June 11, 2024

Synthetic Packers Private Limited: Ratings reaffirmed and assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	15.50	25.50	[ICRA]BBB+(Stable); reaffirmed and assigned for enhanced amount
Long-term – Fund-based – Term Loan	20.80	20.40	[ICRA]BBB+(Stable); reaffirmed
Short-term – Non-fund Based	21.10	21.10	[ICRA]A2; reaffirmed
Long-term/Short-term – Unallocated	11.10	0.00	-
Short Term-Interchangeable -Stand by Line of Credit	0.00	(10.00)	[ICRA]A2; assigned
Short Term-Interchangeable -Others	0.00	(4.35)	[ICRA]A2; assigned
Short Term-Interchangeable - Bank Guarantee	0.00	(5.00)	[ICRA]A2; assigned
Short Term-Fund Based - Stand by Line of Credit	0.00	3.00	[ICRA]A2; assigned
Short Term-Fund Based - Others	0.00	7.00	[ICRA]A2; assigned
Long Term-Interchangeable -Others	0.00	(5.00)	[ICRA]BBB+(Stable); assigned
Long Term-Interchangeable -Export Packing Credit	0.00	(4.00)	[ICRA]BBB+(Stable); assigned
Total	**68.50**	**77.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings consider ICRA's expectation that Synthetic Packers Private Limited (SPPL) will maintain its credit profile, going forward, on the back of a sustained growth in earnings, supported by demand and better product mix, and a reduction in the debt level on account of scheduled repayments. SPPL recorded a moderate revenue growth of ~5% in FY2024, largely driven by an increase in trading volumes while its manufacturing revenues declined by 9% on account of lower realisations and subdued demand. However, launch of value-added products such as films catering to food and agri industries and a likely increase in realisations are expected to support a 10-15% revenue growth in FY2025 and improvement in margins. The company incurred Rs. 31.0 crore capex in FY2024 towards expanding its capacity by 7,500 metric tonnes per annum (MTPA) and launching new product lines (films for food and agri industries), which are expected to be operational from June 2024. The ratings also consider SPPL's long track record of operations in the flexible packaging industry and its established relationships with a diversified and reputed customer base, translating into repeat orders. The company is a del credere agent (DCA) and DCA operated polymer warehouse (DOPW) for Gas Authority of India Limited (GAIL) and Brahmaputra Cracker and Polymer Limited (BCPL). The company's financial profile remained healthy, characterised by a comfortable capital structure with a gearing of 0.6 times as on March 31, 2024, and healthy debt metrics with an interest coverage of 4.1 times, total debt/OPBDITA of 2.6 times, and DSCR of 3.1 times in FY2024. Improved earnings and absence of any major debt-funded capex plans are expected to improve SPPL's debt metrics, going forward.

The ratings are, however, constrained by SPPL's modest scale of operations in a highly fragmented industry, characterised by intense competition with presence of organised and unorganised players. Moreover, SPPL's margins remain vulnerable to fluctuations in raw material prices that are linked to crude oil prices. Further, SPPL is exposed to foreign currency risks due to its high import dependence for procuring raw materials.

The Stable outlook on SPPL’s ratings reflects ICRA’s opinion that the company’s revenues and profits growth would be supported by better product mix in the near term.

Key rating drivers and their description

Credit strengths

Long presence in the packaging industry – 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 in 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 engineering and capital goods, pharmaceuticals, e-commerce, logistics etc. However, most of its revenues are derived from engineering and capital goods industry.

Healthy financial profile – The company’s financial profile is healthy, characterised by a comfortable capital structure with a gearing of 0.6 times as on March 31, 2024, and healthy debt metrics with an interest coverage of 4.1 times, total debt/OPBDITA of 2.6 times, and DSCR of 3.1 times in FY2024. In the absence of any major debt-funded capex plan in the near term, its capital structure and debt protection metrics are expected to remain healthy.

Credit challenges

Moderate scale of operations – The company’s scale remains moderate with revenues of ~Rs. 368.0 crore in FY2024. Further, it faces stiff competition from several players, which limits its pricing flexibility and bargaining power with customers. The company's revenue growth was moderate at 5% in FY2024. While higher trading revenues supported growth, revenues from manufacturing products (films) declined owing to lower volumes and realisations. SSPL’s revenues are likely to witness a healthy growth of 10-15% in FY2025 on the back of expected improvement in volumes and realisations. Its margins moderated marginally, with the OPM decreasing by 50 bps to 5.2% in FY2024 from 5.7% in FY2023 owing to higher proportion of revenues from the trading division, which commands lower margins. The launch of new products, which are expected to command higher margins, would support earnings growth.

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

Vulnerable to volatile forex rates because of high import dependence – The company is exposed to foreign exchange movement risk due to its high import dependence for procuring raw materials.

Liquidity position: Adequate

SPPL’s liquidity position is **adequate** with a buffer of Rs. 6.0-8.0 crore in working capital limits, free cash and bank balance of Rs. 1.3 crore as on March 31, 2024, and expected retained cash flows of Rs. 5.0-10.0 crore, against repayment obligations of Rs. 4.0-5.0 crore in FY2025. The company does not have any major debt-funded capex plan in the near-to-medium term, however, it is expected to incur regular capex of Rs. 2.0-4.0 crore per annum.

Rating sensitivities

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

Negative factors – Pressure on the company's ratings could arise if there is a significant decline in the revenues or the margins, resulting in reduction of cash accruals. Specific credit metrics that could lead to ratings downgrade include an interest cover of less than 4.0 times. Further, any significant capex or a stretch in the working capital cycle, adversely impacting the liquidity profile, might also result in ratings 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 tonnes per annum (TPA). Over the years, SPPL has grown to its present capacity of over 27,000 MT per annum. 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..

Key financial indicators (audited)

SPPL Consolidated	FY2023	FY2024*
Operating income	351.3	368.4
PAT	7.1	10.3
OPBDIT/OI	5.7%	5.2%
PAT/OI	2.0%	2.8%
Total outside liabilities/Tangible net worth (times)	0.9	1.2
Total debt/OPBDIT (times)	0.8	2.6
Interest coverage (times)	6.8	4.1

*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; *provisional financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore) as on March 2024	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					June 11, 2024	June 23, 2023	August 12, 2022	July 30,2021
1	Fund based – Cash Credit	Long Term	25.50	-	[ICRA]BBB+(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)
2	Fund based – Term Loan	Long Term	20.40	17.0	[ICRA]BBB+(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)
3	Non fund based	Short Term	21.10	-	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3+
4	Unallocated	Long Term/ Short Term	0.0	-	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Positive)/ [ICRA]A3+	[ICRA]BBB (Positive)/ [ICRA]A3+
5	Interchangeable-Stand by Line of Credit	Short Term	(10.00)	-	[ICRA]A2	-	-	-
6	Interchangeable-Others	Short Term	(4.35)	-	[ICRA]A2	-	-	-
7	Interchangeable-Bank Guarantee	Short Term	(5.00)	-	[ICRA]A2	-	-	-
8	Fund Based-Stand by Line of Credit	Short Term	3.00	-	[ICRA]A2	-	-	-
9	Fund Based-Others	Short Term	7.00	-	[ICRA]A2	-	-	-
10	Interchangeable-Others	Long Term	(5.00)	-	[ICRA]BBB+(Stable)	-	-	-
11	Interchangeable-Export Packing Credit	Long Term	(4.00)	-	[ICRA]BBB+(Stable)	-	-	-

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
Short Term-Interchangeable-Stand by Line of Credit	Very Simple
Short Term-Interchangeable-Others	Very Simple
Short Term-Interchangeable-Bank Guarantee	Very Simple
Short Term-Fund Based-Stand by Line of Credit	Very Simple
Short Term-Fund Based-Others	Very Simple
Long Term-Interchangeable-Others	Simple
Long Term-Interchangeable-Export Packing Credit	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	NA	NA	NA	25.50	[ICRA]BBB+(Stable)
NA	Term Loan	Oct 2020	-	Jun 2028	20.40	[ICRA]BBB+(Stable)
NA	Non-fund Based	NA	NA	NA	21.10	[ICRA]A2
NA	Interchangeable-Stand by Line of Credit	NA	NA	NA	(10.00)	[ICRA]A2
NA	Interchangeable-Others	NA	NA	NA	(4.35)	[ICRA]A2
NA	Bank Guarantee	NA	NA	NA	(5.00)	[ICRA]A2
NA	Fund Based-Stand by Line of Credit	NA	NA	NA	3.00	[ICRA]A2
NA	Fund Based-Others	NA	NA	NA	7.00	[ICRA]A2
NA	Interchangeable-Others	NA	NA	NA	(5.00)	[ICRA]BBB+(Stable)
NA	Interchangeable-Export Packing Credit	NA	NA	NA	(4.00)	[ICRA]BBB+(Stable)

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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