

Alpha Packaging Private Limited

January 25, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	8.62	CARE BBB-; Stable	Assigned
Long Term / Short Term Bank Facilities	30.00	CARE BBB-; Stable / CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

For arriving at the ratings of Alpha Packaging Private Limited (APPL), CARE Ratings Limited (CARE Ratings) has taken a combined view of APPL and its group companies Viva Pack Private Limited (VPPL), Arova Pumps Private Limited and Alpha Pure Pack Private Limited as all of these are engaged in similar line of business, have common management and operational linkages. Together, they are referred as the Alpha group.

The ratings assigned to the bank facilities of Alpha Packaging Private Limited (APPL) derive strength from experienced promoters having long track record in packaging industry and ability to cater to diversified and reputed customers along with positive growth prospects of the packaging industry. The ratings further derive comfort from group's comfortable capital structure and adequate liquidity position during FY22 (Audited; FY refers to period April 01 to March 31).

The ratings, however, remained constrained by group's moderate scale of operations and profitability along with moderate debt coverage indicators. The ratings also offsets on account of volatility associated with raw material prices and highly fragmented and competitive nature of industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations as marked by Total operating income (TOI) of the group beyond Rs.250 crore with PBILDT margins above 14% and ROCE above 9% on sustained basis.
- Improvement in operating cycle of the group by below 30 days on a sustained basis.

Negative factors

- Decrease in scale of operations of the group below Rs.175 crore and operating margins below 7%.
- Any debt funded CAPEX resulting in deterioration in overall gearing of the group above unity.
- Deterioration in working capital cycle above 90 days impacting group's liquidity profile.

Analytical approach: Combined

Combined Analytical view of APPL and its group company Viva Pack Private Limited (VPPL), Arova Pumps Private Limited and Alpha Pure Pack Private Limited as all of these entities are engaged in similar line of business, have common management and cashflow fungibility.

Key strengths

Experienced promoters having long track record in packaging industry

Alpha group has been promoted by Mr. Kanhaiyalal Agarwal in 1988. With prior experience of import and trading in plastics products, the group ventured into manufacturing of packaging solutions. Mr. Shyam Agarwal, son of Kanhaiyalal Agarwal had joined the business and has more than four decades of experience in plastics and packaging industry. Mr. Nilkash Agarwal, third generation entrepreneur had joined family business in 2004 after completing Business Management course from London. Presently, operations are managed jointly by Mr. Shyam Agarwal and Mr. Nilkash Agrarwal. Overall, the management is well versed with the functionality of packaging industry for more than three decades. Apart from the promoters, the group has experienced professionals to support the senior management.

Positive prospects of packaging industry

Polyethylene terephthalate (PET) refers to a thermoplastic polymer resin of the polyester family which is widely used for manufacturing plastic bottles. In comparison with PP, HDPE and PVC bottles, PET bottles are more durable, transparent, lightweight, non-reactive, cost-effective, and thermally stable. Moreover, they are environment-friendly and can be recycled repeatedly which further reduces their manufacturing cost. PET is the third most widely diffused polymer in the packaging

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

industry. These factors will drive growth of this industry with consumers' awareness levels along with emerging multiple applications of these products in various industries such as agriculture, automotive, healthcare, infrastructure, etc.

Comfortable capital structure albeit moderate debt coverage indicators

The capital structure of group has remained comfortable as exhibited by overall gearing at 0.82x as on March 31, 2022 as against 0.68x as on March 31, 2021. Marginal increase in gearing is on account of debt taken for new plant for dispenser pump and higher utilization of working capital as on balance sheet date. Interest coverage remained moderate at 3.38x for FY22 (FY21: 4.46x) on account of decline in operating margins during FY22. TDGCA deteriorated marginally to 4.89 years as on March 31, 2022 as against 3.32 years as on March 31, 2021 due to increase in total debt coupled with decline in GCA. The capital structure of group is expected to improve with scheduled repayment of debt, augmentation of networth base and absence of debt funded capex plans in near to medium term.

Diversified and reputed customer base

Alpha group caters to Pharmaceutical industry, FMCG/cosmetics industry and Beverages industry. Around 45% of the sales is derived from top 10 customers whereas around 15% of the sales is derived from top 3 customers. The group's strong presence is reflected in its reputed clientele base which includes Hygiene Research Institute Private Limited, Marico Limited, Himalaya Wellness company, Patanjali Ayurved Limited, Emami Limited etc.

Key weaknesses

Moderate scale of operations and profitability margins

Total Operating income (TOI) has grown by ~30% y-o-y to Rs.205.89 crore in FY22 as compared to Rs.157.43 crore in FY21 on account of volume driven growth as well as improved price realization, however, it remained moderate. Till November 2022, the group has achieved TOI of Rs.136.56 crore. Operating margins remained fluctuating over last five years as raw material is crude oil derivative, hence prices fluctuate with changes in crude prices. Operating margins declined on y-o-y basis to 10.06% in FY22 vis-à-vis 15.95% in FY21 due to higher raw material costs during FY22. Further due to higher depreciation charges, PAT margins remained 0.96% in FY22 as against 2.47% in FY21.

Volatility associated with raw material prices

Raw material constituted 55-65% of the total income for the last 3 fiscals ending FY22. The company is exposed to the raw material price volatility risk due to the volatility experienced in the prices of PET resin and polypropylene which are crude oil derivatives. They constitute a major component of the raw material and hence any volatility in their prices has a direct impact on the profitability margins of the group.

Highly fragmented and competitive nature of industry

PET Bottle industry operates in a highly fragmented industry marked by the presence of a large number of players in the unorganized sector. The industry is characterized by low entry barriers due to low technological inputs and easy availability of standardized machinery for the production. This further leads to high competition among the various players and low bargaining power with suppliers. Further, the low lead time for setting up a new plant and the lack of product differentiation reduce the entry barriers for new entrants resulting in overcapacity in the industry.

Liquidity: Adequate

Liquidity profile of the group remained adequate as exhibited by moderate utilization of working capital limits, sufficient GCA vis-à-vis repayment obligation and moderate working capital cycle.

Utilization of working capital limits remained ~80-85% for the past twelve months ended November 2022. The group's expected cash accruals of ~Rs.16.50 crore during FY23 will be sufficient against repayment obligation of ~Rs.10-11 crore, GCA for FY22 remained at ~Rs.14.50 crore. The current ratio remained at 1.04x as on March 31, 2022 (March 31, 2021: 1.00x). Cashflow from operations remained at Rs.13 crore for FY22 vis-à-vis Rs.18 crore for FY21 on account of moderation in profit margins during the year and higher receivables with increase in scale of operations.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Rating Methodology: Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company

Surat (Gujarat) based, Alpha Packaging Private Limited (APPL) was promoted in 1988 by Mr. Kanhaiyalal Agarwal. APPL manufactures Polyethylene terephthalate (PET) Preforms, bottles, Caps and Closures and cater to industries such as Pharmaceuticals, Fast moving consumer goods (FMCG), Cosmetics and Beverage industry. APPL is a flagship company of Alpha group, the other group companies include Viva Pack Private Limited (VPPL), Alpha Pure Pack Private Limited which are engaged into same line of business and Arova Pumps Private Limited which is engaged into manufacturing of dispenser pumps. Alpha group has also incorporated two foreign Subsidiaries, one each in UAE and Ghana. Currently, Mr. Shyam Agarwal & Mr. Nilkash Agarwal are managing the operations of the group. Installed capacity of APPL and VPPL is 8700 MTPA & 6500 MTPA respectively as on March 31, 2022. The group has strategically located plants at close proximity to customer's manufacturing locations in Pardi (Gujarat), Baddi (Himachal Pradesh), Bangalore (Karnataka), Guwahati (Assam) & Roorkie (Haridwar).

Standalone

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	8MFY23 (Prov.)
Total operating income	106.64	129.12	76.77
PBILDT	13.76	12.29	NA
PAT	2.34	2.43	
Overall gearing (times)	0.57	0.58	
Interest coverage (times)	5.25	4.33	

A: Audited, Prov.: Provisional, NA: Not Available

Combined

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	8MFY23 (Prov.)
Total operating income	157.44	205.89	136.56
PBILDT	25.12	20.72	NA
PAT	3.89	1.98	
Overall gearing (times)	0.68	0.82	
Interest coverage (times)	4.46	3.38	

A: Audited, Prov.: Provisional, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the 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-Term Loan		-	-	31-12-2026	8.62	CARE BBB-; Stable
Fund-based - LT/ ST-Bank Overdraft		-	-	-	25.00	CARE BBB-; Stable / CARE A3
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	5.00	CARE BBB-; Stable / CARE A3

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-Bank Overdraft	LT/ST*	25.00	CARE BBB-; Stable / CARE A3				
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	5.00	CARE BBB-; Stable / CARE A3				
3	Fund-based - LT-Term Loan	LT	8.62	CARE BBB-; Stable				

*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-Term Loan	Simple
2	Fund-based - LT/ ST-Bank Overdraft	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Limited has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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