October 08, 2024

Casablanca Industries Private Limited: [ICRA]BB (Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Proposed Non-Convertible Debenture (NCD) Programme	350.00	[ICRA]BB (Stable); assigned
Total	**350.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating takes comfort from the extensive experience of promoters and management of Casablanca Industries Private Limited (CIPL) in the packaging industry, which has helped the company establish long-term relationships with leading personal care companies (brand owners as well as their contract manufacturers) and enjoy repeat business from them. CIPL has reported healthy revenue growth at a CAGR of 30% over FY2021 to FY2024, led by healthy demand, with satisfactory operating profit margins (OPM) of 14.4% in FY2024(Provisionals). The demand prospects for the industry also remain favourable, which coupled with capacity expansions being undertaken by the company, augur well for the revenue growth of the company.

CIPL is in the midst of undertaking a large debt-funded acquisition of an entity involved in the similar line of business. The acquisition is expected to help benefit CIPL by way of increased manufacturing capacity, better bargaining power with suppliers and customers as well as access to new markets. ICRA also notes the improved OPM of this entity in FY2024 (as per the provisional estimates), though sustenance of the same needs to be seen. The total outlay for the acquisition is estimated at Rs. 250 crore, proposed to be funded through an NCD. The company is raising additional Rs. 100 crore of NCD for refinancing its existing bank debt, repayment of external commercial borrowing availed from the promoters and the balance towards part-funding the proposed capital expenditure in the acquired entity. Given the substantial debt raising plans, the financial profile of the company is expected to remain subdued. ICRA also notes the modest net worth of CIPL and the expected leveraged capital structure, post the acquisition. The company's ability to successfully integrate the proposed acquisition and report healthy OPM on a sustained basis remains to be seen. Competitive nature of the industry, which limits CIPL's pricing power, as well as the susceptibility of its profit margins to fluctuations in raw material prices, additionally constrain the rating. However, ICRA notes that in case the variation in the raw material prices goes beyond a defined range, CIPL can pass on the same to the customers.

The Stable outlook reflects ICRA's expectation of steady improvement in CIPL's utilisation of enhanced capacities, led by healthy orders, which will lead to a gradual improvement in the company's financial risk profile.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters with established track record in packaging industry – The promoter of CIPL, Mr. Delfin Gilbert, has extensive experience of over five decades in the similar lines of business. This has helped the company develop relationships with all leading customers and suppliers in the industry.

Established relationship with customers – CIPL manufactures aerosol cans and supplies to all the major players(One Asia Network India Pvt Ltd, Vanesa Cosmetics Private Limited to name a few) in domestic and international markets. The company has an established customer base and enjoys long-term relationships with leading personal care companies (brand owners as well as their contract manufacturers), which facilitates repeat business. ICRA notes the company's exposure to customer concentration risk with the top-5 customers accounting for more than 60% of its revenues in FY2024, though CIPL's established relationship with these customers provides some comfort.

Healthy revenue growth; favourable demand prospects – Led by healthy demand and established relationships, the company has reported a strong YoY revenue growth of 25% and 26% in FY2023 and FY2024 (as per provisional estimates), respectively. The company is also undertaking capacity expansion, which coupled with the healthy demand prospects augur well for the revenue growth. Its OPM also remained satisfactory in the range of 13-14% in past few years except FY2022 (wherein the raw material prices increased substantially) and the same stood at 14.4% in FY2024 (adjusting for the one-off non-recurring items, the same stood at more than 16% in FY2024).

Credit challenges

Large debt-funded acquisition and expected moderation in the financial profile – CIPL is in the midst of undertaking a large debt-funded acquisition of an entity engaged in the similar line of business. The total outlay for the acquisition is estimated at Rs. 250 crore, which is proposed to be funded through debt. The company is raising additional Rs. 100 crore of NCD for refinancing its existing bank debt, repaying external commercial borrowing availed from the promoters and the balance towards part-funding the proposed capital expenditure in the acquired entity. Given the substantial debt raising plans, the financial profile of the company is expected to remain subdued. ICRA also notes the modest net worth of CIPL and the expected leveraged capital structure, post the acquisition. However, some comfort can be drawn from the fact that repayments for the NCD are structured in a ballooning pattern and there is a three-year moratorium on Rs 250 crores NCD.

Competitive nature of the industry – CIPL faces intense competition in the cans industry from other domestic players as well as companies from other exporting countries, which limits its pricing power**.**

Exposed to volatile raw material prices – CIPL's profitability is vulnerable to volatility in raw material prices, including aluminium prices, which are linked to the London Metal Exchange (LME). The company's prices are based on the LME prices as well and the price variation (basis a defined range of LME) is passed on to the customers with a lag, through monthly and quarterly price revisions. However, ICRA notes that in case the variation in LME prices goes beyond a defined range, CIPL can pass on that price variation to the customers.

Liquidity position: Stretched

CIPL's average utilisation of fund-based limits stood high at 82% in the past 12 months with free cash and bank balance of around Rs. 2 crore as on March 31, 2024. The company is in the midst of undertaking a large debt-funded acquisition of Rs. 250 crore in FY2025, proposed to be funded via high-cost NCD of Rs. 250 crore. The company is raising another NCD of Rs. 100 crore, proceeds of which will be utilised for refinancing its existing bank debt, repaying external commercial borrowing availed from the promoters and the balance towards part-funding the proposed capex in the acquired entity. The total capex over FY2025 to FY2027 is estimated at Rs. 160-170 crore (expected to be funded via Rs. 40 crore from the proposed NCD, equipment finance of Rs. 93 crore and balance via internal accruals) towards expansion of product lines in CIPL as well as the entity being acquired. The NCDs are proposed to have a tenure of six years, with ballooning repayments starting from FY2026. The repayments are estimated at Rs. 21 crore in FY2026 and Rs. 44 crore in FY2027. The company's ability to successfully integrate the proposed acquisition and generate healthy OPM while maintaining a comfortable working capital cycle will be critical. Besides, any major deviation in the proposed terms of NCD (vis-à-vis that shared with ICRA) will be a key rating monitorable.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if CIPL demonstrates a sustained improvement in its scale and profitability, while effectively managing its working capital cycle, leading to an improvement in the financial risk profile.

Negative factors – The rating may be downgraded if pressure on revenues and profitability, and/or a stretch in the working capital cycle or any additional debt-funded capex/investments results in weakening of CIPL's debt coverage metrics.

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 financials of the company. ICRA has also considered the expected financial performance of the entity being acquired, while arriving at the rating.

About the company

Incorporated in 2011, CIPL manufactures mono block aluminum cans of various diameters. As on March 31, 2024, 80% of the company's stake was held by Indicans Holdings BV, promoted by Mr. Delfin Gilbert. The balance 20% stake is held by Exal Partners B V.

Key financial indicators (Audited)

CIPL (standalone)	FY2023	FY2024 (Provisional)
Operating income	133.0	167.3
PAT	5.4	8.6
OPBDIT/OI	13.9%	14.4%
PAT/OI	4.1%	5.1%
Total outside liabilities/Tangible net worth (times)	16.1	7.5
Total debt/OPBDIT (times)	4.1	3.7
Interest coverage (times)	3.8	3.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
				October 08,2024	-	-	-	-
1	Proposed NCD	Long Term	350.00	**[ICRA]BB (Stable)**	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Proposed NCD	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	Proposed NCD	Yet to be placed			350.00	[ICRA]BB (Stable)

Source: Company

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

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