PG Foils Limited

October 07, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	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 Bank Facilities	**145.00 (₹ One Hundred Forty-Five Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of PG Foils Limited (PGFL) continue to derive strength from vast experience of its promoters in aluminium foil manufacturing business 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 which reported healthy growth in FY22 (refers to the period April 1 to March 31) as well as in Q1FY23 along with improvement in profitability resulting in healthy financial risk profile. The ratings also take cognizance of PGFL's adequate liquidity supported by cushion available in the form of substantial unencumbered investments in form of mutual funds, bonds and unit linked insurance policies which exceeded its outstanding debt as on June 30, 2022.

The ratings, however, continue to remain constrained by susceptibility of PGFL's profitability to volatile raw material prices as well as exchange rate fluctuations, moderate working capital cycle and its presence in an intensely competitive aluminium foil industry.

Rating sensitivities

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

- Significant growth in its scale of operations while maintaining its PBILDT margin and capital structure
- 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 – Factors that could lead to negative rating action/downgrade:

- Significant decline in scale of operations or PBILDT margin below 10% on sustained basis
- Major debt funded capex for manufacturing of products having low synergy with existing business operations, having an adverse impact on its leverage and debt coverage indicators
- Any unfavourable 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 inter corporate deposits.

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Established track record in aluminium foil manufacturing business and diversified clientele:

Incorporated in November 1979, PGFL has an 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.

PGFL is predominantly a domestic player with a well-diversified clientele marked by top five customers accounting for ~21% of net sales in FY22 (~23% in FY21). The domestic market is catered through a well-established and strong marketing and distribution network with offices located at Ahmedabad, Mumbai, Delhi, Jaipur, Chennai, Hyderabad, Bengaluru and Kolkata.

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

Volume-backed growth in scale of operations and improvement in profitability:
During FY22, PGFL's total operating income (TOI) registered healthy y-o-y growth of 58% at Rs. 395.11 crore (Rs.264.31 crore in FY21). The growth was mainly on account of increase in sales volume of aluminium foil due to imposition of anti-dumping duty on import of aluminium foil (of thickness 80 microns and below) from China, Malaysia, Indonesia and Thailand, used in food and pharmaceutical sectors for guarding domestic players and deterring cheap imports. Operating profitability improved with PBILDT margin of 12.51% in FY22 (7.23% in FY21) as the company gained on increasing aluminium prices while the RM procurement cost of aluminium foil stock was fixed through pre-booking contracts for a large part of FY22. While fixed price contract for aluminium foil procurement improved PGFL's margin in FY22, entering into any long-term fixed price contracts going forward remains crucial from the credit perspective and hence a key rating monitorable.
During Q1FY22, PGFL reported y-o-y growth of ~30% in its TOI to Rs.121.71 crore with increase in both, sales volume as well as sales realisation of aluminium foil. Growth in volume was partially offset by higher raw material cost and consequently, PGFL's PBILDT margin moderated by 92 bps in Q1FY23 to 11.59% as compared to FY22. While PGFL's TOI is envisaged to remain in line with FY22 levels, CARE expects its PBILDT margin to moderate further by around 100-150 bps with dip in aluminium prices during FY23.

Comfortable capital structure and debt coverage indicators:
PGFL's capital structure remained comfortable with overall gearing of 1.01x as on FY22 end (0.9x as on FY21 end). The company has adequate liquid investments (mainly in the form of mutual funds) of Rs.288.50 crore which exceed total o/s working capital borrowings of Rs.200.74 crore. Around 25% of 38,90,000 share warrants issued in FY21 were converted into equity in FY22 and balance is envisaged to be converted by April 2023. The proceeds will be utilized for capacity expansion in the existing product line or acquisition of a company which shall be present in the same line of business.
PGFL's debt coverage indicators remained comfortable during FY22 marked by interest coverage of 8.6x (4.0x in FY21) and total debt/PBILDT of 5.28x respectively (5.54x in FY21). Absence of any large debt-funded capex is envisaged to improve the financial risk profile over the medium term.

Experienced promoters:
Mr. Pankaj P. Shah, promoter, and Managing Director of PGFL, has industry experience of more than three decades and looks after the overall operations of the company. He is assisted by Mr. Sahil Shah, Whole Time Director, who looks after product development and marketing functions.

Key rating weaknesses
Vulnerability of profitability to volatility in prices of key raw materials and foreign exchange rate:
Aluminium foil stock is the main raw material for PGFL, and it comprised more than 70-80% of its TOI. The price of aluminium foil stock has exhibited volatility in the past on account of its linkage with price of primary aluminium in the domestic market, which in turn is governed by global demand-supply scenario.
PGFL is also exposed to exchange rate fluctuation risk on its imports due to significant gap between consumption of imported raw material and exports & forex debt and absence of active hedging policy. During FY22, PGFL reported a foreign currency gain of Rs.1.75 crore (loss of Rs.0.63 crore in FY21). Due to these factors, PGFL's profitability may be impacted by any major adverse movement in its input cost which is generally passed on to its customers with some time lag.

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 Southeast Asian nations. Nevertheless, CARE expects the demand for aluminium foils to remain stable in the medium term with regular offtake from major end user industries including pharmaceutical and FMCG.

Liquidity: Adequate
PGFL has adequate liquidity with moderate utilization of its working capital limits, absence of long-term debt and sizeable liquid investments against outstanding debt. Utilization of working capital limits was moderate at 80% during the trailing 12 months ending August 2022. Cash flow from operations was negative at Rs.94.02 crore majorly on account of advances given to suppliers for raw material procurement of Rs.147.59 crore as on March 31, 2022 (Rs.25.62 crore in FY21). PGFL had entered into a fixed price contract with its suppliers at the end of FY21 & FY22 for bulk raw material supply for availing price benefit as evidenced through improvement in margins.
PGFL's operating cycle improved to 105 days in FY22 (FY21: 145 days) on account of reduction in average credit period offered to customers to around 45 days in FY22 as compared to 80-90 days in FY21. Although inventory levels have increased, it follows increase in TOI and remains an average of ~2-3 months. Payment to supplier is majorly on advance basis.

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
Policy on Withdrawal of Ratings
Manufacturing Companies

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 August 31, 2022.
PGFL's clientele includes pharmaceutical and FMCG companies as well as packaging manufacturers for dairy products. PGFL also has a windmill with power generation capacity of 2.1 megawatt (MW).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
Total operating income	250.56	395.12	121.71
PBILDT	18.13	49.45	14.11
PAT	15.29	46.56	10.26
Overall gearing (times)	0.98	1.01	NA
Interest coverage (times)	3.98	8.62	11.59

A: Audited, UA: Unaudited, NA: Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: 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
Non-fund-based - LT/ ST-BG/LC		-	-	-	55.00	CARE A-; Stable / CARE A1
Fund-based - LT-Cash Credit		-	-	-	90.00	CARE A-; Stable

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	Non-fund-based - LT/ ST-BG/LC	LT/ST*	55.00	CARE A-; Stable / CARE A1	-	1)CARE A-; Stable / CARE A1 (30-Dec-21)	1)CARE A-; Stable / CARE A1 (03-Feb-21)	1)CARE A-; Stable / CARE A1 (13-Feb-20)
2	Fund-based - LT-Cash Credit	LT	90.00	CARE A-; Stable	-	1)CARE A-; Stable (30-Dec-21)	1)CARE A-; Stable (03-Feb-21)	1)CARE A-; Stable (13-Feb-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

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

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