



Press Release

Royal Touch Fablon Private Limited.

March 12, 2021

Ratings

Sl. No	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term/Short Term Bank Facilities	88.00 (including proposed Limit of Rs. 30.90 cr)	IVR BBB/Stable (IVR Triple B with Stable outlook)	Assigned
2.	Short Term Bank Facilities	12.00	IVR A3+ (IVR A Three Plus)	Assigned
	Total	100.00 (Rupees Hundred Crore only)		

Details of Facilities are in Annexure 1.

Detailed Rationale

The ratings assigned to the bank facilities of Royal Touch Fablon Pvt Ltd. (RTFPL) derives strength from its long track record of operation with extensive experience of its promoters, presence across multiple industries with diversified product profile and reputed clientele. The ratings also note gradual improvement in its capital structure with adequate debt protection metrics and favourable demand outlook for its products. However, these rating strengths are constrained by erratic scale of its operations, presence in a highly fragmented and competitive industry, low bargaining power impacting the profitability and its working capital intensive operations. Further, the ratings also note than its profitability remains vulnerable to crude oil prices.

Rating Sensitivities:

Upward Factors:

- Significant growth in scale of operations with improvement in profitability thereby leading to overall improvement in cash accruals on a sustained basis.
- Improvement in the capital structure with below unity overall gearing ratio and improvement in debt protection metrics with interest coverage more than 2.3x
- Effective working capital management with improvement in operating cycle.



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Downward factors:

- Decline in operating income and/or profitability impacting the debt coverage indicators on a sustained basis.
- Moderation in the capital structure with deterioration in the overall gearing ratio to over 1.5x
- Elongation in the operating cycle impacting the liquidity and higher average utilization in bank borrowings.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of promoter and long- track record of operation**

RTFPL is promoted by the Kolkata-based Kandoi family, who have over two decades of experience in the field of manufacturing polypropylene woven sacks, FIBC/ jumbo bags which find utility as industrial packaging materials ideally suited for cement, sugar, food grains among others. Mr. Vikas Kandoi and Mr. Prakash Kandoi are the promoter's/ director of the company who possess more than two decades of experience. This has helped the company to establish good relationship with its customers & suppliers.

- **Diversified product profile and presence across multiple industries**

The company offers a diversified product range such as HDPE, LDPE, PP and FIBC bags, tarpaulin and printed packaging, which find application in diverse end-user industries including cement, chemicals, and agro-commodities, etc thereby it is insulated from the risk of slowdown in any particular industry. In addition, about 20% of revenue of the company is from exports.

- **Strong client profile**

The company has established relationship with its reputed clientele with presence of companies. Further, the company has long term supply contracts with most of its customers.

- **Gradual improvement in capital structure with adequate debt protection metrics**

The capital structure of the company remained moderate marked by its moderate net worth base of Rs.73.39 crore as on March 31, 2020. With gradual repayment of term loans and steady accretion of profit to net worth the debt equity ratio and overall gearing ratio



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improved from 0.42x and 1.30x as on March 31, 2019 to 0.29x and 1.01x as on March 31, 2020. Total indebtedness of the company also remained comfortable at 1.57x as on March 31, 2020. The debt protection metrics of the company also remained comfortable over the past three fiscals marked by satisfactory interest coverage ratio and moderate Total debt to EBITDA. Going forward, Infomerics expects further improvement in its capital structure and debt protection metrics.

- **Favourable demand outlook**

The demand outlook remains favourable for the company in both domestic and international markets with rising demand from end-user segments.

Key Rating Weaknesses

- **Erratic scale of operations**

Total operating income of the company remained erratic during FY18-20. During FY20 though the volume sales of the company remained higher, it witnessed moderation in its topline mainly due to decline in sales realization with decline in polypropylene (PP) granules (key raw material) prices. Moreover, sales for the month of March (Which generally is a major revenue earning month for the company) 2020, were significantly impacted due to Covid-19 lockdown situation. In 9MFY21, the company earned revenue of ~Rs.194 crore.

- **Presence in a highly fragmented and competitive industry**

The industry in which RTFPL operates is fragmented with presence of many small to medium players along with large & established players because of low entry barriers as capital and technology requirements are limited, the gestation period is small and raw materials are easily available. This restricts substantial scale-up of operations and exerts pricing pressure on players.

- **Profitability remains vulnerable to crude oil prices and low bargaining power impacting the profitability**

The basic raw material for the company is polypropylene granules which is derivative of crude oil hence its price is determined by movement in global crude oil price and may have a negative impact on the company's profit margins. Further, the company procures majority of its raw material from large petrochemical suppliers thus posing a risk of supplier concentration and low bargaining power impacting the profitability to an extent. Moreover,



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the limited credit period on procurements strains the working capital profile of the company.

- **Exposure to intense competition from various organized and unorganized players**

Presence of many mid to small-scale units operating in this industry has resulted in fragmented nature of the industry leading to intense competition amongst the players.

- **Working capital intensive operations**

RTFPL procures PP granules from Haldia Petrochemicals Limited (HPL) and Reliance Industries Ltd (RIL) on cash basis and even at times through advance payments. On the other hand, it has high inventory holding requirements and need to extend higher credit period to its customers. Higher inventory holding, high debtor days as well as relatively lower creditor days resulted in higher working capital intensity for the business.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The current ratio of the company remained favourable at 1.33 times as on March 31, 2020. Further, the liquidity position of the company is expected to remain adequate in the near term marked by expected adequate cash accruals as compared to its debt obligations. The company has earned cash accruals of Rs.6.71 crore in FY20 and expected to earn cash accruals in the range of ~ Rs.8-10 crore as compared to its debt repayment obligations in the range of Rs.3-3.5 crore during FY21-23. However, the liquidity of the company is restricted due to its working capital-intensive nature of operations. The bank limits utilisation of the company stood around 95% in the past 12 months ended on January, 2021 indicating a limited buffer.

About the Company

Incorporated in 1999, Royal Touch Fablon Private Limited (RTFPL) manufactures high-density polyethylene (HDPE), low density polyethylene (LDPE) and polypropylene (PP) woven bags,



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and flexible intermediate bulk containers (FIBC)/ jumbo bags. The company's manufacturing facilities are located at seven different locations in West Bengal and in Raipur with a combined annual installed capacity of 28,800 metric tonne. Mr. Vikash Kandoi & Mr. Prakash Kandoi are the directors of the company who have an extensive experience in the packaging industry.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	324.74	279.68
EBITDA	17.88	15.04
PAT	4.80	3.89
Total Debt	79.06	74.21
Tangible Net worth**	69.30	73.39
EBITDA Margin (%)	5.51	5.38
PAT Margin (%)	1.47	1.39
Overall Gearing Ratio (x)**	1.14	1.01

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: NIL.

Any other information: NA

Rating History for last three years:

Sr. No.	Name of /Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	0.10	IVR BBB/Stable			
2.	Cash Credit	Long Term	87.90 (including proposed limit of Rs. 30.90 cr)	IVR BBB/Stable	-	-	-
3.	Bank Guarantee	Short Term	12.00	IVR A3 +	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term – Term Loan	-	-	March, 2021	0.10	IVR BBB/Stable
Long Term Fund Based Limits- Cash Credit	-	-	-	87.90	IVR BBB/Stable
Short Term Fund Based Limits- Bank Guarantee	-	-	-	12.00	IVR A3+