February 03, 2023

Vishal Containers Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Cash Credit	16.00	16.00	[ICRA]BBB(Stable); reaffirmed
Fund based – Term Loan	31.38	22.38	[ICRA]BBB(Stable); reaffirmed
Fund Based/ Non-fund Based – Working Capital Facilities	13.00	22.00	[ICRA]BBB(Stable)/[ICRA]A3+; reaffirmed
Total	**60.38**	**60.38**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings continues to factor in the extensive experience of Vishal Containers Limited's (VCL) promoters in the packaging industry, its reputed clientele base with history of repeat orders, and focus on value-added flexible packaging products targeted towards growing exports, which is expected to drive the revenues from FY2024 onwards. ICRA also favourably considers the company's comfortable capital structure and coverage indicators, with presence of interest-free unsecured loans that comprises a significant portion of its debt.

The ratings, however, remain constrained by the company's moderate scale of operations, vulnerability of the margins to volatility in raw material (mainly Kraft paper) prices, along with foreign exchange (forex) movements and risks associated with the timely completion of a new unit within the budgeted time and cost. The customer concentration risk also remains high as majority of VCL's revenues is derived from a single-customer group. ICRA also considers the company's presence in the fragmented and competitive industry, along with increasing working capital requirements on account of inflationary input-price regime.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that VCL is expected to maintain its business position, driven by proven experience of the promoters and healthy demand scenario of the packaging products.

Key rating drivers and their description

Credit strengths

Established presence and extensive experience of promoters in packaging industry – VCL's promoters have an experience of over three decades in the packaging industry. The company started its operations as a partnership firm in 1985, with a range of corrugated boxes and subsequently diversified its portfolio into flexible packaging. With the backward integration into poly-film plant in its flexible packaging division and environment-friendly recyclable packaging technology, the company is favourably placed to capture the increasing requirements in the packaging segment.

Established relationships with reputed customers – VCL caters to a wide range of industries such as tobacco, FMCG, food, beverages, and pharmaceutical. Over the years, the company has developed established relationships with its customers, which in turn ensures repeat orders.

Comfortable capital structure and coverage indicators – The company's capital structure was comfortable, marked by a gearing ratio of 0.86 times as on March 31, 2022. VCL's net worth was healthy at Rs.77.5 crore as on March 31, 2022, due to accretion of reserves over the years. Further, its interest coverage indicator improved to 7.56 times in FY2022 on the back of increase in the operating profits; however, the total debt/OPBDITA was 3.3 times in FY2022, given the rise in debt levels for the capital expenditure (capex). The total debt includes the interest-free unsecured loans from the promoters of Rs. 24.5 crore as on March 31, 2022, out of which Rs. 19.0 crore is subordinated to the lenders. The interest coverage moderated to 4.25 times in 9M FY2023 on account of inflationary input-cost regime, however, remained at healthy levels.

Credit challenges

Moderate scale of operations and high customer concentration risk – In FY2022, the company's operating income grew by 42% to Rs. 216.5 crore on a YoY basis. It has reported revenues of around Rs. 183 crore in 9M FY2023[1] (provisional). However, the scale will continue to be at moderate levels in FY2023, as it is expected to report sales in the range of ~Rs. 240-250 crore during the fiscal. Hence, scaling up of operations post the ongoing capex for a new unit, will be a key monitorable. VCL's operating profitability declined marginally to 9.3% in FY2022 from 10.5% in FY2021 and further declined to 8.1% in 9M FY2023. This is because of rising input-cost regime, amid fixed conversion-cost arrangement with the clients. VCL is predominantly a domestic player, with majority of its revenues (~45% in FY2022) derived from a single-customer group, the Baghban Group, which exposes it to customer concentration risk. However, the company is diversifying its customer profile by acquiring new customers in the domestic and export markets. The company's exposure to the top customer decreased to 45% in FY2022 from 69% in FY2019.

Risk associated with timely completion of new unit within projected costs and generate commensurate results – The company has planned capex of around Rs. 25 crore for setting up the new flexible packaging unit near its existing unit at Kalol, Gandhinagar. The capex will be funded through debt of Rs. 15 crore and the balance through internal accruals. The management expects to complete the capex by March/April 2023 and the same will lead to increase in the capacity by ~2400 tonnes per annum. The management plans to gradually shut operations at the old flexible packaging unit. The new unit will be equipped with machineries having the latest technology and is specially planned for catering to export demands. Hence, timely completion of the unit within the budgeted cost and generation of commensurate returns from the same will remain critical from credit perspective.

Susceptibility of profitability to volatile raw material prices and forex fluctuations – VCL's major raw materials include paper, duplex sheets, poly films and aluminium foil, which comprise ~50-60% of the total manufacturing cost. The raw material prices have remained volatile over the years, thus, any adverse movements in the input prices will impact the company's profitability. Further, VCL procures ~15%-30% of its raw material requirement through imports from China, South Korea, USA, Africa and the UAE, exposing it to fluctuations in forex prices.

Intense competition from organised and unorganised sectors – The business environment is competitive, given the fragmented and unorganised structure of the packaging industry. A large portion of the packaging industry is serviced by unorganised players, who cater to small-scale requirements of clients across various industries, while the remaining is dominated by a few major players. This limits the company's pricing flexibility and, thereby, exerts pressure on its profitability. However, VCL's established clientele mitigates the risk to some extent.

Liquidity position- Adequate

The company's liquidity has remained adequate, supported by the enhancement in total working capital limits (fund based and non-fund based) from Rs. 34 crore to Rs. 40 crore in November 2022. ICRA notes that the working capital requirements have increased for the entity, given the inflationary-price regime. The average utilisation of its fund-based working capital limits for the last 12 months remained at 46%. The company has repayment obligations of ~Rs. 8-9 crore during FY2023-FY2025, which are expected to be adequately funded by internal accruals. Further, interest-free promoters' loans of Rs. 24.5 crore (as on March 31, 2022) support its liquidity profile, out of which Rs. 19 crore is subordinated to the bank.

[1] *(FY refers to period of April to March)*

Rating sensitivities

Positive factors – ICRA could upgrade VCL's ratings, if any significant ramp-up in scale and profitability leads to healthy cash accruals, on a sustained basis. Additionally, efficient working capital management resulting in improvement in its liquidity profile may also lead to an upgrade.

Negative factors – Pressure on the company's ratings could arise, if there is any substantial decline in VCL's scale of operations or profitability, leading to weakening of coverage metrics, on a sustained basis. Any cost or time overruns related to the recently planned debt-funded capex or stretch in working capital cycle adversely impacting its liquidity profile or other credit metrics can also exert pressure on the ratings. A specific credit metric for a negative trigger is if interest coverage is below 3.5 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

VCL was established as a partnership firm in 1985 by Mr. Arvind Patel and subsequently converted to a private limited company in 2004 and further to a closely held company in 2008. It started operations by manufacturing three-ply and five-ply corrugated boxes, before foraying into flexible packaging products such as laminated films and pouches in 2006. The company's manufacturing facility is at GIDC Kalol in Gandhinagar, with an installed manufacturing capacity of 30,000 MTPA of corrugated boxes and 14,400 MTPA of flexible packaging. The company has plans to set up a new manufacturing unit of flexible packaging with a projected capex of Rs. 25 crore and it is expected to commence from March/April 2023.

Key financial indicators-Standalone

	FY2021	FY2022	9MFY23P*
Operating income	152.4	216.5	183.4
PAT	4.8	8.0	7.6
OPBDIT/OI	10.5%	9.3%	8.1%
PAT/OI	3.2%	3.7%	4.2%
Total outside liabilities/Tangible net worth (times)	1.5	1.5	1.3
Total debt/OPBDIT (times)	3.6	3.3	3.5
Interest coverage (times)	4.0	7.6	4.3

**Provisional*

Status of non-cooperation with previous CRA: As per CRISIL rationale dated May 19,2022, the ratings on bank facilities of VCL stands at 'CRISIL B/Stable/CRISIL A4; ISSUER NOT COOPERATING'.

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 Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 03 2023	Feb 21, 2022	Nov 30, 2020	May 31, 2019
1	Fund based Cash Credit	Long Term	16.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Fund based-Term Loan	Long Term	22.38	22.38	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Fund based/Nonfund Based-Working Capital Facilities	Long Term/ Short Term	22.00	-	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB(Stable)/ [ICRA]A3+	-	-
4	Non-fund Based-Bank Guarantee	Short Term			-		[ICRA]A3+	[ICRA]A3+
5	Unallocated Limits	Long Term/ Short Term			-		[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-Term Fund Based- Cash Credit	Simple
Long-Term Fund Based- Term Loan	Simple
Long-Term/ Short-Term - Fund based/Non-fund Based – Working Capital Facilities	Simple

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	16.00	[ICRA]BBB (Stable)
NA	Term Loan	2019-2022	NA	2024-2027	22.38	[ICRA]BBB (Stable)
NA	Working capital facilities	NA	NA	NA	22.00	[ICRA]BBB(Stable)/[ICRA]A3+

Source: Company

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

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

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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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