PG Foils Limited

June 19, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	100.00	CARE A-; Stable	Reaffirmed
Long-term / Short-term bank facilities	95.00	CARE A-; Stable / CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

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, 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 March 31, 2023.

The ratings, however, continue to remain constrained by PGFL's moderate working capital cycle and its presence in an intensely competitive aluminium foil industry. The ratings also factor volatility in aluminium prices and exchange rate fluctuations and its impact on PGFL's profitability during FY23 (refers to the period from April 01 to March 31).

Rating sensitivities: Factors likely to lead to rating actions:

Positive factors

- Volume-driven growth in its scale of operations with total operating income (TOI) above ₹500 crore along with return on capital employed (ROCE) above 15% on a sustained basis while maintaining its leverage.
- Improvement in operating cycle to less than 90 days through better collection efficiency on a sustained basis along with reduced reliance on bank borrowings for funding working capital requirements.

Negative factors

- Significant decline in PGFL's scale of operations or inability of the company to recover its PBILDT margin to pre-COVID-19 levels of 5%-5.5% in the near term.
- Any unfavourable outcome of the long pending ongoing court case in the matter of forgery of Fixed Deposit Receipts of PGFL affecting its credit profile.
- Deterioration in liquidity arising from declaration of large dividend, non-recoupment of its investments or extension of loans and advances to unrelated entities.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that PGFL will continue to benefit from its established presence in the aluminium foil packaging material industry, supported by promoter's extensive experience and established relations with its suppliers and customers.

Detailed description of the key rating drivers

Key strengths

Experienced promoters with an established track record in aluminium foil manufacturing business and diversified clientele: Incorporated in November 1979 by Pankaj Shah, PGFL has an established track record of more than three decades in the 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. Pankaj Shah is assisted by Sahil Shah, Whole Time Director, who looks after product development and marketing functions.

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

Moderate scale of operations with well-established marketing and distribution network: During FY23, PGFL's total operating income (TOI) reduced by 17.5% y-o-y to ₹340.81 crore on account of lower orders from its pharmaceutical clientele in the domestic market resulting in 24% dip in sales volume to 6,186 Metric Tonne (MT). The dip was partially offset by increase in the sales realisation in FY23. Nevertheless, PGFL's clientele base remained well-diversified marked by top five customers accounting for around 16% of the net sales in FY23 (around 21% in FY22). 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.

Improvement in capital structure on account of conversion of share warrants issued on preferential basis into equity: PGFL's capital structure remained comfortable and improved further with overall gearing of 0.45x as on FY23-end (1.01x as on FY22-end) backed by lower working capital borrowings as on the balance sheet date and increase in the net worth base upon conversion of around 71% of 3,890,000 share warrants issued in FY21 into equity during FY23. A part of the issue proceeds was utilised to repay o/s working capital loan.

Key weaknesses

Dip in profitability due to volatility in key raw materials prices and foreign exchange rates: Raw material cost, primarily consisting of aluminium foil stock, accounts for around 88% of TOI in FY23 (FY22: around 79%), which exposes PGFL to risks relating to volatility in the raw material prices. The price of aluminium foil stock has exhibited high volatility on account of its linkage with price of primary aluminium in the domestic market, which in turn is governed by global demand-supply scenario. After steep increase in FY22, aluminium prices moderated drastically in FY23. This volatility resulted in significant dip at PBILDT during H2FY23, and PGFL reported PBILDT margin of 1.60% in FY23, as compared with 12.51% in FY22.
Moreover, PGFL is also exposed to the exchange rate fluctuation risk on its imports and forex-denominated debt in the absence of active hedging policy. Consequently, sharp strengthening of US dollar against Indian rupee in FY23 resulted in net foreign currency loss of ₹14.77 crore on its borrowings (Gain: ₹1.75 crore in FY22). Due to above factors, PGFL's profit after tax (PAT) margin declined significantly to 0.06% during FY23 (FY22: 11.75%). While the dip in profitability in FY23 has triggered the negative rating sensitivity, CARE Ratings has taken cognisance of moderate fluctuation in aluminium prices since March 2023, prepayment of part of foreign currency denominated Working Capital Demand Loan (WCDL) by PGFL from its liquidity and equity issue and moderation in procurement of non-order backed aluminium foil stock in the current financial year. Considering above, CARE Ratings expects PGFL's profitability to improve around its conversion markup levels in the near term.

Moderation in debt coverage indicators: Dip in the PBILDT margin and increase in the interest cost due to exchange rate fluctuation loss on forex-denominated debt resulted in significant decline in interest coverage to below unity (8.82x in FY22) and total debt/PBILDT of 23.50x (5.15x in FY22). Nevertheless, the coverage indicators were supported by non-operating income of ₹22.73 crore received from insurance pay out. Overall improvement in profitability and coverage ratios remains crucial from the credit perspective.

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. 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 FMCGs.

Liquidity: Adequate

- PGFL has adequate liquidity marked by moderate utilisation of its working capital limits, absence of long-term debt and sizeable liquid investments against outstanding debt. Utilisation of working capital limits was moderate at 74% during the trailing 12 months ending May 2023 providing cushion to liquidity of the company.
- As envisaged, PGFL's cashflow from operations increased to ₹63.61 crore as on FY23-end with squaring off advances against raw material procurement (negative CFO of ₹92.84 in FY22). PGFL's operating cycle moderated to 135 days in FY23 (105 days in FY22) on account of higher inventory holding (majorly in the form of RM and WIP) on FY23-end. PGFL maintains inventory for tenor of around 3 months and payment to supplier is majorly on advance basis. As on March 31, 2023, PGFL held liquid investments of ₹173.86 crore (₹237.50 crore as on March 31, 2022).

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 and industry
Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Diversified Metals	Diversified Metals

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 the manufacturing of aluminium foils and flexible packaging with an installed capacity of 11,700 metric tonne per annum (MTPA) as on March 31, 2023.
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, 2022 (A)	March 31, 2023 (UA)
Total operating income	396.29	340.81
PBILDT	50.63	5.47
PAT	46.56	0.22
Overall gearing (times)	1.01	0.45
Interest coverage (times)	8.82	0.21

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: None

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: Annexure-4

Lender details: Annexure-5

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 2023-2024	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
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	95.00	CARE A-; Stable / CARE A1	-	1)CARE A-; Stable / CARE A1 (12-Dec-22) 2)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)
2	Fund-based - LT-Cash Credit	LT	100.00	CARE A-; Stable	-	1)CARE A-; Stable (12-Dec-22) 2)CARE A-; Stable (07-Oct-22)	1)CARE A-; Stable (30-Dec-21)	1)CARE A-; Stable (03-Feb-21)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated:

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

Annexure-5: Lender details

To view the lender wise details of 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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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