March 28, 2023

Big Bags International Pvt Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	36.50	32.00	Rating reaffirmed at [ICRA]A (Stable)
Long-term – Unallocated	13.50	18.00	Rating reaffirmed at [ICRA]A (Stable)
Long-term Fund-based facilities – Sub-limit	(50.00)	(26.00)	Rating reaffirmed at [ICRA]A (Stable)
Short-term Fund-based Facilities	100.00	100.00	Rating reaffirmed at [ICRA]A1
Short-term Fund-based Facilities – Sub-limit	(152.00)	(152.00)	Rating reaffirmed at [ICRA]A1
Short-term Non-fund Based facilities – Sub-limit	(72.00)	(72.00)	Rating reaffirmed at [ICRA]A1
Total	**150.00**	**150.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings favourably factor in Big Bags International Pvt Ltd's (Big Bags) established presence in the flexible intermediate bulk container (FIBC) industry with an established customer base across various end-user industries, insulating it from the risk of slowdown in a specific industry. Big Bags is expanding its manufacturing capacity to 21,000 MTPA from 16,800 MTPA at an estimated cost of ~Rs. 50 crore, which would support its revenue growth over the medium term. The ratings consider Big Bags's comfortable financial profile characterised by healthy margins given its demonstrated ability to pass on raw material price fluctuations to its customers, and healthy debt protection metrics with gearing of 0.5 times, DSCR of 3.5 times, and interest coverage ratio of 14.3 times in 9M FY2023.

The ratings are, however, constrained by Big Bags's relatively moderate scale of operations which has been further impacted in 9M FY2023 by global demand slowdown owing to inflationary pressures, Russia-Ukraine conflict and energy crisis in Europe. ICRA expects Big Bags to record 15-20% revenue de-growth in FY2023; however, its margins are expected to remain healthy at 16-17%. Further, with the top five customers contributing to ~80% of its export revenues, Big Bags faces customer concentration risks; however, ICRA notes that end customer base is diversified. The ratings also factor in the working capital-intensive nature of its operations due to high inventory holding requirements. The ratings consider the exposure of profitability to fluctuations in polypropylene granules (key raw material) prices and foreign currency exchange rates (because of high proportion of export sales in its revenue mix). However, Big Bags has so far been able to pass on increase in raw material prices to its customers.

The Stable outlook reflects ICRA's belief that the company will benefit from strong relationship with its customers and will continue to maintain earnings and comfortable debt metrics.

Key rating drivers and their description

Credit strengths

Extensive experience in FIBC industry and diversified revenue base – The company's promoters have significant experience in the FIBC industry and enjoy strong relationships with customers across various industries such as pharmaceutical, raw foods, processed foods, construction, chemicals, and defence industries. Big Bags sells its products through distributors/dealers. However, the diversified end-user industry base, insulates it from the risk of slowdown in any particular industry.

Comfortable debt protection metrics – The company's debt protection metrics remained strong as indicated by gearing of 0.5x and DSCR of 3.5x as on 9M FY2023. The company is expected to incur capex of Rs. 10-15 crore in FY2023 and does not have any major capex planned over the next 12-18 months. Its debt protection metrics are expected to continue to remain healthy going forward, despite potential share buyback programmes.

Capacity additions to drive growth in scale and earnings – Big Bags has invested over Rs. 50 crore to increase its manufacturing capacity by 25% to 21,000 MTPA. This has been financed partially by internal accruals, and partially by a term loan of Rs. 38 crore. The enhanced capacity is expected to be fully operational in by Q1 FY2024, enabling the company to scale up its volumes.

Credit challenges

Moderate scale of operations in highly fragmented and competitive industry amidst subdued export demand; working capital intensive nature of operations – Big Bags continues to operate on a moderate scale with an operating income (OI) of Rs. 452.7 crore in FY2022. Further, the company's revenue is expected to witness 15-20% contraction in FY2023 (Rs. 271 crore in 9M FY2023) owing to subdued demand from key export destinations such as USA, Europe, and Australia owing to inflationary pressures and energy crisis in Europe impacting production in key end user industries. However, despite moderation in scale, the company's margins are expected to remain healthy at 16-17% as it has passed on increased raw material costs to its customers, especially in 9M FY2023. ICRA expects Big Bags's revenue to recover by 8-10% in FY2024 on the back of improving demand from its existing customers. Further, capacity additions are also expected to drive growth in scale over the medium term.

Vulnerability of profitability to fluctuations in raw material prices and foreign currency exchange rate – Polypropylene granules are the key raw material needed to manufacture FIBC bags. Hence, the company's profitability remains exposed to fluctuations in its prices, which in turn depend on the price of crude oil. It enters into cost plus margin contracts with its customers, mitigating the impact of fluctuating raw material costs to an extent. Big Bags is exposed to fluctuations in foreign currency exchange rates because of high proportion of export sales in its revenue mix. However, the company hedges its receivables partially, mitigating the risk to an extent.

Customer concentration risk with top 5 customers contributing to ~80% of sales; however, end customer base is diversified - The top five customers contributed to ~80% of the company's export revenues in 9M FY2023. However, it has an established relationship with customers spanning over two decades, which provides stability to its top line. Big Bags's direct customers are distributors who sell to various end customers. The end customers would include players in pharmaceutical, raw foods, processed foods, defence, chemicals and construction industries.

Liquidity position: Adequate

BBIPL has debt repayment obligations of Rs. 11.9 crore in FY2024 with minimal capex plans over the next 12 months. Against these obligations, it had free cash and bank balance of ~Rs. 38 crore as on December 31, 2022 and unutilized working capital balance of ~Rs. 30 crore as on January 31, 2023. It is expected to generate retained cash flows of Rs. 30-40 crore in FY2024. Overall, liquidity remains adequate.

Rating sensitivities

Positive factors – ICRA could upgrade Big Bags's ratings if the company demonstrates a significant improvement in scale while sustaining its earnings and debt protection metrics.

Negative factors – Negative pressure on Big Bags's ratings could arise from any sharp contraction in earnings or any large debt-funded capex which impacts its debt indicators. Specific credit metrics which could result in downgrade include Net Debt/OPBITDA > 2 times on a sustained basis. Any material stretch in working capital cycle or sizeable payouts to shareholders affecting the company's liquidity position could also impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Big Bags was incorporated in 2000 and headquartered in Mangalore (India). It is an ISO 9001:2015, FSSC 22000, BRC certified company primarily involved in manufacturing of FIBC bags with a production capacity of 21,000 MTPA. It exports to over 35 countries from 5 continents. The company's infrastructural facilities include extrusion, circular looms, Sulzer fabric looms, lamination plants, lifting belts, fabric cutting facilities, four-colour printing, PE Liner, and bag finishing. It has implemented hazard analysis critical control point (HACCP) in its clean room facility.

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income	350.2	452.7
PAT	31.8	38.4
OPBDIT/OI (%)	16.6%	13.9%
PAT/OI (%)	9.1%	8.5%
Total outside liabilities/Tangible net worth (times)	1.0	0.9
Total debt/OPBDIT (times)	1.8	1.7
Interest coverage (times)	16.0	21.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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 Dec 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Mar 28, 2023	Mar 30, 2022	April 06, 2021	-	-
1	Term Loans	Long-term	32.00	32.0	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)		
2	Unallocated	Long-term	18.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)		
3	Fund-based facilities – sub-limit	Long-term	(26.00)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)		
4	Short-term fund-based facilities	Short-Term	100.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1		
5	Short-term fund-based	Short-Term	(152.00)	-	[ICRA]A1	[ICRA]A1	[ICRA]A1		

	facilities – sub-limit								
6	Short-term non-fund based facilities – sub-limit	Short-Term	(72.00)	-	[ICRA]A1	[ICRA]A1	[ICRA]A1		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term - Unallocated	Not Applicable
Long-term Fund-based facilities – Sub-limit	Simple
Short-term Fund-based Facilities	Very Simple
Short-term Fund-based Facilities – Sub-limit	Very Simple
Short-term Non-fund Based facilities – Sub-limit	Very 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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan 1	FY2019		FY2024	2.00	[ICRA]A (Stable)
NA	Term Loan 2	FY2021		FY2026	30.00	[ICRA]A (Stable)
NA	Unallocated – Long Term	-		-	18.00	[ICRA]A (Stable)
NA	Cash Credit (sublimit)				(26.00)	[ICRA]A (Stable)
NA	Export Credit – PCFC/EPC				60.00	[ICRA]A1
NA	PCL/PCFC				40.00	[ICRA]A1
NA	Post Shipment Finance (sublimit)				(60.00)	[ICRA]A1
NA	FDBP/FUBP/EBRD (sublimit)				(40.00)	[ICRA]A1
NA	Working Capital Demand Loan (sublimit)				(30.00)	[ICRA]A1
NA	Buyers Credit (sublimit)				(22.00)	[ICRA]A1
NA	BG (sublimit)				(25.00)	[ICRA]A1
NA	LC (sublimit)				(47.00)	[ICRA]A1

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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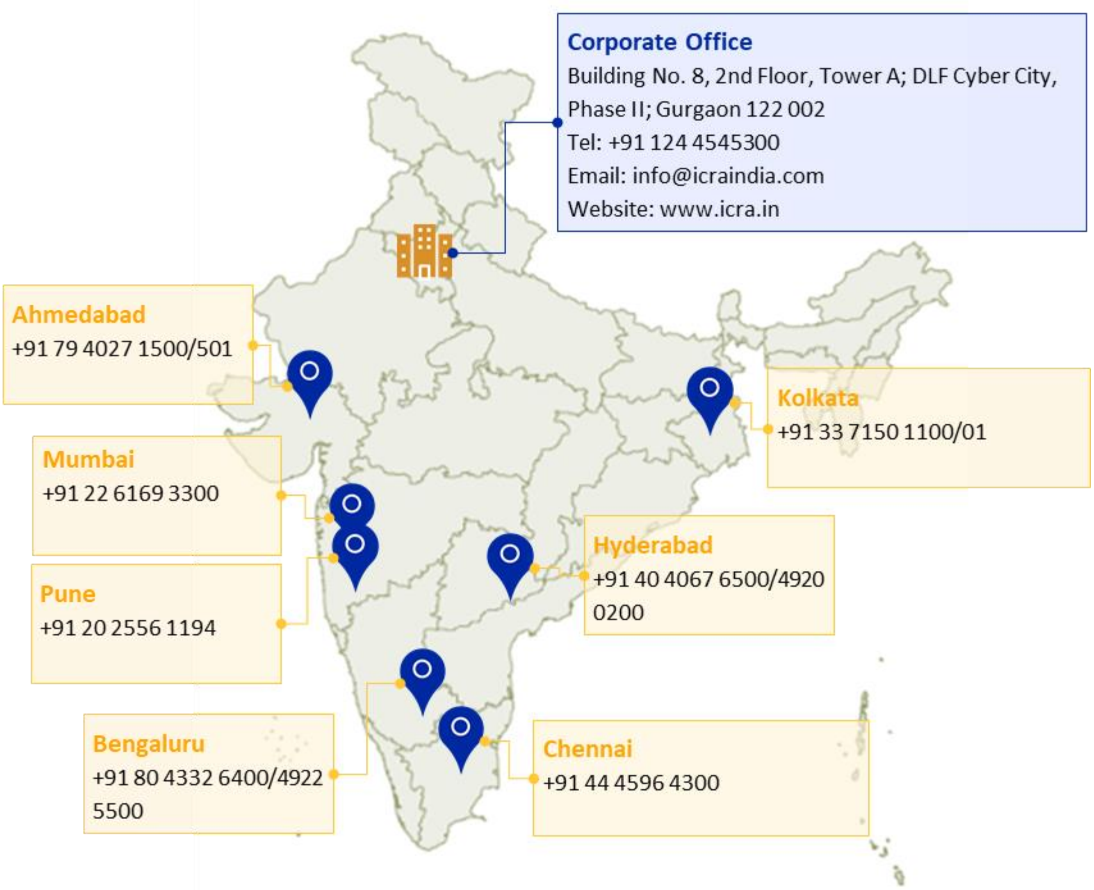

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