

Signode India Limited

March 15, 2021

Ratings

| Facilities/Instruments | Amount (Rs. crore) | Ratings | Rating Action |
|--|--|---|---------------|
| Long-term Bank Facilities | 3.00 | CARE AA; Stable (Double A; Outlook: Stable) | Reaffirmed |
| Long-term / Short-term Bank Facilities | 274.00 | CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable/ A One Plus) | Reaffirmed |
| Total Bank Facilities | 277.00 (Rs. Two Hundred Seventy-Seven Crore Only) | | |

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of Signode India Limited (SIL) continue to derive strength from the strong & experienced promoter group, well-established track record and brand identity of the business of industrial packaging (IPG), dominant market position in the strapping & wrapping segment of the transit packaging industry in the country, reputed and diversified clientele, healthy leverage and coverage indicators, adequate liquidity position and favorable industry growth prospects. The ratings also consider satisfactory operational and financial position in FY20 (FY refers to period from April 1 to March 31) & 11MFY21. The ratings strengths are however partially offset by revenue concentration risk in the metal segment and absence of firm supply arrangements for raw materials thereby exposing the company to price escalation risk. The ratings also take cognizance of significant share buy-back transactions executed by the holding company viz Crown holding Inc during FY20 and proposed acquisition during FY21.

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

- Significant increase in the scale of operations by registering a TOI of above Rs 2000 crore while maintaining a PBILDT margin of around 20% on a sustained basis.
- Operating cycle improving to less than 30 days by efficiently managing debtor collection and inventory holding and without further stretching creditor days, on a consistent basis.

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

- Overall gearing and TDGCA deteriorating beyond 0.5x and 2x respectively, in future.
- Operating cycle elongating beyond 60 days.
- Withdrawal of funds by way of buy-back or dividend exceeding the profits for the given year.

Detailed description of the key rating drivers

Key rating Strengths

Experienced promoter group:

The SIG is a part of Signode Industrial Group (Industrial Packaging Division- IPG) which was earlier a part of Illinois Tool Works (ITW) USA (operated under Strapex Holdings Ltd, U.K). Signode India Limited is currently owned by Crown Holdings Inc. (the ultimate holding company of SIL) which is a global leader in consumer packaging, acquired 100% stake in Signode Industrial Group (SIG) from The Carlyle Group on April 04, 2018. Crown Holdings Inc. (Crown) is a worldwide leader in the design, manufacture, and sale of packaging products for consumer goods since 1927, having a net worth of USD 2092 million as on December 31, 2019. With the acquisition of SIL, Crown entered the Indian market. Crown's transit packaging products are sold around the world under a broad array of well-known brand names such as Signode, Strapex, Orgapack, Shippers Airbags, Angleboard.

Established track record of IPG business:

The IPG business, earlier operated under ITW, was started in the year 1980, producing 'Signode' range of products. The said division has an established track record of more than two decades in the Indian market and the company has set up a strong market presence. The company's major product offerings come in the form of strapping solutions with operational contract being its strength which comprises about 30-40% of the total revenue generated.

Reputed & diversified client base:

SIL has an established customer base which can be mainly divided into metal and non-metal segment. The clientele comprises some of the renowned names in the industry viz., JSW Steel Ltd, Steel Authority of India Ltd, Tata Steel Ltd, Voltas India Ltd etc. Majority of the clients have been associated with the company for decades. The revenue concentration from top 12 clients is increasing y-o-y with 42% of the total revenue during FY20 and the steel segment being the major revenue contributor (50-

55% approx.). Apart from steel players, the balance revenue is spread across a wide industrial base viz. pharmaceutical & beverages, FMCG, automobiles, paper, engineering, etc.

Satisfactory operational and financial performance in FY20 and 11MFY21:

The company's primary product is steel strap of variety 'Magnus' and 'Apex'. The operational performance of the company during FY20 for its main products stood at satisfactory level and in line with FY19 with capacity utilization of about 69%. The total operating income of SIL remained broadly stable albeit a marginal decline of 1.18% due to disruptions caused by COVID-19 pandemic during March 2020. The company registered a Total Operating Income (TOI) of Rs. 1342.68 crore as against Rs. 1358.68 crore in FY19. The contract packaging business is the major revenue contributor for the company contributing around 30-40% of the total revenue and profits of SIL's business. The PBILDT margin and PAT margin of SIL remained stable at 18.54% and 10.23% during FY20 respectively (18.17% and 10.17% during FY19).

During 11MFY21, SIL reported a total operating income of Rs. 1113.00 crore with a PBT of Rs. 151.00 crore. (Rs. 1071.59 crore with a PAT level of Rs. 117.88 crore during 9MFY20).

Strong capital structure and debt coverage indicators

SIL has relatively lower debt in its book of accounts and is supported by a strong net-worth base. The overall gearing of the company remained comfortable at of 0.30x as on March 31, 2020 having improved from 0.41x as on March 31, 2019 on account of decrease in total debt levels along with accretion of profits. Despite buy-back of shares, SIL continues to have a healthy net worth base backed by prolonged operation and strong profitability over the years. The other debt coverage metrics also continues to remain strong represented by an interest coverage ratio of 24.3x and TDGCA of 0.86x during FY20.

Favorable industry growth prospects:

Indian packaging industry is becoming a preferred hub for global packaging industry & it is 5th largest sector in India's economy. Present market of Indian Packaging Industry is valued at US\$ 72.6 billion (2020) expected to grow at a CAGR of 18% during 2021-25. The packaging industries around the globe have not been much affected by the Corona Virus pandemic. With steady growth over the past years, even after COVID-19 challenge, the industry is showing firm potential for expansion, including in the export markets and it is expected to reach USD 103.32 billion by 2025. The packaging industry's growth is driven by key factors such as rising population, increase in income levels, changing lifestyles and solid demand from food and pharma industries.

Key rating Weaknesses

Buy Back of shares and proposed acquisition:

During FY20, the promoters bought back 83,83,186 shares aggregating to Rs. 106.47 crore. Also, during FY19 company had bought back 2,45,49,920 shares to the tune of Rs. 270 crore. The same has resulted in reduction in the tangible net worth during the years. Any further fund withdrawal by way of buy-back or dividend more than the profit generated for any given year would impact the net worth of the company and would be a key rating sensitivity. Although, there is no further buy back envisaged in FY21, SIL is planning to acquire one of its associate companies viz Stopak India Private Limited by investing about Rs. 100 crore by March 31, 2021 which will be funded by internal accruals.

Segment and client concentration risk:

The revenue from top ten clients is has been over 40% of the total revenue during FY20. Furthermore, the steel segment accounted for close to 50% of the total revenue thereby resulting in segment concentration and subjecting the cash flow risk associated with movement in the credit profile of steel majors. However, the concentration risk gets mitigated given the clients are marquee steel majors and play the dual role of being both the suppliers and clients for the company, thereby shielding the profitability against any adverse credit risk of such players.

Risk associated with availability and volatility in raw material prices:

Raw material consumption cost is one of the largest cost elements which accounted for 72% of the total cost of sales in FY20. The major raw materials used are steel coils, packing material, self-adhesive paper & film, polypropylene, pet flakes, duramat etc. Presently, there is no long-term contract for procurement of raw material and are procured as and when required. As steel segment covers ~50% of the total product portfolio of SIL, the profitability is susceptible to adverse movement in steel prices. The company generally negates increase in cost-price difference scenario by passing on the input cost increase to customers where it has strong bargaining power.

Liquidity Profile-Adequate:

The liquidity position of the company is adequate characterized by sufficient cushion in accruals vis-à-vis negligible repayment obligations and a healthy cash balance of Rs.86.29 crore as on March 31, 2020 in the form of fixed deposits. The liquidity is supported by an above unity current ratio of 1.92x as on March 31, 2020. Furthermore, SIL's fund based average working capital utilization has been low at around 4% during the twelve months' period ended December 2020. The company has not availed moratorium for debt servicing or any other facility/loan under RBI relief package in lieu of COVID-19.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Rating Methodology – Manufacturing Companies](#)
[Criteria for Short Term Instruments](#)
[Financial ratios – Non-Financial Sector](#)
[Liquidity analysis of Non-financial sector entities](#)

About the Company

Signode India Limited was incorporated on August 13, 2003 as a wholly owned subsidiary of ITW India Limited [ITW India, subsidiary of Illinois Tool Works Inc USA (ITW USA)] and subsequently, the global IPG division of ITW USA was acquired by The Carlyle Group L.P. in the month of May 2014. Further, in the year 2018, Crown Holdings Inc., a global leader in consumer packaging acquired 100% stake in Signode Industrial Group Holdings (Bermuda) Limited from The Carlyle Group. Apart from change in shareholding at the ultimate holding company level, there is no change in the shareholding and/or management/operations of the company in India.

SIL is engaged in manufacturing of straps for industrial packaging viz plastic strap, steel strap, stretch strap, edge & surface protectors, related products along with packaging/wrapping tools & machineries and service activities like site packaging, on-site maintenance, preventive maintenance, field engineering, package testing and packaging design. The company is basically engaged in providing transit packaging solution. The products and services are sold under the brand name of 'Signode'. The company has six manufacturing facilities located in Telangana, Uttarakhand, Karnataka, Gujarat and Dadra & Nagar Haveli with two plants in Bangalore, Karnataka.

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

| Brief Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|------------------------------|----------|----------|
| Total operating income | 1358.75 | 1342.68 |
| PBILDT | 246.82 | 248.98 |
| PAT | 138.23 | 137.42 |
| Overall gearing (times) | 0.41 | 0.30 |
| Interest coverage (times) | 30.09 | 24.30 |

A:Audited

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 |
|---|------------------|-------------|---------------|-------------------------------|---|
| Fund-based - LT-Cash Credit | - | - | - | 3.00 | CARE AA; Stable |
| Non-fund-based - LT/ ST-Bank Guarantees | - | - | - | 6.00 | CARE AA; Stable / CARE A1+ |
| Fund-based/Non-fund-based-LT/ST | - | - | - | 268.00 | CARE AA; Stable / CARE A1+ |

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. | Fund-based - LT-Cash Credit | LT | 3.00 | CARE AA; Stable | - | 1)CARE AA; Stable (12-Mar-20) | 1)CARE AA; Stable (25-Feb-19) | 1)CARE AA; Stable (13-Mar-18) |
| 2. | Non-fund-based - LT/ST-Bank Guarantees | LT/ST | 6.00 | CARE AA; Stable / CARE A1+ | - | 1)CARE AA; Stable / CARE A1+ (12-Mar-20) | 1)CARE AA; Stable / CARE A1+ (25-Feb-19) | 1)CARE AA; Stable / CARE A1+ (13-Mar-18) |
| 3. | Fund-based/Non-fund-based-LT/ST | LT/ST | 268.00 | CARE AA; Stable / CARE A1+ | - | 1)CARE AA; Stable / CARE A1+ (12-Mar-20) | 1)CARE AA; Stable / CARE A1+ (25-Feb-19) | 1)CARE AA; Stable / CARE A1+ (13-Mar-18) |
| 4. | Fund-based - LT-Term Loan | LT | - | - | - | 1)Withdrawn (12-Mar-20) | 1)CARE AA; Stable (25-Feb-19) | 1)CARE AA; Stable (13-Mar-18) |
| 5. | Commercial Paper | ST | - | - | - | - | 1)Withdrawn (20-Feb-19) | 1)CARE A1+ (13-Mar-18) |

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA**Annexure 4: 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. | Fund-based/Non-fund-based-LT/ST | Simple |
| 3. | Non-fund-based - LT/ ST-Bank Guarantees | 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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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