Signode India Limited

February 29, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	10.50 (Enhanced from 5.50)	CARE AA; Stable	Reaffirmed
Long-term/short-term bank facilities	298.50 (Reduced from 303.50)	CARE AA; Stable/CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings of bank facilities of Signode India Limited (SIL) have been reaffirmed, deriving strength from the strong and experienced promoter group and the well-established track record and brand identity of industrial packaging (IPG) business. Ratings also factor the dominant market position in strapping and wrapping segment of the country's transit packaging industry, reputed and diversified clientele, and healthy leverage and coverage indicators despite payment of dividend in FY23. Ratings also consider the company's adequate liquidity position and favourable industry growth prospects.

However, ratings are partially offset by moderating revenue in FY23, revenue concentration risk in the metal segment with revenue contributing about 45-55%, while other industries including textiles, beverages, and fast-moving consumer goods (FMCG). Ratings are also constrained by the absence of firm supply arrangements for raw materials, exposing SIL to cost escalation risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly increasing scale of operations by registering a total operating income (TOI) of above ₹2,000 crore while maintaining a profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of about 15% on a sustained basis.
- Operating cycle shortening to less than 45 days by efficiently managing debtor collection and inventory holding and without further stretching creditor days, on a consistent basis.

Negative factors

- Overall gearing and total debt (TD)/gross cash accruals (GCA) deteriorating beyond 0.50x and 2.00x, respectively.
- Operating cycle elongating beyond 90 days.
- Deteriorating TD/PBILDT levels above 0.50x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that SIL will continue benefitting from the strong and experienced promoter group and the well-established track record and brand identity of the IPG business. This, with its dominant market position in strapping and wrapping segment of the transit packaging industry in the country and reputed and diversified clientele.

Detailed description of key rating drivers

Key strengths

Experienced promoter group

SIL is part of the Signode Industrial Group (industrial packaging division [IPD]), which was earlier part of Illinois Tool Works (ITW), the US (operated under Strapex Holdings Ltd, the UK). SIL is currently owned by Crown Holdings Inc (Crown; the ultimate holding company of SIL), a global leader in designing, manufacturing, and selling packaging products for consumer goods since 1927. Crown has a net worth of US$ 2.86 billion as on December 31, 2023. It acquired 100% stake in Signode Industrial Group (SIG) from The Carlyle Group on April 04, 2018, and with this, 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, and Angleboard.

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

Established track record of IPD business

The IPD business, earlier operated under ITW, commenced in 1980, producing 'Signode' range of products. The division has an established track record of more than three decades in the Indian market, with the company having set up a strong market presence. SIL's main product offerings are in the form of strapping solutions, with operational contract as its strength, comprising about 35-40% of the total revenue generated.

Reputed client base

SIL has an established customer base, which can be divided into metal and non-metal segments. The clientele comprises some renowned industry names such as JSW Steel Limited, Steel Authority of India Limited, Tata Steel Limited, Jindal Stainless Limited, Classic Products Private Limited, and Voltas India Limited, among others. Most clients have been associated with the company for decades. Revenue concentration from top 10 clients stood at 39% in FY23 (FY22: 25%), with the steel segment as the major revenue contributor among these clients. Apart from steel players, the balance revenue is spread across a wide industrial base of beverages, FMCG, automobiles, and engineering, among others.

Strong capital structure and debt coverage indicators, despite dividend payments

SIL has relatively lower debt in its book of accounts, improving the overall gearing to 0.20x as on March 31, 2023, as against 0.28x as on March 31, 2022. Given the robust performance in FY22 and FY23, the company has paid dividends of ₹566.45 crore in FY23, with the same funded partly by opening cash and liquid balance of about ₹350 crore as on March 31, 2022, and by ₹235 crore from GCA in FY23. After payment of dividend, the company's net worth stood at ₹452.41 crore as on March 31, 2023, as against ₹815.20 crore as on March 31, 2022. With relatively low debt payment related to lease liability, cash accruals are expected to suffice for business requirements, expanding and growing, and marketing plans, among others. Other debt coverage metrics also remain strong. The average working capital utilisation has been negligible for fund-based and about 70% for non-fund-based limits in last 12 months ended January 31, 2024. The company has cash and liquid investments of about ₹110 crore as on January 31, 2024.

Comfortable liquidity profile and satisfactory operating cycle

SIL's operating cycle stood comfortable at 42 days in FY23 (PY: 39 days). The company, on average, provides a credit period of 45-90 days to clients, with the credit period for distributors at about 30 days, while that for larger clients at 60-90 days. With increasing sales of equipment and tools, part of the bill is retained as retention money and is paid post the equipment is completely erected, commissioned, and tested at client's site, which can range between two and three months. The company realises a portion of retention money from clients before the stipulated period by providing bank guarantee for the equipment or tool's performance. These factors resulted in an average collection period of 98 days in FY23 (89 days for FY22).

Key weaknesses

Moderating revenue in FY23, although improving profitability margins

SIL's TOI in FY23 moderated slightly by about 2.5% to ₹1,756 crore as against ₹1,802 crore in FY22 due to moderating steel prices and exports made by steel companies. In FY22, domestic and international steel prices increased due to increasing demand and supply shortage, deteriorating the company's margins. Due to easing of prices and improving supply chain, prices stabilised in FY23, improving PBILDT and profit-after-tax (PAT) margins. SIL's PBILDT margin improved to 18% in FY23 as against 16% in FY22. The company reported PBILDT of ₹315 crore for FY23 (PY: ₹288 crore). However, for 9MFY24, SIL's TOI improved to ₹1,493 crore as against ₹1,364 crore in 9MFY23.

Raw material availability and volatility in prices

Raw material consumption cost is among the largest cost elements, accounting for about 49% of total sales cost in FY23 (52% in FY22). Major raw materials used are steel coils, packing materials, self-adhesive paper and film, polypropylene, pet flakes, and duramat, among others. At present, there is no long-term contract for procuring raw materials, which are procured as and when required. Most raw materials are sourced domestically. Raw material availability is not a concern as the company has established vendors. However, concern exists over price volatility. The company faces cost escalation risk as prices of raw materials are market-driven and volatile, and may impact its margins. Thus, profitability is susceptible to adverse movements in steel prices. In FY22, domestic & international steel prices increased due to increasing demand and supply shortage, deteriorating the company's margins. Due easing of prices and improving supply chain, prices stabilised in FY23. However, the company negates such increase in a cost-price difference scenario by passing on the input cost increase to customers where it has strong bargaining power.

Liquidity: Strong

The company's liquidity position is strong, characterised by sufficient cushion in accruals as against negligible repayment obligations and cash and bank balance of about ₹110 crore as on January 31, 2024. The utilisation of fund-based limits has been negligible. Unutilised limits provide sufficient headroom for incremental working capital requirements in the near term. SIL also does not have major capex planned, except for maintenance capex of about ₹15-20 crore. Given the robust performance in FY22 and FY23, the company has paid dividends amounting to ₹566.45 crore in FY23. SIL's debt mainly represents letters of credit (LCs) used and lease liabilities of about ₹5-10 crore. CARE Ratings expects the company to have strong cash accruals of about ₹230-270 crore in three years, which is more than sufficient for meeting lease obligations and incremental working capital requirements.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Manufacturing Companies](#)
[Financial Ratios – Non financial Sector](#)
[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial products	Packaging

SIL was incorporated on August 13, 2003, as a wholly owned subsidiary of ITW India Limited (ITW India, subsidiary of ITW, the USA), and subsequently, the global IPG division of ITW US was acquired by The Carlyle Group L.P. in May 2014. In 2018, Crown, 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 company's shareholding, management or operations in India. SIL manufactures straps for industrial packaging such as plastic straps, steel straps, stretch straps, edge and surface protectors and related products with packaging and wrapping tools and machineries and service activities like site packaging, onsite maintenance, preventive maintenance, field engineering, package testing and packaging design. The company basically provides transit packaging solutions. Its products and services are sold under the brand 'Signode'. SIL has six manufacturing facilities, in Telangana, Uttarakhand, Karnataka, Gujarat, and Dadra & Nagar Haveli, with two plants in Bengaluru, Karnataka.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	1,802.14	1,756.18	1,439.44
PBILDT	288.23	315.40	226.39
PAT	196.17	202.75	150.10
Overall gearing (times)	0.28	0.20	NA
Interest coverage (times)	21.67	20.23	

A: Audited, UA: Unaudited, NA: Not available. Note: The above 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 instruments/facilities: Detailed explanation of covenants of rated instruments/facilities is given in Annexure-3

Complexity level of 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-Cash credit	-	-	-	-	10.50	CARE AA; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	293.50	CARE AA; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	5.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating history for 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-Cash credit	LT	10.50	CARE AA; Stable	-	1)CARE AA; Stable (08-Mar-23)	1)CARE AA; Stable (07-Mar-22)	1)CARE AA; Stable (15-Mar-21)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	5.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (08-Mar-23)	1)CARE AA; Stable / CARE A1+ (07-Mar-22)	1)CARE AA; Stable / CARE A1+ (15-Mar-21)
3	Fund-based/Non-fund-based-LT/ST	LT/ST*	293.50	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (08-Mar-23)	1)CARE AA; Stable / CARE A1+ (07-Mar-22)	1)CARE AA; Stable / CARE A1+ (15-Mar-21)

*Long term/Short term.

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

Annexure-4: Complexity level of instruments rated

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-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of 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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