October 30, 2019

TCPL Packaging Limited: Rating reaffirmed; outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	162.75	162.75	[ICRA]A- reaffirmed; outlook revised to Negative from Stable
Long-term, Fund-based Facilities	141.00	141.00	[ICRA]A- reaffirmed; outlook revised to Negative from Stable
Short-term, Non-fund Based Facilities	20.00	20.00	[ICRA]A2+ reaffirmed
Long-term / Short-term – Unallocated	20.84	20.84	[ICRA]A- / [ICRA]A2+ reaffirmed; outlook revised to Negative from Stable
Total	**344.59**	**344.59**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook factors in the high debt levels of TCPL Packaging Limited (TCPLL) on account of its regular debt-funded capex and the increased working capital requirements due to increasing scale of operations. The latter has resulted in an increase in short-term borrowings and thus almost full utilisation of its working capital limits during FY2019. While TCPL's operating profit margin (OPM) marginally improved to 12.8% in FY2019 from 12.3% in FY2018 due to healthy YoY revenue growth of 16.9% and increased utilisation of its flexible packaging capacity, the OPM (excluding the impact of Ind-AS) witnessed a moderation to 12.3% in Q1 FY2020, as against 12.8% in Q1 FY2019. Overall, increase in raw material (paper board) prices has an adverse impact on the company due to its inability to pass it on to the customers immediately. TCPL can pass on the increase with a lag of two-three months. Overall, TCPL's credit profile is characterised by moderate coverage indicators and profitability, with Total Debt/ OPBDITA of 3.1 times as on March 31, 2019 and return on capital employed (RoCE) of 12.5% for FY2019. Furthermore, the company has sizeable debt repayment obligations and planned debt-funded capex over FY2020-FY2022, which is expected to keep the debt levels high. Judicious funding of the capex and efficient working capital management are the key monitorables

The ratings continue to draw comfort from 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 serviced by the company as well as its reputed customer base. While the company caters to a wide range of industries, it has sizeable exposure to the fast-moving consumer goods (FMCG), tobacco, and food and beverages (F&B) industries, which together generated a very high percentage of the company's revenues in FY2019. In addition, the packaging business is characterised by stiff competition amid the fragmented nature of the industry and a large number of unorganised players in the field. ICRA will continue to monitor the impact, if any, of the proposed ban on single-use plastics in the country, on TCPL's credit profile.

Key rating drivers and their description

Credit strengths

Long and established track record of promoters and TCPL's sizeable presence in the organised domestic packaging industry – TCPL, established in 1987, is one of the largest paperboard packaging companies in the organised domestic packaging industry with revenues of Rs. 815.8 crore in FY2019. 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 from established relationships with reputed customers – The company caters to a wide range of industries, including FMCG, tobacco and liquor, among others. The sales concentration towards the top three industries (FMCG, tobacco, and F&B) remains very high. 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 its top clients include, among others, Hindustan Unilever Limited, Godfrey Phillips India Limited, Mondelez India Foods Limited and Colgate Palmolive. Foray into the flexible packaging segment with effect from February 2017 has further enabled client diversification.

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 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 challenges

Marginal return indicators; profitability susceptible to input price fluctuations – TCPL's OPM reported a marginal improvement to 12.8% in FY2019 from 12.3% in FY2018 due to healthy YoY revenue growth of 16.9% and increased utilisation of its flexible packaging capacity. However, its OPM (excluding the impact of Ind-AS) witnessed a moderation to 12.3% in Q1 FY2020, as against 12.8% in Q1 FY2019. Overall, increase in raw material (paperboard) prices has an adverse impact on the company due to its inability to pass it on to customers immediately. TCPL can pass on the increase with a lag of two to three months. Overall, TCPL's credit profile is characterised by moderate profitability, with RoCE of 12.5% for FY2019.

Moderate capital structure and liquidity position – The capital structure of the company remains is moderate as reflected in gearing of 1.3 times as on March 31, 2019. Increase in scale of operations has resulted in an increase in working capital requirements resulting in an increase in the short-term borrowings and thus almost full utilisation of its working capital limits during FY2019 and Q1 FY2020. TCPL's TD/OPBDITA and interest coverage, though improved to 3.1 times and 3.7 times as on March 31, 2019 (3.5 times and 3.4 times as on March 31, 2018), remains moderate. TCPL has incurred sizeable debt-funded capex over the past few years and plans to incur a further ~Rs. 60 crore capex during FY2020 towards capacity enhancements. The same is to be largely debt funded and thus the debt levels are expected to remain high.

High competitive pressures from both large and unorganised sector – 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 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, while exerting pressure on its OPM.

Liquidity position: Adequate

TCPL's liquidity is adequate with cushion in accruals (Rs. 60-70 crore per annum) vis-à-vis its repayment obligations (Rs. 40-50 crore per annum) and moderate cash balance of Rs. 1.7 crore (as on March 31, 2019). Even though its capex requirements are high (Rs. 60 crore for FY2020), they are to be funded through debt for which it has sufficient headroom (sanctioned term loan of Rs. 60 crore, of which the company plans to draw only Rs. 46 crore). Its bank limits were utilised to the extent of ~85% over the last 12 months.

Rating sensitivities

Positive triggers – The ratings may be upgraded if the company is able to significantly improve its liquidity position and if its TD/ OPBDITA reduces below 2.5 times on a sustained basis and RoCE increases above 15% on a sustained basis.

Negative triggers – Negative pressure on TCPL's rating could arise with a further weakening of its liquidity position or if its TD/OPBDITA remains above 3.0 times on a sustained basis or its RoCE fails to improve from the current levels.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent / Group Support	Not applicable
Consolidation / Standalone	The rating is based on the standalone financial profile of the company

About the company

Twenty-First Century Printers Limited (TCPL) was incorporated in August 1987 as a public listed company, this entity is promoted by the Kanoria family. It began operations by manufacturing packaging materials—mainly printed blanks used in the cigarette industry, using a gravure printing press installed at Silvassa (Dadra and Nagar Haveli). The company was renamed as TCPL Packaging Limited in 2008.

At present, the company manufactures packaging materials, based on gravure and offset printing technologies. The company had forayed into the flexible packaging segment from February 2017. Its end-products find application in a wide range of industries, such as FMCG, cigarettes, liquor, pharmaceuticals, pesticides, stationery, and food products, among others. Altogether the company had 16 printing lines at Silvassa, Haridwar, Goa and Guwahati, as on March 31, 2019.

For the 12 months ended March 31, 2019, TCPL reported a profit after tax (PAT) of Rs. 28.9 crore on an operating income (OI) of Rs. 815.8.0 crore, as against a PAT of Rs. 20.2 crore on an OI of Rs. 698.0 crore for the 12 months ended March 31, 2018. For the three months ended June 30, 2019, TCPL reported a PAT of Rs. 5.4 crore on an OI of Rs. 211.5 crore.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	698.0	815.8
PAT (Rs. crore)	20.2	28.9
OPBDIT/OI (%)	12.2%	12.8%
RoCE (%)	10.2%	12.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	2.0
Total Debt/OPBDIT (times)	3.5	3.0
Interest Coverage (times)	3.4	3.7
DSCR	1.2	1.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding*	Rating	FY2019		FY2018	FY2017	
					30-Oct-19	23-Nov-18	06-Jul-18	12-Jan-18	12-Dec-16	02-Dec-16
1	Term Loans	Long-term	162.75	116.8	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Long-term, Fund-based Bank Facilities	Long-term	141.00	NA	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Short-term, Non-fund Based Bank Facilities	Short-term	20.00	NA	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1
4	Unallocated Amount	Long-term / Short-term	20.84	NA	[ICRA]A- (Negative) / [ICRA]A2+	[ICRA]A- (Stable) / [ICRA]A2+	[ICRA]A- (Stable) / [ICRA]A2+	[ICRA]A (Negative) / [ICRA]A2+	-	-

*Amount in Rs. crore; *As on March 31, 2019*

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 click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Loan	FY2014	6.7%	FY2023	54.65	[ICRA]A- (Negative)
NA	Long-term Loan	FY2014	10.6%	FY2021	39.63	[ICRA]A- (Negative)
NA	Long-term Loan	FY2016	10.1%	FY2022	28.84	[ICRA]A- (Negative)
NA	Long-term Loan	FY2015	4.3%	FY2019	39.63	[ICRA]A- (Negative)
NA	Long-term, Fund-based Facility	NA	NA	NA	141.00	[ICRA]A- (Negative)
NA	Short-term, Non-fund based Facility	NA	NA	NA	20.00	[ICRA]A2+
NA	Long-term / Short-term, Unallocated	NA	NA	NA	20.84	[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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