November 29, 2023

# Canpac Trends Pvt. Ltd.: Ratings reaffirmed; Outlook revised to Positive

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long Term – Fund Based – Term Loans | 112.51 | 96.54 | [ICRA]BBB; reaffirmed; Outlook revised to Positive from Stable |
| Long Term – Fund Based – Cash Credit/WCDL/Invoice Discounting | 80.00 | 80.00 | [ICRA]BBB; reaffirmed; Outlook revised to Positive from Stable |
| Long-term Fund based – Cash Credit | (11.00)* | (11.00)* | [ICRA]BBB; reaffirmed; Outlook revised to Positive from Stable |
| Short Term – Non-Fund Based – Letter of Credit, Bank Guarantee & Credit Exposure Limit | 22.37 | 22.37 | [ICRA]A3+; reaffirmed |
| Short Term – Non-Fund Based – Letter of Credit | (11.00)* | (11.00)* | [ICRA]A3+; reaffirmed |
| **Total** | **214.88** | **198.91** | |

** Instrument details are provided in Annexure-1; *Sub-limit of invoice discounting*

## Rationale

The revision in outlook to Positive factors in the expected improvement in Canpac Trends Pvt. Ltd.'s (CTPL) performance led by capacity addition in recent past supporting the sales volumes, new customer additions along with improvement in coverage indicators in FY2024, as reflected in improvement in the debt protection metrics in H1FY2024, driven by better margins on back of decline in raw material costs and focus on high margin products.  The rating also continues to factor the extensive experience promoters in the packaging industry, its reputed clientele and a diversified product profile. ICRA also notes that the company had been under capex phase over the past few years towards capacity expansion and the business acquisition of Manisha Creations. With this phase concluded, the coverage and leverage metrics are expected to improve from the current fiscal as benefits related to the capex start to flow in.

The ratings, however, are constrained by CTPL's presence in a highly competitive industry along with the exposure of its margins to volatility in raw material prices; hence, CTPL's ability to pass on the price rise to customers remains critical from a credit perspective. Further, the scale of the company continues to remain at moderate level, though the new capacity addition through the recent capex is expected to support the same going forward. The rating also considers the high working capital intensive nature of the business, primarily due to high inventory holdings.

The positive outlook on the long -term rating reflects ICRA's expectation that CTPL's operational and financial profile will continue to improve, backed by its new customer additions, as well as returns stemming from the recently completed capacity expansion.

## Key rating drivers and their description

### Credit strengths

**Established presence and extensive experience of promoters in the packaging industry** – CTPL's promoters have extensive experience of over two decades in the trading and outsourced manufacturing of paper and packaging products before venturing into the manufacturing of packaging materials. CTPL commenced manufacturing operations from October 2011 and has significantly scaled up its operations over the years with expansion of its capacity and portfolio.

**Diversified product portfolio and established relationships with reputed customers** – The company started its commercial journey by manufacturing folding cartons and corrugated boxes. To offer comprehensive packaging solutions to its clientele, the company also forayed into flexible packaging, paper bags and luxury packaging. Its enhanced product portfolio enabled CTPL to on-board reputed clients from diverse industries, such as food, FMCG, dairy, pharmaceuticals, textiles and retail. Some of its top clients include ITC Limited, Raymond Limited, Lux Industries Limited, Amul Dairy, etc. It has also added new multinational customers. Established relationships with its customers ensure repeat business and revenue stability.

**Expected improvement in financial profile backed by new capacity and focus on high margin product segments** – The company has reported sales of Rs. 345.48 crore and Rs. 386.92 crore in FY2022 and FY2023, respectively, clocking YoY growth of ~50% and ~12%, respectively. Moreover, CTPL expanded its geographical presence by setting up a new manufacturing facility at Kolkata along with acquisition of the customer base of a newly acquired entity where the first line commenced operations from Q1 FY2023 and second line from Q2 FY2023. Hence, the sale volumes are expected to grow from the current fiscal, aided by addition in installed capacity amid a stable demand scenario. This coupled with decline in raw material costs and focus on high margin product segment the margin also expanded sharply in H1FY2024 leading to improvement in debt protection metrics, with TD/OPBIDTA improving from 3.69 times in FY2023 to 2.58 times in H1FY2024 (provisional) and interest coverage from 3.26 times in FY2023 to 4.58 times in H1FY2024 (provisional). Though margins may moderate compared to highs of H1FY2024, however with stabilization in input prices (paper) the margin is expected to remain better than FY2023 levels in near to medium term, thereby impacting the coverage numbers favourably, given lack of any debt funded capex plans.

### Credit challenges

**Relatively moderate scale of operations**– Despite a healthy growth with a CAGR of ~21% over the last four years to Rs. 386.92 crore in FY2023, CTPL's scale of operations continues to remain moderate at an absolute level relative to the size of the packaging industry, resulting in limited economies of scale. However, the scale of operations is expected to get a boost with new capacity addition, and the ability of the company to timely ramp up the same, will remain a key rating monitorable.

**Susceptibility of profitability to volatile raw material prices and forex fluctuations**- CTPL's major raw materials include paper, duplex sheets and laminate films, which comprise ~60–65% of the total manufacturing cost. The prices of raw materials have remained volatile over the years, thus, any adverse movement in the input prices exposes the profitability to volatility. The company's ability to pass on any price rise, which averts further fall in profitability, will be key for its profitability metrics in the near term.

**Presence in competitive and fragmented packaging industry** - The business environment is competitive, given the fragmented and unorganised structure of the packaging industry. A large portion of the industry is serviced by unorganised players, who cater to small-scale requirements of clients across industries, while the remaining market is dominated by a few major players. This limits the company's pricing flexibility and, thereby, exerts pressure on its profitability. However, CTPL's diverse product profile and its established client relationships mitigate the risk to some extent.

## Liquidity position: Adequate

CTPL's liquidity position remains adequate supported by steady internal accrual generation and unutilised working capital limits of Rs. 35 crore, as on September 30, 2023. The working capital utilisation stood at an average of ~68% against sanctioned limits for the 12 months ending September 2023. Further, the company has also enhanced its fund based working capital limit by 18 crore which is expected to support the working capital requirements. CTPL has debt repayment obligations of ~Rs. 22 crore each in FY2024 and FY2025, and its cash accruals are expected to be sufficient to service the same.

## Rating sensitivities

**Positive factors -** ICRA could upgrade CTPL's ratings if it demonstrates a steady ramp up in scale and sustenance of healthy profitability leading to improvement in debt protection metrics. Better management of working capital, resulting in sustained improvement in liquidity position will also be positive for the rating. Specific credit metrics that could lead to a rating upgrade will be DSCR above 1.7 times on a sustained basis.

**Negative factors –** The outlook can be revised to Stable if there is notable decline in CTPL`s scale of operations along with moderation in profitability, leading to lower-than-expected cash accruals. Stretch in the working capital or higher-than expected debt-funded capex impacting the capital structure and liquidity profile could be another negative rating trigger. Specific credit metrics that could lead to a rating downgrade will be TD/OBIDTA above 3.0 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 rating is based on the standalone financial profile of the company. |

## About the company

Ahmedabad-based Canpac Trends Pvt. Ltd., promoted by the Todi family, commenced operations from 2011. It manufactures packaging materials such as printed folded cartons (mono cartons) and micro-flute cartons (corrugated) based on offset printing technology. In FY2019, CTPL ventured into flexible packaging products such as laminates based on gravure printing technology, paper bags and luxury packaging. Its end-products find application in a wide range of industries, such as FMCG, pharmaceuticals, dairy, textiles, and foods. CTPL also merged its wholly owned subsidiary, Canpac Multi-ply Pvt. Ltd., with CTPL on March 31, 2017. CMPL was based out of Tirupur (Tamil Nadu) and is also involved in a similar business sector. Further, during FY2022, to grow its geographical presence in East India, CTPL acquired the customer base of a Kolkata-based entity, which has a track record of around 20 years in the packaging industry. CTPL has set up two new manufacturing lines for folding cartons in Kolkata wherein the first line commenced operations from Q12023 and the second line from Q22023.

### Key financial indicators (audited)

| | FY2022 | FY2023 |
|---|---|---|
| **Operating Income (Rs. crore)** | 345.48 | 386.92 |
| **PAT (Rs. crore)** | 10.11 | 9.82 |
| **OPBDIT/OI (%)** | 12.32% | 13.60% |
| **PAT/OI (%)** | 2.93% | 2.54% |
| **Total Outside Liabilities/Tangible Net Worth (times)** | 1.93 | 1.69 |
| **Total Debt/OPBDIT (times)** | 4.56 | 3.69 |
| **Interest Coverage (times)** | 2.99 | 3.26 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, All ratios as per ICRA calculations*

### 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 as of Sept 30, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | | Date & rating in FY2021 |
| | | | | | Nov 29, 2023 | Dec 05, 2022 | Mar 11, 2022 | Jul 01, 2021 | - |
| 1 | Fund-based – Term loan | Long term | 96.54 | 96.54 | [ICRA]BBB (Positive) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | - |
| 2 | Fund Based Cash Credit/ WCDL/Invoice discounting | Long term | 80.00 | -- | [ICRA]BBB (Positive) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | - |
| 3 | Fund based – Cash Credit | Long term | (11.00)* | -- | [ICRA]BBB (Positive) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | - |
| 4 | Non-fund Based – Letter of Credit, Bank Guarantee & Credit Exposure Limit | Short term | 22.37 | -- | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3+ | - |
| 5 | Non-fund Based – Letter of Credit | Short term | (11.00)* | -- | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3+ | - |
| 6 | Unallocated Limits | Long term/ Short term | - | -- | - | - | [ICRA]BBB (Stable)/ [ICRA]A3+ | [ICRA]BBB (Stable)/ [ICRA]A3+ | - |

**Sub-limit of invoice discounting*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long-term Fund-based – Term loan** | Simple |
| **Long-term Fund based – Cash Credit/ WCDL/Invoice discounting** | Simple |
| **Long-term Fund based – Cash Credit** | Simple |
| **Short-term Non-fund Based – Letter of Credit, Bank Guarantee & Credit Exposure Limit** | Very Simple |
| **Short-term Non-fund Based – Letter of Credit** | 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 | Term loan | FY2018-2022 | NA | FY2027-2030 | 96.54 | [ICRA]BBB (Positive) |
| NA | Cash Credit/ WCDL/Invoice discounting | NA | NA | NA | 80.00 | [ICRA]BBB (Positive) |
| NA | Cash Credit | NA | NA | NA | (11.00)* | [ICRA]BBB (Positive) |
| NA | Letter of Credit, Bank Guarantee & Credit Exposure Limit | NA | NA | NA | 22.37 | [ICRA]A3+ |
| NA | Letter of Credit | NA | NA | NA | (11.00)* | [ICRA]A3+ |

***Source:*** *Company; *Sub-limit of invoice discounting*

*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.

For more information, visit www.icra.in

# ICRA Limited

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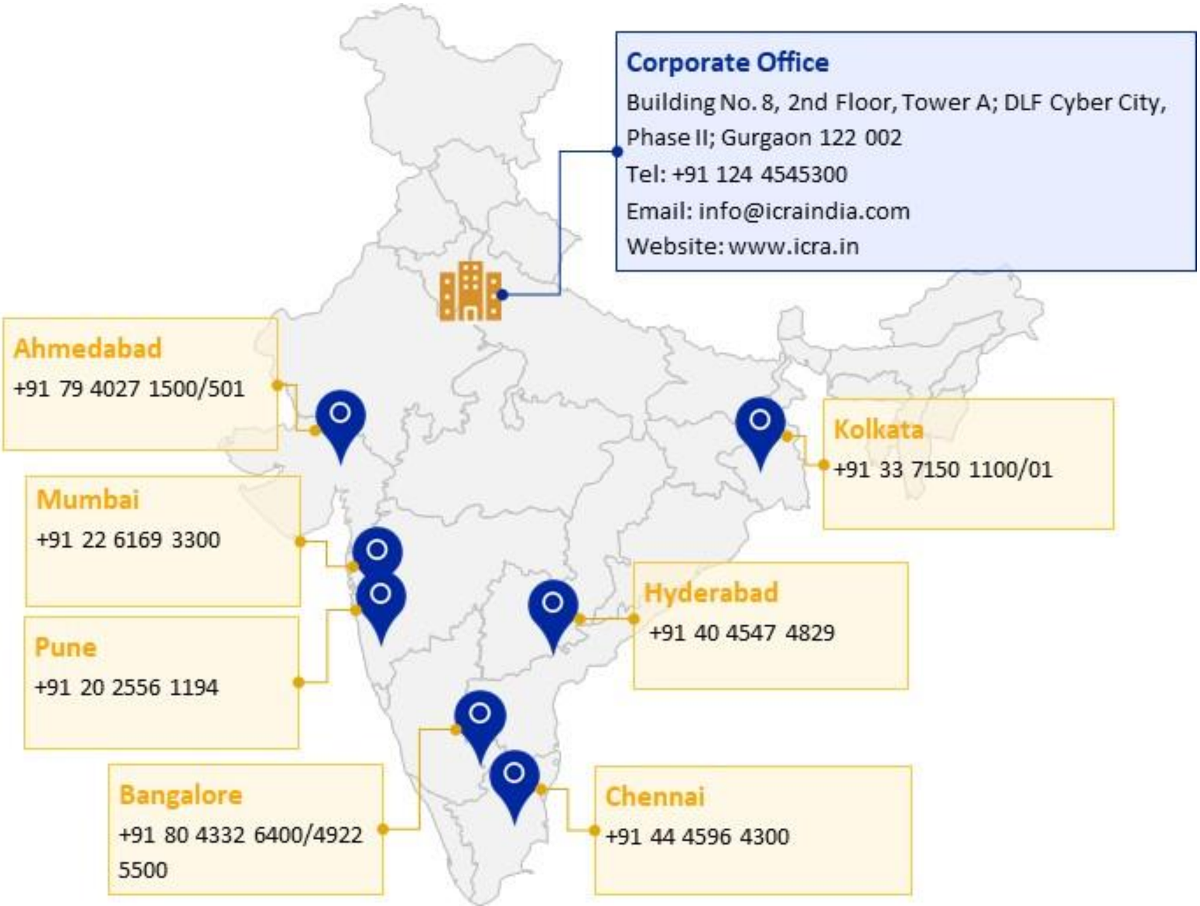




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