Plastene India Limited ("PIL")

May 16, 2024

Ratings

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Bank Facilities – Term Loan	66.80	IVR BBB/Negative (IVR Triple B with Negative Outlook)	Assigned	Simple
Long Term Fund Based Bank Facilities – Cash Credit	124.55	IVR BBB/Negative (IVR Triple B with Negative Outlook)	Assigned	Simple
Long Term Fund Based Bank Facilities – Overdraft	21.00	IVR BBB/Negative (IVR Triple B with Negative Outlook)	Assigned	Simple
Long Term Fund Based Bank Facilities – Proposed Term Loan	9.00	IVR BBB/Negative (IVR Triple B with Negative Outlook)	Assigned	Simple
Short Term Fund Based Bank Facility – Standby limit under exporters Gold Card Scheme	2.00	IVR A3+ (IVR A Three Plus)	Assigned	Simple
Short Term Non-Fund Based Bank Facility – LC	9.65	IVR A3+ (IVR A Three Plus)	Assigned	Simple
Short Term Non-Fund Based Bank Facility – BG	7.00	IVR A3+ (IVR A Three Plus)	Assigned	Simple
Total	**240.00**	**(Rupees Two-Hundred and Forty crore only)**		

Details of Facilities are in Annexure 1

Detailed Rationale-

IVR has taken a combined approach of four group companies of Champalal Group (hereinafter referred as a group) namely Plastene India Limited (PIL), K. P. Woven Private Limited (KPWPL), HCP Enterprise Limited (HEL) and Plastene Polyfilms Limited (PPL) due to significant operational and strategic linkages among them. The ratings assigned to the bank facilities of PIL derive strength from group's strong track record of business operations together with qualified and experienced promoters and management team, wide product portfolio and geographical presence in the market, locational advantage, established relationship with reputed players in the market, healthy capital structure and moderate profitability margins. The ratings however remain constrained by modest scale of operations, modest debt coverage indicators, working capital intensive nature of operations and susceptibility of profitability to raw material price and currency fluctuation. The negative outlook reflects significant declined in revenue on combined basis in FY23, unhedged forex exposure of Rs. 74.39 crore as on December 31, 2023 and contingent liability of Rs.68.96 crore as on March 31, 2023

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in debt protection metrics and liquidity profile.
- Sustained improvement in Working Capital Cycle by prudent management of working capital requirements.

Downward Factors

- Any large debt-funded capex resulting in deterioration in the financial profile, especially liquidity, gearing and debt coverage metrics.
- Stretch in the working capital cycle negatively impacting liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters and Management team with expertise in managing operations.**

  PIL is a part of Champalal Group based in Gujarat. The company is second largest FIBC bags manufacturer in India and is managed by Mr. Prakashkumar Hiralal Parekh, the Managing Director, and carries an extensive experience of over two decades in the packaging industry. The promoters are supported by an experienced and qualified pool of management comprising of other Board of Directors and senior level management. Strong understanding of market dynamics has helped the company in withstanding Industry Cycles, diversify the product profiles and expand the capacity. Thus, strong track record of business operations and rich experience of the management helps in driving the future growth of business by articulating its brand in a way where the customers are attracted towards its reliable and quality products.

- **Established market position along with diverse product portfolio and customer profile**

  PIL is one of the large players in India in terms of FIBC production capacity and a leading plastics packaging manufacturer in India with a diverse product portfolio comprising of FIBCs, small bags and multiplayer films. The Group is engaged in manufacturing of film laminates, FIBC Bags, liners, BOPP laminated woven sacks, HDPE & PP woven sacks, tarpaulins, geotextiles etc. The company offers a wide range of products which are used in several industries like pharmaceutical, Chemical, fertilizer, commodity, cement etc. Currently the Group export to around 40 countries and derives close to ~65% sales from international customers. The company has been able to obtain repeat orders from exports customers in its FIBC segment.

- **Locational advantage and State of the art infrastructure set up**
  PIL's plant is located close to Kandla port and Mundra port, which helps it to save on freight cost. It also has proximity to Reliance Industries Limited's refinery for sourcing polypropylene. In addition to this the Group has many manufacturing units located in Gujarat at multiple places like Gandhidam, Ahmedabad, Rajpur, Kalol and Kutch. All the units are well facilitated with modern machineries and technologies to get higher output and better quality of finished products.

- **Healthy Capital Structure**
  The capital structure of the company remained comfortable over the past three financials years. The tangible net worth as on March 31, 2023, stood comfortable at Rs.166.83 crore (Adjusted Tangible Net Worth Rs. 184.41 crore on FY2023.) Moreover, the Overall Gearing ratio and TOL/TNW of the company improved on Y-o-Y basis and stood comfortable at 0.89x and 1.13x respectively as on March 31, 2023 as compared to 1.03x and 1.19x for FY2022.

- **Moderate Profitability Margins**
  In spite of decrease in total Income and EBIDTA in FY2023, the margin of the company improved on Y-o-Y basis at EBIDTA and PAT level. EBIDTA margin of the company increase to 6.16% in FY2023 from 5.68% whereas PAT margin stood at 1.32% in FY2023 from 0.74% in FY2022. Similarly, on combined basis the EBITDA margin witnessed an improvement from 7.02% in FY2022 to 10.37% in FY2023 mainly on account of reduction in cost of material consumed coupled with savings in employee cost and other manufacturing expenses and the PAT margin increased to 3.03% in FY2023 (FY2022: 1.72%).

Key Rating Weaknesses

- **Moderate Scale of Operations**

  Total Operating Income of PIL decreased by ~10% on Y-o-Y basis to Rs. 515.86 crore in FY2023 from Rs. 571.20 crore in FY2022. EBITDA also declined by ~2% to Rs. 31.79 crore in FY2023. Similarly, on combined basis total operating income witnessed a dip of ~31% and stood at Rs. 559.67 crore in FY2023. This was mainly due to substantial increase in intercompany transactions in FY23. Further the sluggish growth in plastic and FIBC packaging industry effecting the demand position of the products and shortage of supply of basic raw materials due to global rise in oil prices which impact the cost of ocean freight. EBITDA on a group level remained stable Rs. 58.06 crore in FY2023 from Rs. 57.19 crore in FY2022. However, the gradual recovery is expected in the industry along with in upcoming years which would result in decent growth in scale of operations.

- **Modest Debt Coverage Indicators**

  The Debt protection metrics of the company marked by Interest Coverage ratio (ICR), DSCR and Total Debt to Gross Cash Accruals remained modest during the last three financial years. ICR and Total Debt to GCA declined to 1.66x and 13.41x respectively during the FY2023 whereas the DSCR stood at 1.03x, this was mainly due to increase in interest costs and decrease in GCA. However, on combined basis the DSCR and Total Debt to GCA improved and stood at 1.25x and 9.72x whereas ICR remained comfortable at 1.74x level.

- **Working Capital Intensive Operations**

  PIL's operations are working capital intensive which is reflecting in its elongated working capital cycle of 141 days in FY2023 as against 119 days in FY2022. The collection period of the company has increased to 97 days in FY2023 from 77 days in FY2022 whereas the average inventory period remained stable at 52 days along with slight improvement in Creditors period to 8 days in FY2023. This working capital-intensive operations resulted in higher utilisation of working capital limits of ~86 during the last 12 months ended March 2024.

- **Susceptibility of profitability to raw material price and currency fluctuation**
  Profitability of PIL is subject to fluctuation in the price of polymer granules which derives of crude oil. Export sales of the company accounted for ~50% of total sales in FY2023 making the margins susceptible to any significant movement in the exchange rates. However, the group has separate Risk management committee which has been mitigating the risk involved in forex transactions through forward contracts.

Analytical Approach: Combined Approach

IVR has taken a combined approach for arriving at the ratings. IVR has considered combined financials of Champalal group - Plastene India Limited, K. P. Woven Private Limited, HCP Enterprise Limited and Plastene Polyfilms Limited. These 4 group companies have significant synergies amongst them (operational as well as financial linkages) as highlighted below:

- Common shareholders (with inter holdings amongst companies)
- Managed by the same group of promoters.
- Common marketing set-up and same line of business.
- Significant inter-company transactions in terms of sales and purchases.
- Common dealership network.
- Procurement from same suppliers.
- HCP Enterprise Limited procures raw materials from international market and supplies the same to all its group companies. It holds stake in Plastene India Limited, HCP Plastene Bulkpack Limited and Plastene Polyfilms Limited.

Applicable Criteria:

Criteria of assigning Rating outlook
Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-Financial Sector)
Policy on Default Recognition
Consolidation of Companies

Liquidity – Adequate

The liquidity profile of the group appears to be adequate with current ratio of 1.63x as on March 31, 2023. The company is earning a comfortable level of Gross Cash Accruals (GCA) which stood at Rs. 27.89 crore for FY23 and the same is expected to increase with increase in scale of operations. The liquidity is expected to remain adequate in near term marked by sufficient GCA to meet its debts obligations. The group is generating sufficient cashflow from its operations, which stood at Rs. 45.46 crore for FY23.

Liquidity position of PIL on a standalone basis is adequate with current ratio of 1.45x as on March 31, 2023 (1.29x as on March 31, 2022). GCA of the company stood at Rs. 12.23 crore for FY23. The average working capital utilization of PIL for the past twelve months ended March 2024 remained at ~86% indicating moderate liquidity. The insurance receivable amounting to Rs.38 crore is expected to be received in Q2 FY25 in Plastene India Limited thereby providing additional liquidity cushion. Thus, the overall liquidity position of the company remained Adequate.

About the Company

Plastene India Limited is the flagship company of Champalal Group. The company is engaged in manufacturing of film laminates, FIBC Bags, BOPP laminated Woven sacks, HDPE & PP woven sacks, Tarpaulins. Currently, the company is second largest FIBC bags manufacturer in India. Each segment incorporates numerous specifications, shapes, sizes, colours etc. thus providing wide range of products to its customers. The manufacturing facility having installed capacity of 36,300 MT and equipped with various latest technology is set up on an area of 850,000 sq. ft. The Company was originally incorporated on October 16, 1998 as Oswal Agloimpex Private Limited at Ahmedabad, Gujarat and was converted into public limited company in 2006. Thereafter, the name of the company was changed to Plastene India Limited in 2007.

Financials (Combined)*:

(Rs. Crore)

For the year ended / As on	31-Mar-2022 (Audited)	31-Mar-2023 (Audited)
Total Operating Income	814.82	559.67
EBITDA	57.19	58.06
PAT	14.10	17.17
Total Debt	315.66	271.04
Adjusted Tangible Net Worth	216.04	269.94
EBITDA Margin (%)	7.02	10.37
PAT Margin (%)	1.72	3.03
Overall Gearing Ratio (x)	1.46	1.00

* Classification as per Infomerics standards.

Financials (Standalone)*:

(Rs. Crore)

For the year ended / As on	31-Mar-2022 (Audited)	31-Mar-2023 (Audited)
Total Operating Income	571.20	515.86
EBITDA	32.45	31.79
PAT	4.24	6.86
Total Debt	188.01	163.99
Adjusted Tangible Net Worth	182.12	184.81
EBITDA Margin (%)	5.68	6.16
PAT Margin (%)	0.74	1.32
Overall Gearing Ratio (x)	1.03	0.89

* Classification as per Infomerics standards.

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument /Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount Outstanding (Rs. Cr.)	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	Fund based bank facility - Term Loan	Long Term	66.80	IVR BBB/Negative (IVR Triple B with Negative Outlook)	--	--	--
2	Fund based bank facilities – Cash Credit	Long Term	124.55	IVR BBB/Negative (IVR Triple B with Negative Outlook)	--	--	--
3	Fund based bank facilities – Overdraft	Long Term	21.00	IVR BBB/Negative (IVR Triple B with Negative Outlook)	--	--	--
4	Fund based bank facilities – Proposed Term Loan	Long Term	9.00	IVR BBB/Negative (IVR Triple B with Negative Outlook)	--	--	--
5	Fund Based Bank Facility – Standby limit under exporters Gold Card Scheme	Short term	2.00	IVR A3+ (IVR A Three Plus)	--	--	--
6	Non-Fund Based Bank Facility – LC	Short Term	9.65	IVR A3+ (IVR A Three Plus)	--	--	--
7	Non-Fund Based Bank Facility – BG	Short Term	7.00	IVR A3+ (IVR A Three Plus)	--	--	--

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About Infomerics:

Infomerics Valuation and Rating Private Limited (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

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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
Fund based bank facilities-Term Loan	--	--	--	66.80	IVR BBB/Negative (IVR Triple B with Negative Outlook)
Fund based bank facilities - Cash Credit	--	--	--	124.55	IVR BBB/Negative (IVR Triple B with Negative Outlook)
Fund based bank facilities – Overdraft	--	--	--	21.00	IVR BBB/Negative (IVR Triple B with Negative Outlook)
Fund based bank facilities – Proposed Term Loan	--	--	--	9.00	IVR BBB/Negative (IVR Triple B with Negative Outlook)
Fund based bank facility – Standby limit under exporters Gold Card Scheme	--	--	--	2.00	IVR A3+ (IVR A Three Plus)
Non-Fund based bank facility – LC	--	--	--	9.65	IVR A3+ (IVR A Three Plus)
Non-Fund based Bank Facility – BG	--	--	--	7.00	IVR A3+ (IVR A Three Plus)

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-Plastene-may24.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.