

PG Foils Limited

March 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	40.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long-term/Short-term Bank Facilities	105.00 (Enhanced from Rs.75.00 crore)	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 for the bank facilities of PG Foils Ltd. (PGFL) continue to derive strength from vast experience of the promoters of PGFL in aluminium foil manufacturing with more than three decades of operational track record, its long standing relationship with established clientele, moderate leverage and debt coverage indicators and comfortable liquidity profile supported by cushion available from free investments. The ratings also factor in the volume backed growth in PGFL's TOI during FY17, which also led to higher cash accruals.

The ratings, however, continue to remain constrained by the working-capital intensive nature of PGFL's operations and its 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 maintain its profitability through effective management of volatility in raw material prices and foreign exchange rate while improving its capital structure 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 his younger brother Mr. Abhay P. Shah, Whole time Director, who looks after the finance function. There are four non-executive directors on the board of PGFL out of which three 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 the pharmaceutical, dairy and FMCG sectors. PGFL's clientele is well-diversified with top 5 clients contributing 29% of revenue in FY17. 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.

Volume backed growth in scale of operations during FY17 leading to higher cash accruals: During FY17, PGFL reported y-o-y growth of around 16% in its TOI on back of higher sales volume, a trend which continued in 9MFY18. PBILDT margin also improved during FY17 on account of reduction in raw material cost that was not entirely passed on to its customers.

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

This also led to higher cash accruals and a better interest coverage. However, PGFL's overall gearing (on a net debt basis) remained largely stable as on December 31, 2017 led by a stable debt profile.

Comfortable liquidity on back of high level of free investments: PGFL's liquidity remained comfortable marked by an operating cycle of 95 days in FY17, which improved marginally from 105 days in FY16. Also, the company had no long-term debt outstanding as on December 31, 2017 with scheduled repayments and the entire long term loans were from the promoter group. Moreover, PGFL enjoys sizeable cushion from free investments, the balance of which was in excess of its outstanding debt as on March 31, 2017.

Key Rating Weaknesses

Profitability vulnerable to volatility in prices of key raw materials and foreign exchange rate: Aluminium foil stock is the main raw material of PGFL, the prices of which have shown volatility in the past (largely linked to prices of aluminium). PGFL's profitability is vulnerable to any adverse movement in the prices of raw materials, which it is not able to pass on to customers. Further, PGFL sources its raw material primarily from international markets including like China, South Korea and Germany. Imported raw materials constituted around 75% of its total raw material consumption, during FY17 (71% during FY16), which exposes it to fluctuation in foreign exchange rates, especially as it does not have follow any standard hedging policy.

Intense competition in aluminium foil industry; albeit favourable demand prospects: 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. 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, the Government of India (GoI) has imposed Anti-Dumping Duty (ADD) on imports of aluminium foils from China up to \$1.63/kg for a period of five years from May 2017. This shall benefit PGFL by way of increased demand in the domestic market which shall result in better realizations and in turn, improve the profitability of the company.

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](#)

[Rating Methodology - Wholesale Trading](#)

About the Company

PGFL, incorporated in November 1979, is the flagship company of the PG Foils group based at Pali Marwar, 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, 2017. PGFL also has 2.10 megawatt (MW) wind mill-based power generation capacity as on March 31, 2017.

Brief financials of PGFL are tabulated below:

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	216.55	250.04
PBILDT	16.17	31.91
PAT	9.69	18.13
Overall gearing (times)	1.41	0.84
Interest coverage (times)	4.53	8.93

A: Audited

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.

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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.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	105.00	CARE A-; Stable / CARE A1
Fund-based - LT-Cash Credit	-	-	-	40.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (26-Apr-16)	1)CARE A- (Under Credit Watch) (08-Apr-15)	-
2.	Non-fund-based - LT/ST-BG/LC	LT/ST	105.00	CARE A-; Stable / CARE A1	-	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	40.00	CARE A-; Stable	-	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)	-

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