PG Foils Limited

March 11, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	90.00 (enhanced from 40.00)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Long/ Short-term Bank Facilities	55.00 (reduced from 105.00)	**CARE A-; Stable/CARE A1 (Single A Minus; Outlook: Stable/A One)**	**Reaffirmed**
Total Facilities	**145.00 (Rupees One hundred forty five crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PG Foils Ltd. (PGFL) continue to derive strength from the vast experience of promoters in aluminium foil manufacturing with more than three decades of operational track record along with healthy liquidity supported by cushion available from liquid investments whose value exceeds the outstanding debt amount as on December 31, 2018. The ratings also factor in PGFL's long standing relationship with established clientele as well as comfortable leverage and debt coverage indicators.

The ratings, however, continue to remain constrained by the working-capital intensive nature of PGFL's operations and exposure to raw material price and foreign exchange rate volatility in an intensely competitive aluminium foil industry.

The ability of PGFL to further increase the scale of its manufacturing operations and improve its profitability through effective management of volatility in raw material prices and foreign exchange rate while maintaining its comfortable financial risk profile would be the key rating sensitivities. Further, the outcome of the court case on forgery of its FDRs would also remain crucial.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with more than three decades of track record in aluminium foil manufacturing: Mr. Pankaj P. Shah, the founder promoter of PGFL and its Managing Director, has an experience of over three decades in the aluminium foil industry. He is assisted by Mr. Sahil Shah, Whole Time Director, in managing the daily operations of the company. There are six non-executive directors on the board of PGFL out of which five are independent.

Established business operations and diversified clientele with a major focus on the pharmaceutical industry: PGFL has long-standing relationship with its key clientele with major focus on pharmaceutical, dairy and FMCG sectors. PGFL has a well-diversified clientele with its top 5 customers contributing ~32% of sales in FY18. PGFL is predominantly a domestic player and has a geographically diverse presence with marketing offices located at Ahmedabad, Mumbai, Delhi, Jaipur, Chennai, Hyderabad, Bangalore and Kolkata.

Comfortable financial risk profile: During FY18, PGFL reported largely stable TOI on back of consistent order flow from its regular clientele, which also led to stable PBILDT margin. However, PFGL reported extraordinary expense of Rs.20.37 crore towards keyman insurance premium and tax demand (including interest) of previous years, which led to deterioration in its PAT margin as well as lower cash accruals. However, PGFL's overall financial risk profile remained robust marked by an overall gearing of 0.72x and interest coverage of 9.92x respectively as on March 31, 2018.

Healthy liquidity: PGFL's liquidity remained healthy marked by 59% utilization of its fund based and non-fund based working capital limits during 12 months ended January 2019 along with negligible external long term debt outstanding as on December 31, 2018. PGFL's operating cycle elongated by 49 days in FY18 to 144 days driven by significant inventory holding of Rs.66.77 crore as on March 31, 2018 on receipt of a major purchase consignment at the end of FY18. However, the outstanding inventory reduced to Rs.46.94 crore as on December 31, 2018. Further, PGFL's healthy liquidity is supported by significant cushion from its liquid investments. As on December 31, 2018, the amount of these investments which includes bank FDs, mutual fund units, non-convertible debentures (NCDs) and life insurance policies stood at Rs.138.51 crore and was in excess of its outstanding debt as on that date. Also, PGFL has announced equity infusion of Rs.30 crore by promoters and non-promoter entities which shall further enhance its liquidity.

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

Key Rating Weaknesses

Vulnerability of margins to volatility in prices of key raw materials and foreign exchange rate: PGFL faces risk similar to those encountered by companies operating in the non-ferrous metal sector. Aluminium foil stock is the main raw material of PGFL which comprised around 80% of the total cost of raw material consumed during FY18. The prices of aluminium foil stock have shown fluctuating trend in past and the profitability of PGFL is vulnerable to adverse movement in the prices of raw materials, as evidenced by the deterioration in its PBILDT margin during 9MFY19. Further, PGFL imports majority of its raw material requirement (77% of total raw material was imported), which exposes it to adverse movement in foreign currency rates, as it has limited active hedging policy and almost no natural hedge by way of exports.

Intense competition in aluminium foil industry; albeit favorable demand prospects: Globally, the revenue generated by the aluminium foil containers market has been estimated to be around US$ 3,092 million in 2019 and is expected to increase at a CAGR of 5.4% in terms of value till 2027. With growing consumption, greater demand for packaging materials has emerged especially for aluminium foil and cans in the organized retail segment in the emerging economies. This favourable situation is expected mainly due to the government's focus on uniform infrastructure development in rural areas, cultural change resulting in more & more nuclear families with higher disposable income, strong growth in pharmacy, confectionary & ready-to-eat food sector. However, due to the capacity addition in the industry coupled with cheap imports from China, the competition has intensified leading to pressure on sales realisations and contraction in profitability margins of the industry players in past few years. However, due to the surge in LME aluminium prices from FY2016-17 onwards, the aluminium industry producers have been able to achieve better realizations, which is a boon due to the recent rise in costs of production.

Analytical approach: Standalone

Applicable Criteria:

CARE's methodology for manufacturing companies
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios - Non- Financial Sector

About the Company

PGFL, incorporated in November 1979, is the flagship company of the PG Foils group based out of Rajasthan. PGFL is engaged in the manufacturing of aluminium foils and flexible packaging with an installed capacity of 11,700 metric tonne per annum (MTPA) as on March 31, 2018. PGFL also has 2.10 megawatt (MW) wind mill-based power generation capacity and a 2 MW solar based power plant as on December 31, 2018.

Brief financials of PGFL are tabulated below:

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	250.97	259.42
PBILDT	35.25	39.80
PAT	20.62	7.30
Overall gearing (times)	0.81	0.72
Interest coverage (times)	8.93	9.92

A: Audited

Further, during 9MFY19, PGFL reported a TOI of Rs.198.44 crore and PAT of Rs.9.65 crore.

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

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

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.*

Analyst Contact:
Name: Mr. Harshveer Trivedi
Tel: 079-4026 5610
Mobile: 85111 90020
Email: harshveer.trivedi@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.

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	-	Withdrawn	-	-	1)Withdrawn (26-Apr-16)	1)CARE A- (Under Credit Watch) (08-Apr-15)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	55.00	CARE A-; Stable / CARE A1	-	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)	1)CARE A- / CARE A1 (Under Credit Watch) (08-Apr-15)
3.	Fund-based - LT-Cash Credit	LT	90.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Mar-18)	1)CARE A-; Stable (15-Dec-16) 2)CARE A- (Under Credit Watch) (26-Apr-16)	1)CARE A- (Under Credit Watch) (08-Apr-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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