

August 22, 2024

## Aryan Packaging Industries: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	7.50	7.50	[ICRA]BB(Stable); reaffirmed
Long-term Fund-based – Term Loan 1	0.78	0.00	-
Long-term Fund-based – Term Loan 2	1.00	0.99	[ICRA]BB(Stable); reaffirmed
Long-term Fund-based – Term Loan 3	15.00	14.90	[ICRA]BB(Stable); reaffirmed
Long-term/ Short-term – Unallocated	0.55	0.00	-
Short-term Non-fund Based – Letter of Credit^	(0.50)	(0.50)	[ICRA]A4+; reaffirmed
<b>Total</b>	<b>24.83</b>	<b>23.39</b>	

\*Instrument details are provided in Annexure-I; ^ Sub-limit of long-term fund-based Cash Credit facility such that the total utilisation should not exceed Rs. 7.50 crore

### Rationale

The ratings reaffirmation for Aryan Packaging Industries (API) considers the expected improvement in the top line in the near-to-medium term, driven by recent commercialisation of the capex related to capacity expansion and relatively stable input (paper) prices. The debt protection metrics are expected to improve over the medium term, as the returns from the capex are expected to fully realise from FY2026. The ratings continue to consider the extensive experience of API's partners in the paper and packaging industry and the operational synergies it derives from raw material availability and marketing network from its backward linkages with associate concerns.

The ratings, however, are constrained by vulnerability of API's profit margins to adverse movements in kraft paper prices as well as the highly fragmented and competitive industry structure. ICRA also notes that API's financial risk profile remained average, marked by limited net worth base and moderate scale of operations. The ratings also factor in the recently concluded debt-funded capex, which is likely to check the debt protection metrics in the near term, till commensurate returns from the capex start coming. The ratings also factor in the risks inherent in a partnership firm in terms of any significant capital withdrawal that may adversely impact its capital structure.

The Stable outlook on the long-term rating reflects ICRA's opinion that API is likely to benefit from the recently concluded capex in terms of capacity addition, benefits accruing from raw material sourcing from associate companies and relatively stable demand for paper packaging.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of the partners and established presence in paper and packaging industry** – API is promoted and managed by the Vapi (Gujarat)-based Aryan Group, which is an established player in the kraft paper and corrugated box

manufacturing sector. The firm benefits from the established clientele and dealership network of the Group and the backward integration of kraft paper supplies.

**Backward linkages with associate concerns provide operational synergies in terms of raw material availability and marketing network** – Kraft paper accounts for more than 70% of API's raw material requirements. Other raw materials include chemicals and dyes. The firm sources its kraft paper from associate concerns. The firm procures a part of its input (paper) from Group companies (~29% of total raw materials purchased in FY2024), wherein it also enjoys an extended credit period as and when needed, which supports its liquidity.

**Reputed customer profile** – The firm's customers include established brands such as Amazon India, Parle Agro Pvt. Ltd., Parle Products Pvt. Ltd., Pidilite Industries, and Bayer Crop Science Limited. Established relationships with its customers ensure steady order flow, providing adequate revenue visibility.

### Credit challenges

**Average financial risk profile** – API's financial risk profile is average, marked by a low net worth base of Rs. 9.23 crore as on March 31, 2024 and moderate scale of operations, which stood at Rs. 71.90 crore in FY2024. The profitability has also remained range-bound over the last three fiscals, which is expected to continue in the near term. With lower accretion to reserves and increased borrowings, the debt coverage indicators also moderated to some extent with interest coverage of 2.07 times and DSCR of 1.77 times as on March 31, 2024. The debt protection metrics are, however, expected to improve over the medium term as returns from the capex start flowing in.

**Commensurate returns from the recently concluded debt funded capex remains a key monitorable** – API has commercialised a large capex programme in FY2024 and its capacity has been increased to 28,000 MTPA from 12,000 MTPA to support its growth plans. The capex was funded through Rs. 15-crore debt and the rest through internal accrual, equity infusion and unsecured loans. The increase in debt due to the capex will also check the debt coverage metrics in the near term. Hence, the ability of the company to successfully ramp up sales at the new capacity and generate commensurate returns remains key from the credit perspective.

**Vulnerability of profitability to volatility in input prices coupled with fragmented industry structure with stiff competition** – The main raw material for API is kraft paper, followed by coal, which accounts for 70-80% of the total raw material cost. During the last few financial years, the prices of these inputs have remained volatile. The firm has limited control over its raw material prices and its ability to pass on the price fluctuations to its end-customers is also limited. Hence, its profitability is exposed to adverse fluctuations in kraft paper and coal prices. The firm's pricing ability also remains limited as the corrugated box manufacturing industry is highly fragmented with stiff competition from numerous organised as well as unorganised players.

**Inherent risks of a partnership firm** – As API is a partnership firm, it is exposed to discrete risks including the possibility of large capital withdrawal by the partners, which may impact its liquidity position and the net worth base.

### Liquidity position: Adequate

The firm's liquidity is adequate with buffer available in working capital limits. API has repayments of ~Rs. 1.17 crore in FY2025 and Rs. 1.53 crore in FY2026, which are expected to be adequately covered by cash accruals. Further, its average utilisation remained low at ~37% against the sanctioned limit for the 12-month period ending in June 2024.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the firm's ratings if it demonstrates healthy growth in revenue and profitability, leading to healthy cash accruals on a sustained basis. Strengthening of its net worth, leading to improvement in capital structure and liquidity, may also lead to a rating upgrade.

**Negative factors** – Substantial decline in revenues and operating margins resulting in lower cash flows on a sustained basis could trigger a downgrade. Any large capital withdrawals or stretch in the working capital cycle, or sub-optimal utilisation of new capacities, leading to a material deterioration in the capital structure or liquidity, could also trigger 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 standalone financials of API

## About the company

Aryan Packaging Industries came into existence in 1979 in Vapi, Valsad. It is a part of the Aryan Group, which also includes Aryan Packaging Products Private Limited and Aryan Paper Mills Private Limited. The business has a wide range of product offerings including kraft paper, corrugated packaging, printed corrugated boxes, paper packaging, and laminated corrugated packaging boxes, etc. The Group supplies corrugated boxes for Amazon India West as well as to brands such as Parle and Pidlite. Considering the continuously increasing demand for packaging over the years, the Aryan Group has decided to further expand its capacity.

## Key financial indicators

	FY2023	FY2024*
Operating income	88.53	71.90
PAT	0.37	-0.43
OPBDIT/OI	4.79%	5.82%
PAT/OI	0.41%	(0.60%)
Total outside liabilities/Tangible net worth (times)	2.41	3.37
Total debt/OPBDIT (times)	4.78	6.57
Interest coverage (times)	6.09	2.07

Source: Company, ICRA Research; \* Provisional numbers; 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	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Aug 22, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
<b>Cash Credit</b>	Long term	7.50	[ICRA]BB (Stable)	Aug 30, 2023	[ICRA]BB (Stable)	Aug 30, 2022	[ICRA]BB (Stable)	-	-
<b>Term Loan 1</b>	Long term	0.00	-	Aug 30, 2023	[ICRA]BB (Stable)	Aug 30, 2022	[ICRA]BB (Stable)	-	-
<b>Term Loan 2</b>	Long term	0.99	[ICRA]BB (Stable)	Aug 30, 2023	[ICRA]BB (Stable)	Aug 30, 2022	[ICRA]BB (Stable)	-	-
<b>Term Loan 3</b>	Long term	14.90	[ICRA]BB (Stable)	Aug 30, 2023	[ICRA]BB (Stable)	Aug 30, 2022	[ICRA]BB (Stable)	-	-
<b>Unallocated</b>	Long term/ Short Term	0.00	-	Aug 30, 2023	[ICRA]BB (Stable)/ [ICRA]A4+	Aug 30, 2022	[ICRA]BB (Stable)/ [ICRA]A4+	-	-
<b>Letter of Credit<sup>^</sup></b>	Short term	(0.50)	[ICRA]A4+	Aug 30, 2023	[ICRA]A4+	Aug 30, 2022	[ICRA]A4+	-	-

Note: <sup>^</sup> Sub-limit of long-term fund-based Cash Credit facility such that the total utilisation should not exceed Rs. 7.50 crore

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund Based-Cash credit	Simple
Long-term Fund Based -Term Loan 2	Simple
Long-term Fund Based -Term Loan 3	Simple
Short-term Non-fund Based – Letter of Credit <sup>^</sup>	Very Simple

<sup>^</sup> Sub-limit of long-term fund-based Cash Credit facility such that the total utilisation should not exceed Rs. 7.50 crore

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	Long-term Fund Based-Cash credit	NA	NA	NA	7.50	[ICRA]BB (Stable)
NA	Long-term Fund Based-Term Loan 2	FY2023	NA	FY2025	0.99	[ICRA]BB (Stable)
NA	Long-term Fund Based-Term Loan 3	FY2023	NA	FY2031	14.90	[ICRA]BB (Stable)
NA	Short-term Non Fund Based- Letter of Credit <sup>^</sup>	NA	NA	NA	(0.50)	[ICRA]A4+

<sup>^</sup> Sub-limit of long-term fund-based Cash Credit facility such that the total utilisation should not exceed Rs. 7.50 crore

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**Annexure II: List of entities considered for consolidated analysis - Not applicable**

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