PG Foils Limited

September 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	100.00	CARE BBB+; Stable	Revised from CARE A-; Stable
Long-term / short-term bank facilities	95.00	CARE BBB+; Stable / CARE A2+	Revised from CARE A-; Stable / CARE A1

Details of facilities in Annexure -1

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of PG Foils Limited (PGFL) is on account of fructification of its negative sensitivity with operating loss reported in FY24 (refers to period April 01 to March 31) on the back of technical issues encountered in its plant and machineries undergoing modernisation as well as increased competition in the aluminium foil industry coupled with volatile aluminium foil stock prices leading to deterioration in debt coverage indicators in FY24.

Ratings continue to derive strength from the promoters' vast experience 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. Ratings also factor in PGFL's comfortable capital structure 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, 2024. However, ratings continue to remain constrained by PGFL's moderate scale of operations, elongated working capital cycle, profitability susceptible to volatile aluminium prices as well as foreign exchange fluctuation, and its presence in an intensely competitive aluminium foil industry.

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 ₹400 crore along with healthy operating profitability on a sustained basis while maintaining comfortable leverage
- Improving operating cycle to less than 120 days through better collection efficiency on a sustained basis.

Negative factors:

- Significantly declining PGFL's scale of operations or continued thin profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin/ operating loss.
- Any unfavourable outcome of the long pending ongoing court case in the matter of forgery of Fixed Deposit Receipts (FDR) of PGFL affecting its credit profile.
- Deteriorating 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

The 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that the entity will continue to benefit from its established presence in aluminium foil 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 manufacturing 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.

PGFL's clientele is well diversified with top five customers constituting 36% [PY: ~15%] of its TOI in FY24. 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, Indore, Beawar, Bengaluru, and Kolkata.

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

Comfortable capital structure
PGFL's capital structure marked by its overall gearing ratio improved from 0.46x as on March 31, 2023 to 0.22x as on March 31, 2024 on the back of lower utilisation of working capital limits as on FY24 end coupled with augmentation of tangible net worth (TNW) base with accretion of FY24 net profit into reserves along with conversion of 9,22,000 warrants into equity shares resulting in additional equity infusion of ₹18 crore in FY24. Going forward, capital structure of the company is expected to remain comfortable in absence of major debt funded capex plans.

Key weaknesses
Moderate scale of operations along with loss at operating level in FY24 resulting in deterioration in debt coverage indicators
During FY24, PGFL's TOI moderated from ₹341 crore in FY23 to ₹321 crore in FY24. TOI was supported by increase in trading sales (from ₹28 crore in FY23 to ₹57 crore in FY24) while manufacturing sales declined from ₹281 crore in FY23 to ₹238 crore in FY24 with moderation in aluminium foil sales quantity by 4% y-o-y and sales realisation by 12% y-o-y, in tandem with decrease in aluminium foil stock price.
Furthermore, in FY24, PGFL reported operating loss of ₹0.04 crore as against operating profit of ₹15 crore in FY23 due to technical issues in its plant and machinery undergoing modernisation led higher wastage as well as rejection and increased competition affected sale realisations. Volatile aluminium foil stock price in FY24 also adversely impacted the operating profitability. As articulated by the management, the modernisation is expected to be completed in current year and sales volume is expected to ramp up from H2FY25 onwards along with envisaged improvement in quality of products. Despite operating loss, PGFL reported net profit of ₹17 crore in FY24 mainly due to non-operating income pertaining to interest income, employer employee maturity income (unit linked insurance plans [ULIP]), profit from trading of equity derivatives and shares.
On the back of operating loss, the company's debt coverage indicators deteriorated and remained weak in FY24.
In Q1FY25, PGFL registered TOI of ₹128 crore along with thin PBILDT margin of 2.42%.

Profitability susceptible to volatility in key raw materials prices and foreign exchange fluctuation
Raw material cost, primarily consisting of aluminium foil stock, accounted for 92% of TOI in FY24 (FY23: ~88%), which exposes PGFL to risks relating to raw material price volatility. The price of aluminium foil stock has exhibited high volatility on account of its linkage with price of the 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, and subsequently, remained volatile in FY24 which also impacted profitability in FY24.
Also, PGLF derived 17% of its sales [PY: 22%] from export market, while it imports part of its raw material requirement as well. Hence, its profitability is impacted by any adverse movement in foreign currency exchange rates due to gap between its imports and exports. However, as articulated by the management, PGFL does not have any active hedging policy but it partly hedges its forex exposure through utilisation of foreign currency limits. During FY24, PGFL reported foreign currency gain of ₹3 crore as against foreign currency loss of ₹15 crore in FY23.

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 off-take from major end-user industries, including pharmaceutical, fast-moving consumer goods (FMCG), dairy, and other packaging.

Liquidity: Adequate
PGFL had adequate liquidity marked by sizable unencumbered investments in mutual funds, employer-employee unit linked insurance plans (ULIP), and equity shares among others coupled with moderate utilisation of working capital limits and absence of long-term external debt.
PGFL's current ratio remained at 3.81x as on March 31, 2024, with continued holding of sizable cash and investments to the tune of ₹203 crore as on March 31, 2024 [PY: ₹208 crore] as against nil long-term debt obligations. Average utilisation of fund-based working capital limits remained at ~44% for last 12 months ended April 2024. The company continued to report positive CFO of ₹20 crore in FY24. Operating cycle moderated from 138 days in FY23 to 166 days in FY24 mainly due to increased receivables days from 51 days in FY23 to 70 days in FY24 with high trading sales at financial year end.

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

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Metals & Mining	Diversified Metals	Diversified Metals

PGFL (CIN: L27203GJ1979PLC008050), incorporated in November 1979, is the flagship company of the PG Foils group based out of Pali Marwar, Rajasthan. The company is engaged in manufacturing aluminium foils and flexible packaging with an installed capacity of 11,700 metric tonne per annum (MTPA) as on March 31, 2024. 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)	FY23 (A)	FY24 (Pb)	Q1FY25 (UA)
Total operating income	340.81	320.64	127.91
PBILDT	15.33	-0.04	3.09
PAT	0.22	17.02	11.50
Overall gearing (times)	0.46	0.22	NA
Interest coverage (times)	0.59	-0.01	3.25

A: Audited; Pb: Published with annexures; 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 facility: Detailed explanation of covenants of the rated 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-Cash credit	-	-	-	-	100.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	95.00	CARE BBB+; Stable / CARE A2+

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 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	Non-fund-based - LT/ ST-BG/LC	LT/ST	95.00	CARE BBB+; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A1 (19-Jun-23)	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)
2	Fund-based - LT-Cash credit	LT	100.00	CARE BBB+; Stable	-	1)CARE A-; Stable (19-Jun-23)	1)CARE A-; Stable (12-Dec-22) 2)CARE A-; Stable (07-Oct-22)	1)CARE A-; Stable (30-Dec-21)

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

Annexure-3: Detailed explanation of the 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.

Contact us

Media Contact	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Name: Kalpesh Patel Director **CARE Ratings Limited** Phone: +91-79-4026 5611 E-mail: Kalpesh.patel@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3444 E-mail: Ankur.sachdeva@careedge.in	Name: Anuja Parikh Associate Director **CARE Ratings Limited** Phone: +91-79-4026 5616 E-mail: anuja.parikh@careedge.in Name: Harsh Desai Assistant Director **CARE Ratings Limited** E-mail: harsh.desai@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.

For the detailed Rationale Report and subscription information, please visit www.careedge.in