August 26, 2022

Bloom Seal Containers Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	15.00	15.00	[ICRA]BBB+ (Stable); reaffirmed
Cash Credit	10.00	10.00	[ICRA]BBB+ (Stable); reaffirmed
Letter of Credit	(10.00)*	(10.00)*	[ICRA]A2; reaffirmed
Bank Guarantee	(2.00)*	(2.00)*	[ICRA]A2; reaffirmed
Total	**25.00**	**25.00**	

**Instrument details are provided in Annexure-1; * Sub-limit of cash credit*

Rationale

The reaffirmation of the ratings continues to factor in the extensive experience of the promoter in the high-density polyethylene (HDPE) container business; the established track record of Bloom Seal Containers Private Limited (BSCPL) in the industry with nearly two decades of operations; and the status of a 'preferred vendor' with some of the marquee customers, which ensures repeat orders. The rating also favourably factors in the company's healthy financial risk profile, characterised by healthy profitability levels, comfortable debt-coverage metrics and adequate liquidity position.

The ratings, however, are constrained by the company's moderate scale of operation and exposure to the volatility in HDPE prices, which are linked to crude oil prices. The company`s margin posted a dip in FY2022 (provisional) over FY2021, on account of rise in input costs, which was not fully passed on to end-customers. ICRA, however, draws comfort from the flexibility the entity enjoys to revise prices with its customers, in case of disproportionate rise in raw material prices, thereby providing partial protection to margin decline. The rating also notes the high customer concentration risk, with the top five customers accounting for ~60-65% of sales, although the long-term association with customers moderate the risk. The company's performance is also susceptible to the underlying cyclicality of end-user sectors (mainly agrochemical manufacturers), although the company is trying to mitigate the same by focusing on new sectors/ industries. BSCPL's ability to diversify its customer base, going forward, will remain a key rating sensitivity.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that BSCPL will continue to benefit from the extensive experience of its promoters and its long track record in the plastic industry.

Key rating drivers and their description

Credit strengths

Extensive experience and established track record of promoter – The key promoter, Mr. Pradeep Sagar, has extensive experience of more than two decades in the plastic industry. The rich experience of its promoter, its in-house technical and product development capabilities, and its established relationships with suppliers and dealers will continue to support the company's business performance.

Reputed client profile – The company's clientele includes reputed agrochemical manufacturers such as United Phosphorous Limited (UPL), Krishi Rasayan, Coromandel Industries Ltd., and Atul Limited. It enjoys long-term relationships with these customers, which ensures steady order flow and, hence, provides adequate revenue visibility, going forward.

Healthy financial risk profile – The company's strong financial profile is characterised by healthy profit margins, low gearing and comfortable coverage indicators. In FY2022, the profitability moderated to 25.2% from 28.2% in FY2021, because of rising input prices, high directorial remuneration and normalisation of travelling expenses. However, it still remains healthy and has witnessed sustained growth over the years to 28.2% in FY2021 from 6.85% in FY2016, supported by higher process efficiency, repeat orders from some of the marquee players and improved sales of the higher-margin double barrier containers. The return indicators remained comfortable as evident from ROCE of 29.34% in FY2022. The company's capital structure has witnessed improvement over the years on account of healthy accretion to reserves, with a net worth base Rs. 53.87 crore and gearing and TOL/TNW of 0.48 time and 0.65 time, respectively, as on March 31, 2022 (provisional). The debt protection metrics remained comfortable, with interest coverage of 12.41 times and Total Debt/OPBIDTA of 1.05 times in FY2022. ICRA, however, notes that at an absolute level, the cash accruals have come down in FY2022 over FY2021 due to dividend pay-out, which is likely to continue. The quantum of dividend going forward will, hence, be monitorable in terms of growth in cash accruals as well as maintenance of liquidity profile.

Credit challenges

Moderate scale of operations –BSCPL's revenue improved by ~21% to Rs. 98.62 crore in FY2022 (provisional) from Rs. 81.44 crore in FY2020 owing to healthy volume off-take from agrochemical manufacturers. However, at an absolute level, the scale of operations continues to remain moderate. The company's ability to scale up its operations from its new product offerings and customer acquisition will remain a key rating sensitivity.

Prone to competitive pressure from industry players – BSCPL faces competition from organised as well as unorganised players in the domestic market. However, the established track record and the relatively stable customer base mitigate the risk to some extent.

Profitability susceptible to volatility in raw material prices – BSCPL remains exposed to volatility in the key raw material price of HDPE. HDPE is a crude oil derivative and closely follows the crude oil price movement, which exhibits considerable volatility. The margin for FY2022 moderated over FY2021, given the inflationary raw material price regime, which was witnessed in the later half of FY2022 and continues in FY2023. However, the monthly price revision flexibility with its customers partly reduces BSCPL's exposure to such price risks.

High customer and industry concentration risks – - The company derives ~60-65% of its revenues from its top-five customers. ICRA believes any slowdown in demand from these customers would impact BSCPL's revenue growth. For FY2022, too, the contribution from the agrochemical sector remained high, at around ~80% of total revenues; although coming down from earlier fiscals. As agrochemical demand remains driven by adequacy and timeliness of the monsoons, the revenue remains exposed to demand volatility from the sector. BSCPL, to mitigate this dependency, is focussing on new sectors and adding new customers from other sectors, such as lab chemicals, pharmaceuticals, paints, fragrances and solar power. The company's ability to diversify this sectoral concentration, going forward, will be a key rating sensitivity.

Liquidity position: Adequate

The company's liquidity position is adequate, driven by the annual debt repayment of ~Rs. 3.50-4.00 crore during FY2023–FY2025, which is expected to be adequately covered by accruals. Further, the minimally utilised working capital facility of Rs. 10.00 crore as on March 31, 2022, also strengthens its liquidity position. The company's working capital intensity remains moderate over FY2022. The working capital requirements are primarily funded by internal accruals. The average utilisation of working capital facility was minimal at ~3.5% in the past 14 months (May 2021 to June 2022). Liquidity remains adequate despite a dividend pay-out of Rs. 3.28 crore in FY2022; higher than expected dividend pay-outs materially affecting liquidity of the company, will remain a monitorable.

Rating sensitivities

Positive factors – Substantial growth in revenues along with sustenance of operating margins while retaining adequate liquidity position, and comfortable capital structure and coverage metrics.

Negative factors – Substantial decline in revenues and operating margins resulting in lower cash flows on a sustained basis. Any large debt-funded capex or large dividend pay-out or stretch in working capital cycle leading to material deterioration in the capital structure or liquidity could trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

Note (for analyst reference only):

About the company

Incorporated in FY2006, Bloom Seal Containers is promoted by Mr. Pradeep Sagar. The company manufactures low and high barrier HDPE containers, which find application in the storage of hazardous and non-hazardous chemicals. With continuous research and development, the company developed its 'Fluorination' technique in 2002, which enabled it to serve efficient packaging solutions for hazardous chemicals. During FY2020, the company relocated its manufacturing facility to Panoli, Ankleshwar, Gujarat, from Vapi, Gujarat. The rationale was to attain proximity to its end-consumers and suppliers. At present, the company has an annual production capacity of ~5,000 MTPA.

Key financial indicators (audited)

	FY2021	FY2022*
Operating income	81.44	98.62
PAT	13.90	14.40
OPBDIT/OI	28.16%	25.23%
PAT/OI	17.07%	14.60%
Total outside liabilities/Tangible net worth (times)	0.81	0.65
Total debt/OPBDIT (times)	1.12	1.05
Interest coverage (times)	9.58	12.41

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Aug 26, 2022	Jun 14, 2021	-	-
1	Term Loan	Long-term	15.00	5.21	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
2	Cash Credit	Long-term	10.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-

3	Letter of credit	Short-term	(10.00)	-	[ICRA]A2	[ICRA]A2	-	-
4	Bank Guarantee	Short-term	(2.00)	-	[ICRA]A2	[ICRA]A2	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit	Simple
Letter of credit	Very simple
Bank Guarantee	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2019	NA	FY2026	15.00	[ICRA]BBB+ (Stable)
NA	Cash Credit	NA	NA	NA	10.00	[ICRA]BBB+ (Stable)
NA	Letter of credit	NA	NA	NA	(10.00)	[ICRA]A2
NA	Bank Guarantee	NA	NA	NA	(2.00)	[ICRA]A2

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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