# SHRINATH ROTO PACK PRIVATE LIMITED (Revised)

October 09, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 60.54 | CARE BBB+; Stable | Assigned |
| Long Term / Short Term Bank Facilities | 359.46 | CARE BBB+; Stable / CARE A2 | Assigned |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

For arriving at ratings of Shrinath Rotopack Private Limited (SRPL), CARE Ratings Limited (CARE Ratings) has taken a combined view of two group entities of Shree group i.e. SRPL and Nath Foils Private Limited (NFPL) due to their financial and managerial linkages. Together, they are referred as Shrinath group (SG).

The ratings assigned to SG derive strength from its experienced and resourceful promotors as well as its long-standing relationships with reputed and diverse client base. The ratings also factor volume-backed growth in SRPL's scale of operations, moderate profitability margin and adequate liquidity.

The above rating strengths are, however, partially offset by SG's moderate financial risk profile and debt coverage indicators on account of large size debt-funded Capital Expenditure (CAPEX) in NFPL, which commenced commercial operations in March 2024. The ratings also factor vulnerability of SG's profitability to fluctuation in raw material (RM) prices and, its presence in a competitive and fragmented industry.

## Rating sensitivities: Factors likely to lead to rating actions

### Positive factors

- Scaling up of operations at NFPL and increase in capacity utilisation level of SRPL resulting in growth in scale of operations and improvement in Profit before Interest, Lease, Depreciation and Taxes (PBILDT) margin above 9% on combined basis.
- Improvement in capital structure marked by overall gearing below 1.25x on sustained basis.
- Improvement in debt coverage indicators marked by TD/GCA below 4x and PBILDT/Interest of more than 3.5x on sustained basis.

### Negative factors

- Major debt funded capex resulting in deterioration in capital structure with overall gearing going beyond 2.5x.
- Additional Corporate guarantee/ additional support to another group company / NFPL (due to inability to scale up its operations) resulting in adjusted overall gearing beyond 2.5x.
- Sustained moderation in PBILDT margins below 8% on a combined basis.

## Analytical approach: Combined

For arriving at ratings of SRPL, CARE Ratings has taken combined view of SRPL and NFPL on account of:

- Common shareholding i.e. Shree group family trust holds approximately 47% shareholding of SRPL and 80% shareholding of NFPL. Further, balance 20% of shareholding of NFPL is held by SRPL.
- Both entities are engaged in flexible packaging industry.
- Financial support by SRPL in form of advances as well as extension of corporate guarantee to the lenders of NFPL.

## Outlook: Stable

Stable outlook reflects CARE Ratings' view that SG shall continue to benefit from its experienced promotors, its established position in the flexible packaging sector, and an expectation of growth in Total Operating Income (TOI) with scaling up NFPL's operations.

## Detailed description of key rating drivers:

## Key strengths

### Experienced and resourceful promotor group

SRPL, the flagship company of the Shree group, a family-owned industrial group with over five decades of experience, is engaged in manufacturing of multilayered laminated plastic films having an end-application in the non-woven flexible packaging industry. SRPL is currently managed by the second generation of promotors Mr Sunil Rathi, Mr Manish Rathi and Mr Sarvesh Lahoti.

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

Over the years, Shree group has diversified with backward integrating the inputs needed for flexible packaging. The group comprises of various entities with interests in master batches, Poly bags, Stretch and Speciality films, laminated woven sacks, inks, pharma (formulations) etc. During FY22, SG undertook a greenfield project to set up Aluminium foil manufacturing under NFPL. While it was expected to commence commercial operations from April 2023, commercialisation of the project was delayed resulting in both time and cost overruns. However, operations has scaled up and NFPL is currently operating at ~40-50% of installed capacity.

**Long standing relationship with reputed and diverse clientele:**
SRPL has reputed clientele base and caters to multinational FMCG conglomerate like Brittania, Procter & Gamble (P&G), Glaxosmith Kline (GSK) etc. Long standing relationship with its customers, coupled with a proven track record of delivering quality products, lead to repeat orders from existing customers. Top 10 customers of SRPL constitute around 36% of TOI in FY24 (FY refers to the period between April 01 to March 31) (FY23: 38% of TOI).

**Volume backed growth in scale of operations and moderate profitability:**
SRPL has achieved a stable growth Compounded Annual Growth Rate (CAGR) of ~10% in past 5 years, with SG achieving TOI of Rs.1019.38 crore as on FY24 end. The growth is attributable to a series of capex plans undertaken by SRPL, which increased its installed capacity from ~42,000 MTPA in FY22 to 57,540 MTPA FY24, and its gradual scaling up in response to increasing demand. SG reported PBDIT and PAT margins of 8.65% (6.79%) and 2.64% (1.60%) respectively in FY24.
NFPL, which was previously engaged in trading of aluminium foils, commenced manufacturing operations from its greenfield project from March 2024 and generates revenue through domestic as well as export markets (~50% of TOI). SG has achieved turnover of ~Rs.500 crore (including turnover of ~Rs.50 crore from NFPL) and is expected to maintain the growth momentum in H2FY25. NFPL has currently orders of 1150MT and is expected to generate revenue of ~Rs. 170-175 crore in FY25. CARE Ratings expects SG to report TOI in range of ~Rs.1200-1300 crore in FY25. Scaling up of operations of NFPL remains a key monitorable and crucial from credit perspective.

## Key weaknesses

**Partly Debt funded capex leading to moderate financial risk profile and debt coverage indicators:**
SG's capital structure is moderate marked by overall gearing of 1.98x as on FY24 end. Over the past four years, SG has invested approximately Rs.430 crore in capital expenditure towards capacity expansion at SRPL and establishment of a greenfield project for aluminium foil manufacturing under NFPL. The cost was funded through a mix of bank debt and unsecured loans from promotors amounting to approximately Rs. 320 crore and balance was sourced from internal accruals. SG's debt coverage indicators are also moderate marked by Interest coverage of 2.6x (FY23: 2.9x) and high TD/GCA of 10.1x (PY: 9.9x) as on FY24 end. With scaling up of operations coupled with achievement of envisaged PBILDT, overall gearing is expected to improve to 1.5x by FY26 end.

**Competitive and fragmented nature of Industry**
The Indian plastic packaging film market is highly fragmented and competitive on account of presence of numerous small and medium sized players. This can hinder economies of scale. Moreover, low differentiation in the packaging solutions leads to intensely competitive market translating into low pricing power for the players in the industry.

**Susceptibility of Profit margins to fluctuating RM price**
SG's profit margins which have remained in range of 7.5-9.5% in the past 3 years ending FY24. are exposed to volatility in pricing of key RM i.e. Plastic granules and Polyester films which are derived from crude oil. For majority of the clients, Sales price is derived by adding RM cost to pre-determined conversion price, which mitigates risk of moderation in profitability margins to certain extent. This is reflected from PBILDT/kg of SRPL which has remained ~Rs. 18-20 in past 3 years ending FY24.

## **Liquidity**: Adequate
Liquidity of SG is adequate marked by sufficient gross cash accruals (GCA), as compared to its term debt repayment obligations, cushion in form of unutilised portion of working capital limits and moderate working capital cycle.
SG's GCA is expected to remain in range of ~Rs. 57-90 crore against debt repayment obligations of Rs. 38-50 crore in projected FY25-FY27. Operating cycle of SG remained moderate in range of 90-110 days. SG had free cash and cash equivalent of Rs.1.95 crore as on FY24 end (FY23: Rs. 1.48 crore). SG reported cash flow from operations of Rs.17 crore in FY24 (FY23: Rs.82.78 crore). CFO has reduced in FY24 on account of reduction in creditors by ~Rs. 75 crore, funded by utilising channel finance limits. Current ratio of SG is thin at 1.05x as on FY24 (PY:1.14x) since internal accruals of SRPL were utilised for rendering advances to NFPL and fund debt repayment. NFPL is expected to generate sufficient GCA to service its term debt obligations from FY26

onwards. With no major CAPEX planned in near term, surplus cashflow of SG is expected to remain sufficient to meet incremental working capital requirements.

## Applicable criteria

Consolidation
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 |
|---|---|---|---|
| Consumer Discretionary | Consumer Durables | Consumer Durables | Plastic Products - Consumer |

SRPL, incorporated in 2006, is engaged in manufacturing of flexible laminated plastic packaging (PVC, LDPE, HDPE, BOPP, BOPET) that are used separately or in combination for various packaging applications. These packaging solutions are extensively used in FMCG, confectionary as well as food and beverages industry. SRPL has two plants at Mankhal (28,200 MTPA) and Burgul (29,340 MTPA) district of Hyderabad having cumulative capacity of 57,540 MTPA. Apart from this company has in-house cylinder engraving facility of around 25,000 cylinders per annum. These cylinders are used as dyes in rotogravure machines.
NFPL, incorporated in Aug 2020 (commenced manufacturing operations in March 2024), is engaged in manufacturing facility of Aluminium foils with an installed capacity 14,600 MTPA at Aurangabad district, Maharashtra.

| | Combined: SG (SRPL & NFPL) | | | Standalone: SRPL | |
|---|---|---|---|---|---|
| Brief Financials (₹ crore) | March 31, 2023 (UA) | March 31, 2024 (UA) | August 31, 2024 (UA) | March 31, 2023 (A) | March 31, 2024 (A) |
| Total operating income | 1130.74 | 1019.38 | 510.00 | 1113.88 | 1018.92 |
| PBILDT | 88.12 | 94.99 | NA | 88.05 | 93.66 |
| PAT | 17.87 | 26.69 | NA | 17.87 | 23.82 |
| Overall gearing (times) | 2.74 | 1.98 | NA | 1.87 | 1.93 |
| Interest coverage (times) | 2.85 | 2.59 | NA | 2.88 | 2.64 |

A: Audited UA: Unaudited; NA: Not available, Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** CRISIL has put the rating assigned to the bank facilities of TSC under issuer non-cooperation category on account of CRISIL's inability to carry out a rating exercise in the absence of the requisite information from the company as per the press release dated August 30, 2024.

**Any other information:** Not Applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** 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 | Coupon Rate (%) | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned and Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | | - | - | 31-05-2031 | 60.54 | CARE BBB+; Stable |
| Fund-based - LT/ ST-Working Capital Limits | | - | - | - | 353.16 | CARE BBB+; Stable / CARE A2 |
| Non-fund-based - LT/ ST-BG/LC | | - | - | - | 6.30 | 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 | Fund-based - LT-Term Loan | LT | 60.54 | CARE BBB+; Stable | | | | |
| 2 | Fund-based - LT/ ST-Working Capital Limits | LT/ST | 353.16 | CARE BBB+; Stable / CARE A2 | | | | |
| 3 | Non-fund-based - LT/ ST-BG/LC | LT/ST | 6.30 | CARE BBB+; Stable / CARE A2 | | | | |

LT: Long term; LT/ST: 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-Term Loan | Simple |
| 2 | Fund-based - LT/ ST-Working Capital Limits | Simple |
| 3 | Non-fund-based - LT/ ST-BG/LC | Simple |

## Annexure-5: Lender details

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|---|
| 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 based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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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