Press Release

Aakash Polyfilms Limited

August 21, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	112.22	IVR BBB-/ Stable (IVR triple B minus with Stable outlook)	-	Assigned	**Simple**
Short Term Bank Facilities	4.00	IVR A3 (IVR A Three)	-	Assigned	**Simple**
Total	**116.22 (Rs. One-hundred and sixteen crore and twenty-two lakhs only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The ratings assigned to the bank facilities of Aakash Polyfilms Limited (APL) derives strength from experienced promoters with established track record of operations, improvement in topline and profitability in FY24 (Prov.) (refers to period April 01, 2023 to March 31, 2024) albeit moderation witnessed in FY23 (refers to period April 01, 2022 to March 31, 2023), moderate capital structure and debt coverage indicators, diversified customer base and stable demand outlook of flexible packaging industry. These strengths are partially offset by thin profitability margins, supplier concentration risk, intense competition and threat from biodegradable substitutes and susceptibility of profitability to volatility in prices of raw materials.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of operations with improvement in profitability on a sustained basis and consequent improvement in cash accruals.
- Improvement in capital structure with improvement in debt protection metrics.

- Efficient working capital management with improvement in liquidity position.

Downward Factors

- Moderation in scale of operations and/or moderation in profitability impacting cash accruals on a sustained basis.
- Moderation in the capital structure with deterioration in overall gearing and/or moderation in interest coverage ratio
- Elongation in operating cycle leading to moderation in liquidity position

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters with established track record of operations

APL and its promoters bring over two decades of experience in the packaging industry, serving a diverse customer base. The company produces BOPET, CPP films and BOPP films, mainly catering to the food and yarn-grade material packaging sectors. Besides this, the promoters are assisted by experienced and qualified managerial personnel and staff to support day to day operations.

Improvement in revenue in FY24 (Prov.), after moderation witnessed in FY23

APL experienced a moderation in revenue during FY23, declining by 12.05% from Rs. 167.77 crore in FY22 (refers to period April 01, 2021 to March 31, 2022) to Rs. 147.56 crores. However, FY24 (Prov.) marked a significant turnaround, with TOI surging by 155.56% to reach Rs. 377.11 crore. This substantial growth in FY24(Prov.) can be primarily attributed to expansion of APL's manufacturing capacity from 15,600 MTPA to 57,600 MTPA from August-23, which included addition of new BOPET product line to its existing product mix. Revenue from BOPET was ~Rs. 226 crores in FY24(Prov.). However, revenue from the company's existing product lines of CPP and BOPP saw a decline, primarily driven by a reduction in realization per unit due to oversupply in the overall market, coupled with a slowdown in demand. However, improved realizations and demand recovery led to strong Q1FY25 revenue of Rs 103.22 crore (Q1FY24: Rs 52.45 crore). In terms of profitability, APL's EBITDA at absolute levels declined by 59.20% to Rs 8.31 crore in FY23 as compared to Rs 14.66 crore in FY22. The moderation was in tandem with decline in topline in FY23. In FY24 (Prov.) EBITDA increased by 157.77% to Rs. 21.43 crore, due to increase in revenue. Furthermore, during Q1FY25(Prov.), EBITDA stood at Rs 9.06 crore. PAT at absolute levels declined by 36.91% in FY23 to Rs 2.00 crores from Rs 3.18 crore in FY22. In FY24 (Prov.) it improved by 55.81% to Rs 3.12 crore. Furthermore, Q1FY25 PAT stood at Rs 1.11 crore.

Moderate capital structure and debt coverage indicators

APL's capital structure stood moderate with marginal improvement observed in overall gearing to 1.84x as on March 31, 2024 (Prov.) from 1.86x as on March 31, 2023. Considering the unsecured loan of Rs 39.72 crore, the adjusted tangible net worth stood at Rs 115.17 crore as on March 31, 2024 (Prov.). The improvement in capital structure was on the back of accretion of profit to reserve and repayment of term loan was higher compared to availment of term loan for the last completed capex. Furthermore, indebtedness of the company as depicted by TOL/ATNW was moderate at 2.46x as on March 31, 2024 (Prov.). Debt coverage indicators marked by interest coverage ratio declined to 2.18x in FY24 over 6.96x in FY23 on account of higher increase in interest expense compared to increase in operating profit. Furthermore, total debt over NCA and DSCR also stood moderate at 18.30x (PY: 30.07x) and 1.09x (PY:1.57x) respectively.

Diversified customer base

The top 5 customers accounted for ~13% of total revenue in FY23, and ~20% in FY24 (Prov.), which indicates minimal customer concentration risk. APL has established strong customer relationships, which helps in securing repeat orders. Additionally, it has acquired many new customers, ensuring that fluctuations in orders have minimal impact on earnings.

Stable demand outlook of flexible packaging industry

The demand for flexible packaging is fuelled by increasing penetration of e-commerce and rising consumerism across all sectors. Within the flexible packaging space BOPP is projected to experience steady growth, driven by its versatility across the food, FMCG, and other sectors. Furthermore, demand for BOPET is also expected to increase due to its barrier properties and suitability for high-end packaging.

Key Rating Weaknesses

Thin profitability margins

Profitability margins remains thin for APL. EBITDA margins witnessed a significant contraction from 8.74% in FY22 to 5.63% in FY23 driven by factors like high raw material costs coupled with low realisation per unit driven by slowdown in demand. In FY24 (Prov.), the EBITDA margin slightly improved to 5.68% but the margins was still under pressure due to sustenance of similar factors. However, in Q1 FY25, the raw materials prices moderated and demand surging at normal levels resulting in higher realisations, EBITDA margins enhanced at normal levels in Q1FY25 at 8.77%. PAT margins in FY23 witnessed decline to 1.36% from 1.89% in FY22. PAT margins further declined to 0.83% in FY24 (Prov.) albeit rise in EBITDA margins, due to higher interest costs due to additional debt availed by the company. PAT margins in Q1FY25 stood at 1.08%.

Supplier concentration risk

As APL introduced a new product line, BOPET films, into its product mix, the company's supplier base also changed, leading to a substantial increase in supplier concentration. In FY24, the top 5 suppliers together accounted for approximately 60% of total purchases, compared to around 22% in FY23. Higher supplier concentration increases vulnerability to supply chain disruptions, pricing power of suppliers, and potential operational risks if any of these suppliers encounter issues.

Intense competition and threat from biodegradable substitutes

The industry is characterized by presence of many players. Large, organized players offer products at more competitive prices, because of advantages of economies of scale and access to advanced technology. Also, the market has numerous small players that cater to local price-sensitive customers. Although high customization levels partially limit threat from imports, intense competition may continue to constrain scalability, pricing power, and profitability.

Susceptibility of profitability to volatility in prices of raw materials

The price of key raw materials of APL i.e. homo polymers and polyster chips has witnessed volatility in the recent past. Similarly, the price realisation also linked to the input prices, where there could be squeezing of margin when the input cost increase is not fully absorbed in the selling prices.

Analytical Approach: Standalone.

Applicable Criteria:

[Rating Methodology for Manufacturing Companies.](#)

[Financial Ratios & Interpretation (Non-Financial Sector).](#)

[Criteria for assigning Rating outlook.](#)

[Policy on Default Recognition](#)

[Complexity Level of Rated Instruments/Facilities](#)

Liquidity –Adequate

The liquidity of APL is expected to remain adequate in the near to medium term, with sufficient accruals to meet term debt repayment obligations from FY25 to FY27. Additionally, the average fund-based utilisation for the past twelve months ended July 2024 remained negligible, as APL has availed LCs and Buyer's credit in place of the same. The company earned gross cash accruals of Rs. 11.59 crore in FY24 (Prov.). As of March 31, 2024 (Prov.) and June 30, 2024 (Prov.), the current ratio stood comfortably at 1.22x and 1.36x respectively, and free cash and bank balance was Rs. 49.37 crore and Rs 46.58 crore.

About the company

Aakash Polyfilms Ltd., established in 1994, produces CPP, BOPET, and BOPP films. With two manufacturing units in each in Surat and Jhagadia, Gujarat with combined production capacity to 57,600 MTPA. The company caters to the textile and packaging sectors, supplying domestically and exporting majorly to Hong Kong, UAE, and Africa. It is promoted and managed by Pavan Tulsiani and family, with its registered office and manufacturing facilities based out of Gujarat, India.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	147.56	377.11
EBITDA	8.31	21.43
PAT	2.00	3.12
Total Debt	203.47	212.09
Tangible Net Worth	72.33	75.45
Adjusted Tangible Net Worth	109.20	115.17
EBITDA Margin (%)	5.63	5.68
PAT Margin (%)	1.36	0.83
Overall Gearing Ratio (x)	3.32	3.34
Adjusted Overall Gearing Ratio(x)	1.86	1.84
Interest Coverage (x)	6.96	2.18

** Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Brickwork Ratings continues to maintain the ratings of Aakash Polymers Limited in the Issuer Not Cooperating category since the issuer did not co-operate as per the Press Release dated February 09, 2024.

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Term Loans	Long Term	55.37	IVR BBB-/ Stable	-	-	-
2.	GECL	Long Term	1.25	IVR BBB-/ Stable	-	-	-
3.	Cash Credit	Long Term	55.60	IVR BBB-/ Stable	-	-	-
4.	Letter of Credit	Short Term	4.00	IVR A3	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan-1	-	-	-	FY28	9.42	IVR BBB-/ Stable
Term Loan-2	-	-	-	FY32	42.26	IVR BBB-/ Stable
Term Loan-3	-	-	-	FY28	3.69	IVR BBB-/ Stable

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
GECL-1	-	-	-	FY25	0.42	IVR BBB-/ Stable
GECL-2	-	-	-	FY25	0.83	IVR BBB-/ Stable
Cash Credit-1	-	-	-	-	50.55*	IVR BBB-/ Stable
Cash Credit-2	-	-	-	-	5.05	IVR BBB-/ Stable
Letter of Credit	-	-	-	-	4.00	IVR A3

* one way interchangeability from CC to LC amounting to Rs 50.55 crore (Rs 6.40 crore in Unit 1 and Rs 44.15 crore in Unit 2)

Annexure 2: Facility wise lender details
https://www.infomerics.com/admin/prfiles/Len-Aakash-Polyfilms-21aug24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Name of the Security		Detailed Explanation
	Financial Covenant	
	i.	**-**
	ii.	**-**
	Non-financial Covenant	
	i.	**-**
	ii.	**-**

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

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./