February 10, 2022

Rathna Packaging India Private Limited: Rating Assigned

Summary of rating action

Instrument*	Current Rated Amount	Rating action
Long Term - Fund based – TL	23.90	[ICRA]BBB (Stable); Assigned
Long Term - Fund based – CC	18.00	[ICRA]BBB (Stable); Assigned
Short Term - Fund based	38.00	[ICRA]A3+; Assigned
Short Term – Non-Fund based	3.50	[ICRA]A3+; Assigned
Long Term/Short Term - Unallocated	10.92	[ICRA] BBB (Stable)/[ICRA]A3+; Assigned
Total	**94.32**	

Rationale

The assigned ratings favourably factor in the extensive experience of Rathna Packaging India Pvt Ltd's (RPPL) promoters in the flexible packaging industry, its reputed client base which includes ITC Ltd, Parle Agro Pvt Ltd, Amazon etc, with history of repeat orders, and the enhanced capacity which is expected to drive the company's revenue growth going forward. The rating also considers RPPL's strong revenue growth in last few years (16% three-year CAGR ending FY2021) on the back of increasing sales volume driven by favourable demand scenario and addition of new customers. The company incurred a capex of ~Rs. 25.0 crore in FY2021 and will be incurring a capex of ~Rs. 16.0-20.0 crore in FY2022 towards expanding its capacity to manufacture paper bags, speciality tapes and expansion of its printing facility for its laminated films. Given the favourable demand outlook for its products coupled with ramp-up in its new capacities to achieve better product diversity, the company is likely to sustain its revenue growth in FY2022 and FY2023.

The ratings also consider RPPL's moderate operating margins of 7.0-8.0% during the past financial years owing to lower margins derived from sale of laminated films to FMCG companies. Further, RPPL's margins remain vulnerable to fluctuations in raw material prices that are pegged to crude oil prices. The company's operating margins declined to ~4.0% in 9M FY2022 and is expected to remain subdued in FY2022 owing to the steep rise in crude oil prices. The company has implemented a price revision in Q3 FY2022 which is expected to support its margin in subsequent quarters. The sales volume of margin accretive products is expected to increase in FY2023, further, supporting the margin. The overall debt levels of the company increased in FY2021 and FY2022 owing to debt-funded capex and increase in its working capital borrowing. Though the coverage indicators remained healthy till FY2021, the same is expected to moderate in FY2022 owing to decline in operating margins coupled with increase in overall debt levels of the company. However, the coverage indicators are expected to improve from FY2023 on the back of revival in operating margins. The ratings are also constrained by moderate product and customer concentration risk faced by the company in FY2021. However, both risks are expected decline in FY2022 and FY2023 on the back increase in diversification of its product profile coupled with addition of new customers. The rating also factors in company's exposure to foreign currency fluctuations as the company derives ~23% of its revenues from exports. However, the imports of raw material provide a natural hedge and the company hedges its part net exposure using forward contracts mitigating the risk to a certain extent. RPPL's liquidity position remains adequate with unutilised working capital limit of ~Rs. 16.0 crore as on December 31, 2021.

The stable outlook on the long-term rating reflects ICRA's opinion that the company will benefit from healthy demand outlook for its products, strong relationship with its customers and expected recovery in its operating margin leading to improvement in debt coverage metrics.

Key rating drivers and their description

Credit strengths

Established track record of promoters in packaging industry - RPPL's promoters have extensive experience of over two decades in the packaging industry. RPPL started its operations as a partnership concern in 1998 selling poly films and subsequently diversified its portfolio into laminated films, shrink sleeves, adhesive tapes, paper bags etc. With the recent capacity expansion towards margin accretive products, the company remains favourably placed to capture the increasing requirements in the packaging segment for the E-commerce sector.

Established relationships with reputed clientele - The company caters to a wide range of industries such as FMCG, food, beverages, automotive and E-commerce. Over the years, the company has had established relationships with its customers, which ensures repeat orders. Some of RPPL's reputed clients include ITC Ltd, Parle Agro Pvt Ltd, Amazon Seller Services Private Limited, TVS Motor Company Ltd etc, ensuring lower counter party credit risk.

Favourable demand outlook for the company in the packaging industry: – Plastic and paper packaging are used in a wide variety of industries and applications. The key demand drivers of the industry are GDP growth, increase in disposable income, increasing urbanization which gets translated to increase in demand for healthcare, white goods, automobiles, retail, etc which in turn leads to increase in demand for packaging material. Overall, the long-term growth outlook for the industry remains healthy on the back of increase in economic activity coupled with increasing penetration of synthetic and paper bags in food grain packaging; changing lifestyle with increase in demand for FMCG products, healthcare, e-commerce and cosmetics.

Credit challenges

Moderate operating margins; susceptible to volatility in raw material prices – The company's operating margin remained moderate at 7.0-8.0% during the past financial years till FY2021 owing to lower margins derived from sale of laminated films to FMCG companies. The basic raw material for the company are derivatives of crude oil, hence their price is determined by global crude oil prices. The profitability remains exposed to fluctuations in raw material prices as reflected in decline in margins in 9M FY2022 owing to steep rise in crude oil prices. The company has implemented a price revision in Q3 FY2022 which is expected to support its margin in subsequent quarters. The sales volume of margin accretive products is expected to increase in FY2023, further supporting the margin.

Moderate product and customer concertation risk – The company's product concentration risk remains moderate with ~57% of revenue derived from sale of laminated films in FY2021. Further, the company's customer concentration risk remains moderate with top 5 customers contributing 41.9% of revenue in FY2021. However, both these risks are expected decline in FY2022 and FY2023 on the back of increase in diversification of its product profile coupled with addition of new customers.

Profitability susceptible to foreign exchange fluctuations: RPPL's profitability is exposed to forex fluctuations as it derives ~22.0-25.0% of revenue from export sales. However, the company imports ~14-15% of its raw-material requirement which provide a natural hedge to its exports. The company partly hedges its exposure through forward contract mechanism mitigating the risk further.

Liquidity position: Adequate

RPPL's liquidity position remains adequate with unutilised working capital limit of ~Rs. 16.0 crore as on December 31, 2021. The working capital utilisation stood at an average of ~73% against drawing power for the 12-month ending December 2021. The company is planning to incur a capital expenditure of ~Rs. 16-20 crore in FY2022 which is funded from a term loan of Rs. 10.5 crore. Though the company's cash flow from operations are impacted in FY2022 owing to inflationary pressure on its raw-material prices, the same is expected to improve from FY2023 on the back of expected revival in operating margins. The company has repayment obligations of ~Rs. 8.8 crore in FY2022 and Rs. 7.2 crore in FY2023, and the company's cash accruals are sufficient to service the debt repayment.

Rating sensitivities

Positive factors – ICRA could upgrade RPPL's ratings if the company demonstrates a significant increase in revenue along with expansion in profitability leading to increase in cash accruals on a sustained basis. Specific credit metric will be TOL/TNW of less than 1.5 times

Negative factors – Negative pressure on the company's ratings could arise if there is significant decline in the revenues or the margins resulting in reduction of cash accruals. Specific credit metrics that could lead to a downgrade of rating include Total Debt/OPBITA of more than 2.8 times on a sustained basis. Further, any significant capex or stretch in working capital cycle adversely impacting the liquidity profile might result in a rating downgrade.

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 RPPL

About the company

Established in 1998, Rathna Packaging Pvt Ltd (RPPL) is involved in manufacturing poly film products, including packaging films, lamination films, shrink sleeves for jar and bottles, self-adhesive BOPP tapes and multiplayer film for milk and oil packaging. Further, the company has the capacity to manufacture polyethylene films which is further processed to manufacture various other products. Currently, the company has the capacity to produce ~30,000 MTPA located in Hosur, Tamil Nadu spread across four manufacturing units. RPPL has a reputed client base including many Indian multinational companies in the FMCG, automobile and other food companies.

Key financial indicators (audited)

RPPL (Consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	286.2	340.0
PAT (Rs. crore)	7.8	10.1
OPBDIT/OI (%)	8.3%	7.6%
RoCE (%)	18.2%	18.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	1.9
Total Debt/OPBDIT (times)	2.0	2.1
Interest Coverage (times)	4.7	5.7
DSCR (times)	1.9	2.4

: 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); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2022)			Chronology of Rating History for the Past 3 Years		
			Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Feb 10, 2022	-	-	-
1	Term Loan	Long Term	23.90	23.90	[ICRA]BBB (Stable)	-	-	-
2	Cash Credit	Long Term	18.00	-	[ICRA]BBB (Stable)	-	-	-
3	Fund based	Short Term	38.00	-	[ICRA]A3+	-	-	-
4	Non-Fund based	Short Term	3.50	-	[ICRA]A3+	-	-	-
5	Unallocated	Long Term/Short Term	10.92	-	[ICRA]BBB (Stable)/[ICRA] A3+	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term - Fund based - TL	Very Simple
Long Term - Fund based - CC	Simple
Short Term - Fund based	Simple
Short Term – Non-Fund based	Simple
Long Term/Short Term - Unallocated	NA

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, is available on ICRA’s website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	O/s Rating and Outlook
NA	Long Term - Term Loan	July 2021	8.3%	FY2023	0.4	[ICRA]BBB (Stable)
NA	Long Term - Term Loan	July 2021	8.3%	FY2022	0.2	[ICRA]BBB (Stable)
NA	Long Term - Term Loan	July 2021	8.3%	FY2023	0.5	[ICRA]BBB (Stable)
NA	Long Term - Term Loan	July 2021	7.5%	FY2023	2.7	[ICRA]BBB (Stable)
NA	Long Term - Term Loan	July 2021	7.6%	FY2027	3.5	[ICRA]BBB (Stable)
NA	Long Term - Term Loan	July 2021	7.6%	FY2025	3.0	[ICRA]BBB (Stable)
NA	Long Term - Term Loan	December 2021	-	FY2023	0.3	[ICRA]BBB (Stable)
NA	Long Term - Term Loan	December 2021	7.0%	FY2022	9.7	[ICRA]BBB (Stable)
NA	Long Term - Term Loan	December 2021	8.4%	FY2023	2.1	[ICRA]BBB (Stable)
NA	Long Term - Term Loan	December 2020	12.3%	FY2022	0.1	[ICRA]BBB (Stable)
NA	Long Term - Term Loan	December 2020	12.5%	FY2023	0.3	[ICRA]BBB (Stable)
NA	Long Term - Term Loan	December 2020	12.3%	FY2023	0.8	[ICRA]BBB (Stable)
NA	Long Term - Term Loan	December 2020	12.3%	FY2023	0.2	[ICRA]BBB (Stable)
NA	Long Term - Term Loan	December 2020	12.3%	FY2022	0.1	[ICRA]BBB (Stable)
NA	Long Term - Cash Credit	July 2021	Repo + 3.4%	-	18.0	[ICRA]BBB (Stable)
NA	Short Term – Fund Based	December 2021	EBLR + 1.0%	-	38.0	[ICRA]A3+
NA	Short Term – Non-Fund Based	July 2021	-	-	3.5	[ICRA]A3+
NA	Unallocated	-	NA	-	10.92	[ICRA]BBB (Stable)/[ICRA]A3+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Rathna Speciality Tapes Pvt Ltd	100.0%	Full Consolidation

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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.

For more information, visit www.icra.in

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