3B Films Private Limited

June 01, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	60.93 (reduced from Rs. 64.00 crore)	IVR BB+/ Stable (IVR double B plus with Stable outlook)	Rating revised from IVR BB- Issuer Not Cooperating* and removed from 'Issuer Not Cooperating category'	Simple
Short Term Bank Facilities	3.07	IVR A4+ (IVR A four plus)	Assigned	Simple
Total	**64.00 (INR sixty four crore only)**			

**Issuer not cooperating, based on best available information*

Details of Facilities are in Annexure 1

Detailed Rationale

Earlier Infomerics had moved the long-term rating of 3B Films Private Limited to Issuer Not Cooperating category vide it press release dated November 9, 2022, due to non-submission of information required for detailed review of the company. However, the company has started cooperating and submitted required information. Consequently, Infomerics has removed the rating from 'ISSUER NOT COOPERATING' category and revised the ratings.

The revision in the ratings assigned to the bank facilities of 3B Films Private Limited considers an expected improvement in the topline and profits owing to doubling of the production capacity. Further, the ratings continue to derive comfort from long experience of promoters, moderate capital structure and coverage indicators and a favourable demand outlook for the packaging industry. The ratings are, however, constrained by relatively small scale of current operations, high working capital intensive nature of operations, susceptibility of profitability to volatility in raw material prices and foreign exchange fluctuations and a highly fragmented Industry.

Key Rating Sensitivities:

Upward Factors

- Significant ramp up of operations from the recently completed capacity enhancement as well as sustaining the profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure with further improvement in debt protection metrics.
- Improvement in operating cycle thus leading to an improvement in liquidity position.

Downward Factors

- Dip in operating income and/or profitability thereby leading to any deterioration in the financial risk profile on a sustained basis.
- Withdrawal of subordinated unsecured loans and/or moderation in the capital structure with deterioration in overall gearing.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Significant improvement expected in the topline and profits**

The company has increased the production capacity to 12,000 MTPA from 6,000 MTPA and the commercial production at enhanced capacity started from March 2023. Infomerics expects the topline to significantly improve in the current fiscal vis-à-vis the previous financial year with the commissioning of the enhanced capacity. Consequently, the profits and cash accruals of the company are expected to significantly increase in FY2024 and future years. The company has shown a consistent increase in topline for the past three years led by increase in sales volume along with improvement in sales realisation.

- **Long experience of promoters**

The company was incorporated in 2014 and started its commercial operation from 2017. The company is promoted by Gujarat-based Babariya family, who have a long experience in the industry. The directors, Mr. Ashok Dhanjibhai Babariya, Mr. Mukesh Dhanjibhai Babariya and Ms. Gulabben Nitinbhai Babariya look after the day-to-day operation of the business along with a team of experienced professionals.

- **Moderate capital structure and coverage indicators**

The net worth stood at Rs. 50.47 crore as on March 31, 2023 (provisional) as against Rs. 47.78 crore in the previous year. To arrive at the net worth, Infomerics has considered Rs. 29.96 crore of unsecured loans from promoters/ directors as quasi equity as the same is subordinated to the bank facilities. Considering the same, long term debt equity ratio stood at 0.80 times as on March 31, 2023 (provisional) as compared to 1.08 times in as on March 31, 2022. The overall gearing ratio has remained leveraged at 1.34 times as on March 31, 2023 (prov) as compared to 1.45 times in as on March 31, 2022. TOL /TNW was 1.58x on March 31, 2023 (prov) as compared to 1.73 times in as on March 31, 2022. The interest coverage ratio stood moderate at 1.75 times in FY23 (provisional) versus 1.40 times in FY22 and total debt to GCA also improved to 15.23 years in FY2023 (provisional) compared with 28.34 years in FY22. Going forward, Infomerics believes the financial risk profile to improve as the company is likely to post significant improvement in the topline and profits.

- **Favourable demand outlook for the packaging industry**

The global population is rising at an unprecedented rate. Consequently, there is a huge rise in food and beverage items demand and inclination of consumers towards online shopping. Rising trend of consuming ready-to-eat meals especially in the western economies, is leading to the rise in demand for convenient packaging solutions. According to the Food and Agriculture Organization of the United Nations, roughly one-third of the food produced for human consumption is wasted globally and this is where the role of cast polypropylene comes into play. These packaging solutions improve the shelf life of the food products. Also, increasing demand of convenience foods due to changing lifestyle and busy schedule has further propelled the growth rate of the market.

Key Rating Weaknesses

- **Relatively small scale of current operations**

The company's scale of operations continues to remain relatively small, notwithstanding an increase to Rs. 71.80 crore in FY2023 (provisional) from Rs. 67.38 crore in FY2022, which results in low profits and cash accruals on an absolute basis. A sustained increase in topline and profit will be a key rating factor going ahead.

- **High working capital intensive nature of operations**

The working capital cycle of the company was stretched at 212 days in FY23 (provisional) compared with 152 days in FY22. The elongation was due to high inventory holding period of 222 days . The company is required to maintain an adequate quantity of raw materials and finished products to ensure smooth production and to meet demand of customers which has led to elongation in inventory holding period. The high working capital requirements were met largely through bank borrowings which resulted in a high average utilization of around 94% utilized for the last 12 months ended March 2023. Infomerics notes that an improvement in working capital cycle will be a key rating factor going ahead.

- **Profitability remains susceptible to volatility in raw material prices and foreign exchange fluctuations**

The company remains exposed to the volatility in prices of the key raw material, polymer, a derivative of crude oil. This exposes the company to fluctuations in polymer prices, particularly to the extent of inventory held. Moreover, ~30-40% of the total raw materials requirement of the company were imported and the remaining was sourced from domestic suppliers during FY2023 (provisional). The company also exports nearly 22-25% of its total sales. Therefore, being importer and exporter, the foreign currency risk is partially mitigated through a natural hedge. However, in the absence of any hedging policies adopted by the company, the unhedged exposure of the company is exposed to volatility in foreign exchange.

- **Highly fragmented Industry**

The packaging industry is highly fragmented with presence of several organised and unorganized players. Intense competition limits the bargaining power of the companies and restricts its profitability to an extent.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Criteria of assigning rating outlook

Liquidity – Adequate

The liquidity position of the company is adequate marked by its expected gross cash accruals as against debt obligations from FY24 to FY26. However, the company's bank limits are utilized to the extent of ~94% on an average for the period ended March 2023. Nevertheless, absence of any capex provides comfort to the liquidity position.

About the company

Gujrat-based 3B Films Private Limited was incorporated in 2014. The company started its commercial operation from April 2017. The company is engaged in the manufacturing of cast polypropylene films (CPP). It can produce the entire range of CPP films from 15 microns to 300 microns in plain, white opaque, and metallizable grades. The installed capacity of the CPP films increased to 12,000 MT per annum (MTPA) from 6000 MTPA in August 2021.

Financials (Standalone):

(Rs. Crore)

For the year ended* / As on	31-March-22 (Audited)	31-March-23 (Provisional)
Total Operating Income	67.72	72.55
EBITDA	8.43	10.90

PAT	-1.36	1.24
Total Debt	69.38	68.60
Tangible Net-worth (including quasi equity)	47.78	49.26
EBITDA Margin (%)	12.45	15.02
PAT Margin (%)	-2.01	1.70
Overall Gearing Ratio (x) (adjusted)	1.45	1.34

Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (November 9, 2022)	Date(s) & Rating(s) assigned in 2021-22 (September 1, 2021)	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	Long term	37.93	IVR BB+/ Stable	IVR BB- ISSUER NOT COOPERATING*	IVR BB/ Stable	-
2.	Cash Credit	Long term	23.00	IVR BB+/ Stable	IVR BB- ISSUER NOT COOPERATING*	IVR BB/ Stable	-
3.	Bank Guarantee	Short Term	3.07	IVR A4+	-	-	-

**Issuer not cooperating, based on best available information*

Name and Contact Details of the Rating Analyst:

Name Ms. Sapna Bagaria Tel: 033-4803 3621	Name: Mr. Sandeep Khaitan Tel: 033-4803 3621

Email: sapna.bagaria@infomerics.com	Email: sandeep.khaitan@infomerics.com

About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook

Term Loan I	-	-	October 2024	0.72	IVR BB+/ Stable
Term Loan 2	-	-	May 2027	21.15	IVR BB+/ Stable
Term Loan 3	-	-	March 2028	9.75	IVR BB+/ Stable
Term Loan 4	-	-	May 2024	2.76	IVR BB+/ Stable
Term Loan 5	-	-	March 2027	1.69	IVR BB+/ Stable
Term Loan 6	-	-	July 2024	1.56	IVR BB+/ Stable
Term Loan 7	-	-	August 2026	0.30	IVR BB+/ Stable
Cash Credit 1	-	-	-	8.00	IVR BB+/ Stable
Cash Credit 2	-	-	-	15.00	IVR BB+/ Stable
Bank Guarantee 1	-	-	-	1.50	IVR A4+
Bank Guarantee 2	-	-	-	1.57	IVR A4+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-3BFilms-jun23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: 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.