3B Films Private Limited

September 1, 2021

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities	64.00	IVR BB/ Stable (IVR double B with Stable outlook)	Assigned
Total	**64.00 (Sixty four crore)**		

Details of facilities are in Annexure 1

Detailed Rationale

The assigned rating considers long experience of the promoters 3B Films Private Limited (3BFPL) in the packaging industry. The rating also considers the significant addition of the production capacity, leveraged capital structure and moderate debt coverage indicators, and favourable demand outlook for the packaging industry. The rating, however, is constrained by the relatively small scale of current operations, significant debt servicing obligation in near term, high working capital intensive nature of operations, profitability remains susceptible to volatility in raw material prices and foreign exchange fluctuations, and presence in highly fragmented industry.

Key Rating Sensitivities:

Upward Factor:

- 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.

Downward Factor:

- Dip in operating income and/or profitability thereby leading to any deterioration in the financial risk profile on a sustained basis.

- Any increase in the working capital intensity and/ or significant debt funded capex leading to a deterioration in the liquidity position.

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **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. Ashokbhai Dhanjibhai Babariya, Mr. Mukeshbhai Dhanjibhai Babariya and Ms. Gulabben Nitinbhai Babariya look after the day-to-day operation of the business along with a team of experienced professionals.

- **Significant addition of the production capacity**

The company has increased the production capacity to 12,000 MTPA from 6,000 MTPA in August 2021, and the commercial operations are expected to commence from September 2021 in view of increase in demand for packaging products. 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 FY2022.

- **Leveraged capital structure and moderate debt coverage indicators –**

The net worth stood at Rs. 45.47 crore as on March 31, 2021 as against Rs. 40.29 crore in the previous year. To arrive at the net worth, Infomerics has considered Rs. 23.22 crore of unsecured loans from promoters/ directors as quasi equity as the same is subordinated to the bank facilities. Long term debt equity ratio stood at 0.95 times as on March 31, 2021 as compared to 0.42 times in as on March 31, 2020. The overall gearing ratio has remained leveraged at 1.38 times as on March 31, 2021. The interest coverage ratio and DSCR stood moderate at 2.56 times and 1.03 times respectively in FY2021. Total debt to GCA also remained moderate at 11.18 years in FY2021. Moreover, total indebtedness of the company as reflected by TOL/ANW also remained leveraged at 1.63x as on March 31, 2021 (0.95x as on March 31, 2020). 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 demand prospects for the packaging products are favourable given the growing demand from the end-user industries.

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. 63.02 crore in FY2021 (provisional) from Rs. 58.93 crore in FY2020, which results in low profits and cash accruals on an absolute basis.

- **Significant debt servicing obligations in the near term –**

The company incurred a capital expansion of around Rs. 60 crore for doubling the capacity during FY2021 and the current fiscal in the near past, which have been funded through a term loan of Rs. 29.65 crore, and the remaining through unsecured loans from the promoters and equity. This will lead to a significant repayment obligation in the near term, which is likely to exert pressure on the liquidity position of the company.

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

The company makes payments to its suppliers within 30-60 days and extends a similar credit period to its customers. However, the inventory level of the company remains high, which primarily consists of raw materials. This, in turn, has stretched its liquidity position and resulted in high utilisation of its fund-based limits, as reflected by an average utilisation of ~90% in the last twelve months, which also restricts its financial flexibility.

- **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% of the total raw materials requirement of the company were imported and the remaining was sourced from domestic suppliers during FY2021. The company does not have a formal hedging policy, which exposes the company's profitability to adverse movement in foreign-exchange rates.

- **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)

Liquidity - Stretched

The liquidity position of the company is stretched marked by its high long-term debt servicing obligations in the near to medium term. Moreover, high inventory and receivables position of the company have stretched its liquidity position and resulted in high utilisation of its fund-based limits, as reflected by an average utilisation of ~90% in the last twelve months, which also restricts its financial flexibility.

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)

INR in Crore

For the year ended* / As on	31-Mar-20 (A)	31-Mar-21 (Provisional)
Total Operating Income	58.93	63.02
EBITDA	6.78	8.63
PAT	0.83	3.00
Total Debt	27.01	62.81
Adjusted Tangible Net Worth	40.29	45.47
EBIDTA Margin (%)	11.51	13.69
PAT Margin (%)	1.40	4.72
Overall Gearing ratio (x)	0.67	1.38

**Classification as per Infomerics' standards*

Details of Non-Co-operation with any other CRA:

Acuite Ratings has moved the rating of 3B Films Private Limited into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated January 13, 2021.

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument/ Facility	Current Rating (Year: 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1	Term Loan	Long Term	40.39	IVR BB/ Stable	-	-	-
2	BOB Guaranteed Emergency Credit Line Scheme	Long Term	1.37	IVR BB/ Stable	-	-	-
3	Cash Credit	Long Term	18.00	IVR BB/ Stable	-	-	-
4	Cent Covid-19 Sahayata	Long Term	0.38	IVR BB/ Stable	-	-	-
5	Cent Emergency Credit Line	Long Term	3.86	IVR BB/ Stable	-	-	-

	Guarantee Scheme						

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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.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Term Loan I	-	-	FY2024	4.58	IVR BB/ Stable
Term Loan II	-	-	FY2028	27.86	IVR BB/ Stable
BOB Guaranteed Emergency Credit Line Scheme	-	-	FY2025	1.37	IVR BB/ Stable
Cash Credit - I	-	-	-	8.00	IVR BB/ Stable
Term Loan III			FY2025	7.95	IVR BB/ Stable
Cent Covid- 19 Sahayata			FY2024	0.38	IVR BB/ Stable
Cent Emergency Credit Line Guarantee Scheme			FY2025	3.86	IVR BB/ Stable
Cash Credit - II			-	10.00	IVR BB/ Stable

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/lender-3b-1-sept-21.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1	Term Loan I	Simple
2	Term Loan II	Simple
3	BOB Guaranteed Emergency Credit Line Scheme	Simple
4	Cash Credit I	Simple
5	Term Loan III	Simple
6	Cent Covid- 19 Sahayata	Simple
7	Cent Emergency Credit Line Guarantee Scheme	Simple

8	Cash Credit II	Simple

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.