a diversified and reputed clientele base. The company has a low customer concentration risk as its top ten customers contribute about 36% of its revenues in FY22. Besides, the company has long-standing relationship for its products with FMCG and pharma players.

Growth in the revenues coupled with steady cash accruals in FY22; albeit subdued operating performance in Q1FY23
During FY22, CIL reported a growth in Total operating income (TOI) of the company by 32.42% as compared to TOI of FY21 mainly on account of surge in pricing of end-product owing to increase in raw material prices. The TOI of the company stood at Rs. 392.89 crores as compared to Rs. 296.69 crores in FY21. The company's PBILDT margins declined to 5.64% in FY22 as compared to 7.69% in FY21 owing to increase in the input prices, i.e., raw material costs, energy costs and freight charges in the wake of geo-political unrest. Furthermore, the profit after tax (PAT) margins declined to 4.27% in FY22 as compared to 6.82% in FY21 in line with the PBILDT margin. The company has reported steady Gross cash accruals (GCA) of Rs.20.65 crores in FY22 as compared to Rs.23.11 crores in FY21.
During Q1FY23, the company has reported TOI of Rs. 111.04 crores with significant decline in operating margin (PBILDT margin) at 2.91 % mainly due to increase in raw material prices coupled with increase in employee cost, freight charges and other expenses such as electricity expenses, IT software charges, plant and stores maintenance cost. The profit margin of the company is at 1.39% and reported GCA of Rs. 2.60 crores.

Strong financial risk profile characterised by low gearing levels and comfortable debt coverage indicators
As on March 31, 2022, CIL has no long-term debt and has 2tilize2 its fund-based working capital facility moderately till date. The company relies more on non-fund-based Letter of Credit (LC) facilities for procurement of raw materials; however, with substantial increase in the raw material prices in past six months, CIL has to 2tilize higher non-fund-based limits to support the operations. The overall gearing of CIL though deteriorated to 0.22x in FY22 as compared to 0.13x in FY21; yet the same is considered to remain at lower levels. The PBILDT/ interest coverage ratio stood at 22.47x in FY22 as compared to 25.25x in FY21 and total debt/ gross cash accruals stood at 1.85x in FY22 as compared to 0.90x in FY21.
During Q1FY23, overall gearing is 0.16x and PBILDT/ interest coverage ratio stood healthy at 9.23x. Going forward, significant deterioration in the overall gearing owing to higher reliance on bank borrowings as a result of increase in working capital intensity is a key rating sensitivity.

Key Rating Weaknesses
Operating Margins exposed to volatility in raw material prices and foreign exchange rates
PVC resin is the main raw material for CIL. The resins being crude oil derivative, resin prices are linked with crude oil prices. Additionally, certain grades of resin are also imported from Japan. Thus, prices of resin are also susceptible to the volatility in foreign exchange rates. Thus, commodity price and foreign exchange fluctuation are significant risks to the profitability of the company.

Low entry barriers and imports leading to intense competition
The PVC packaging industry has low entry barriers leading to large number of small-sized players in the sector; thus, increasing the intensity of competition in the industry. Access to modern technology has improved, enabling advanced set ups by new players. Many small units set up plants near the premises / plant of the user company to save transportation costs. User companies require higher level of customisation across packaging products. CIL also faces challenges from the increased competition from imports. However, CIL supplies majorly to pharma companies which are highly regulated sector; thus, providing lesser competition to an extent from players of packaging industry. Also, CIL is increasing its focus on PVDC segment which is a value-added product to further cater to the pharma companies.

Susceptible to various government regulations
The pharmaceutical and food industry are major customers of the packaging industry. As both the user industries pertain to health and general well-being of the people at large, government regulations pertaining to packaging used in both these industries are very strictly implemented. Often, regulations relating to use of several packaging materials for these two industries are modified by the government from time-to-time, impacting the manufacture and sale of packaging products.

Adequate Liquidity
CIL has adequate liquidity driven by expected cash accruals of around Rs.14 crore on annual basis in FY23 and with no long term loan liability, this would be more or less sufficient for supporting the operations. Besides, the liquidity is available in the form of utilised bank limits of Rs.0.55 crore, and as on July 31, 2022, the company has free cash and bank balance of around Rs.10.95 crore. The company's non-fund based limits on an average of last 12 months are utilized to an extent of 73%. With the commodity prices coming down from the peak levels in the past, the working capital intensity is also expected to reduce which would result in restoring the liquidity further.

Analytical approach: Standalone.

Applicable criteria:
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the Company
CIL was incorporated as a privately held company on April 11, 1946, and was listed on the Bombay Stock Exchange in 1976. The company is among the prominent players in rigid packaging. CIL's manufacturing units are located in Thane and Nasik, Maharashtra. The company is engaged in the processing of plastic polymers and manufactures rigid and flexible polyvinyl chloride (PVC) films by calendaring process poly vinylidene chloride (PVDC)-coated rigid PVC film and certain plastic products through extrusion process in India.
CIL started K1 Flexible PVC films (brand: Sunflex) at Thane factory in 1957. The company expanded into decorative and industrial laminates, rigid PVC and PVDC films, high impact polysterene sheets (by extrusion), sheet manufacturing from other polymers and plastic corrugated sheets at its manufacturing facilities. In two phases, CIL added PVDC coating lines at Nasik in 2004-07. It is current good manufacturing practices (cGMP) compliant.
The rigid PVC film produced by CIL is used for packaging in the pharmaceutical, food and fast moving consumer goods (FMCG) industries; and flexible PVC film and plastic-extruded products are used for a variety of industrial and consumer applications. The company is a lead player in the manufacture of certain pharma industry-specific packaging (duplex and triplex layers of packaging), which has high margins.
CIL is presently promoted by Bilcare Mauritius Limited (holds 51% stake) and by Indian promoters Mr Mofatraj Munot of the Kalpataru group and related/associated entities).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	296.69	392.89	111.04
PBILDT	22.81	22.17	3.23
PAT	20.22	16.79	1.54
Overall gearing (times)	0.13	0.22	0.16
Interest coverage (times)	25.25	22.47	9.23

A: Audited, Prov.- Provisional, NA- Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	-	41.75	CARE A-; Stable / CARE A2+
Non-fund-based-Short Term	-	-	-	-	48.25	CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	41.75	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (22-Mar-22) 2)CARE A-; Stable / CARE A2+ (07-Oct-21)	1)CARE A-; Negative / CARE A2+ (06-Oct-20)	1)CARE A-; Negative / CARE A2+ (03-Oct-19)
2	Non-fund-based-Short Term	ST	48.25	CARE A2+	-	1)CARE A2+ (22-Mar-22) 2)CARE A2+ (07-Oct-21)	1)CARE A2+ (06-Oct-20)	1)CARE A2+ (03-Oct-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. Penal interest	Penal interest @ 1% p.a. is applicable for non-compliance of terms of sanction, non-creation of security and Penal interest @ 2% p.a. is applicable in case of payment default. Where simultaneous defaults are observed under various heads where penal interest is applicable, the maximum penal interest to be charged over and above the normal applicable rate of interest shall be restricted to 2%p.a.
B. Non-financial covenants	
I. Submission of annual accounts	The borrower shall submit to the bank, every year, audited annual accounts within a period not exceeding 6months/ three months (in case of listed companies) from the closure of the previous accounting year. Similarly quarterly results wherever applicable shall also be submitted within 45 days from the end of the last quarter
II. Submission of stock statement	The applicant shall submit to the bank monthly stock statement / book-debt statement in the prescribed form within 10^{th} day of each succeeding month

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT/ ST-CC/Packing Credit	Simple
2	Non-fund-based-Short Term	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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