

Capricoating Solutions Private Limited

April 06, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	22.28	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	14.00	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable/ A Three)	Assigned
Total Bank Facilities	36.28 (Rs. Thirty-Six Crore and Twenty-Eight Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Capricoating Solutions Private Limited (CSPL) considers the takeover of business from earlier existing entity Capri coating Solutions (CCS; partnership firm) with CSPL and the subsequent transfer of bank facilities of CCS to CSPL. The rating continues to factor the parameters of earlier entity i.e. Capri coating Solutions (CCS; partnership firm) The business was transferred from Sept 01, 2021 and the figure prior to the mentioned date are of CCS. The ratings derive strength from the experienced promoters, long track record of operations through the partnership firm; CCS and now in Company CSPL, strong support of the promoters, growing scale of operation, moderate capital structure and debt coverage indicators and established relation with customer and supplier. The ratings, however, is tempered by the moderate profitability margins being susceptible to fluctuations in raw material prices and foreign exchange fluctuation risk. The ratings are also tempered by the project implementation risk and competitive nature of industry.

Rating Sensitivities

Positive Factors

- Improvement in PBILDT Margins above 15% on account of better operational management or increased capacity utilization a sustained basis.
- Significant improvement in operating scale resulting in operating income of more than Rs.200 crore on a sustained basis.

Negative Factors

- Increase in overall gearing beyond 2.00x on account of increased borrowings on a continued basis.
- Decrease in PBILDT interest coverage below 2.00x on a continued basis.
- Discontinuation of support from the promoter group or change in promoter group

Detailed description of the key rating drivers

Key Rating Strengths

• Experienced Promoters and Management

Capricoating solutions Private Limited (CSPL) is established in 2021 however promoters Mr. Abhishek Jain and Mr. Prashant Godha were earlier partners in Capri coating Solution (CCS) which was established in 2008 as a partnership firm. Mr. Abhishek Jain has an experience spanning more than a decade in the industry. He is the managing Director of the company and looks after day-to-day operations and marketing. Mr. Prashant Godha has an experience of around more than a decade and serves on the Board of IpcA Laboratories Ltd (IPCA; rated CARE AA; Positive/CARE A1+) as Executive Director and heads IPCA's Branded formulation business both domestic and exports. Mr. Prashant is the son of Mr. Premchand Godha, who is the promoter and CMD of IPCA. Support and guidance from the promoters for the operations is expected to continue.

• Growing scale of operation coupled with moderate profit margins

The company has commenced business operations w.e.f Sep 01 2021 by taking over the business of the partnership firm. Till FY21, CCS has registered a growth of 8.24% in its operating income in FY21 as compared to FY20. CCS registered TOI of Rs. 81.09 crores in FY21 as compared to Rs. 74.92 crores in FY20. PBILDT margins improved from 10.17% in FY20 to 12.58% in FY21. PAT margins improved from 4.08% in FY20 to FY21 is 6.29%. Combined TOI on continuity basis for 9MFY22 is Rs.76.72 crore (including TOI of Rs.37.31 crore in the Company CSPL from 01.09.2021 to 31.12.2021). PBILDT and PAT margins for 9MFY22 stood at 9.03% and 5.02% respectively.

• Established relation with customer and Supplier:

As the business remains the same and it has been taken over by CSPL, on continuity basis, the company has established and maintained relations with its customers (mainly printers) and suppliers over the years. Top ten domestic customers accounted for 39.87% of net sales in FY21 as compared to 27.69% of net sales in FY20. Exports accounted for 2.14% of net sales in FY21 which was 2.22% of net sales in FY20.

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

- **Moderate capital structure and coverage indicators**

CCS overall gearing (including subordinated unsecured loans from partners of Rs.5.00 as networth) improved to 0.65x as on March 31, 2021 as compared to 0.88x on March 31, 2020. Presently, as the company is undertaking a project for capacity enhancement for Emulsion coating, it is expected to increase the overall gearing in the medium term. As on 31st December 2021 the company's capital structure remained moderate at 1.17x. CSPL's Interest Coverage for 9MFY22 was 7.45x. CCS has satisfactory debt coverage indicators with PBILDT interest coverage of 8.79x for FY21. Total Debt / GCA for the CCS improved to 1.89x as on March, 2021 as compared to 3.24x as on March 2020 on account of increased sales and better operational performance. Total Debt / GCA was 3.77 for CSPL as on Dec 31, 2021.

Rating Weakness:

- **Margins susceptibility to the volatility of raw material and forex rates**

The main raw materials required for self-adhesive stocks are paper and gum. The wood pulp (raw material for paper) prices depends on demand supply scenario and remains volatile. The company fulfills its raw material requirement from both domestic purchase and imports. Earlier CCS imported 39.59% of its raw material requirement in FY21 as compared to 45.74% in FY20. Export accounted for 2.14% of net sales in FY21 as compared to 2.22% in FY20. Thus, the profit margins are susceptible to volatile raw material prices and forex fluctuations.

- **Project risk with regards to project implementation**

The company is planning a capacity expansion project for Emulsion coater. Existing capacity of Emulsion coater (19.47 million sq. meter) is fully utilized and Entity is planning to increase the capacity to 54 million sq. meter. The project will cost Rs. 22.50 crore including Rs.0.5 crore contingency fund. It will be debt funded with Rs. 16 crore of term debt and rest from own contribution. Land has already been acquired worth Rs. 2.75 crore for the project. Out of total project cost of Rs.22.50 cr, Rs. 9.43 crore is incurred till December 31st 2021. Timely completion of the project within estimated cost, which is subject to getting all the required approvals will be critical from credit perspective. However, comfort can be drawn from the fact that the project is not green field project and only expansion of existing capacity of Emulsion Coating. Promoter are having experience in executing such project in past.

Liquidity analysis – Adequate

The liquidity is adequate with average working capital utilization of around 67.74% for past 12 months ending Dec 2021. The company has made repayment of Rs. 2.01cr till February 28, 2022 out of Rs.2.19 crore to be paid during FY22.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios - Non-Financial Sector](#)

[Rating Methodology- Manufacturing Companies](#)

[Liquidity Analysis for Non-Financial Sector](#)

About the Company

Capri coating Solutions Pvt. Ltd. (CSPL) Is a private limited company established in May 2021. The company took over the whole business from Capri Coating Solutions (CCS) which was established in 2008 as a partnership firm. The Partners in the firm has become the promoter/Directors of the company. The overall business remains the same. The company produces self-adhesive labels with manufacturing unit situated in Silvassa, U.T. of Dadra & Nagar Haveli. The current manufacturing capacity for the plant is 5,200 Metric ton. Label stocks are used in consumer industry for the purpose of displaying product information, branding and/or business communication. The company has in-house silicone coating facility that yields high-performance label stock products and emulsion coating facility.

Brief Financials (Rs. crore)	31-03-2020 (A)*	31-03-2021 (A)*	9MFY2022 (UA)
Total operating income	74.92	81.09	76.72
PBILDT	7.62	10.20	6.93
PAT	3.06	5.10	3.85
Overall gearing (times)	0.88	0.65	1.17
Interest coverage (times)	4.38	8.79	7.45

A: Audited; UA: Unaudited

*Past financials till FY21(A) pertains to partnership firm – CCS and 9MFY22 includes the financials of 5MFY22 under CCS.

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

Rating History for last three years: Please refer Annexure-2**Covenants of rated instrument / facility:** 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Dec 2026	22.28	CARE BBB-; Stable
Fund-based/non-fund-based-LT/ST		-	-	-	14.00	CARE BBB-; Stable / CARE A3

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	22.28	CARE BBB-; Stable				
2	Fund-based/non-fund-based-LT/ST	LT/ST*	14.00	CARE BBB-; Stable / CARE A3				

* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
I Debt Service Coverage Ratio	DSCR>1.25x
II Total operating Leverage to Total Net worth	TOL/ATNW <4x (Unsecured loans shall be included in both TOL and ATNW)
B. Non-financial covenants	
I. Subordination of unsecured loans	Unsecured loan of Rs.15 crores shall be maintained in the business during the tenor of bank facilities
II Project related funding	In event of escalation of project cost, Company shall make arrangement to raise such additional funds as may be required to complete the project.

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based/non-fund-based-LT/ST	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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