P G Foils Limited

February 13, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	90.00	**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 Facilities	**145.00 (Rupees One Hundred and Forty Five crore only)**		

Details of facilities in Annexure 1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of P G Foils Ltd. (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 it has long-standing business relationship. The ratings also factor its steady scale of operations, comfortable capital structure and debt coverage indicators and adequate liquidity supported by cushion available from significant investments which exceed the outstanding debt as on September 30, 2019.

The ratings, however, continue to remain constrained by its moderate operating profitability which is further susceptible to raw material price volatility and foreign exchange rate fluctuation, its long working capital cycle and presence in an intensely competitive aluminium foil industry.

Rating Sensitivities

Positive Factors

- Volume driven growth in its scale of operations with 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 90 days through better collection efficiency on a sustained basis leading to reduced reliance on bank borrowings for funding working capital requirements

Negative Factors

- 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 unfavorable 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 any large dividend 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, a commerce graduate, is the promoter of PGFL and its Managing Director since 1989. He looks after the overall operations of PGFL. He is assisted by Mr. Sahil Shah, Whole Time Director, who looks after product development and marketing functions. There are four non-executive and three independent directors on the six member board of PGFL.

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 has a well-diversified clientele with top five customers accounting for 27% of total sales in FY19. Moreover, PGFL has been able to acquire and retain its major clients through continuous focus on quality and customer service. While the company has increased its focus on exports to diversify its revenue profile, it remains a domestic player predominantly and has a geographically diverse presence with marketing offices located at Ahmedabad, Mumbai, Delhi, Jaipur, Chennai, Hyderabad, Bengaluru and Kolkata.

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

Stable scale of operations; albeit decline in operating profitability: During FY19, PGFL's scale of operations remained largely stable with total operating income (TOI) of Rs.267.32 crore. However, its PBILDT margin declined from 15.34% in FY18 to 9.63% in FY19, largely on account of increase in raw material cost and impact of depreciation of INR vis-à-vis USD on its raw material imports which PGFL could not fully pass on to its customers due to intense competition in the industry. Despite the lower operating profitability and higher interest costs, PGFL's PAT margin improved from 2.81% in FY18 to 6.05% in FY19, on account of non-operating income arising from the maturity proceeds of employer-employee insurance scheme of Rs.16.03 crore in FY19. During H1FY20, PGFL reported TOI of Rs.118.12 crore as compared to Rs.135.94 crore in H1FY19 on account of decline in sales volume of aluminium foils as well as decline in income from trading activity. However, its PBIDLT margin normalized to 14.20% in H1FY20 post the decline in FY19. In line with improvement in operating profitability, PAT margin also improved to 11.99% during the period.

Comfortable capital structure and debt coverage indicators: PGFL's capital structure remained comfortable marked by an overall gearing of 0.61x as on March 31, 2019 compared to 0.72x as on March 31, 2018. Its financial risk profile remained strong marked by nil debt on a net basis (netting off investments from debt) and no external long term debt outstanding as on September 30, 2019. PGFL's debt coverage indicators also remained comfortable marked by interest coverage ratio of 3.06x in FY19, TD/GCA of 4.67x and TD/PBILDT of 3.54x as on March 31, 2019.

Liquidity - Adequate: PGFL's liquidity is characterized by low utilization of working capital limits at around 19% during the trailing 12 months ended October 2019 and a comfortable current ratio and quick ratio of 1.96x and 1.58x respectively as on September 30, 2019. Moreover, PGFL had healthy investments (comprising of mutual fund units, debt instruments and insurance policies) of Rs.163.50 crore vis-à-vis outstanding debt of Rs.80.51 crore as on September 30, 2019 and no external long term debt which provides additional support to its liquidity. However, its liquidity is partially tempered by its long operating cycle of around 140 to 150 days.
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, which will be crucial from the credit perspective.

Key Rating Weaknesses
Vulnerability of profitability to volatility in prices of key raw materials and foreign exchange rate: Aluminium coil is the main raw material for PGFL which comprised around 85% of its total cost of raw material purchase during FY19. The price of aluminium coils has exhibited volatility in the past on account of its linkage with prices of primary aluminium in the domestic market, which are in turn governed by global demand-supply scenario and foreign exchange rate fluctuations. Moreover, 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 no active hedging policy to mitigate the risk. During FY19, PGFL reported a foreign currency loss of Rs.2.30 crore primarily on its forex denominated purchases as well as borrowings availed to fund these purchases. As a result, PGFL's profitability could be impacted by any adverse movement in input costs which are generally passed on to its customers with some time lag due to intense competition in the industry.

Long operating cycle: PGFL's operations are working capital intensive marked by long operating cycle of 146 days in FY19 with sizable investment required primarily in receivables, due to credit period of around 2-3 months offered to clients. PGFL also keeps sizeable inventory of raw materials to readily serve the varied requirements of its diversified clientele. Moreover, the credit period availed from suppliers is also limited due to commodity nature of raw material and direct procurement from the manufacturers who have greater bargaining power.

Intensely competitive aluminium foil industry: The aluminium foil industry is intensely competitive on account of increase in production capacity by industry players along with imports of regular quality foils, particularly from China and South East Asian nations. While the demand for aluminium foils is expected to remain stable in the medium term with regular off-take from major end user industries including pharmaceutical and fast moving consumer goods (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, particularly for imported raw materials.

Analytical Approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Financial Ratios - Non-financial Sector

About the Company
PG Foils Ltd. (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 the manufacturing of aluminium foils and flexible packaging with an installed capacity of 11,700 metric tons per annum (MTPA) as on September 30, 2019. PGFL's clientele includes entities in pharmaceutical and fast moving consumer goods (FMCG) industries and packaging manufacturers for dairy items. PGFL also has wind mill based power generation capacity of 2.10 megawatt (MW) and a solar power plant of 2 MW as on September 30, 2019.

Brief financials of PGFL are tabulated below:

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	259.42	267.32
PBILDT	39.80	25.75
PAT	7.30	16.18
Overall gearing (times)	0.72	0.61
Interest coverage (times)	9.92	3.06

A- Audited

As per published results for H1FY20 on the stock exchange, PGFL reported a TOI of Rs.118.12 crore (H1FY19: Rs.135.94 crore) with PAT of Rs.14.16 crore (H1FY19: Rs.0.04 crore).

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
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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (26-Apr-16)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ ST	55.00	CARE A-; Stable / CARE A1	-	1)CARE A-; Stable / CARE A1 (11-Mar-19)	1)CARE A-; Stable / CARE A1 (05-Mar-18)	1)CARE A-; Stable / CARE A1 (15-Dec-16) 2)CARE A- / CARE A1 (Under Credit Watch) (26-Apr-16)
3.	Fund-based - LT-Cash Credit	LT	90.00	CARE A-; Stable	-	1)CARE A-; Stable (11-Mar-19)	1)CARE A-; Stable (05-Mar-18)	1)CARE A-; Stable (15-Dec-16) 2)CARE A- (Under Credit Watch) (26-Apr-16)

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.*

Contact us

Media Contact
Mr. Mradul Mishra
Contact No.: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Mr. Harshveer Trivedi
Contact No.: +91-79-4026 5610
Email ID: harshveer.trivedi@careratings.com

Business Development Contact
Mr. Deepak Prajapati
Contact No.: +91-79-4026 5656
Email ID: deepak.prajapati@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**