PG Foils Limited

December 30, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	90.00 (Enhanced from 65.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	55.00	CARE A-; Stable / CARE A1 (Single A Minus ; Outlook: Stable/ A One	Reaffirmed
Total Bank Facilities	**145.00 (Rs. One Hundred Forty-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PG Foils Limited (PGFL) continue to derive strength from the vast experience of its promoters in aluminium foil manufacturing with more than three decades of operational track record and its diversified clientele with whom PGFL has a long-standing business relationship. The ratings also factor in PGFL's moderate scale of operations which reported healthy volume backed growth in FY21 (refers to the period April 1 to March 31) as well as in H1FY22, healthy operating profitability, moderate capital structure albeit with gradual increase in debt level, comfortable debt coverage indicators and adequate liquidity supported by cushion available in the form of substantial investments in mutual funds, bonds and unit liked insurance policies which exceeded its outstanding debt as on September 30, 2021.

The ratings, however, continue to remain constrained by PGFL's elongated operating cycle, susceptibility of profitability to raw material price volatility as well as foreign exchange rate fluctuation and its presence in an intensely competitive aluminium foil industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Volume driven growth in its scale of operations with total operating income (TOI) above Rs.500 crore along with PBILDT margin and ROCE above 15% on sustained basis while maintaining its leverage.
- Improvement in operating cycle to less than 120 days through better collection efficiency on a sustained basis leading to reduced reliance on bank borrowings for funding working capital requirements.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Significant decline in scale of operations or decline in PBILDT margin to below 10% on sustained basis
- Major debt funded capex for manufacturing of unrelated products wherein no synergy with existing business operations exist which adversely affects its leverage and debt coverage
- Any unfavourable outcome of the long ongoing court case in the matter of forgery of FDRs of PGFL affecting its credit profile
- Any stress on liquidity arising from declaration of large dividend, non-recoupment of its investments or extension of loans and advances to unrelated entities

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters: Mr. Pankaj P. Shah, promoter, and Managing Director of PGFL, has industry experience of more than three decades and looks after the overall operations of the company. He is assisted by Mr. Sahil Shah, Whole Time Director, who looks after product development and marketing functions.

Established track record in aluminium foil manufacturing and diversified clientele: Incorporated in November 1979, PGFL has established track record of more than three decades in manufacturing of aluminium foils and has long-standing relationship with its key clientele in pharmaceutical and fast-moving consumer goods (FMCG) industries as well as manufacturers of packing products for dairy industry.

PGFL's clientele is well-diversified with top five customers accounting for ~23% of net sales in FY21 (~20% in FY20). Moreover, PGFL has been able to acquire and retain its major clients through continuous focus on quality and customer service. The company predominantly remains a domestic player with only ~13% of its net sales being exports. The company has a geographically diversified presence in domestic market with marketing offices located at Ahmedabad, Mumbai, Delhi, Jaipur, Chennai, Hyderabad, Bengaluru and Kolkata.

Moderate scale of operations and profitability: During FY21, PGFL's total operating income (TOI) registered healthy y-o-y growth of 16% and continued to remain moderate at Rs.264.31 crore. The growth in scale of operations was mainly on account of increase in sales volume of aluminium foil coupled with increase in income from scrap sales and trading operations.

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

Operating profitability remained stable with PBILDT margin of 12.06% in FY21 (11.92% in FY20). Lower overhead cost due to growth in scale of operations was offset by higher raw material cost including increase in proportion of trading income which fetches relatively lower margin.
During H1FY22, PGFL reported robust y-o-y growth of 54% in its TOI to Rs.211.12 crore with increase in both, sales volume as well as sales realization of aluminium foil. Increase in scale of operations supported by low-cost inventory resulted in improvement in PBILDT margin by 540 bps on y-o-y basis to 20.36%.

Moderate capital structure and debt coverage indicators albeit with gradual increase in debt level: PGFL's capital structure remained moderate with overall gearing of 0.98x as on FY21 end and 1.05x (total debt excluding financial lease liability) as on September 30, 2021. The same increased from 0.77x as on FY20 end due to availment of higher debt in the form of unsecured loans and working capital borrowings which was used to fund working capital requirements including advances to raw material suppliers. Nonetheless, company has adequate liquid investments (mainly in the form of mutual funds) which exceed its debt levels.
PGFL's debt coverage indicators remained moderate during FY21. While interest coverage improved to 7x (3.22x in FY20) due to higher profit as well as lower interest cost (mainly due to lower forex loss on borrowings), total debt/GCA and total debt/PBILDT moderated to 8.25x and 5.54x respectively (6.36x and 4.68x in FY20) due to higher outstanding debt.

Key Rating Weaknesses
Vulnerability of profitability to volatility in prices of key raw materials and foreign exchange rate: Aluminium foil stock is the main raw material for PGFL, and it comprised more than 70% of its total raw material purchase cost. The price of aluminium foil stock has exhibited volatility in the past on account of its linkage with price of primary aluminium in the domestic market, which is in turn governed by global demand-supply scenario and foreign exchange rate fluctuation.
PGFL is also exposed to foreign currency exchange rate fluctuation risk on its imports due to significant gap between consumption of imported raw material and exports with absence of active hedging policy to mitigate the risk, along with forex debt. During FY21, PGFL reported a foreign currency loss of Rs.0.63 crore primarily on its forex denominated borrowings availed to fund these purchases. Due to these factors, PGFL's profitability could be impacted by any major adverse movement in its input cost which is generally passed on to its customers with some time lag due to intense competition in the industry.

Elongated operating cycle: PGFL's operations are working capital intensive with an elongated operating cycle of 145 days in FY21 (152 days in FY20) with sizeable investment required in receivables due to credit period of around 2-3 months offered to clients. PGFL is also required to maintain raw material inventory to readily serve the varied requirements of its diversified clientele. On the other hand, credit period from suppliers is limited due to commodity nature of raw material and direct procurement from the manufacturers who have greater bargaining power which results in a long operating cycle for the entity.

Presence in an intensely competitive aluminium foil industry: The aluminium foil industry is intensely competitive on account of ample available production capacity along with imports of regular quality foils, particularly from China and Southeast Asian nations (which however might get hampered due to levying of anti-dumping duty by the government). While the demand for aluminium foils is expected to remain stable in the medium term with regular offtake from major end user industries including pharmaceutical and FMCG industries, the profitability of the industry players is expected to remain volatile on account of close linkage of raw material prices to global metal prices along with volatility in forex rates.

Liquidity: Adequate
PGFL has adequate liquidity with moderate utilization of its working capital limits, absence of any external long-term debt and sizeable liquid investments against outstanding debt.
Utilization of working capital limits (for one of the two lenders) was moderate at ~43% for 12 months ended October 2021, whereas utilization of working capital limits was low for another lender. Also, PGFL had healthy investments (comprising of mutual fund units, debt instruments and insurance policies) of Rs.297.41 crore vis-à-vis outstanding debt (excl. financial lease liability) of Rs.227.94 crore as on September 30, 2021, providing additional support to the company's liquidity.
Cash flow from operations was negative at Rs.15.58 crore despite higher profit due to advances given to suppliers for raw material procurement over the next 8-9 months.
However, liquidity of the company is partially tempered by an elongated operating cycle of 145 days in FY21 (152 days in FY20). Also, PGFL had invested Rs.9 crore in NCDs of Earthcon Infracon Pvt. Ltd. which was due for repayment in December 2019. However, EIPL went in insolvency and the amount has not been recovered yet. While this amount forms only 3% of PGFL's total investment and hence is not expected to have any major impact on its liquidity, any significant increase in investments towards such risky asset class could adversely impact its liquidity going forward.
Furthermore, in FY14, PGFL had placed FDs of Rs.69 crore with Dhanlaxmi Bank, which was misappropriated by certain parties in FY15. The company has recovered the entire amount misappropriated, but the same has been recovered from parties other than those with whom the FDRs were placed, which was shown as liabilities in books of accounts till FY16. In FY17, as the amount of FDs placed was fully recovered, the liability shown in books of PGFL was settled against the FDs, as per the advice received by the company. However, the outcome of the various legal cases and other complaints filed by PGFL is pending, and any adverse outcome from these cases will have bearing on the ratings of PGFL.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the Company
PGFL, incorporated in November 1979, is the flagship company of the PG Foils group based out of Pali Marwar, Rajasthan. The company is engaged in manufacturing of aluminium foils and flexible packaging with an installed capacity of 11,700 metric tons per annum (MTPA) as on September 30, 2021.
PGFL's clientele includes pharmaceutical and FMCG companies as well as packaging manufacturers for dairy products. PGFL also has a windmill with power generation capacity of 2.1 megawatt (MW).

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22
Total operating income	227.15	264.31	211.12
PBILDT	27.08	31.87	42.98
PAT	14.96	15.29	31.53
Overall gearing (times)	0.77	0.98	*1.05
Interest coverage (times)	3.22	7.00	17.56

A: Audited; *considering total debt excluding financial lease liability
Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

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

Complexity level of various instruments rated for this company: Please refer Annexure-4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	-	-	-	55.00	CARE A-; Stable / CARE A1
Fund-based - LT-Cash Credit	-	-	-	90.00	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	55.00	CARE A-; Stable / CARE A1	-	1)CARE A-; Stable / CARE A1 (03-Feb-21)	1)CARE A-; Stable / CARE A1 (13-Feb-20)	1)CARE A-; Stable / CARE A1 (11-Mar-19)
2	Fund-based - LT-Cash Credit	LT	90.00	CARE A-; Stable	-	1)CARE A-; Stable (03-Feb-21)	1)CARE A-; Stable (13-Feb-20)	1)CARE A-; Stable (11-Mar-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

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

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About CARE Ratings Limited:
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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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