Press Release

Veer Plastics Private Limited

March 13, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	248.19	IVR A-; Stable (IVR Single A Minus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	24.25	IVR A2+ (IVR A Two Plus)	Assigned	Simple
Total	**272.44 (Rs. Two Hundred Seventy Two crore and forty four lakhs only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Veer Plastics Private Limited (VPPL) derives strength from its experienced promoter & management team with long track record of operations in the packaging industry coupled with strong customer profile backed by repeat orders. The ratings also consider the benefits derived from the location of the manufacturing facility being in close proximity to the raw material sources and VPPL's diversified geographical presence. The ratings also positively note the stable operating performance of the company in FY2022 and in 10MFY2023, albeit moderation in profitability. Further, the comfortable capital structure of the company backed by a strong net worth base is a credit positive. However, these rating strengths remain constrained by susceptibility of its profitability to volatility in raw material prices, exposure to foreign currency fluctuation risk and intense competition.

Key Rating Sensitivities

Upward Factors:

- Growth in scale of operations with improvement in profitability on a sustained basis and consequent improvement in gross cash accruals
- Improvement in the capital structure marked by improvement in overall gearing to below 1.0x with improvement in debt protection metrics marked by rise in interest coverage ratio to over 3.5x

- Improvement in in operating cycle leading to improvement in liquidity position of the company

Downward Factors:

- Moderation in scale of operations and/or moderation in profitability impacting the debt protection metrics on a sustained basis
- Any unplanned debt funded capex leading to moderation in the capital structure with moderation in the overall gearing to over 1.5x
- Further elongation in operating cycle impacting the liquidity position of the company

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters and management team with demonstrated track record of performance in the packaging industry**
  VPPL is one of the prominent players in the woven sacks industry with an established track record of operations of over two decades in the industry. The company is one of the leading suppliers of poly woven bags to the fertilizer and cement industry. Further, during the last couple of years, VPPL has developed new and value-added products such as jumbo bags (FIBC), PP fabrics and other technical textile for quality conscious export market such as USA, Canada, and European Countries since a major portion of the revenue (~49% in FY2022 and ~47% during 9MFY2023) is derived from the overseas market. The strong track record of its business operations has enabled the Company to gain an in-depth understanding of the market dynamics and cope up with the latest technologies and trends in the market. The management of VPPL is looked after by one Arora family members (Directors of VPPL) who have an extensive experience of more than three decades in the manufacture of poly woven bags, woven and non-woven fabric.
- **Strong client portfolio backed by repeat orders, albeit customer concentration**
  VPPL's clientele includes leading players in the Fertilizer and Cement industry. Also, in the export market, it caters to reputed players in the technical textile industry. Despite the customer concentration with top five customers accounting for ~45% of the total revenues in FY2022, VPPL has been able to build strong relationship with its customers which results in repeat orders and mitigates counter party credit risk to some extent.
- **Strategic location of the manufacturing facility**

VPPL's manufacturing facility in Gujarat is located close to Kandla and Mundhra ports which provides ease for imports and exports and benefits in terms of lower transportation and logistics cost. Further, VPPL's manufacturing facility is also located in close proximity to its major raw material suppliers i.e., Reliance Industries Limited (RIL) and Indian Oil Corporation Limited (IOCL) which ensures regular and timely availability of raw materials.

- **Diversified geographical presence**

  VPPL has a pan India presence, and its products are sold across all the major states with focus in North Indian states since VPPL primarily caters to cement and fertilizer industries which are majorly located in North India. With regard to export orders, VPPL sells its products majorly in USA followed by UK and Canada since VPPL has the required certifications in place and also the demand in these countries for PP and geo textile fabrics is high. Wide geographical presence reduces the risk of possible economic downturns or changes in government policies in any particular region.

- **Stable operating performance albeit moderation in profitability**

  The total operating income of the company increased at a CAGR of ~22% during FY2019-FY2022 with a y-o-y growth of ~39% in FY2022 over FY2021 driven by increase in both domestic and export demand for PP woven sacks and fabrics. However, despite the increase in total operating income in FY2022 over FY2021, operating margins moderated from 9.32% in FY2021 to 5.39% in FY2022. The decrease in operating profit in FY2022 is majorly due to substantial increase in the prices of raw material i.e., polymer/plastic granules and other overhead costs. The prices of polymer which is a crude oil derivative is dependent on the prices of crude oil which witnessed a drastic increase in FY2022 directly impacting the prices of polymer. However, the crude oil prices witnessed correction to an extent during the current fiscal year resulting in a slight decrease in the prices of polymer. VPPL achieved TOI of Rs.703.08 crore during 10MFY2023 as against a TOI of Rs.837.54 crore during 10MFY2022. The company witnessed a decrease in TOI in the current fiscal year, majorly from August 2022 onwards due to decrease in demand both in the domestic as well as in the export market caused by high inflation and interest rate spikes. However, the same picked up from January 2023 onwards and VPPL's revenues are expected to be in the range of Rs.850-900 crores in FY2023 fiscal year. The operating margin of VPPL is also expected to increase marginally in FY2023 fiscal year.

- **Satisfactory financial risk profile characterised by strong net worth base coupled with comfortable capital structure**

  VPPL has a satisfactory financial risk profile marked by its strong net worth base of Rs.216.47 crore as on March 31, 2022. In spite of large debt-funded capacity enhancement in the last couple of years, the capital structure of the company remained comfortable with overall gearing of 1.25x as on March 31, 2022 (1.22x as on March 31, 2021; considering subordinated unsecured loans from directors and members to the tune of Rs.21.43 crore as on March 31, 2022, as quasi equity). However, due to decrease in overall profitability in FY2022, the debt coverage indicators though moderated, yet remained comfortable with ICR of 3.17x (5.07x in FY2021) and total debt to GCA of 6.42x (4.67x in FY2021) in FY2022. Total indebtedness of the company as reflected by TOL/TNW remained comfortable at 1.71x as on March 31, 2022 (1.54x as on March 31, 2021). The capital structure is expected to improve further in FY2023 fiscal year on the back of strong promoter's support in the form of unsecured loans and steady accretion of profits to reserves.

Key Rating Weakness:

- **Susceptibility of profitability to volatility in the prices of raw material**

  The primary raw material for the company is polymer which is a crude oil derivative. The prices of crude oil witnessed a drastic increase in FY2022 consequent to the Russia-Ukraine war. The prices of crude oil were driven up by USA and European sanctions hampering Russia's ability to sell crude oil which resulted in low global crude oil inventories thereby leading to highest inflation adjusted prices of crude oil. This in turn impacted the prices of plastic granules as it is directly linked to the volatility in crude oil prices. Despite the correction in crude oil prices to an extent in the current year, VPPL's profitability remains exposed to any adverse movements in its raw material prices that cannot be entirely passed on to the customers and thus have a negative impact of the company's profit margins.

- **Exposure to foreign currency fluctuation risk**

  With the company obtaining the requisite certifications for selling its products in the European and US markets, VPPL derives a major portion of its total revenue through exports (49% in FY2021 and FY2022 and 47% in 9MFY203). Given the increasing share of exports, the profitability of the company remains vulnerable to foreign currency exchange rate fluctuations, to the extent unhedged. VPPL enters into forward contracts from time to time and also has a team of professionals which regularly keeps a check on the forex rates and advises the management on the same.

- **Intense competition**

  The industry is characterized by presence of a large number of players with low entry barriers. 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.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Criteria of assigning Rating Outlook

Liquidity Position: Adequate

The liquidity profile of the company is expected to remain adequate marked by sufficient cash accruals vis-à-vis its debt repayment obligation of Rs.29.22 crore in FY2023, Rs.23.96 crore in FY2024 and Rs.19.17 crore in FY2025. The current ratio stands comfortable at 1.29x as on March 31, 2022. Further, the average utilisation of working capital borrowings stood at ~79% during the last twelve months ended December 2022 indicating sufficient liquidity cushion. Moreover, the liquidity is supported by need based funding support from the promoters in the form of unsecured loans as and when required.

About the Company

Incorporated in 1985, Veer Plastics Private Limited (VPPL) is one of the leading woven sacks manufacturers for the fertilizer and cement industry. During the last 6-7 years, VPPL has developed new and value-added products such as jumbo bags (FIBC), PP fabrics and other technical textile for quality conscious export markets such as USA, Canada and European Countries since almost ~45-50% of the revenues is derived from the overseas market. VPPL was started by setting up a poly woven bags facility at Kadi, Gujarat. Over the years VPPL has set up fully integrated facilities at Santej and Borisana in Ahmedabad, Silvassa in Dadra

& Nagar Haveli and at Dist. Solan in Himachal Pradesh. Currently the company has total production capacity of 59,020 MTPA.

Financials: Standalone **(Rs. crore)**

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	711.52	985.87
EBITDA	66.30	53.12
PAT	32.54	23.22
Total Debt	231.60	269.76
Tangible Net worth	190.23	216.47
EBITDA Margin (%)	9.32	5.39
PAT Margin (%)	4.52	2.32
Overall Gearing Ratio (x)	1.22	1.25

**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 Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long Term	88.19 *	IVR A-/Stable	-	-	-
2.	Cash Credit	Long Term	160.00	IVR A-/Stable	-	-	-
3.	Bank Guarantee	Short Term	9.25	IVR A2+	-	-	-
4.	Letter of Credit	Short Term	6.00	IVR A2+	-	-	-
5.	CEL	Short Term	9.00	IVR A2+	-	-	-

**Outstanding as on November 30, 2022*

Name and Contact Details of the Rating Analyst:

Name: Ms. Harshita Gupta Tel: (033) 46022266 Email: hdidwania@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com

About Infomerics:

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 / Outlook
Term Loan	-	-	June, 2028	88.19 *	IVR A-/Stable
Cash Credit	-	-	-	160.00	IVR A-/Stable
Bank Guarantee	-	-	-	9.25	IVR A2+
Letter of Credit	-	-	-	6.00	IVR A2+
CEL	-	-	-	9.00	IVR A2+
Total	-	-	-	**272.44**	

**Outstanding as on November 30, 2022*

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

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Lenders-VeerPlastics.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.