

April 03, 2024

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	32.00	25.00	[ICRA]A (Stable); Reaffirmed
Long-term – Unallocated	18.00	25.00	[ICRA]A (Stable); Reaffirmed
Long-term Fund-based facilities – Sub-limit	(26.00)	(26.00)	[ICRA]A (Stable); Reaffirmed
Short-term Fund-based Facilities	100.00	50.00	[ICRA]A1; Reaffirmed
Short-term Fund-based Facilities – Sub-limit	(152.00)	(122.00)	[ICRA]A1; Reaffirmed
Short-term Non-fund Based facilities – Sub-limit	(72.00)	(72.00)	[ICRA]A1; Reaffirmed
Total	150.00	100.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings consider ICRA's expectation that Big Bags International Pvt Ltd (Big Bags) will continue to maintain a healthy credit profile characterised by growth in scale of operations and margins, comfortable debt metrics, and strong liquidity position on the back of its established presence in the flexible intermediate bulk container (FIBC) industry and diversified customer base across various end-user industries. Over the past four years, i.e., FY2021 – FY2024, the company incurred ~Rs. 60.0 crore capex to expand its installed capacity to 21,000 MTPA (from 16,800 MTPA), which is expected to be fully operational from FY2025. Expanded capacity, coupled with expected recovery in global demand for flexible intermediate bulk container (FIBC) bags is likely to support its revenue growth for the company in FY2025. This comes on the back of estimated revenue contraction 10-15% in FY2024 owing to decline in realisations with softened raw material prices. Big Bags' margins are supported by its ability to pass on raw material price fluctuations to its customers, while debt protection metrics are comfortable with gearing of 0.2 times, DSCR of 3.3 times, and interest coverage ratio of 26.5 times in 9M FY2024, which are expected to remain comfortable going forward.

The ratings are, however, constrained by Big Bags' relatively moderate scale of operations; its revenues in 9M FY2024 was impacted by flattish growth in volumes and decline in realisations on the back of soft raw material costs. Further, with the top five customers contributing to ~76% 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 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 expectation 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 industry.

Comfortable debt protection metrics – The company’s debt protection metrics are comfortable with gearing of 0.2x and DSCR of 3.3x as on 9M FY2024. The company is expected to incur a minimal capex of Rs. 5-8 crore in FY2025 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.

Capacity additions to drive growth in scale and earnings – Big Bags has invested over Rs. 60 crore to increase its manufacturing capacity by 25% to 21,000 MTPA along with the addition of a input manufacturing facility for tapes, fabrics and other backward integration processes. 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 FY2025, 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 operates with moderate scale with an operating income of Rs. 351.9 crore in FY2023. Further, the company’s revenue is expected to contract by 10-15% in FY2024 (Rs. 224 crore in 9M FY2024) owing to subdued demand from key export destinations such as USA, Europe, and Australia owing to inflationary pressures impacting production in key end user industries coupled with decline in realisations owing to moderation in raw material prices. However, despite moderation in scale, the margins are expected to remain healthy at 16-18% on account of moderation in raw material and freight costs. ICRA expects Big Bags’ revenue to recover by 10-15% in FY2025 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 ~76% of sales; however, end customer base is diversified - The top five customers contributed to ~76% of the company’s export revenues in FY2023. However, it has an established relationship with customers spanning over two decades, which provides stability to its top line. Big Bags’ 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: Strong

BBIPL has debt repayment obligations of Rs. 9.9 crore in FY2025 with minimal capex plans over the next 12 months. Against these obligations, it has a free cash and bank balance of ~Rs. 70.8 crore as on December 31, 2023 and unutilized working capital balance of ~Rs. 28.8 crore as on February 29, 2024. It is expected to generate retained cash flows of Rs. 30-40 crore in FY2025. Overall, liquidity remains strong.

Rating sensitivities

Positive factors – ICRA could upgrade Big Bags’ 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’ 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 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	FY2022	FY2023
Operating income	452.7	351.9
PAT	38.4	31.7
OPBDIT/OI	13.9%	16.4%
PAT/OI	8.5%	9.0%
Total outside liabilities/Tangible net worth (times)	0.9	0.6
Total debt/OPBDIT (times)	1.7	1.4
Interest coverage (times)	21.3	17.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				Apr 03, 2024	-	Mar 28, 2023	Mar 30, 2022	April 06, 2021
1 Term Loans	Long-term	25.00	25.0	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Unallocated	Long-term	25.00	-	[ICRA]A (Stable)	-	[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)	[ICRA]A (Stable)
4 Short-term fund-based facilities	Short-Term	50.00	-	[ICRA]A1	-	[ICRA]A1	[ICRA]A1	[ICRA]A1
5 Short-term fund-based facilities – sub-limit	Short-Term	(122.00)	-	[ICRA]A1	-	[ICRA]A1	[ICRA]A1	[ICRA]A1

Short-term non-fund based facilities – sub-limit	Short-Term	(72.00)	-	[ICRA]A1	-	[ICRA]A1	[ICRA]A1	[ICRA]A1
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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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 2	FY2021	NA	FY2026	25.00	[ICRA]A (Stable)
NA	Unallocated – Long Term	NA	NA	NA	25.00	[ICRA]A (Stable)
NA	Cash Credit (sublimit)	NA	NA	NA	(26.00)	[ICRA]A (Stable)
NA	Export Credit – PCFC/EPC	NA	NA	NA	30.00	[ICRA]A1
NA	PCL/PCFC	NA	NA	NA	20.00	[ICRA]A1
NA	Post Shipment Finance (sublimit)	NA	NA	NA	(30.00)	[ICRA]A1
NA	FDBP/FUBP/EBRD (sublimit)	NA	NA	NA	(40.00)	[ICRA]A1
NA	Working Capital Demand Loan (sublimit)	NA	NA	NA	(30.00)	[ICRA]A1
NA	Buyers Credit (sublimit)	NA	NA	NA	(22.00)	[ICRA]A1
NA	BG (sublimit)	NA	NA	NA	(25.00)	[ICRA]A1
NA	LC (sublimit)	NA	NA	NA	(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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Branches



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