

July 29, 2022

Commercial Syn Bags Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ CC	47.00	59.00	[ICRA]BBB+(Stable); reaffirmed
Long-term – Fund-based TL	28.26	40.97	[ICRA]BBB+(Stable); reaffirmed
Short-term - Non Fund-based	10.00	15.00	[ICRA]A2; reaffirmed
Long-term / Short-term - Unallocated	0.74	26.03	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed
Total	86.00	141.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings continue to favourably factor in the promoters’ extensive experience and the established position of Commercial Syn Bags Limited (CSBL) as a supplier of bulk packaging material in the global market. The ratings consider the ramp-up in scale in FY2023 led by the global polymer price rally. Higher proportion of value-added products, along with backward integration, is likely to augur well for the company’s profitability, going forward. The ratings also consider CSBL’s established customer base across various end-user industries, which insulates it from the risk of slowdown in any industry. Planned foray into the higher margin geo-technical textiles segment is expected to improve the revenue diversification. The ratings reaffirmation is also supported by the favourable demand prospects of the flexible intermediate bulk container (FIBC) bags industry in the domestic and international markets.

The ratings are, however, constrained by the expected increase in the external debt planned to be availed by the company for acquisition of geotextile assets of Neo Corp International Limited (NCIL), resulting in pressure on leverage and credit metrics in FY2023. However, with returns set to be generated from the fresh capacities, going forward, ICRA expects the same to moderate in the medium term. The ratings also factor in CSBL’s working capital-intensive operations with moderately high inventory holding requirements and the vulnerability of its profitability to the fluctuations in polypropylene (PP) granule prices. In FY2022, CSBL witnessed moderation in its profit margins due to increase in polymer prices and rising freight container costs. Further, the stiff competition in the fragmented packaging industry limits its pricing flexibility. These factors apart, CSBL’s scale remains moderate though the capacity expansion will support growth prospects.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA’s opinion that the company will continue to benefit from the planned capacity expansion, supported by the favourable demand prospects of the FIBC bags industry.

Key rating drivers and their description

Credit strengths

Extensive promoter experience and established track record in packaging industry – The promoters have over three decades of experience in the packaging industry. The company’s long operational track record has helped it establish strong business ties with its key customers and suppliers, resulting in repeat business from its major clients. In addition, CSBL is an appointed del credere associate cum consignment stockist (DCA/CS) for ONGC Petro Additions Limited (OPAL), which supports its revenue streams.

Diversified product profile and multiple end-user industry presence, foray into geotextile to further expand offerings – CSBL offers a diversified product range such as FIBC bags, woven sacks, tarpaulin and printed packaging, which find application in diverse end-user industries including cement, chemicals, agro-commodities, etc. Thus, the operations remain largely insulated from the risk of slowdown in any industry. Moreover, CSBL is expected to start production of 2 geotech products such as ground covers, primary carpet backing, etc., which find application in road construction, irrigation works and will further diversify the product portfolio.

Favourable demand outlook for FIBC in domestic and international markets – The demand outlook remains favourable for FIBC in both the domestic and international markets on the back of increased conversion from other forms of packaging, together with the rising demand from the end-user segments. The revenue contribution from the FIBC segment was more than 75% in FY2022 and it is likely to remain the key revenue driver for CSBL.

Credit challenges

Debt-funded acquisition of assets for foray into geotextile, benefits of which will accrue gradually, thus leading to pressure on return and coverage metrics for FY2023 – CSBL is acquiring the geotech assets of NCIL for a consideration of Rs. 30.51 crore. The acquisition will be financed through fresh equity from recent warrants conversion, internal accruals and bank funding in the form of term loans. The debt-funded capex is expected to exert pressure on the credit metrics. Thus, the company's ability to commence production in a timely manner and generate business for this new segment remains critical. In the medium term, geotech products are expected to improve the margin profile of CSBL in addition to scale expansion.

Moderate scale of operations in a highly fragmented and competitive industry though capacity expansion augurs well for growth prospects – CSBL continues to operate at a moderate scale, reflected in its operating income (OI) of Rs. 322 crore in FY2022, which limits economies of scale. The FIBC industry remains fragmented because of low entry barriers as capital and technology requirements are limited, the gestation period is small, and raw materials are easily available. This restricts substantial scale-up of operations and exerts pricing pressure on the players. However, the ongoing capex to foray into the geotextile segment will augment the revenues of CSBL. Geotextile being a higher value-addition product is set to help CSBL to differentiate itself in the face of stiff competition.

Susceptibility to fluctuations in raw material prices and forex to an extent, rising global ocean freight rates had put pressure on margins in FY2022 – Polypropylene (PP) granules is the key raw material required to manufacture FIBC bags. Any adverse movements in its prices that cannot be entirely passed on to customers may have a negative impact on the company's margins. The supply risks, however, are mitigated by CSBL's continuing relationships with vendors. While the company was able to pass on majority of the input cost escalations, the global surge in freight rates continued to put pressure on the margins in FY2022. ICRA notes that CSBL's gradual shift to FOB (Free On Board) from CIF (Cost Insurance Freight) for part of its business could ease the margin pressure. Further, around 71% of the total revenue is derived from exports, which exposes its margins to forex risks. However, the forex risk is significantly mitigated by its hedging practices implemented through forward contracts and foreign currency term loans.

High working capital intensity because of the company's large inventory-holding requirements – The company's operations remain working capital-intensive by nature due to high inventory holding, which can be attributed to its growing scale of operations and diverse product portfolio. In addition, rising prices resulted in high inventory levels. In FY2022, the company's utilisation of limits had remained high, however, moderated in Q1 FY2023 supported by equity infusion through warrants. Moreover, upcoming enhancement in its working capital facilities is expected to support the funding requirements.

Liquidity position: Adequate

The company's liquidity position is adequate, driven by the healthy annual cash accrual and supported by the recent equity infusion through share warrants. The average utilisation of fund-based working capital limits over the last 12 months ending in May 2022 stood at 53%, resulting in a moderate buffer in the drawing power. Further, while there will be an increase in the long-term debt availed by the entity, the repayment of additional loans will tentatively commence from Q4 FY2023. Cash accruals of CBSL from existing facilities are likely to be adequate for its future repayment obligations.

Rating sensitivities

Positive factors – ICRA could upgrade CSBL's ratings if it sustains its revenue growth, along with improvement in profitability and coverage indicators. An improved working capital cycle leading to improvement in liquidity could also trigger a rating upgrade. A specific credit metric that could lead to an upgrade is if Total Debt/OPBIDTA is less than 2 times, on a sustained basis

Negative factors – Pressure on the ratings will emerge if there is a lack of commensurate and timely returns from the ongoing capex impacting the financial profile and the overall liquidity position. Specific credit metrics that could lead to a downgrade include (i) Total Debt/OPBIDTA greater than 3 times (ii) interest coverage less than 3 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 CSBL and its 100% owned subsidiary CIPL

About the company

CSBL was incorporated in 1984 as a private limited company by Mr. Anil Choudhary and Mr. Mohanlal Choudhary. It was re-constituted to a closely held public limited company in 1993 and subsequently got listed on the SME platform of the Bombay Stock Exchange in July 2016. Subsequently, the company migrated to the BSE main platform in May 2019.

It manufactures bulk packaging materials including FIBC/jumbo bags, bulk bags, poly tarpaulin, woven sacks, box bags, PP/high density polyethylene (HDPE) fabrics and flexible packaging. The company has four manufacturing facilities at Pithampur, Indore (Madhya Pradesh) with a combined manufacturing capacity of 20,500 MTPA. In FY2018, CSBL commenced trading/agency business of plastic granules as a DCA cum CS of OPaL. The company also has a 1.0-megawatt (MW) solar power plant for captive consumption.

In August 2020, CSBL incorporated its 100% owned subsidiary, Comsyn India Private Limited. The subsidiary became operational in FY2022 and is involved in manufacturing HDPE fabrics, majority of which is captively consumed by CSBL in manufacturing FIBC bags. In July 2022, the company announced the acquisition of assets of NCIL for foraying into the geotech segment, which will diversify the product portfolio of CSBL and result in incremental revenue and margin once full-fledged production commences.

Key financial indicators (audited)

CSBL Consolidated	FY2021	FY2022 [^]
Operating Income (Rs. crore)	213.72	322.59
PAT (Rs. crore)	11.98	18.33
OPBDIT/OI (%)	11.45%	10.42%
PAT/OI (%)	5.61%	5.68%
Total Outside Liabilities/Tangible Net Worth (times)	1.50	1.10
Total Debt/OPBDITA (times)	3.52	2.50
Interest Coverage (times)	6.23	5.11

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation

[^]Based on limited audit data of CSBL (Consolidated)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2020	Date & Rating in FY2019	
									29-Jul-22
1	Cash credit	Long-term	59.00	40.98	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
2	Term Loans	Long-term	40.97	35.55	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
3	Non-fund based limits	Short-term	15.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	
4	Unallocated	Long-term/ Short-term	26.03	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash credit	Simple
Long-term Fund-based – Term Loan	Simple
Short-term Non Fund-based Limits	Very 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, are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	NA	-	59.00	[ICRA]BBB+(Stable)
NA	Term Loan I	FY2021	NA	FY2025	2.00	[ICRA]BBB+(Stable)
NA	Term Loan II	FY2021	NA	FY2025	4.26	[ICRA]BBB+(Stable)
NA	Term Loan III	FY2021	NA	FY2026	1.46	[ICRA]BBB+(Stable)
NA	Term Loan IV	FY2019	NA	FY2026	9.50	[ICRA]BBB+(Stable)
NA	Term Loan V	FY2019	NA	FY2023	0.29	[ICRA]BBB+(Stable)
NA	Term Loan VI	FY2021	NA	FY2028	4.50	[ICRA]BBB+(Stable)
NA	Term Loan VII	FY2021	NA	FY2026	2.60	[ICRA]BBB+(Stable)
NA	Term Loan VIII	FY2019	NA	FY2025	0.20	[ICRA]BBB+(Stable)
NA	Term Loan IX	FY2019	NA	FY2025	1.06	[ICRA]BBB+(Stable)
NA	Term Loan X	FY2019	NA	FY2025	15.10	[ICRA]BBB+(Stable)
NA	Non fund-based working capital limits	-	NA	-	15.00	[ICRA]A2
NA	Unallocated	-	NA	-	26.03	[ICRA]BBB+(Stable)/ [ICRA]A2

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	CSBL ownership	Consolidation Approach
Comsyn India Private Limited	100%	Full Consolidation

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 022 6114 3400
kinjal.shah@icraindia.com

Sheetal Sharad
+91 124 4545 308
sheetal.sharad@icraindia.com

Susovan Mondal
+91 124 4545 392
susovan.mondal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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