Caprihans India Limited

October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	620.00	CARE BB; Stable	Revised from CARE BBB- and removed from Rating Watch with Negative Implications; Stable outlook assigned
Long Term / Short Term Bank Facilities	1.00 (Reduced from 41.75)	CARE BB; Stable / CARE A4+	Revised from CARE BBB- / CARE A3 and removed from Rating Watch with Negative Implications; Stable outlook assigned
Short Term Bank Facilities	51.75 (Enhanced from 48.25)	CARE A4+	Revised from CARE A3 and removed from Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the assigned rating to bank facilities of Caprihans India Limited (CIL) is on account of the inability of the company to demonstrate a significant improvement in its operating margin in Q1FY24 as against the much higher margins envisaged previously. CARE Ratings believes that while CIL is likely to demonstrate an improvement in profitability during FY24-FY25 due to backward integration benefits and cost savings, the same would be modest and hence the resultant cash flows would also be lower than the company's earlier estimates. Hence, basis the Q1FY24 performance the company's liquidity and repayment capacity in FY24-FY25 would be weaker vis-à-vis the agency's previous expectations.

Moreover, the rating also considers the completion of CIL's acquisition process and hence its highly leverage position. Basis this outcome, the Rating watch with Negative Implication has been resolved. Considering the improvement in scale of operations with acquisition of PPI (Pharma Packaging Innovations) division of its ultimate parent company, as well as the expected gradual improvement in operating margins in future, the outlook is reassigned to stable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the scale of operations above Rs.1,000 crore and profit before interest, lease rentals, depreciation and taxation (PBILDT) margins above 11.5% on sustained basis.
- Improvement in gearing levels to below 1.5x

Negative factors

- Continuance of high utilisation of working capital limits above 95%.
- Tightening of liquidity position due to significant underachievement in terms of revenue and profitability margins as compared to envisaged levels.

Analytical approach: Standalone

Outlook: Stable

With CIL's acquisition of operating asset of its holding company and long-standing relationship with customers leading to repetitive orders, CIL is expected to continue maintaining a significantly higher scale of operations in the medium term. CARE Ratings also expects the company to demonstrate a steady improvement in its PBILDT margins due to synergy benefits of the acquisition of the parent company Bilcare Limited's (Bilcare) fixed assets.

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

Detailed description of the key rating drivers:

Key weaknesses

Continuance of modest operating margin: lower than envisaged.
With acquisition of PPI unit from Bilcare, CIL is able to meet its base film requirement from the acquired unit and hence this results in low dependence on imports. This backward integration along with optimisation of cost and correction in prices of raw material, i.e. resin, is expected to improve the operating margin in near to mid-term. The benefits of backward integration have started accruing from Q1FY24 and hence the operating margin of Q1FY24 is better than FY23 (Q1FY24: 9.55%; Q4FY23: 8.99%; FY23: 6.69%). However, for the company to meet its term debt repayments from FY25, the PBILDT margins in subsequent quarters will have to be substantially higher. CARE Ratings believes that such a significant improvement in operating margin is unlikely, and hence there would be limited liquidity cushion for CIL during FY25-FY26. CIL's performance in terms of operating margin remains a key monitorable.

Highly leveraged post-acquisition:
CIL, from a zero-debt company has turned to be a highly leveraged entity with its acquisition of PPI unit from its holding company. The acquisition process was completed by March 2023 for a net consideration of Rs.213.00 crores. The company took over the liabilities of Bilcare Ltd in acquisition process at Rs.620.00 crores and same has been paid by availing bank borrowing. The total debt of the company majorly comprises of term loan. The other debt components are public deposits, redeemable preference shares issued to the holding company, working capital facility and payables backed by LC. Moreover, the net worth of the company has turned negative at Rs.288.49 crores, post the acquisition of the operational asset, with negative capital reserve. The said net worth is excluding the revaluation reserve.

With the expected improvement in profitability, in CARE's assessment, the interest coverage is expected to improve marginally; however, will continue to remain modest in near to medium term. The interest coverage of the company stood modest in Q1FY24 at 1.2x (Q4FY23: 1.85x; FY23: 1.06x)

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. Therefore, CIL's operation is susceptible to these regulatory risks.

Exposure to volatility in crude oil prices and foreign exchange rates
Polymer 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. CIL is able to revise prices with its pharmaceutical industry clients only with a lag of a few months. Thus, commodity price and foreign exchange fluctuation are significant risks to the profitability of the company.

Key strengths

Improvement in scale of operations post-acquisition; Revenue to decline in FY24.
CIL's scale of operations has improved substantially post the acquisition. The total operating income (TOI) now stands at Rs. 939.10 crores in FY23 (FY22: 799.09 crores; FY21: Rs. 296.69 crores) given the acquisition is that of operational assets. Care Ratings believes that CIL will be able to maintain the scale of operations in the range of Rs.800.00 crores-1100.00 crores in medium term. The company is in process to increase the capacity utilisation of the acquired plant by exploring both the export as well domestic market.

In FY24, the total income from operations is expected to be lower in comparison to FY23 given the fact that CIL benefits from backward integration, wherein the product manufactured by newly acquired unit is used for captive consumption rather than being sold out to third party earlier. This has started from Q1FY24. Hence the revenue in Q1FY24 was lower on both q-o-q and y-o-y basis. CARE Ratings notes that while the in-house consumption of base film will restrict the growth in topline, it will translate into higher PBILDT margins due to cost savings vis-à-vis purchases of the same film from vendors.

Continuance of reputed clientele and low concentration risk:
The customer base of the company continues to remain strong with reputed client and credit worthy customers. Also, the top ten customer contributes around 29% of CIL's revenue in FY23 & Q1FY24 (FY22: 36%), thus resulting in low customer concentration risk.

Liquidity: Stretched
The liquidity of CIL remains stretched with maximum average bank limit utilisation of Rs. 51.00 crores, at ~87% in last four months post-acquisition. Also, for most of the months, the utilisation of working capital limit is above 90% with no sufficient headroom availability. The cash and cash equivalent of the company is low at 1.26 crores as on June 30, 2023 (As on March 31, 2023: Rs. 8.04 crores). The fixed deposit of Rs.80.65 crores as on June 30, 2023, acts a cash margin against the bank facilities. The gross cash accrual of the company is expected to improve in medium term; however, the extent of improvement is subjective to pace of improvement in operating margin.

The company has a moratorium of 12 months on the repayment of the term loan, hence there in no principal debt obligation on the said loan in FY24. However, the company has principal debt obligation of Rs.28.75 crore and Rs.40.25 crores in FY25 & FY26, respectively.

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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Plastic Products - Industrial

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).

Bilcare Limited was into default from 2013 and was later taken into National Company Law Tribunal (NCLT) by its lenders in 2019. Later in 2023, BIL settled its dues in a one-time settlement process for which CIL leveraged its balance sheet to acquire the operating assets of Bilcare and BIL used these funds to repay its lenders.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	799.09	939.10	174.05
PBILDT	59.17	62.81	16.62
PAT	-39.57	71.76	-11.00
Overall gearing (times)	-2.97	-2.98	NA
Interest coverage (times)	0.86	1.06	1.20

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'
Status of non-cooperation with previous CRA: Not applicable

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2031	570.00	CARE BB; Stable
Fund-based - LT-Working Capital Limits		-	-	-	50.00	CARE BB; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	1.00	CARE BB; Stable / CARE A4+
Non-fund-based-Short Term		-	-	-	51.75	CARE A4+

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	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	1.00	CARE BB; Stable / CARE A4+	-	1)CARE BBB- / CARE A3 (RWN) (20-Jan-23) 2)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)

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
2	Non-fund-based-Short Term	ST	51.75	CARE A4+	-	1)CARE A3 (RWN) (20-Jan-23) 2)CARE A2+ (05-Sep-22)	1)CARE A2+ (22-Mar-22) 2)CARE A2+ (07-Oct-21)	1)CARE A2+ (06-Oct-20)
3	Fund-based - LT-Term Loan	LT	570.00	CARE BB; Stable	-	1)CARE BBB- (RWN) (20-Jan-23)	-	-
4	Fund-based - LT-Working Capital Limits	LT	50.00	CARE BB; Stable	-	1)CARE BBB- (RWN) (20-Jan-23)	-	-

*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-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	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 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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in	Sudarshan Shreenivas Director **CARE Ratings Limited** Phone: +91-22- 6754 3566 E-mail: sudarshan.shreenivas@careedge.in Nikhil Joshi Assistant Director **CARE Ratings Limited** Phone: +91-22- 6754 3566 E-mail: Nikhil.joshi@careedge.in Ragini Surve Analyst **CARE Ratings Limited** E-mail: Ragini.Surve@careedge.in

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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