

Vform Tecnopacks Private Limited

November 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	60.29 (Reduced from 75.00)	CARE BBB+; Stable	Upgraded from CARE BBB; Stable
Long-term / Short-term bank facilities	40.00	CARE BBB+; Stable / CARE A2	Upgraded from CARE BBB; Stable / CARE A3+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has changed its analytical approach from standalone assessment of Vform Tecnopacks Private Limited (VTPL) to assessment of the combined financial risk profiles of VTPL and Secure Industries Private Limited (SIPL), referred to as the Group, considering managerial, operational and financial linkages. Upgrade in ratings reflects in improvement in the Group's operating performance and capital structure in FY24 and H1 FY25 and CARE Ratings' expectations of sustained performance over the medium term, supported by healthy gross cash accruals (GCA) and limited incremental borrowing to fund planned capital expenditure. Ratings also factor in extensive experience of promoters in the packaging industry and its history of repeat orders from its key clientele.

The Group has reported sustained improvement in scale of operation in the last five years, as reflected by its revenue compounded annual growth rate (CAGR) of 28% between FY19-FY24, backed by uptick in demand and addition of capacities for liquor caps in 2022. While total operating income (TOI; excluding interunit sales) grew marginally by ~5% y-o-y to ~₹577 crore in FY24 its profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin improved by 221bps on YoY basis to above 21% in FY24. Ratings consider the Group's comfortable capital structure as indicated by improvement in overall gearing to 0.74x (PY: 1.04x) and total operating liabilities to total net worth (TOL/TNW) to 1.06x (PY:1.32x) as on March 31, 2024, and healthy debt coverage metrics reflected by PBILDT interest cover at 10.13x (PY: 9.32x) and total debt/PBILDT at 1.37x (PY: 1.74x) in FY24. CARE Ratings notes that the Group plans to incur capex of ~₹110 crore in the next three years for developing two plants in Andhra Pradesh and Rajasthan and one research and development centre in Maharashtra partly funded through incremental term loans of ₹50 crore. The Group is expected to maintain healthy performance in the coming years with revenue growth of ~9-10% YoY and PBILDT margin ~20% translating into healthy cash accruals and debt coverage metrics.

However, ratings continue to remain constrained by the Group's profitability vulnerability to fluctuations in key raw material prices and fluctuations in foreign exchange given the considerable imports. Ratings also factor in exposure to adverse changes in Government regulations and consumer preferences, which could impact demand for its products and the intense competition in the packaging industry. The Group's sizeable capital expenditure plans also constrain ratings.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- Significant increase in scale of operations and sustenance in PBILDT margins above 20%.
- Improvement in financial risk profile with TOL/TNW below 0.75x and return on capital employed (ROCE) above 25% on a sustained basis.

Negative Factors

- Significant decline in scale of operation and profitability margins leading to decline in cash accruals.
- Higher-than-envisioned increase in debt leading to deterioration in total debt/PBILDT above 2.50x.
- Stretch in operating cycle above 90 days.

Analytical approach: Combined (changed from standalone)

Combined financial risk profiles of VTPL and SIPL, considering managerial, operational and financial linkages.

Outlook: Stable

Stable outlook reflects CARE Ratings' expectations that the Group will continue to maintain adequate financial risk profile backed by growing scale and sustained profitability.

Detailed description of key rating drivers:

Key strengths

Extensive experience of promoters in packaging industry

SIPL started manufacturing caps and closures from 2013, prior to which, promoters were associated with another company in the same line of business. VTPL commenced production for beverage industry from 2018 and for liquor industry from 2022. Given

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

promoters' association with some of the large players in the beverages industry and their experience of over two decades, group has bagged orders from reputed players in the beverages and liquor sector, which has enabled the company establish its position in the packaging industry.

Established association with reputed players, and concentration risk

The group's customer base comprises leading liquor, beverage and mineral water manufacturers such as Hindustan Coca Cola Beverages (HCCB), Kandhari Beverages Private Limited, Pernod Ricard India Private Limited, among others. SIPL also entered an agreement with Coca-Cola Beverages Sri Lanka Limited for supplying caps and closures, which provides export business to the company. Long-term association with some of these leading players, has resulted in repeat business for the group. VTPL's top five customers account for ~41% of its sales and SIPL's top five customers account for ~68% of its sales indicating customer concentration. However, the risk is mitigated to some extent considering reputed clientele and history of repeat business.

Improving scale of operations and sustained profitability leading to better cash accruals

The Group has reported continuous increase in its TOI marked by CAGR of 28% in the last five years ended on March 31, 2024 to ~₹577 crore in FY24 from ~₹167 crore in FY19 and achieved y-o-y growth of ~5% to ₹577 crore in FY24 compared to ₹550 crore in FY23. The growth is considering uptick in demand resulting in improved capacity utilisation and VTPL, venturing into manufacturing liquor caps in 2022. The group's profitability has been volatile but stood above average marked by PBILDT margins at 21.31% in FY24 (PY: 19.10%) and profit after tax (PAT) margins stood at 8.83% in FY24 (PY: 7.98%), translating into healthy cash accruals of ₹93.12 crore in FY24 (PY: ₹78.67 crore). Going forward, sustaining profit margins remains a key monitorable.

Comfortable capital structure and debt coverage indicators despite significant capex

The capital structure stood comfortably marked by overall gearing at 0.74x (PY: 1.04x), debt to equity being at 0.66x (PY: 0.86) and TOL/TNW at 1.06x (PY: 1.32x) as on March 31, 2024. In FY24, debt coverage metrics also stood comfortable with interest coverage at 10.13x (PY: 9.32x) and TD to gross cash accruals (TD/GCA) at 1.81x (PY: 1.81x). Additionally, the group is undertaking a capex of ~₹110 crore in the next three years for developing two plants in Andhra Pradesh and Rajasthan and one research and development centre in Maharashtra, the capex is primarily to reduce the lead time and save transportation cost and enhancing manufacturing capacity of liquor caps and beverages cap. Despite the capex, CARE Ratings expects the group to maintain an adequate financial risk profile over the coming years, backed by healthy cash accruals.

Key weaknesses

Susceptibility of profit margins to raw material price volatility and forex rate fluctuations

Primary raw material required for manufacturing closures are polypropylene (PP) and high-density polyethylene (HDPE). The group imports ~56% of its total purchases from Thailand, Saudi Arabia and France, among other markets. The group is exposed to adverse movements in forex rates, although exports provide partial natural hedge. PP and HDPE being petroleum derivatives witness high volatility, given their direct linkages to crude oil prices; exposing the group to raw material price fluctuation risks. The group's profit margins remain vulnerable to these fluctuations; however pass-through agreements with customers mitigates this risk to an extent.

Intense competition in the packaging industry

The plastic caps and closures industry is highly competitive due to its fragmented nature since barriers to entry are low. However, backward integration into mould manufacturing gives the group an edge over its competitors in terms of technical expertise and value engineering. The group's well-established relations with reputed clients also provides comfort.

Exposure to adverse changes in Government regulations and consumer preferences

The group's performance is also susceptible to adverse regulatory changes, consumer preference changes and seasonality in sales. Demand of aerated beverages is contingent on consumer taste and preferences. There is a possibility of moderation in demand for aerated beverages with consumers' shift towards a healthy lifestyle.

Liquidity: Adequate

The group's liquidity stood adequate marked by sufficient projected cash accruals in the range of ₹90 to 115 crore against moderate repayment obligations in the range ₹30 to 40 crore per annum in the next three years. The Group plans to incur capex of ~₹110 crore in the next three years, partly funded by incremental borrowing of ₹50 crore. It has free cash and bank balances of ~₹32 crore as on March 31, 2024. Its net cash flow from operation stood positive in the last five years and stood at ₹104 crore as on March 31, 2024. Average working capital utilisation stood at ~20% in 12-months ended September 2024. Current ratio stood at 1.88x and quick ratio stood at 1.77x as on March 31, 2024.

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	Diversified consumer products

VTPL (erstwhile Vform Technopack Private Limited) was incorporated in 2016 in Navi Mumbai and is involved in manufacturing plastic caps and closures for beverage, food and liquor industry. The company's Chairman and Director, Sanjay Singh, has an experience of over two decades in this business. The company operates two manufacturing plants in Rohtak, Haryana and Hyderabad, Telangana. In FY22, it expanded in manufacturing liquor bottle caps and increased its overall capacity. VTPL is developing two manufacturing plants in Andra Pradesh and Rajasthan and one research and development centre in Maharashtra.

SIPL is involved in manufacturing caps and closure for beverage, food and non-food industry and started its operations in 2013. Until 2013, SIPL was primarily provided technical services to bottling and capping lines and supplied consumable parts to bottling lines that were designed and developed by it. In FY13, SIPL ventured in manufacturing caps and closures that find applications in polyethylene terephthalate (PET) bottles of carbonated soft drinks (CSD), fruit juices and bottled water. The company's factory is at Hyderabad, Telangana and Ahmedabad, Gujarat. SIPL has a separate division, which designs and manufactures moulds used by the company for manufacturing caps and closures.

Combined – Brief Financials (₹ crore)	March 31, 2023 (UA)	March 31, 2024 (UA)	H1FY25 (UA)
Total operating income	550.43	577.26	367.02*
PBILDT	105.15	123.02	62.65
PAT	43.93	50.99	29.24
Overall gearing (times)	1.04	0.74	NA
Interest coverage (times)	9.32	10.13	9.36

*Including interunit sales

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

Standalone – Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	329.00	359.73	249.78*
PBILDT	76.79	94.78	51.29
PAT	35.98	45.62	26.69
Overall gearing (times)	0.77	0.42	NA
Interest coverage (times)	11.87	13.50	20.35

*Including interunit sales

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

Status of non-cooperation with previous CRA:

Brickwork Ratings has conducted the review based on best available information and has downgraded VTPL to BWB BB; Stable (Issuer Not Cooperating) and BWB A4 (Issuer Not Cooperating) vide its press release dated August 21, 2024. Such review was conducted based on best available information as VTPL continues to not share the information required for surveillance exercise.

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan	-	-	-	31-05-2029	60.29	CARE BBB+; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	40.00	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	Fund-based - LT-Term Loan	LT	60.29	CARE BBB+; Stable	-	1)CARE BBB; Stable (31-Aug-23)	-	-
2	Fund-based/Non-fund-based-LT/ST	LT/ST	40.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (31-Aug-23)	-	-

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/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

To view 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:

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