

January 01, 2021

Bericap India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term / Short-term – Fund based / Non fund based	93.44	93.44	[ICRA]BBB (Stable) / [ICRA]A3+; Reaffirmed
Long-term / Short-term – Interchangeable	(93.44)	(93.44)	[ICRA]BBB (Stable) / [ICRA]A3+; Reaffirmed
Total	93.44	93.44	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to take into account the established track record of Bericap India Private Limited (BIPL or the company) in the plastic closures industry, and the operational support and financial flexibility it enjoys by virtue of being a part of the Bericap Group spearheaded by Bericap GmbH, Germany, also being 100% owned by Bericap Holding GmbH. The parent company provides extended credit period whenever necessary as well as equity infusions as and when required for growth capital. The ratings also take into account company's reputed customer base, and conservative capital structure as reflected by a gearing of 0.6 times as on March 31, 2020.

The ratings, however, remain constrained by BIPL's modest scale of operations and working capital intensive nature of business on the back of high inventory levels, with raw material stocks dominating the inventory holding of BIPL. Furthermore, its revenues and profitability remained impacted in H1FY2021 due to the outbreak of COVID 19 pandemic leading to disruptions in supply chain and hampering the demand. The company also reported higher debtor position in H1FY2021. BIPL's margins are also exposed to volatility in key raw material prices, mainly high-density polyethylene (HDPE) granules prices, which are linked to the price of petroleum crude oil. However, BIPL has price revision agreements in place with majority of its key customers which provides some comfort against the said risk. With ~90% of raw material requirement being imported from Indonesia and South Korea based suppliers, BIPL also faces considerable currency fluctuation risk; although exports do provide natural hedge to an extent. BIPL operates in a highly fragmented industry structure; although presence of entry barriers provides some comfort.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that BIPL will continue to benefit from the strong promoter background and well-established track record in the domestic market. With the company planning to diversify into other end-user industries, revenue base is expected to show steady rise over the medium term.

Key rating drivers and their description

Credit strengths

Strong promoter background – BIPL enjoys strong operational support and financial flexibility by virtue of being part of the Bericap Group, a global conglomerate with notable presence in manufacturing caps and closures. The group is spearheaded by Bericap GmbH, Germany, which has frequently provided extended credit period whenever necessary for

supplies as well as for capex liabilities and equity infusion. Being a part of Bericap Group also helps BIPL in acquiring new business in the domestic market given the established track record and brand value of the group.

Customer profile characterized by reputed players – The customer profile of BIPL is characterized by reputed players from diverse industries such as beverages, dairy and lubricant oils. Clients from these sectors form significant share of revenues for BIPL and catering to a diversified clientele has ensured lesser exposure towards industry-specific risks to an extent. Presence of reputed players in the clientele also ensures steady order flow and hence, revenue visibility for BIPL.

Conservative capital structure – BIPL has maintained a conservative capital structure backed by regular equity infusion from its parent company over the years. Such equity infusion has resulted in expansion of company's net worth base over the years. BIPL continued to exhibit comfortable capital structure with a gearing of 0.6 times as on March 31, 2020.

Credit challenges

Modest scale of operations; revenues and profitability impacted in H1FY2021 due to the outbreak of COVID 19 pandemic – With revenue of Rs. 188.7 crore in FY2020, BIPL continues to operate on a modest scale. The company's revenues and profitability remained impacted in H1FY2021 due to the outbreak of COVID 19 pandemic leading to disruptions in BIPL's global supply chain and also hampering the demand especially in Q1FY2021. The company reported revenue of Rs. 69.9 crore in H1FY2021 with operating margin of 17.5% and loss at net level due to high depreciation expenses; however, recovery in revenue and profitability is expected in H2FY2021 with substantial volume offtake anticipated in Q4FY2021. With the company planning to further diversify its end-user industry base and the promising demand prospects for plastic caps and closures in the domestic as well as global markets over the medium to long term, BIPL is expected to steadily expand its scale of operations going forward.

High working capital intensity – BIPL continues to exhibit high working capital intensity on account of high inventory levels maintained historically. The company is required to keep sufficient stock of raw materials given its dependence on imports for procuring key raw materials. BIPL reported high working capital intensity of 35% in FY2020 primarily on account of high inventory days (77 days) for the fiscal. The company also reported higher debtor days (114 days) in H1FY2021 leading to high working capital intensity; however, higher creditor days (171 days) provided some comfort.

Highly fragmented industry structure although presence of entry barriers provides some comfort – Closures industry remains highly fragmented, which exerts limits on scaling up the operations and growth prospects of players. However, presence of entry barriers in the capital-intensive closure business to cater to reputed players provides comfort against the said risk to an extent.

Exposure to volatile raw material prices though price revision agreements with major customers provide some comfort – BIPL stands exposed to volatility in raw material prices. HDPE granules are the key raw material for the company, and the prices of HDPE are further linked to price of petroleum crude oil, which has been showing considerable volatility. However, the price revision agreements with majority of key customers provide some comfort to BIPL's profitability against the said risk.

Exposed to currency movement risks with considerable portion of raw material being imported – BIPL imports considerable portion of its raw material from overseas suppliers, which exposes the company to currency movement risks in a dollar appreciating scenario. However, company's exports do provide natural hedging against the currency movement risks to an extent.

Liquidity position: Adequate

BIPL's liquidity position remains **adequate**, given the undrawn working capital limits of Rs. 34.6 crore as on September 30, 2020. The company has long term debt repayments of Rs. 6.9 crore per annum for FY2021 as well as FY2022.

Although the company has sizeable capex planned over the near to medium term, the anticipated equity infusion from the parent company is expected to provide comfort to its liquidity position.

Rating sensitivities

Positive triggers – The rating could be upgraded if the entity shows significant growth in its revenue coupled with improvement in profitability on a sustained basis.

Negative triggers – The rating could be downgraded if the entity shows considerable de-growth in revenue and decline in profitability. Any higher than anticipated debt-funded capital expenditure by the entity could also result in downward pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	ICRA takes note of the benefits enjoyed by BIPL by virtue of being a part of the Bericap Group spearheaded by Bericap GmbH, Germany, in terms of operational support and financial flexibility.
Consolidation / Standalone	The ratings are based on the standalone financials of Bericap India Private Limited

About the company

BIPL was incorporated in 2001 as a joint venture between Essel Propack and Germany based Bericap GmbH. Bericap subsequently bought over stake from Essel Propack with BIPL becoming wholly owned subsidiary of BHG in 2009. BIPL is in the business of manufacturing plastic closures for PET bottles used in carbonated soft drinks (CSD), fruit juices, processed food, edible oil, lube oil, paints and household chemicals. BIPL started production of closures at Murbad, Thane (Maharashtra) in year 2001, and the manufacturing facility was subsequently shifted to Talegaon MIDC in Pune district in year 2007. The company currently has an installed capacity of manufacturing 4.6 billion closures every year.

BIPL reported PAT of Rs. 10.3 crore on an operating income of Rs. 188.7 crore in FY2020, as compared to PAT of Rs. 6.8 crore on an operating income of Rs. 151.6 crore in FY2019.

Key financial indicators

	FY2019 Audited	FY2020 Audited
Operating Income (Rs. crore)	151.61	188.73
PAT (Rs. crore)	6.80	10.38
OPBDIT/ OI (%)	15.93%	18.23%
PAT/OI (%)	4.49%	5.50%
Total Outside Liability/ Tangible Net Worth (times)	0.77	1.04
Total Debt/ OPBDIT (times)	1.69	2.04
Interest Coverage (times)	12.52	5.96

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2021)				Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore) as on September 30, 2020	Date & Rating		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
				1-Jan-2021	8-Apr-2020	9-Apr-2019	-	7-Mar-2018
1 Fund Based / Non Fund Based	Long- Term/ Short Term	93.44	-	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	-	[ICRA]BBB (Stable)/ [ICRA]A3+
2 Fund Based / Non Fund Based – Interchangeable	Long- Term/ Short Term	(93.44)	-	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	-	[ICRA]BBB (Stable)/ [ICRA]A3+
3 Unallocated Amount	Long- Term/ Short Term	-	-	-	-	[ICRA]BBB (Stable)/ [ICRA]A3+	-	[ICRA]BBB (Stable)/ [ICRA]A3+

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
NA	Working Capital Facilities*	NA	NA	NA	93.44	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	Interchangeable Facilities*	NA	NA	NA	(93.44)	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: Bericap India Private Limited

* The working capital facilities are fully interchangeable with fund-based / non-fund-based interchangeable facilities

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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