PG Foils Limited

December 12, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	100.00 (Enhanced from 90.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long-term/short-term bank facilities	95.00 (Enhanced from 55.00)	CARE A-; Stable/CARE A1 (Single A Minus; Outlook: Stable/A One)	Reaffirmed
Total bank facilities	**195.00 (₹ One hundred ninety-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 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, which reported healthy volume-backed growth in FY22 (refers to the period from April 1 to March 31), healthy operating profitability, comfortable capital structure, satisfactory debt coverage indicators, and adequate liquidity, supported by cushion available in the form of substantial investments in mutual funds, bonds, and unit-linked insurance policies, which exceeded its outstanding debt as on September 30, 2022.

The ratings, however, continue to remain constrained by raw material price volatility as well as foreign exchange rate fluctuation, 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:

- Volume-driven growth in its scale of operations with total operating income (TOI) above ₹500 crore along with the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin and return on capital employed (ROCE) above 15% on a sustained basis while maintaining its leverage.
- Improvement in the 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 the scale of operations or decline in the 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 unfavourable outcome of the long ongoing court case in the matter of forgery of fixed deposit receipts (FDRs) of PGFL, affecting its credit profile.
- Any stress on the liquidity arising from declaration of large dividends, non-recoupment of its investments, or extension of loans and advances to unrelated entities.

Detailed description of the key rating drivers

<u>**Key rating strengths**</u>

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

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

PGFL is predominantly a domestic player with a well-diversified clientele, marked by the top five customers accounting for around 21% of the net sales in FY22 (around 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.

Volume-backed growth in scale of operations and improvement in profitability: During FY22, PGFL's TOI registered a healthy y-o-y growth of 58% at ₹395.11 crore (₹264.31 crore in FY21). The growth was mainly on account of an increase in sales volume of aluminium foil due to the imposition of anti-dumping duty on the import of aluminium foil (of thickness 80 microns and below) from China, Malaysia, Indonesia and Thailand, used in the food and pharmaceutical sectors for guarding domestic players and deterring cheap imports. The operating profitability improved with a PBILDT margin of 12.51% in FY22 (7.23% in FY21), as the company gained on increasing aluminium prices while the raw material (RM) procurement cost of aluminium foil stock was fixed through pre-booking contracts for a large part of FY22. While fixed-price contracts 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 H1FY23 (refers to the period from April 01 to September 30), PGFL reported a TOI of ₹206.25 crore (H1FY22: ₹211.12 crore). The stable scale of operations was partially offset by lower sales realisation due to a decline in aluminium prices. It resulted in a moderation in the PBILDT margin by 824 bps on a half-year basis to 12.11% (H1FY22: 20.35%). While PGFL's TOI is envisaged to remain in line with FY22 levels, CARE Ratings Limited (CARE Ratings) expects its PBILDT margin to moderate further by around 100-150 bps with a dip in aluminium prices during FY23.

Comfortable capital structure and debt coverage indicators: PGFL's capital structure remained comfortable with an 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 ₹288.50 crore, which exceed the total outstanding working capital borrowings of ₹200.74 crore. Around 25% of 3,890,000 share warrants issued in FY21 were converted into equity in FY22 and the balance is envisaged to be converted by April 2023. The proceeds will be utilised for capacity expansion in the existing product line or the acquisition of a company 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 (TD)/PBILDT of 5.28x (5.54x in FY21). The absence of any large debt-funded capex is envisaged to improve the financial risk profile over the medium term.

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

Key rating weaknesses

Vulnerability of profitability to volatility in key raw materials prices and foreign exchange rates: 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 the price of primary aluminium in the domestic market, which in turn, is governed by the global demand-supply scenario.

PGFL is also exposed to exchange rate fluctuation risk on its imports due to a significant gap between the consumption of imported raw materials and exports and forex debt and the absence of an active hedging policy. During FY22, PGFL reported a foreign currency gain of ₹1.75 crore (a loss of ₹0.63 crore in FY21). Due to these factors, PGFL's profitability may be impacted by any major adverse movements 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 Ratings 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 utilisation of its working capital limits, the absence of long-term debt, and sizeable liquid investments against outstanding debt. The utilisation of working capital limits was moderate at 80% during the trailing 12 months ending August 30, 2022. The cash flow from operations was negative at ₹94.02 crore, mainly on account of advances given to suppliers for the procurement of raw materials of ₹147.59 crore as on March 31, 2022 (₹25.62 crore in FY21). PGFL had entered into fixed-price contracts with its suppliers at the end of FY21 and FY22 for the supply of bulk raw materials to avail price benefits, as evidenced by the improvement in margins. PGFL's operating cycle improved to 105 days in FY22 (FY21: 145 days) on account of a reduction in the average credit period offered to customers to around 45 days in FY22 as compared with 80-90 days in FY21. Although the inventory levels have increased, it follows an increase in TOI and remains at an average of around two to three months. Payments to suppliers are mainly on an 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
Manufacturing Companies
Policy on Withdrawal of Ratings

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 tonne 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 a power generation capacity of 2.1 megawatt (MW).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	September 30, 2022 (UA)
TOI	250.56	395.12	206.25
PBILDT	18.13	49.45	24.97
PAT	15.29	46.56	16.97
Overall gearing (times)	0.98	1.01	1.02
Interest coverage (times)	3.98	8.62	6.82

A: Audited, UA: Un-audited.

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the 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-Cash Credit		-	-	-	100.00	CARE A-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	95.00	CARE A-; Stable / CARE A1

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*	95.00	CARE A-; Stable / CARE A1	1)CARE A-; Stable / CARE A1 (07-Oct-22)	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	100.00	CARE A-; Stable	1)CARE A-; Stable (07-Oct-22)	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 the 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 the bank facilities, please click here.

Note on the 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 us:

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