

October 09, 2023<sup>(Revised)</sup>

## Shriji Polymers India 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 – Cash credit	91.00	121.00	[ICRA]A+ (Stable); reaffirmed/ assigned for the enhanced amount
Long-term fund based - Term loan	73.97	32.28	[ICRA]A+ (Stable); reaffirmed
Long-term non fund based - Others	20.00	20.00	[ICRA]A+ (Stable); reaffirmed
Long-term/short-term - Unallocated	4.75	-	-
Short-term non-fund based - Others	67.50	115.10	[ICRA]A1; reaffirmed/ assigned for the enhanced amount
<b>Total</b>	<b>257.22</b>	<b>288.38</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings reaffirmation of Shriji Polymers India Limited (SPIL) factors in ICRA's opinion that its credit risk profile will remain comfortable going forward, characterised by consistent scaling up of revenues with healthy return metrics amid an improving pharmaceutical industry outlook. ICRA also notes the recent acquisition of Parekhplast India Limited (PIL) by SPIL, which is expected to bring in business diversification, coupled with impetus to the overall earnings of the company. PIL primarily caters to the paints industry, being a key vendor to Asian Paints Limited and is expected to add to the reputed client base of the company at a consolidated level. While the acquisition will lead to moderation in credit metrics in the near to medium term, ICRA expects a subsequent improvement on the back of synergistic gains and paring down of PIL's term debt with ongoing repayment. The ratings continue to derive comfort from SPIL's healthy market position as a leading domestic supplier of rigid packaging to the pharmaceutical sector amid high entry barriers for entities in this segment, due to stiff compliance requirements. The ratings are further supported by SPIL's reputed and diversified customer base and the proximity of many of its plants to its key clients. The extensive experience of the promoters who have been involved in the packaging industry for more than three decades provide further comfort.

The ratings, however, continue to be constrained by SPIL's high working capital intensity on account of the elevated inventory levels, which are maintained for meeting just-in-time demand from clients. In addition, high receivables driven by high credit periods offered to the clients also contribute to high working capital intensity. The ratings are further constrained by the vulnerability of SPIL's profitability to fluctuations in raw material prices, which are largely driven by global crude prices, and foreign exchange rates as most of the raw materials are imported, and direct exports are limited; albeit most escalations are passed on to end consumers with a time lag. The newly acquired entity PIL has relatively lower-margin profile. Further, SPIL's business is indirectly exposed to the regulatory risks in the pharmaceutical sector and the need to maintain manufacturing standards as well as customer specifications.

The Stable outlook on the long-term rating reflects ICRA's expectations that SPIL will continue to expand its scale of operations, while maintaining healthy profitability levels and will further augment its earnings with the recent PIL acquisition. Any major debt addition plans and impact on the credit profile will be key rating monitorables.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of promoters in the rigid packaging industry** – The promoters have been involved in the packaging business for more than 30 years with different entities in the production of corrugated boxes, polyethylene terephthalate (PET) bottles, high-density polyethylene (HDPE) containers and poly propylene (PP) caps. The company has demonstrated its ability to maintain quality and, thus, enjoys established relationships with various reputed pharmaceutical players, which helps it to increase its scale of operations.

**Benefits from recent acquisition of PIL**– SPIL's acquisition of majority stake in PIL in December 2022 is expected to result in healthy scale up of revenues, going forward. The acquisition of PIL, which is largely focused towards the paints sector, has also resulted in dilution in sectoral concentration risk, which was high for SPIL as its entire revenues were being generated from the pharma segment. This apart, the operational and financial synergies as part of SPIL's strategy are expected to result in earnings and gradual return metrics improvement. The ability of the management to implement the same within the expected timespan and realise desired benefits remains crucial.

**High entry barriers due to stiff compliance requirements** – SPIL received the United States Foods and Drug Administration (USFDA) approval for Drug Master File (DMF) Type III (Packaging Material) in 2006. The requirements of filing the DMF with the USFDA are stringent and the process is time consuming. Additionally, its manufacturing facilities stand in proximity to its key clients and are also required to be regularly audited by them. All these factors create high entry barriers and necessitate sizeable investment in plant and machinery to adhere to the USFDA guidelines. PIL also has a long track record of supplying its key client with plants being in vicinity of the client, which acts as a competitive advantage.

**Established relationship with reputed pharmaceutical players; improving customer diversification with addition of key player in paints industry** – SPIL was among the first pharmaceutical packaging manufacturers to receive the DMF Type III approval in India. Consequently, it had an early-mover advantage and was able to establish strong relationships with suppliers and customers. The company has been dealing with various reputed pharmaceutical companies such as Lupin Limited, Dr. Reddy's Laboratories Limited, Glenmark Pharmaceuticals and Sun Pharmaceutical Industries Ltd., for several years and has been continuously diversifying its customer base. The company is also expected to improve its presence in the Chinese pharmaceutical market. Given the compliance requirements and high-quality standards, there is a stickiness with its customers, making it challenging for new players to become a part of the existing supply chain in the pharmaceutical export industry, over a relatively shorter time span. Through the recently acquired PIL, the company has added another reputed client i.e., APL, resulting in further client diversification.

**Comfortable financial risk profile despite moderation in return metrics given acquisition of relatively lower-margin business** – SPIL witnessed a revenue growth of ~17% in FY2023, led by improved realisations in its pharma business and addition of PIL's revenues. The pharma business was facing demand slowdown in line with the industry scenario in FY2023 but has been showing encouraging signs of a healthy revival in the current fiscal. SPIL has been maintaining healthy operating profit margins in this segment however, on a consolidated basis, margins are expected to moderate. This apart, while capital structure remained comfortable as characterised by gearing of 0.44 times as on March 31, 2023, the company's TD/OPBDITA moderated in FY2023 with only partial earnings of PIL. PIL has sizeable debt repayments and thus, moderate debt coverage metrics. With improvement in operating efficiencies on a consolidated basis, SPIL's leverage and coverage indicators are expected to gradually improve. The same will also be supported on the back of returns ramp-up recently concluded and ongoing capex and absence of any major debt addition plans.

### Credit challenges

**High working capital intensity due to raw material inventory maintenance and high receivable period** – The company's working capital intensity remained ~38-43% during the past couple of years due to the increase in the inventory holding period and liberal credit terms for customers, as prevalent in the sector. SPIL maintains at least 60-70 days of raw material inventory

and one month of finished goods inventory. SPIL manufactures more than 200 different kinds of bottles and caps for different customers, whose demands are diverse as well as erratic. Apart from that, it maintains a higher inventory of raw material to reduce the supply shock risks, given the imported nature of components. In FY2023, the working capital indicators, particularly receivables and inventories remained moderately high on account of relaxed credit terms and largely inventory requirements. However, the associated funding requirement has remained largely internally funded owing to healthy cash accruals. Going forward, the working capital intensity is expected to remain rangebound.

**Exposed to fluctuations in supply and price of principal raw materials** – The company remains exposed to raw material price and foreign exchange rate fluctuation risks. Nonetheless, SPIL typically mitigates these risks by passing on the price rise to its end customers. The company also uses the hedging mechanism to cover the volatility in foreign currency for its imports. PIL’s business having a relatively lower margin profile, ability of the company to pass on effectively manage its cost structure to attain desired earnings growth will be key.

**Pharmaceutical industry exposed to regulatory risks** – The pharmaceutical industry, SPIL’s key end-user industry, is exposed to regulatory risks in developed markets, related to patent challenges, product launches and manufacturing facilities/processes. SPIL falls under the USFDA DMF’s Type III category, where only approvals from customers are required and the company has not faced any challenges during customer’s audit till date. SPIL’s ability to maintain global manufacturing standards and customer specifications remain crucial.

### Liquidity position: Adequate

SPIL’s liquidity position is adequate, on account of the cushion available in working capital limit (with undrawn limit of Rs. 67 crore as on March 31, 2023) and sufficient cash generation from business to manage its working capital requirement and consolidated term debt repayment obligations (~Rs. 32 crore in FY2024.). The company also had free cash levels of Rs. 15 crore as on March 31, 2023 (on a consolidated basis). While the company has moderate capex plans and upcoming payment for PIL balance stake acquisition, majority of it is expected to be internally funded. This apart, the company is availing Rs. 15 crore of additional working capital in the subsidiary PIL, which will further aid the liquidity. The company also utilises buyers credit limits to fund its working capital requirements, as and when required.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings, if there is a sustained increase in SPIL’s revenues and earnings, resulting in improved credit and liquidity profile, on a sustained basis.

**Negative factors** – Pressure on SPIL’s ratings could arise, in case there is a material decline in earnings, or a higher-than-anticipated debt-funded capex results in a leveraged capital structure and moderation in debt coverage indicators, on a sustained basis. Additionally, Debt/OPBDIT of more than 1.5 times on a sustained basis, could result in a rating downgrade.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SPIL. The list of consolidated companies is shared in Annexure-2.

### About the company

SPIL manufactures high-density polyethylene (HDPE) containers/ bottles and polypropylene (PP) caps/ closures for packaging pharmaceutical products, which are exported primarily to regulated markets such as the US, Canada and China by the company’s clients. SPIL is a Drug Master Files (DMF) holder of the USFDA, Canadian FDA and Chinese FDA. It is an ISO (15378,

9001 & 13485) certified pharma packaging company. The company's manufacturing facilities are in Ujjain (Madhya Pradesh), Pithampur SEZ (Madhya Pradesh), Goa, Hyderabad, Baddi (Himachal Pradesh), Ahmedabad, China and the US, with a combined annual plant capacity of ~20,721 MTPA as on March 31, 2022, which further increased to total annual capacity of ~21,165 MTPA as on March 31, 2023.

In December 2022, SPIL acquired 76.67% in PIL and is further expected to acquire remaining stake by the end of current fiscal year. PIL is also a rigid packaging manufacturer, which is largely catering to paints industry, followed by foods, pharmaceuticals etc.

#### Key financial indicators (audited/provisional)

SPIL Consolidated	FY2021	FY2022	FY2023*
Operating income	445.3	479.7	558.9
PAT	78.5	68.7	59.6
OPBDIT/OI	35.8%	30.3%	27.5%
PAT/OI	17.6%	14.3%	10.7%
Total outside liabilities/Tangible net worth (times)	0.4	0.4	0.6
Total debt/OPBDIT (times)	0.7	0.8	1.6
Interest coverage (times)	23.2	23.2	15.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs crore; \* Provisional, includes PIL's profit and loss consolidation from Dec 2022 to Mar 2023.

#### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

#### Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
				Oct 09, 2023	Dec 19, 2022	Jul 28, 2022	Jul 08, 2021	-	
1 Cash credit	Long term	121.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	-	
2 Term Loans	Long term	32.28	41.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	-	
3 Non fund-based facilities	Long Term	20.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	-	
4 Non-fund Based facilities	Short term	115.10	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	
5 Non Fund based facilities	Long term/ Short Term	-	-	-	-	-	[ICRA]A (Positive)/ [ICRA]A1	-	
6 Unallocated	Long term/ Short Term	-	-	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Positive)/ [ICRA]A1	-	

Source: Company

## 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 Non Fund Based – Others	Very Simple
Short Term Non Fund Based – Others	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	121.00	[ICRA]A+ (Stable)
NA	Term Loans	FY2014	NA	FY2026	32.28	[ICRA]A+ (Stable)
NA	Non fund-based facilities	-	-	-	20.00	[ICRA]A+ (Stable)
NA	Non-fund Based facilities	-	-	-	115.10	[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**

Company Name	Ownership	Consolidation Approach
<b>Direct Subsidiary</b>		
Four M Propack Private Limited	100.00%	Full Consolidation
Shriji LLC	90%^	Full Consolidation
Parekhplast India Limited	76.67%	Full Consolidation*
<b>Joint Venture</b>		
Shriji Polymers (Hubei) Limited	49.00%	Proportionate Consolidation

Source: Company; \* from FY2023 onwards, ^remaining 10% through subsidiary Four M Propack Private Limited

**Corrigendum**

**Rationale dated October 09, 2023 has been revised with following changes as below:**

On page 4, Total Debt/OPBDIT numbers have been updated for FY2021, FY2022 and FY2023 as 0.7, 0.8 and 1.6 times instead of 1.0, 0.7 & 0.8 respectively.

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### Branches



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