National Plastic Industries Limited

July 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	28.00	CARE BBB-; Stable	Reaffirmed
Short-term bank facilities	4.25	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

Reaffirmation of ratings assigned to long-term and short-term bank facilities of National Plastic Industries Limited (NPIL) continues to factor in the stable profit before interest, lease rentals, depreciation and taxation (PBILDT) margin with improvement in liquidity position, support from the promoters' extensive experience in the plastic-moulded industry, well-established brand, and long-standing relationship with reputed customers and suppliers.
However, ratings continue to be constrained by modest scale of operations, moderate capital structure and debt coverage indicators, profit margin susceptible to fluctuation in the raw material cost, forex risk, working capital intensive nature of operations characterised by elongated operating cycle, and presence in highly competitive and fragmented industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increasing scale of operation over ₹150 crore on a sustained basis.
- Sustenance in the PBILDT margin at 11% and improving profit after tax (PAT) margin exceeding 5% on a sustained basis.
- Improving operating cycle below 120 days on a sustained basis.

Negative Factors

- Declining overall performance leading to significantly decreasing revenue and cash accruals.
- Deteriorating debt coverage indicators with interest coverage falling below 2.5x.
- Deteriorating capital structure with overall gearing exceeding a 2x level.
- Elongating working capital cycle or large debt-funded capex thereby impacting the financial risk profile or liquidity position.

Analytical approach: Standalone

Outlook: Stable

The continuation of "Stable" outlook reflects CARE Ratings Limited's (CARE Ratings') belief that NIPL will sustain its growth in scale of operations primarily through capex completion and stabilisation of new products lines and stable profitability margins.

Detailed description of key rating drivers:

Key strengths

Experienced management with long track record of operations

NPIL's promoters (Parekh family) have been involved in manufacturing and marketing injection-moulded plastic products for over five decades. Over the years, NPIL has developed a strong association with the suppliers and customers, thus enabling it to garner regular orders from them.

Diversified product portfolio and established brand and satisfactory marketing distribution setup

NPIL manufactures injection-moulded plastic products broadly classified into furniture, household & commercial items, which are being sold under the brand name of 'National' for over five decades. NPIL covers a wide range of products which finds its application in various purposes. In FY24, the company derived around 73.78% revenues from moulded plastic materials, followed by 10.20% from sale of plastic mats, 8.90% from sale of coolers, and remaining from sale of other products. Besides, the company has a good distribution network as it operates from Mumbai and has its branch offices in Ghaziabad, Bangalore, Kerala, and Punjab.
Moreover, the company has planned for a new range of plastic furniture's which are to be commenced through the additional capital expenditure of ₹4.50 crore to be funded through a term loan of ₹3.50 crore and remaining through internal accruals. The same is expected to commence its operations from September 2024. Hence, stabilisation of the same remains a key monitorable.

Steady order book position
The company has an order book position of ₹49 crore which is to be executed by March 2025. (PY- ₹45.71 crore). Besides, the company is also executing orders from Bajaj Electricals which is expected to provide support to the topline further. The consistent flow of orders in the past and the acquisition of new clients consistently enhance NPIL's business risk profile.

Established relations with customers and suppliers
Over the past five decades of its existence, NPIL has established a healthy relationship with reputed customers. The company regularly supplies plastic-moulded furniture and houseware to these companies and enjoys relationship for more than 10-15 years with them which have helped NPIL to generate about 25% of total revenue in FY24 (against 33% in FY23) from top five customers. Among these, Bajaj Electricals (BE) has been a key contributor. NPIL enjoys a healthy relationship with its suppliers which offer good credit to the company. Consequently, in FY24, approximately 77% of its raw material requirements (compared to ~51% in FY23) were met by its top five suppliers.

Stable operating margin, though decline in PAT margin in FY24
The PBILDT margin for NPIL remained steady at 11.20% in FY24, compared to 11.31% in FY23. Even though there was a decrease in the volume of goods sold due to a reduced demand for coolers and a drop in export market demand, the company managed to achieve better sales realisation (increase in selling price from ₹160/Kg in FY23 to ₹174/ Kg in FY24). This was possible due to a shift in the product mix towards items with a higher price point. However, PAT margin declined from 3.87% in FY23 to 1.68% in FY24, considering the creation of defer tax liability of ₹ two crore in FY24. The gross cash accruals (GCA) stood moderate at ₹7.28 crore in FY24 as against ₹8.66 crore in FY23. With revival of demand and stabilisation of freight cost, NPIL expects the margin to remain stable in FY25.

Key weaknesses

Decline in scale of operation in FY24; though remains at modest levels
The company's total operating income (TOI) declined by 12.16% in FY24 (refers to April 01 to March 31) and stood at ₹98.38 crore as compared to ₹112 crore in FY23. This contraction in sales is primarily due to a drop in revenue from Bajaj Electricals (Bajaj) due to decrease in demand for coolers, which reduced by 56% in FY24 over FY23. The same was also attributable due to a decline in sales in export markets, which was reduced by 27% in FY24 over FY23 due to a substantial increase in freight rates. The company expects the normalisation in the revenue from Bajaj and resumption of exports due to normalisation of freight rates and also is in the process of manufacturing a new range of plastic furniture's thereby undergoing capital expenditure in the current year (at Silvassa and Bihar plant), which is expected to boost its revenue in FY25 onwards.

Working capital intensive nature of operations
NPIL's inventory holding marginally increased from 105 days in FY23 to 113 days in FY24. This was due to an unexpected halt in the orders for coolers from Bajaj, triggered by an unanticipated extension of hot weather. This unforeseen demand led to an increase in year-end inventory. Moreover, NPIL typically keeps a substantial inventory to cater to the growing demand and immediate needs of its customers. The collection period stood at 80 days in FY24 (74 days in FY23), which is due to the average effect. However, in absolute term, the debtor's recovery has improved as the stringent policy adopted by company for debtors' recovery. Also, the long-standing recovery from debtors pertaining to government parties led to significant reductions in debtors. Given all the above, the operating cycle has remained elongated from 156 days in FY23 to 166 days in FY24, nevertheless, the operations continue to remain working capital intensive in nature. The average WC utilisation in the last 12 months ended May 2024 stood low at ~37% (PY- 65%).

Moderate capital structure and debt coverage indicators
NPIL's capital structure continues to remain moderate with overall gearing reaching at 1.08x as on March 31, 2024, from 1.10x as on March 31, 2023, on the back increase in the tangible net worth (TNW) base with accretion of profits to reserve. With lower cash accruals considering reduction in the absolute PBILDT level, the total debt to GCA has deteriorated to 5.65x in FY24 (against 4.62x in FY23). Nevertheless, it continues to remain at a moderate level. However, interest coverage has improved to 5.41x in FY24 (against 3.98x in FY23) back of reduction in interest cost due lower utilisation of cash credit facilities during the year. CARE Ratings observes, despite the addition of the debt level for capex commitments, the company anticipates its capital structure and debt coverage indicators will continue to remain moderate in the near to medium term.

Susceptibility of margins to volatile raw material prices and foreign exchange fluctuation risk
The raw material prices have been fluctuating in the past and therefore the cost base remains exposed to any adverse price fluctuations in the prices of the key raw materials, polypropylene and polystyrene. However, in the past, the company has been able to pass on the increase in raw material prices to the customers with a time lag. In addition to this, the profitability is also exposed to fluctuations in foreign currency, as the company exports around 10% of products with no hedging mechanism in place.

Intense competition putting pressure on margins
The company operates in a highly competitive and fragmented market which consists of large to small-sized players. Moreover, low entry barriers in the industry further intensify the already prevailing high competition in the market. Thus, the competitive nature and fragmented nature of the industry continue to have bearing on the margins and credit offered to its customers by players operating in this industry.

Liquidity: Adequate

Adequate liquidity characterised by sufficient cushion in accruals against repayment obligations of ₹2.58 crore and ₹1.66 crore for FY25 and FY26, respectively. The company has a moderate cash balance of ₹12.67 crore as on March 31, 2024 (includes ₹12.56 crore in current account). On an average basis, the maximum and average fund-based limit utilisation remained at 58.87% and 37.24%, respectively, in the past 12 months ended as of May 2024. The current ratio and quick ratio stood at 1.53x and 0.88x as on March 31, 2024. The cash flow from operating activities stood positive at ₹17.28 crore in FY24 (against ₹10.67 crore in FY23).

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
Consumer discretionary	Consumer durables	Consumer durables	Furniture, home furnishing

NPIL was established in 1952 and is currently managed by Paresh Parekh and Ketan Parekh. NPIL is mainly engaged in manufacturing and marketing of injection-moulded plastic products.
NIPL's products can broadly be classified into furniture, household, and commercial items, which are sold under the brand name of 'National'. The company operates from its registered office at Andheri (East), while it also operates through its branches in Ghaziabad, Bangalore, Kerala, and Punjab. On the other hand, its manufacturing facilities are at Silvassa, Patna, and Nellore. NPIL primarily caters to domestic market, that accounted for about 85% of the sales in FY24 (against 82% in FY23), while balance 15% in FY24 (against 18% in FY23) through exports to Australia, Middle East, Panama, Africa, New Zealand, and Romania.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	112.00	98.38
PBILDT	12.66	11.02
PAT	4.34	1.66
Overall gearing (times)	1.10	1.08
Interest coverage (times)	3.98	5.42

A: Audited, note: 'these are latest available financial results'

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 last three years: Annexure-2

Covenants of rated instrument / facility: 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-Cash credit		-	-	-	28.00	CARE BBB-; Stable
Non-fund-based - ST-ILC/FLC		-	-	-	4.25	CARE A3

Annexure-2: Rating history of 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 2024-2025	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
1	Fund-based - LT-Term loan	LT	-	-	-	-	-	1)Withdrawn (30-Sep-21)
2	Fund-based - LT-Cash credit	LT	28.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (06-Sep-23)	1)CARE BBB-; Stable (13-Sep-22)	1)CARE BBB-; Stable (30-Sep-21)
3	Non-fund-based - ST-ILC/FLC	ST	4.25	CARE A3	-	1)CARE A3 (06-Sep-23)	1)CARE A3 (13-Sep-22)	1)CARE A3 (30-Sep-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Non-fund-based - ST-ILC/FLC	Simple

Annexure-5: Lender details

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

Note on complexity levels of rated instrument: CARE Ratings Ltd. 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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