

May 07, 2024

Parksons Packaging Limited: [ICRA]AA-(stable)/[ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based term loan	90.85	[ICRA] AA-(Stable); assigned
Long-term/short-term fund-based cash credit	35.50	[ICRA] AA-(stable)/ [ICRA]A1+; assigned
Short-term- Non-fund based letter of credit	12.00	[ICRA]A1+; assigned
Long-term/short-term - Unallocated limits	6.65	[ICRA]AA-(stable)/ [ICRA]A1+; assigned
Short-term – Interchangeable limits	(5.00)	[ICRA] A1+; assigned
Total	145.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned ratings favourably factor in the large and growing scale of operations of Parksons Packaging Limited (PPL) in the domestic packaging materials business with sales CAGR of over 20% over the last three years ending FY2024, along with a diversified as well as reputed customer base and geographical presence across India. The company caters to a wide range of industries like food and beverages, home and personal care, pharmaceuticals, health and hygiene and industrials. The ratings also take into consideration the financial flexibility of global private equity firm Warburg Pincus that acquired a majority stake in PPL through its affiliate Green Fin Investments B.V. and demonstrated track record of equity infusions since the acquisition. The ratings also factor in the favourable long-term growth outlook for the packaging industry on the back of increasing demand prospects from FMCG, food and beverage, electricals, pharmaceuticals, e-commerce and other consumer industries for packaging products, and increasing premiumisation, which supports large, organised players like PPL. The ratings also factor in PPL's healthy capitalisation and coverage metrics as of FY2023 and expected improvement over the medium term, driven by top line growth supported by recent capacity additions as well as inorganic growth.

The ratings are, however, constrained by PPL's presence in the highly competitive packaging business, which is characterised by stiff competition amid the fragmented nature of the industry and exposure of margins to volatility in raw material prices (primarily paper board). Though the margins have remained healthy in last three years, driven by scale benefits, its ability to hike prices commensurate with raw material price rises remains key for margin protection. The packaging business is also capital intensive in nature, which necessitates regular capex to support the growth plans. Hence, judicious funding of capex or any future acquisition, coupled with efficient working capital management, which keeps the debt at prudent levels, will remain a key rating sensitivity on an ongoing basis.

The Stable outlook reflects ICRA's expectations that PPL's revenue profile will be backed by stable demand conditions, driven by increasing premiumisation in the packaging segment, reputed client base and expectations of range-bound debt levels.

Key rating drivers and their description

Credit strengths

Established track record of promoters and PPL's sizeable presence in the organised domestic packaging industry – PPL, established in 1996, is one of the largest paperboard packaging companies in the organised domestic packaging industry. Further, the erstwhile promoters (who continue to be in business) have experience of more than two decades in the printing

and packaging segment. Further, the company enjoys high financial flexibility by being majority owned by global private equity firm, Warburg Pincus, through its affiliate Green Fin Investments B.V. and as reflected in demonstrated commitment of equity infusions since acquisition by Warburg Pincus India Private Limited.

Diversified product and customer portfolios; benefits from established relationships with reputed customers and diversified geographical presence – The company caters to a wide range of industries, including food and beverages, home and personal care, pharmaceuticals, health and hygiene and industrials with moderate segment concentration. Over the past two years, the company has been able to diversify its customer and end-user industries, as reflected in various acquisitions and asset purchases. The company acquired 100% stake in Manohar Packaging Private Limited (MPPL) in November 2021, supporting product diversification and wider distribution network. MPPL was merged with PPL in FY2024 and ceases to exist as a separate legal entity. In March 2023, PPL acquired 100% in MK Printpack Private Limited, strengthening its leadership position in the folding cartons market in India. In April 2023, PPL acquired assets on slump sale basis further boosting its presence in North India. With these acquisitions and asset purchase, the company has been able to cater to domestic demand and has also been increasing its presence in the exports market through its 12 manufacturing units spread across the country.

Large scale of operations and healthy financial risk profile – The company has large scale of operations with healthy revenue expansion of over 20% CAGR in FY2024E, reported over the last three years. PPL reported revenue growth of 28% in FY2023 on a YoY basis. Going forward, the revenue growth is expected to be driven by addition in installed capacity amid a stable demand scenario and benefits derived from new acquisitions. Further, the company had healthy capitalisation and coverage metrics over the years with capital structure of 0.5 times and interest coverage of 8.6 times as on March 31, 2023. The coverage indicators are expected to marginally moderate in FY2024, given impact on operating profitability and range bound debt levels.

Favourable demand for packaging industry augurs well for growth – Paper packaging is used in a wide variety of industries and applications. Overall, the long-term outlook for the industry remains healthy on the back of increase in economic activity, coupled with increasing penetration of specialised and conventional packaging in sectors like FMCG, healthcare, e-commerce, pharma and consumer industries. The company is also looking to target the high-growth electronics manufacturing services (EMS) segment and is expected to leverage on the same for its top line growth, going forward.

Credit challenges

Susceptibility of profitability to volatility in raw material prices – PPL's major raw materials include paper board, which make up most of its total purchase cost. The prices of raw materials have remained volatile over the years, with significant rise witnessed in FY2023 and further cooling off in FY2024. Though the prices have been stable from H2 FY2024, given the general norm of the industry of paper prices being a pass through, the ability of the company to pass on the price increase to its customers in times of upcycle in a timely manner, remains critical for protection of margins.

Capital intensive nature of business, necessitating regular capex requirements – The packaging business is capital intensive in nature, which is mandated to support its growth plans. The company has debt-funded expansion plans which are likely to keep the debt levels range bound in the near to medium term. Though the capex will aid in capacity enhancement, PPL's ability to scale-up and garner commensurate returns from its planned capex will remain critical for improving its credit metrics, going forward.

High competitive pressure from both large and unorganised sectors – The business environment remains competitive, given the fragmented and unorganised industry structure for the packaging industry. A large portion of the paperboard packaging industry is serviced by unorganised players, who cater to the small-scale requirements of clients across various industries. The balance is dominated by a few major established players. This limits the company's pricing flexibility, to an extent.

Liquidity position: Adequate

PPL's liquidity position is adequate, driven by the buffer available in working capital limits as of February 2024 and average utilisation of 51% over last 14 months. On a consolidated level, the company has repayment obligations of Rs. 185-195 crore over FY2025-27, which are expected to be adequately funded by cash accruals. The capex requirement is expected to be

funded by mix of debt and internal accruals in FY2025. ICRA also notes that Warburg Pincus, being the current principal promoter, has provided need-based support through equity infusions, whenever needed, especially for acquisitions, and is expected to continue, supporting the liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade PPL’s ratings if it demonstrates a significant ramp-up in scale of operations and improvement in profitability leading to healthy cash accruals as well as improvement in liquidity.

Negative factors – Pressure on PPL’s ratings will arise if there is notable decline in its scale of operations and operating profitability, leading to sharp decline in cash accruals. In addition, stretch in the working capital cycle or large debt-funded capex or material acquisitions impacting the coverage indicators and liquidity profile, will also be a credit negative. A specific credit metric that could lead to a rating downgrade is if DSCR is less than 2.2 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Parksons Packaging Limited. As on March 31, 2023, the company had 4 subsidiaries which are all enlisted in Annexure-2.

About the company

Parksons Packaging Ltd. (PPL) was incorporated in April 1996 as a private limited company by the Kejriwal family. PPL was converted into a limited company in September 2000. PPL is promoted by Mr. Ramesh Kejriwal. The company manufactures packaging folded cartons made of paper boards and plastic sheets through its 12 manufacturing plants across India. The Parksons Group has more than 60 years of experience in the printing and packaging industry. The company started as an offset commercial printer and playing cards manufacturer with expertise in high-quality print production. PPL is an end-to-end solution provider in the space and is one of the leading paper-based packaging entities in India and among a select few players who offer solutions from conceptualising stage to final value-added product delivery.

Green Fin Investments B.V., a company incorporated under the laws of the Netherlands, invested (an affiliate of Warburg Pincus) in Parksons in April 2021 and currently holds 85% of Parksons Packaging Limited with the remaining stake held by the founding promoters.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	-	-
PAT	-	-
OPBDIT/OI	-	-
PAT/OI	-	-
Total outside liabilities/Tangible net worth (times)	1.1	0.9
Total debt/OPBDIT (times)	-	-
Interest coverage (times)	8.5	8.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore) Mar 31, 2024	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				May 7, 2024			
1	Term loan	90.85	85.74	[ICRA]AA-(Stable)	-	-	-
2	Cash Credit	35.5	-	[ICRA]AA-(stable)/[ICRA]A1+	-	-	-
3	Letter of credit	12.00	-	[ICRA]A1+	-	-	-
4	Unallocated limits	6.65	-	[ICRA]AA-(stable)/[ICRA]A1+	-	-	-
5	Interchangeable limits	(5.0)	-	[ICRA]A1+	-	-	-

*standalone

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term –Fund-based Term Loan	Simple
Long-term/ short term fund-based cash credit	Simple
Short-term- Non-Fund Based Letter of credit	Very Simple
Long term /Short-term- Unallocated limits	Not applicable
Short term – Interchangeable limits	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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan I	FY2019	NA	FY2026	6.32	[ICRA]AA-(Stable)
NA	Term loan II	FY2022	NA	FY2027	20.53	[ICRA]AA-(Stable)
NA	Term loan II	FY2024	NA	FY2029	64.00	[ICRA]AA-(Stable)
NA	Cash Credit*	NA	NA	NA	7.5	[ICRA] AA-(stable)/ [ICRA]A1+
NA	Cash Credit^	NA	NA	NA	28.0	[ICRA] AA-(stable)/ [ICRA]A1+
NA	Letter of credit#	NA	NA	NA	12.00	[ICRA] A1+
NA	Unallocated limits	NA	NA	NA	6.65	[ICRA]AA-(stable)/ [ICRA]A1+
NA	Interchangeable limits	NA	NA	NA	(5.0)	[ICRA]A1+

* Interchangeable with Non Fund based Working Capital Facility up to Rs. 5 crores

^ Interchangeability up to Rs.8 crores from fund based to non fund based limits

Full one-way Interchangeability from non-fund based limits to fund based limits

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	PPL Ownership	Consolidation Approach
M. K. Printpack Private Limited	100%	Full Consolidation
Parksons Packaging UK Private Limited	100%	Full Consolidation
Terra One Packaging Private Limited	100%	Full Consolidation
Parksons Packaging CSR foundation	99.98%	Full Consolidation

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About ICRA Limited:

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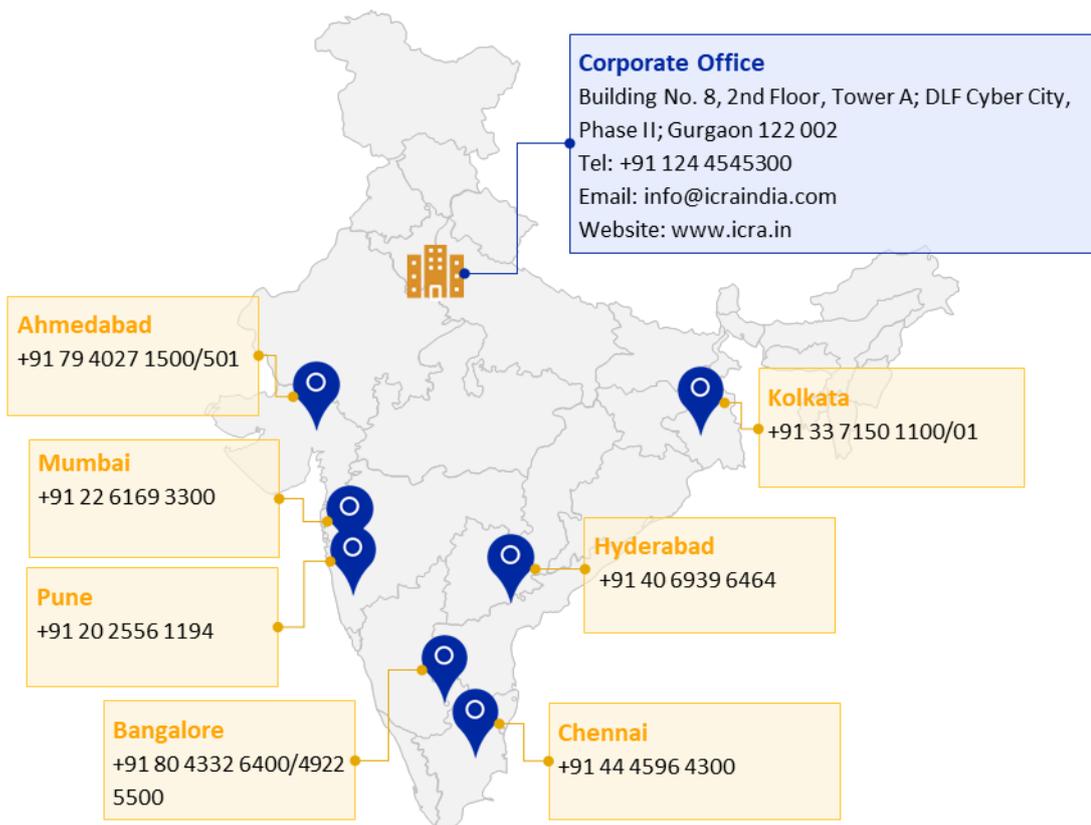
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