Astron Packaging Limited (Revised)

January 09, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	18.00	CARE BBB+; Stable	Reaffirmed
Short-term bank facilities	17.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Astron Packaging Limited (APL) continue to derive strength from its experienced and resourceful promoter group, established track record of operations in manufacturing corrugated boxes and self-adhesive labels, diversified clientele, and good growth prospect of the packaging industry.

However, rating strengths are tempered by APL's modest scale of operations in an intensely competitive industry, its moderate capital structure and low return on capital employed (ROCE), large working capital requirement and susceptibility of its profitability to raw material price volatility and foreign exchange rate fluctuations. Ratings also factor nascent operations of its eye care hospital which was, however, entirely funded through interest-free unsecured loans from the promoters. The company management has also articulated that losses if associated with eye care hospital would continue to be funded through incremental interest-free unsecured loans from its promoters.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in total operating income (TOI) beyond ₹450 crore with improvement in profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins over 13% and ROCE of over 15% on a sustained basis.
- Efficient management of working capital with gross operating cycle days less than 150 days.

Negative factors

- Decline in PBILDT margin below 10% on a sustained basis.
- Total debt (excluding interest free unsecured loans from promoters) to PBILDT ratio exceeding 4.5x on a sustained basis.

Analytical approach: Consolidated with group support.

CARE Ratings Limited (CARE Ratings) has considered consolidated financials of APL including its sole wholly owned subsidiary, Astron FZ LLC (AFL) due to managerial, operational and financial linkages. Considering increasing contribution of AFL in APL's consolidated financials, CARE Ratings has changed its analytical approach from standalone to consolidated. Subsidiaries/JVs consolidated in APL are listed under **Annexure-6.**

APL is promoted by Nimish Chudgar and other family who holds majority stake in Intas Pharmaceutical Limited (IPL; rated 'CARE AA+; Stable/ CARE A1+'). IPL is also the largest customer of APL with 11% share in consolidated sales in FY24 (refers to April 01 to March 31). Moreover, Nimish Chudgar has infused unsecured loans to support APL's overall operation and to fund the construction of the eye care hospital. Moreover, operational loss from the hospital would also be funded through incremental interest-free unsecured loans from the promoters per written articulation by APL's management.

Outlook: Stable

CARE Ratings believes APL shall continue to benefit from its experienced and resourceful promoter group, and its established operations.

Detailed description of key rating drivers:

Key strengths

Experienced and resourceful promoter group

APL is promoted by Nimish Chudgar and family who are also the promoters of IPL. APL's promoters (the Chudgar family of Ahmedabad) have over three decades of experience in the pharmaceutical and packaging industry. APL's promoters are supported by qualified and well-experienced senior management team for carrying out core business activities. Promoters have supported the company's capex and operations through infusion of interest-free unsecured loans. The total outstanding loan from promoters increased to ₹103.72 crore as on March 31, 2024, from ₹22.97 crore as on March 31, 2017, which reflects the resourcefulness of promoters and their willingness to support APL. Of the total unsecured loans, ₹23.97 crore is subordinated to bank debt and hence considered as quasi equity for the purpose of capital structure.

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

Established track record of operations with relatively diversified clientele across industries

APL has an established track record of over 20 years in manufacturing corrugated paper boxes and self-adhesive labels which has enabled it to build relations with reputed clientele. The corrugated boxes are used for packaging purpose in industries such as fruits and vegetables, dyes and intermediates, pharmaceuticals, tobacco, bathroom and kitchen material and other applications, whereas self-adhesive labels and mono cartons are largely used in pharmaceutical industry. In the fruit and vegetables segment, APL largely supplies the corrugated boxes to the traders/exporters who are engaged in exports of grapes, apples, and bananas. Over 50% of the total sales of corrugated boxes division pertain towards fruits and vegetables segment which exposes APL to the vagaries of such agriculture produce in India.

Diversified customers

APL supplies its products to companies including IPL. APL has been gradually diversifying its clientele in corrugated boxes and self-adhesive label segments. In FY24, the top five customers contributed 25% in TOI while IPL's contribution stood at 12% at standalone level. APL also exports corrugated boxes to Brazil and Thailand from India and supplies self-adhesive labels to companies manufacturing beauty and petroleum products in Dubai, UAE through its wholly owned subsidiary, Astron Packaging Industry FZ-LLC, UAE.

Good growth prospect for packaging industry in India despite highly competitive intensity

The Indian packaging industry is among the largest in the world and per capita packaging consumption in India is still quite below the worldwide average indicating the extent of under penetration of Indian Packaging Industry. Demand for corrugated paper packaging products remained resilient throughout the pandemic as lower demand from key end-user industries such as ready-made garments, industrial components, consumer durables, was offset by higher demand from e-commerce businesses. Demand for packaging paper and board segment is expected to grow at over GDP rate due to rise of ecommerce, requirement of better-quality packaging of fast-moving consumer goods (FMCG) products marketed through organised retail, increasing demand for consumer durable and increasing preference for packaged food. However, the corrugation industry is highly fragmented having presence of organised and unorganised players. APL, being one of the organised companies, manufactures high quality corrugated boxes and has a track record of retaining its customers thus protecting itself from competition.

Liquidity: Adequate

APL's liquidity remains adequate marked by relatively stable and adequate cash accruals to support loan repayment obligations and incremental working capital requirement and time to time infusion of funds by promoters to support the capex requirements. APL generated cash accruals of ₹30.75 crore and cash flow from operations of ₹37.17 crore in FY24. Cash accruals are expected to grow in upcoming years which is expected to provide sufficient cushion against the term loan repayment obligations of ~₹7-15 crore in FY25-FY27. The average utilisation of fund based working capital limits for last 12 months ended September 2024 remained high at 92% due to high working capital intensity. The company's current ratio remained at 1.17x as on March 31, 2024, and is expected to improve in the near-to-medium term.

Key weaknesses

Modest scale of operations with moderate operating profitability margin

APL derives ~80% of TOI from corrugated boxes and cartoons, ~15% from adhesive label and ~5% from Eye care hospital. APL's consolidated revenue grew by 20% in FY24 to ₹405 crore (FY23: ₹337 crore) due to recovery in performance of corrugated boxes (CB) division. In FY23, CB division witnessed 27-28% decline in its sales volume due to increase in its product prices and non-repeat of one big export order that was there in FY22. In FY24, the revenue of CB division grew by 25% while sales of mono cartons registered de-growth of ~20% while sales of adhesive label remained largely stable. With growth in scale of operations, PBILDT margin improved by 188 bps in FY24 to 10.13% (PY: 8.25%).

In H1FY25, standalone TOI grew by 36% on year-over-year (y-o-y) basis backed by growth in sales volume of corrugated boxes while PBILDT margin remained largely stable at 8.65% (H1FY24: 9.06%). TOI is expected to grow by over 20% in FY25 and FY26 with the commencement of operations of newly added vertical 'Coated products' division in March 2024. The PBILDT margin is expected to remain in the range of 10% to 11% in the near-to-medium term.

The eye care hospital generated TOI of ₹14.41 crore in FY24 with PBILDT of ₹3.39 crore, however, incurred a net loss of ₹0.84 crore. In current year, the hospital is operating at breakeven level.

Continued moderate leverage and low ROCE

APL's capital structure remained moderate with overall gearing ratio remained at 1.76x as on March 31, 2024, due to continuous debt-funded capex undertaken in the past apart from increasing working capital intensity. However, majority long term loans are in the form of interest-free unsecured loans which are extended by promoters from time to time to support the business operations. The promoters have consistently infused unsecured loans in the last five years period FY19-FY24 resulting in total unsecured loans of ₹79.75 crore as on March 31, 2024, from ₹26.97 crore as on March 31, 2018. Thus, the adjusted overall gearing excluding unsecured loans from the promoters stood at 1.10x as on March 31, 2024. In the last couple of years, increase in raw material prices (mainly kraft paper prices) clubbed with higher proportion on sales towards the end of financial year results in higher working capital borrowings as on balance sheet date. The company is currently expanding capacity of corrugated boxes in Pune (Maharashtra) with a total capital investment of ~₹45-50 crore which is being funded through debt/equity mix of 75:25. Thus, the capital structure is expected to remain moderate in medium term due to continued reliance on external borrowings and to fund high working capital requirement. Moreover, debt coverage indicators have stood moderate marked by PBILDT interest coverage and total debt to gross cash accruals (TD/GCA) at 4.86x (PY: 3.48x) and 6.90x (PY: 9.74x), respectively, in FY24 due to higher reliance on external debt to support high working capital requirement. With improvement in operating profitability in FY24, ROCE improved to 6% in FY24 (FY23: 3%) from the last four years average of 5-6%. APL's ROCE continued to remain low due to high capital deployment of ~₹60-65 crore in eye care hospital which is not generating meaningful profitability at preset. ROCE is also expected to remain sub-optimal in near term till the time investment in eye care hospital generate adequate profitability.

Large working capital requirement

APL's business is working-capital intensive as the company has to stock the raw material inventory for peak season demand considering seasonal exports of fruits and vegetables (one of APL's main end-user segments), which is available in December to March. The working capital intensity is clustered around these months. The company procures its raw material from the international market where it has to pay in advance or against letter of credit (LC). APL also stocks inventory of raw materials depending upon the transit time in its delivery as major portion of its raw material requirement is imported. Its operating cycle remains ~100 to 130 days. APL funds ~65-70% of its working capital requirement through working capital borrowings and its utilisation of working capital borrowing remains high in the range of 90-95% in peak season and ~80- 85% in non-peak season. The working capital limit utilisation also varies depending on the price of raw material.

Susceptibility of profit margins to volatile raw material prices and forex rates

APL's major raw material comprises of kraft paper for manufacturing corrugated boxes and cromo paper for manufacturing labels. The cost of raw material constitutes ~80% of APL's total cost of sales, major portion of which is imported. The international and domestic prices of paper are volatile depending upon the demand-supply scenario and thus APL's margins are susceptible to volatility in prices of paper. However, APL has been able to pass on major portion of increase in raw material prices to its customers as reflected by its stable profitability. APL imports ~40-50% of its raw material requirement and does not hedge its open forex position exposing it to risk associated with volatility in forex rates. However, ~2-3% of its total sales are exports which provides natural hedge to some extent.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Consolidation

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Forest materials	Paper, forest and jute products	Paper and paper products

APL was incorporated in July 2001 as Astron Packaging Private Limited. Subsequently, the company's constitution was changed to Limited from Private Limited. It is promoted by Nimish Chudgar and family who are also IPL's promoters. APL is engaged in manufacturing corrugated boxes, corrugated pallets, self-adhesive labels, mono cartons, and foils. As on March 31, 2024, APL had an installed capacity of 42,000 metric tons per annum (MTPA) for manufacturing cartons, boxes and cases of corrugated boxes, 112.8 lakh square meter for manufacturing self-adhesive labels and mono cartons and 480 lakh square meter for manufacturing coated products. It has also forayed in an eye care hospital which has been operational since February 2019.

Brief Consolidated Financials (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 (UA) ^
Total operating income	337.22	405.36	191.02
PBILDT	27.84	41.06	16.53
PAT	0.73	9.84	2.98
Overall gearing (times)	1.73	1.76	NA
Interest coverage (times)	3.48	4.86	3.40

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

Status of non-cooperation with previous CRA: Not applicable

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-Cash Credit	-	-	-	-	18.00	CARE BBB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	17.00	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	-	-	-	1)Withdrawn (04-Jan-24)	1)CARE BBB+; Stable (26-Dec-22)	1)CARE BBB+; Stable (30-Nov-21)
2	Fund-based - LT-Cash Credit	LT	18.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (04-Jan-24)	1)CARE BBB+; Stable (26-Dec-22)	1)CARE BBB+; Stable (30-Nov-21)
3	Non-fund-based - ST-Letter of credit	ST	17.00	CARE A2	-	1)CARE A2 (04-Jan-24)	1)CARE A2 (26-Dec-22)	1)CARE A2 (30-Nov-21)

LT: Long term; ST: 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-Cash Credit	Simple
2	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated as on March 31, 2024

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Astron FZ LLC	Full	Subsidiary; managerial, operational and financial linkages

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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