TCPL Packaging Limited

January 12, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	224.59	188.86	[ICRA]A(Negative) / Re-affirmed; Outlook revised from Stable
Long-term, Fund-based Bank Facilities	100.00	120.00	[ICRA]A(Negative) / Re-affirmed; Outlook revised from Stable
Short-term, Non-fund Based Bank Facilities	20.00	20.00	[ICRA]A2+; Revised from [ICRA]A1
Long-term / Short-term, Unallocated	-	15.73	[ICRA]A (Negative) Re-affirmed / [ICRA]A2+ Revised from [ICRA]A1; / Re-affirmed;
Total	**344.59**	**344.59**	

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]A (pronounced ICRA A) assigned to the Rs. 188.86 crore[1](revised from Rs. 224.59 crore) long-term loans and the Rs. 120.0 crore (revised from Rs. 100.0 crore) long-term, fund-based facilities of TCPL Packaging Limited (TCPL or the company)[2]. The outlook on the long-term rating has been revised to Negative from Stable. ICRA has downgraded the short-term rating assigned to the Rs. 20.0 crore non-fund based facilities of TCPL to [ICRA]A2+ (pronounced ICRA A two plus) from [ICRA]A1 (pronounced ICRA A one). ICRA has also reaffirmed ratings of [ICRA]A (Negative) and revised short term rating to [ICRA]A2+ for the Rs. 15.73 crore long-term / short-term unallocated amount of TCPL.

Rationale

The revision in the short-term rating and the outlook on the long-term rating takes into account the moderation in the financial profile of the company, as reflected by a decline in operating profit margins and weakened coverage indicators. The debt funded capital expenditure (undertaken for capacity enhancements and establishment of flexible packaging unit) and increased working capital requirements have resulted in an increase in borrowings. Coupled with the inability of the company to pass on the increase in raw material (paper board) prices during H1 FY2018, this has resulted in weakened liquidity profile of the company, despite infusion of Rs. 24.0 crore during August 2017 by way of private placement. The ratings are also constrained by the moderate return indicators of the company. TCPL witnessed a marginal 3.4% growth in revenues during FY2017 due to a marginal 1.7% growth during Q4 FY2017 on the back of impact of demonetisation and 5.8% during H1 FY2018 due to 10.7% de-growth in Q1 FY2018 due to the implementation of the Goods and Services Tax (GST). The operating profit margin for TCPL also declined to 13.4% in H1 FY2018 due to an increase in raw material prices which the company has not been able to pass on to the customers. Furthermore, the newly commissioned flexible packaging unit has been unable to scale up its operations, thereby impacting the financials. An improvement in the credit profile of the company through an improvement in operating profit margins and judicious funding of capital expenditure (capital expenditure) is a key rating sensitivity.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

The ratings continue to take into account the long track record of the promoters of the company in the packaging materials business and TCPL's sizeable presence in the organised packaging industry. The rating also factors in the diversified industries catered to by the company as well as reputed customer base. While the company caters to a wide range of industries, the company has sizeable exposure to the fast moving consumer goods (FMCG) and the cigarette industry, which have together contributed to ~57% of the company's revenues in H1 FY2018.

ICRA further notes that the company will continue to undertake debt-funded capex based on market demand and the ability of the company to maintain a comfortable capital structure and liquidity profile amidst this is a key monitorable.

Outlook: Negative

The negative outlook reflects moderation in the financial risk profile of the company as evident from a decline in operating profit margins and an increase in working capital requirements, weakening the liquidity profile of the company. The outlook may be revised to 'Stable' if substantial growth in revenues and profitability, and better working capital management, strengthens the financial risk profile of the company.

Key rating drivers

Credit strengths

- **Long and established track record of promoters in the manufacture of packaging materials and TCPL's sizeable presence in the organised domestic packaging industry –** TCPL, established in 1987, is one of the largest paperboard packaging companies within the organised domestic packaging industry with revenues of Rs. 613.0 crore in FY2017. While the small to medium sized players with low bargaining power would likely be impacted more, large players like TCPL (catering to larger demand segments like FMCG) with high economies of scale should be in a position to maintain their bargaining power.
- **Wide range of target industries; benefits derived from established relations with reputed customers –** The company caters to a wide range of industries, including FMCG, tobacco, liquor, among others. Over the years, the sales contribution from FMCG sector has increased (to ~38% in FY2017 from ~33% in FY2015) with an increase in demand and addition of new customers. The sales concentration towards the top three industries (FMCG, Cigarette and Food and Beverage) remains high, contributing to ~80% of the total sales in FY2017 and ~78% in H1 FY2018. While this signifies high sector concentration, the same is mitigated to an extent by the company's long-term association with its clients as well as its reputed client base. Some of the top clients include, among others, Hindustan Unilever Limited, Godfrey Phillips India Limited, Mondelez India Foods Limited and Colgate Palmolive.

- **Favourable demand for packaging industry augurs well for the company's growth -** The future revenue growth for the industry is expected to be driven by rising income levels, increasing share of organised retail as well as rural penetration, and the resultant increase in the market size of the food processing industry, the largest consumer of packaging products in the country. With recent expansion in capacities, the company will be able to meet the increasing requirements, which will drive TCPL's growth going forward.

Credit weaknesses

- **Leveraged capital structure and weakened coverage indicators on account of debt-funded capital expenditure; moderation in liquidity position –** TCPL has incurred project capital expenditure over the past few years and plans to incur further over the medium term in-order to increase the capacities of its manufacturing plants. The expenditure is mainly funded by 75% term loans and 25% through internal accruals. The company incurred capex of ~Rs.103.0 crore in FY2017 towards enhancing the capacities at Silvassa and Guwahati and establishing the flexible packaging unit, funded by Rs. 77.5 crore of term loans and the balance from internal accruals. Moreover, the working capital requirements have also increased in FY2017 and H1 FY2018 partly due to the recent capital expenditure incurred coupled with stretched receivables and high stock levels. This led to an increase in total debt to Rs.303.4 crore as on March 31, 2017 and further to Rs. 312.6 crore as on September 30, 2017. Thus, despite infusion of equity of Rs. 24.0 crore in August 2017, the liquidity profile remains weak. However, the coverage indicators, though moderated in FY2017 and H1 FY2018, continue to remain comfortable.
- **Profitability susceptible to input price fluctuations –** TCPL's operating profit margin declined to 15.8% in FY2017 from 17.0% in FY2016 mainly due to higher overhead costs from the flexible packaging unit, the impact of demonetisation and an increase in paperboard prices. The operating profit margin further declined to 13.5% in H1 FY2018 attributable to increase in raw material prices between September 2016 and October 2017, which could not be passed on to the customers. However, ICRA takes comfort from the management indication that this was a one-off due to the implementation of GST due to which the customers requested for a combined price increase post GST, and the company will be able to pass on the increase with a lag of one-two months, as before**.**
- **High competitive pressures from both large and unorganised sector** – The business environment remains competitive given the fragmented and unorganised industry structure for 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 players such as ITC Limited (Packaging Limited), Huhtamaki PPL Limited, Parksons Packaging Limited, Borkar Packaging Private Limited and York Print and Pack Private Limited. This limits the company's pricing flexibility and also exerts pressure on its operating profit margins. However, ICRA expects the same to be supported by the company's foray into higher margin flexible packaging segment.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

Incorporated as Twenty-First Century Printers Limited (TCPL) in August 1987 as a public listed company, this entity is promoted by Kanoria family and had commenced operations by manufacturing packaging materials–majorly printed blanks used in the cigarette industry, using a gravure printing press installed at Silvassa (Dadra and Nagar Haveli). The company has changed its name to TCPL Packaging Limited in 2008.

Currently, the company is engaged in the manufacture of packaging materials, based on gravure and offset printing technologies. The company has also forayed into flexible packaging segment from February 2017. The end products find application in a wide range of industries such as FMCG, cigarettes, liquor, pharmaceuticals, pesticides, stationery, food products etc. The company has in aggregate 15 (nine in FY2016) offset printing lines at Silvassa, Haridwar, Goa and Guwahati, and three gravure printing lines as on March 31, 2017.

For the 12 months that ended on March 31, 2017, TCPL reported a profit after tax (PAT) of Rs. 33.2 crore on an operating income (OI) of Rs. 613.0 crore, as against a PAT of Rs. 38.3 crore on an OI of Rs. 592.6 crore for the 12 months that ended on March 31, 2016. For the six months that ended on September 30, 2017, TCPL reported a PAT of Rs. 9.0 crore on an OI of Rs. 323.7 crore, as per unaudited financials.

Key Financial Indicators (Audited)

Consolidated	FY2016	FY2017
Operating Income (Rs. crore)	592.6	613.0
PAT (Rs. crore)	38.3	33.2
OPBDIT/ OI (%)	17.0%	15.8%
RoCE (%)	22.3%	15.6%
Total Debt/ TNW (times)	1.6	1.7
Total Debt/ OPBDIT (times)	2.3	1.7
Interest coverage (times)	4.9	4.4
NWC/ OI (%)	16%	21%

Source: TCPL Packaging Limited

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)*	Date & Rating January 2018	Date & Rating in FY2017 December 2016	Date & Rating in FY2016 -	Date & Rating in FY2015 -
1	Term Loans	Long-term	188.86	188.86	[ICRA]A (Negative)	[ICRA]A (Stable)	-	-
2	Long-term, Fund-based Bank Facilities	Long-term	120.0	NA	[ICRA]A (Negative)	[ICRA]A (Stable)	-	-
3	Short-term, Non-fund Based Bank Facilities	Short-term	20.0	NA	[ICRA]A2+	[ICRA]A1	-	-
4	Unallocated Amount	Long-term / Short-term	15.73	NA	[ICRA]A (Negative) / [ICRA]A2+	-	-	-

*As on September 30, 2017; NA: Not applicable

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan	FY2012	10.5%	FY2018	2.64	[ICRA]A (Negative)
-	Term Loan	FY2014	6.7%	FY2023	60.67	[ICRA]A (Negative)
-	Term Loan	FY2014	10.6%	FY2021	29.33	[ICRA]A (Negative)
-	Term Loan	FY2016	10.1%	FY2022	37.34	[ICRA]A (Negative)
-	Term Loan	FY2015	4.3%	FY2019	58.88	[ICRA]A (Negative)
-	Long-term, Fund-based Bank Facilities	NA	NA	NA	120.00	[ICRA]A (Negative)
-	Short-term, Non-fund Based Bank Facilities	NA	NA	NA	20.00	[ICRA]A2+
-	Long-term / short-term, Unallocated	NA	NA	NA	15.37	[ICRA]A (Negative)/ [ICRA]A2+

Source: TCPL Packaging Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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