Secure Industries Private Limited (Revised)

November 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	23.63	CARE BBB+; Stable	Assigned
Long-term / Short-term bank facilities	26.50	CARE BBB+; Stable / CARE A2	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

While arriving at ratings, CARE Ratings Limited (CARE Ratings) has considered the combined financial risk profiles of Secure Industries Private Limited (SIPL) and Vform Tecnopacks Private Limited (VTPL), referred to the Group, considering managerial, operational and financial linkages. Ratings assigned to SIPL reflects 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% year-over-year (y-o-y) to ~₹577 crore in FY24 its profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin improved by 221bps on y-o-y 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% y-o-y 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-envisaged increase in debt leading to deterioration in total debt/PBILDT above 2.50x.
- Stretch in operating cycle above 90 days.

Analytical approach: Combined

Combined financial risk profiles of SIPL and Vform Tecnopacks Private Limited, 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 business. VTPL commenced production for beverage industry from 2018 and for liquor industry from 2022. Given promoters' association with some large players in the beverages industry and their experience of over two decades, the group has bagged

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

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, and 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 in 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 group's 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 total debt 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 Andra 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	Plastic Products - Consumer

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.

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 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.

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	185.40	221.81	117.24*
PBILDT	28.36	28.24	11.36
PAT	7.95	5.38	2.55
Overall gearing (times)	1.79	1.83	NA
Interest coverage (times)	5.89	5.52	2.72

*Including interunit sales
A: Audited UA: Unaudited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA:
ICRA has conducted a review based on best available information due to inadequate information and non-cooperation on payment of fees and has reaffirmed SIPL's rating at ICRA BBB-; Stable (Issuer Not Cooperating) vide its press release dated October 04, 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 (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	-	-	-	30-11-2028	23.63	CARE BBB+; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	26.50	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/Non-fund-based-LT/ST	LT/ST	26.50	CARE BBB+; Stable / CARE A2				
2	Fund-based - LT-Term Loan	LT	23.63	CARE BBB+; Stable				

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 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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