June 23, 2023

Synthetic Packers Private Limited: Ratings upgraded to [ICRA]BBB+(Stable) and [ICRA]A2; outlook revised to Stable from Positive and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	13.50	15.50	LT rating upgraded to [ICRA]BBB+ from [ICRA]BBB; Outlook revised to Stable from Positive.
Long-term – Fund-based – Term Loan	5.75	20.80	LT rating upgraded to [ICRA]BBB+ from [ICRA]BBB; Outlook revised to Stable from Positive.
Short-term – Non-fund Based	16.92	21.10	ST rating upgraded to [ICRA]A2 from [ICRA]A3+
Long-term/Short-term – Unallocated	3.33	11.10	[ICRA]BBB+/[ICRA]A2 upgraded from [ICRA]BBB/[ICRA]A3+; Outlook revised to Stable from Positive
Total	**39.50**	**68.50**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade factors in the expected improvement in Synthetic Packers Private Limited's (SPPL) credit profile on the back of sustained scale-up in revenues and earnings, supported by healthy domestic demand and improved share of higher margin products, leading to improved financial profile. Despite moderation in the export demand, the company's revenues have been driven by healthy demand from the domestic market as the share of sales from the domestic market increased to ~93% in FY2023 from 68% in FY2022. Domestic revenues are expected to witness healthy growth given demand from FMCG, food products, e-commerce and other sectors. Moreover, SPPL is undertaking capacity expansion to install two extruders, which would enable it to increase the share of value-added products, going forward. The ratings also consider SPPL's long track record in the flexible packaging industry and its established relationships with a diversified and reputable customer base, translating into repeat orders. ICRA notes that demand prospects for the flexible packaging industry remain favourable, driven by a growing population, consumerism, and retail penetration.

The ratings, however, are constrained by SPPL's moderate scale of operations with revenues of Rs. 349.4 crore at a revenue growth of 32.7% against Rs. 263.3 crore in FY2022. While ICRA expects the company to record 8-12% growth in revenues and operating profit margins to be in the range of 6-8% in FY2024. SPPL is expected to remain a moderate sized player in a highly fragmented industry characterised by stiff competition from organised and unorganised players. Moreover, SPPL's margins remain vulnerable to fluctuations in raw material prices that are linked to crude oil prices and fluctuations in exchange rates as it imports 70-75% of its raw material requirement.

The Stable outlook on SPPL's ratings reflects ICRA's opinion that the company's revenue and profit growth would be supported by healthy demand for poly ethylene (PE) films.

Key rating drivers and their description

Credit strengths

Extensive experience of the company – The company has four decades of experience in the packaging industry, including established relationships with various customers and suppliers. Further, SPPL's ability to introduce a wide range of products for its customers' varying requirements aids its business growth.

Diversified and reputed customer base of multinational companies – The company enjoys extensive association of more than 15 years with its customers, resulting in repeat orders that have supported its revenue growth. It supplies its products to reputed companies such as Amazon Seller Services, MTR Foods Private Limited, Signode India Limited, and Bulk Packaging Private Limited, among others. Further, SPPL's product line of poly films and other flexible packaging items is well-diversified and caters to various industries such as packaging, consumer packaged goods, pharmaceuticals, e-commerce and logistics, limiting its exposure to downturns in any industry.

Comfortable financial profile – The company's financial profile is healthy, characterised by comfortable capital structure with a gearing of 0.2 time as on March 31, 2023, and healthy debt metrics with interest coverage of 6.7 times, total debt/OPBDITA of 0.9 time, and DSCR of 6.7 times in FY2023. Despite the debt-funded capex plans for the near term, its capital structure and debt protection metrics are expected to remain comfortable.

Favourable long-term demand prospects for packaging industry – The demand for the industry is favourable, driven by a growing population, increase in disposable incomes, consumerism, spending patterns and retail penetration.

Credit challenges

Moderate scale of operations – The company's scale remains moderate despite the strong healthy growth in revenues of over 30% in FY2023, which was partly on account of higher trading sales. Further, it faces stiff competition from several players, which limits its pricing flexibility and bargaining power with customers. SPPL's revenues are expected to witness healthy growth of 8-12% in FY2024 given the healthy demand and improved realisations. The company has plans to install two extruders to manufacture packaging sheets for food and industrial packaging, which will have a higher shelf life, at a project cost of Rs. 25.0 crore. This is to be funded through Rs. 17.0 crore of term loan and Rs. 8.0 crore of internal accruals. The company would increase its existing ~19,800 MT of installed manufacturing capacity by 7,000–8,000 MT. These newly manufactured products are expected to command higher margins, which would support growth in earnings.

Profitability remains susceptible to volatility in raw material prices – The company's major cost is raw material, which typically varies at 80-85% of the OI. This exposes its profitability to fluctuations in polymer prices. The raw material, polymers, is a derivative of crude oil and, hence, its prices are volatile. Going forward, the margins are likely to improve as the company is planning to increase the share of higher margin products.

Vulnerability to volatile forex rates with high dependence on imports for sourcing raw materials – The company is exposed to foreign currency risks due to its high import dependence for procuring raw materials.

Liquidity position: Adequate

The company's liquidity position is adequate with a buffer of Rs. 8.0–9.0 crore in working capital limits, free cash and bank balance of Rs. 1.6 crore and healthy retained cash flows of Rs. 14.0–18.0 crore against repayment obligations of Rs. 5.0–5.5 crore in FY2024. The company would incur Rs. 25.0 crore capex in FY2024 and FY2025 towards addition of two extruders, expected to be funded through a mix of term loan and debt. The company had undrawn term loans of up to Rs. 17.0 crore, as on May 31, 2023, to fund its expansion.

Rating sensitivities

Positive factors – The company's ratings could be upgraded if it demonstrates a substantial improvement in revenue and profitability leading to improved net worth position aided by accretion to reserves. Further, better working capital management resulting in an improved liquidity position remains critical for a rating upgrade.

Negative factors – Negative pressure on the company's rating 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 rating downgrade include interest cover of less than 4.0 times. Further, any significant capex or stretch in working capital cycle adversely impacting the liquidity profile might also result in a rating downgrade.

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 company's standalone financial profile.

About the company

Established in 1981, SPPL manufactures poly film products, including packaging films, lamination films, shrink films, zip lock bags, tamper proof pouches and wide width films. The company started its operations with a monolayer extruder with an installed manufacturing capacity of 200 tonne per annum (TPA). Over the years, SPPL has grown to its present capacity of 18,202 TPA. SPPL has a reputed client base, including several national and multinational companies. It is headquartered in Bangalore, with its manufacturing facilities at Peenya Industrial Area, Bangalore.

Key financial indicators (audited)

	FY2022	FY2023*
Operating income	263.3	349.4
PAT	7.9	7.3
OPBDIT/OI	6.2%	5.2%
PAT/OI	3.0%	2.1%
Total outside liabilities/Tangible net worth (times)	0.8	0.7
Total debt/OPBDIT (times)	1.4	0.9
Interest coverage (times)	8.0	6.7

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					June 23, 2023	August 12, 2022	July 30,2021	-
1	**Fund based – Cash Credit**	Long Term	15.50	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Positive)**	**[ICRA]BBB (Positive)**	-
2	**Fund based – Term Loan**	Long Term	20.80	3.80	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Positive)**	**[ICRA]BBB (Positive)**	
3	**Non fund based**	Short Term	21.10	-	**[ICRA]A2**	**[ICRA]A3+**	**[ICRA]A3+**	
4	**Unallocated**	Long Term/ Short Term	11.10	-	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	**[ICRA]BBB (Positive)/ [ICRA]A3+**	**[ICRA]BBB (Positive)/ [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
Short Term – Non Fund based	Very Simple
Long Term/Short Term – Unallocated	Not Applicable

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	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Cash Credit**	-	-	-	15.50	[ICRA]BBB+ (Stable)
NA	**Term Loan**	Oct 2020	-	Jun 2028	20.80	[ICRA]BBB+ (Stable)
NA	**Non-fund based**	-	-	-	21.10	[ICRA]A2
NA	**Unallocated**	-	-	-	11.10	[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 – 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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