Caprihans India Limited

January 20, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	620.00	CARE BBB- (RWN)	Assigned
Long Term / Short Term Bank Facilities	41.75	CARE BBB- / CARE A3 (RWN)	Revised from CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable / A Two Plus); (Rating Watch with Negative Implications
Short Term Bank Facilities	48.25	CARE A3 (RWN)	Revised from CARE A2+ (A Two Plus); (Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

The revision/assigning of the ratings assigned to the existing/proposed bank facilities of Caprihans India Limited (CIL) factors in the likely acquisition of operational fixed assets of another entity in similar line of business, which is proposed to be debt funded, thereby impairing its key credit metrics. The same is expected to be completed by March 31, 2023. The acquisition, if completed, would cause the capital structure to be highly leveraged along with a significant weakening of key debt protection metrics as compared with its past credit risk profile.

Furthermore, CARE Ratings has placed the ratings assigned to the bank facilities of CIL under 'Rating Watch with Negative Implications' considering the large debt servicing requirements which would arise post sanction by prospective lenders, which would have to be met from improved cash flows going forward. Given the decline in profitability margins in CIL in the recent past, the company would have to demonstrate a significant improvement in operating margins going forward, failing which the liquidity situation could deteriorate. Additionally CARE Ratings notes that while CIL is expected to derive synergy benefits from the acquisition as well as achieve improved capacity utilisation levels in the acquired asset translating into higher cash flows as envisaged, the same remains to be seen and would remain key rating monitorable. Non achievement of improved cash flows as envisaged could have rating implication.

Currently, the proposal is yet to be approved by the Board of the company as well as by the various stakeholders, and financial closure for the same is yet to be achieved. Thus, CARE will continue to closely monitor the progress relating to the above developments, the possible extent of impact on the credit profile of the company and will take a final rating action as more clarity emerges regarding the above developments.

The ratings, however, 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.

The rating strengths are tempered by weak credit profile of promoter company, 'Bilcare Ltd', relatively modest scale of operations coupled with low profitability margins in the recent past with the same being susceptible to volatility in foreign exchange rates and raw material prices. Furthermore, the ratings are tempered by prevailing competition in the industry.

Rating Sensitivities

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

- Improvement in the scale of operations above Rs.1,100 crore and profit before interest, lease rentals, depreciation and taxation (PBILDT) margins above 11.5% through increase in sales volumes and realisation on a sustained basis.
- Improvement in Gearing levels to below 1.5x

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

- Any material change with respect to the planned acquisition leading to adverse impact on the credit risk profile.
- Significant underachievement in terms of revenue and profitability margins as compared to envisaged levels.
- Deterioration in operating cycle to above 120 days resulting into higher utilization of working capital limits as well as stretch in liquidity.

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

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

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.

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.

Key Rating Weaknesses
Proposed Debt funded acquisition expected to impact the overall credit risk profile of CIL
As articulated by the management, CIL is contemplating the acquisition of an operational manufacturing unit of another entity is similar line of business, through a slump sale at an aggregate consideration of Rs.833.65 crore (which is proposed to be funded by Rs.620 crores of bank debt and balanced by way of redeemable preference shares). The same is expected to be completed by March 31, 2023. This proposed debt would cause the capital structure to be highly leveraged, compared with negligible debt levels as on 31st March 2022. It would also result in deterioration of key debt protection metrics and overall credit risk profile of the company from current level. Thus, going ahead, any material change in the proposal shall be a key rating monitorable.

Modest scale of operations coupled with low operating margins exposed to volatility in raw material prices and foreign exchange rates
Earlier, during FY22, CIL reported a growth in total operating income (TOI) by 32.42% over 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. Further, during H1FY23, the company has reported TOI of Rs. 204.62 crores. Nevertheless, the scale of operations continues to remain modest.
During FY22, the company's PBILDT margins declined to 5.64% in FY22 as compared with 7.69% in FY21 owing to increase in the input prices. 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. CIL's operating margins declined further to 2.55% in H1FY23 due to sustained increase in input costs.
PVC resin is the main raw material for CIL. The resin being a crude oil derivative, its prices are linked with crude oil prices. Additionally, these resins are largely imported, due to which its prices 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.

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 revised by the government from time-to-time, impacting the manufacture and sale of packaging products.

Liquidity – Adequate
As on Dec 31, 2022, the company had free cash and bank balance of around Rs. 0.71 crore and cash marked as lien of Rs. 5.22 crores. Besides, CIL (excluding the proposed acquisition) is expected to generate cash accruals of over Rs.18.00 crores for FY23 as compared to repayment of close to Rs.3.00 crore. The company's fund-based limits of Rs.1.00 crore were utilised around 67.42% whereas non-fund based limits on an average of last 12 months were utilized to an extent of 72.47%.
With the proposed acquisition, the company is expected to avail higher quantum of debt as compared to its networth, which is expected to impact the liquidity parameters and debt coverage indicators vis-à-vis current levels. However, CARE Ratings expects that the term debt to be availed would entail a moratorium period of 1 year and ballooning repayment structure so as to support liquidity in the initial years post acquisition. Company is expected to avail higher working capital limits which will support increased turnover going forward. However, when compared with the present as well as historical trends, the liquidity going forward is expected to remain moderate.

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 is presently promoted by Bilcare Mauritius Limited (holds 51% stake) and Bilcare Mauritius Limited is wholly owned subsidiary of Bilcare Limited (BIL)

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	296.69	392.89	204.62
PBILDT	22.81	22.17	5.22
PAT	20.22	16.79	7.26
Overall gearing (times)	0.13	0.22	0.08
Interest coverage (times)	25.25	22.47	10.65

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

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Proposed fund based limits		-	-	-	50.00	CARE BBB- (RWN)
Fund-based - LT-Term Loan		-	-	proposed	570.00	CARE BBB- (RWN)
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	41.75	CARE BBB- / CARE A3 (RWN)
Non-fund-based-Short Term		-	-	-	48.25	CARE A3 (RWN)

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 BBB- / CARE A3 (RWN)	1)CARE A-; Stable / CARE A2+ (05-Sep-22)	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 A3 (RWN)	1)CARE A2+ (05-Sep-22)	1)CARE A2+ (22-Mar-22) 2)CARE A2+ (07-Oct-21)	1)CARE A2+ (06-Oct-20)	1)CARE A2+ (03-Oct-19)
3	Fund-based - LT-Term Loan	LT	570.00	CARE BBB- (RWN)				
4	Fund-based - LT-Proposed fund based limits	LT	50.00	CARE BBB- (RWN)				

*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 10th day of each succeeding month

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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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