Caprihans India Limited

October 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long/Short term Bank Facilities (Fund-based)	1.00	**CARE A- ;Negative/ CARE A2+ (A Minus; Outlook: Negative/A Two Plus)**	Reaffirmed
Short-term Bank Facilities (Non-fund-based)	20.25	**CARE A2+ (A Two Plus)**	Reaffirmed
Total Facilities	**21.25 (Rs. Twenty One crore and Twenty Five lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to bank facilities of CIL continues to derive strength from company's strong financial risk profile supported by low overall gearing and moderate working capital cycle. CIL has a long operational track record in the packaging industry and it also benefits from established procurement and distribution network in domestic and export markets, along with its long standing relationship with well-established/reputed clientele.

However, the rating strengths are constrained by low PBILDT owing to competitive nature of business thereby limiting company's ability to pass on raw material price increase. Moreover, profit margins continue to be susceptible to foreign exchange rates and to various government regulations.

Going forward, CIL's ability to increase its scale of operation and improve its profitability margins while maintaining adequate capital structure and liquidity profile remains to be seen.

Outlook: Negative

The outlook continues to remain 'negative'. Although the profitability margins and return ratios have improved in FY20, they still remain low on account of competitive nature of business.

The company derives major portion of revenue from pharmaceutical sector which had limited impact of COVID-19 lockdown. The company witnessed revenue loss of around Rs.20 crore during Q1FY21 compared to Q1FY20. Although the company's operations have normalized, the sales and profitability growth might be impacted in non-pharmaceutical division which includes flexible packaging solutions for raincoat manufacturers and FMCG players owing to ongoing slowdown caused by COVID-19 situation.

Key rating sensitivities:

Positive factors:

- Improvement in scale of operations above Rs.500 crore and PBILDT margins above 10% through increase in sales volumes and improvement in sales realisation on sustained basis.
- Improvement in operating cycle below 90 days on sustained basis.

Negative factors:

- Decrease in PBILDT margins below 4% owing to increase in raw material prices or decrease in sales realization on a sustained basis.
- Increase in operating cycle above 120 days on sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Well established track record of company in packaging industry

CIL has been in the business of Flexible PVC products since 1957, thereby exhibiting a well-established track record of around six decades in the packaging industry. Over the years, it has steadily expanded into industrial laminates, polystyrene sheets and plastic corrugated sheets. It has diversified from flexible packaging products into manufacture of rigid PVC and PVDC films. The company caters to packaging demand from pharmaceutical, FMCG and food industries. Besides, flexible PVC film and extruded products are used for a variety of other industrial applications. The company is managed by 9-member Board having rich experience in the industry along with eminent and well qualified professionals from relevant fields.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Established procurement and distribution network in domestic and export markets as well as reputed clientele
The company has established network for procurement of raw materials and distribution of the packaging material domestically and to various countries in Asia, Africa and Europe. Exports contributed around 14% of total income in FY20. It has long-standing relationship with several of its customers and receives orders on a monthly basis. The company's manufacturing facilities are cGMP-compliant and have been able to maintain its customer base among its international buyers. The company has location advantage as its plants as well as most of its customer base- pharmaceutical and FMCG companies are located in Western India. CIL has a very strong network with Western zone contributing around 48% of domestic sales in FY20.
CIL has a diversified and reputed clientele base. The company has a low customer concentration risk as its top ten customers contributed nearly 22% of its revenues in FY20 compared to 18% in FY19.

Strong financial risk profile characterized by comfortable capital structure
As on March 31, 2020, CIL has no long term debt and has not utilized its working capital facility during the year. However, the company relies more on non-fund based LC facilities with an average utilisation of 75% used largely for its raw material purposes. Overall gearing of CIL including LC acceptances is comfortable at 0.07x times as on March 31, 2020. Moreover, company has adequate cash and cash equivalents of Rs.26 crore as on August 31, 2020 providing additional liquidity cushion to the company.
PBILDT/ interest coverage ratio stood at 17.05 times and total debt/ gross cash accruals stood at 0.77 times during FY20.

Key Rating Weaknesses
Low profitability margins; albeit improvement in operational performance in FY20
The company recorded revenue from operations of Rs.291.42 crore in FY20 as against revenue of Rs.271.02 crore in previous year. This is mainly on account of increase in sales realization coupled with increase in sales volume. PBILDT margins also improved from 2.66% in FY19 to 4.68% in FY20 owing to increase in scale of operations thereby resulting in economies of scale. The company also undertook capacity optimization (debottlenecking in Nashik plant) measures which resulted in reducing per unit cost of production.
During Q1FY21, the company recorded revenue from operations of Rs.58.61 crore compared to Rs.71.66 crore in Q1FY20. This is mainly on account of revenue loss of around Rs.20 crore during Q1FY21 as plant was shut from March 20, 2020 till April 08, 2020 owing to nationwide lockdown announced by Govt. of India to prevent COVID-19 outbreak. The company's operations have normalized since June, 2020 with its current capacity utilization at ~ 85%.
However, profitability margins of the company have remained low in range of 2-5% over past four financial years. This is mainly due to fluctuation in raw material prices and inability of company to pass on the same to end users owing to competitive nature of business. Moreover, both the manufacturing plants of CIL are based in Maharashtra wherein utility and other operating costs are higher than what the competitors incur (mainly located in Gujarat and Daman). Lower profitability has resulted in below average return ratios; ROCE stood at 8.87% in FY20.

Margins exposed to volatility in raw material prices and foreign exchange rates
PVC resin is the main raw material for CIL. Resins being crude oil derivative, resin prices are linked with crude oil prices. Additionally, certain grades of resin are also imported from Korea / Japan. Thus, prices of resin are also susceptible to volatility in foreign exchange rates. Thus, commodity price and foreign exchange fluctuation are significant risks to the profitability of the company.

Low entry barriers and imports leading to intense competition
The PVC packaging industry has low entry barriers leading to large number of small-sized players in the sector thereby increasing the intensity of competition in the industry. Access to modern technology has improved, enabling advanced set ups by new players. Many smaller units set up plants near the premises/plant of the user company to save transportation costs. User companies require higher level of customization across packaging products. CIL also faces challenges from the increased competition from imports. However, CIL supplies majorly to pharma companies which are highly regulated sector thus, providing lesser competition to an extent from players of packaging industry. Also, CIL is increasing its focus on PVDC segment which is a value added product to further cater to the pharma companies.

Susceptible to various government regulations
The pharmaceutical and food industry are major customers of the packaging industry. As both the user industries pertain to health and general well-being of the people at large, government regulations pertaining to packaging used in both these industries are strictly implemented. Often, regulations relating to use of several packaging materials for these two industries are modified by the government from time-to-time, impacting the manufacture and sale of packaging products.

Adequate Liquidity
As on August 31, 2020, the company has free cash and bank balances to the extent of Rs.26 Crore. Presently, company does not have any long term debt. Additionally, there are no CAPEX plans for near term. As a result of this, company's liquidity position stands adequate. The company has not availed any moratorium for working capital limits in Q1FY21 and Q2FY21.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology- Manufacturing Companies
Financial ratios-Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
CIL was incorporated as a privately held company on April 11, 1946, and was listed on the Bombay Stock Exchange in 1976. CIL's manufacturing units are located in Thane and Nasik, Maharashtra. The company, cGMP compliant, is engaged in the processing of plastic polymers and manufactures rigid and flexible poly vinyl chloride (PVC) films by calendaring process poly vinylidene chloride (PVDC) coated rigid PVC film and certain plastic products through extrusion process in India.
The rigid PVC film produced by CIL is used for packaging in the pharmaceutical, food and fast moving consumer goods (FMCG) industries; and flexible PVC film and plastic extruded products are used for a variety of industrial and consumer applications. The company is a lead player in manufacture of certain pharma industry-specific packaging (duplex and triplex layers of packaging).
CIL is presently promoted by Bilcare Research GmbH (the German unit of Bilcare Ltd, holds 51% stake) and by Indian promoters Mr. Mofatraj Munot of Kalpataru group and related/associated entities).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	271.02	291.42
PBILDT	7.22	13.65
PAT	3.66	9.20
Overall gearing (times)	0.06	0.07
Interest coverage (times)	10.49	17.05

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	1.00	CARE A-; Negative / CARE A2+
Non-fund-based-Short Term	-	-	-	20.25	CARE A2+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	1.00	CARE A-; Negative / CARE A2+	-	1)CARE A-; Negative / CARE A2+ (03-Oct-19)	1)CARE A-; Stable / CARE A2+ (17-Sep-18)	1)CARE A-; Stable / CARE A2+ (13-Sep-17)
2.	Non-fund-based-Short Term	ST	20.25	CARE A2+	-	1)CARE A2+ (03-Oct-19)	1)CARE A2+ (17-Sep-18)	1)CARE A2+ (13-Sep-17)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-CC/Packing Credit	Simple
2.	Non-fund-based-Short Term	Simple

Annexure 4: Details of covenants if any: Not available

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

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