November 19, 2024

# Shriji Polymers India Limited: 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 – Cash credit** | 121.00 | 121.00 | [ICRA]A+ reaffirmed; Outlook revised to Positive from Stable |
| **Long-term fund based - Term loan** | 32.28 | 32.28 | [ICRA]A+ reaffirmed; Outlook revised to Positive from Stable |
| **Long-term non fund based - Others** | 20.00 | 20.00 | [ICRA]A+ reaffirmed; Outlook revised to Positive from Stable |
| **Short-term non-fund based - Others** | 115.10 | 115.10 | [ICRA]A1; reaffirmed |
| **Total** | **288.38** | **288.38** | |

**Instrument details are provided in Annexure-I*

## Rationale

The revision in the outlook of Shriji Polymers India Limited's (SPIL) long-term rating factors in ICRA's opinion that the earnings of the company will increase, supported by scaling up of revenues with improvement in debt coverage metrics amid further diversification of its product profile. The revision in the outlook also considers the volume growth of ~11% in FY2024, signalling revival in demand for the pharmaceuticals packaging segment. The ratings continue to derive comfort from SPIL's position as a leading domestic supplier of rigid packaging to the pharmaceutical sector amid high entry barriers due to stiff compliance requirements. The ratings are further supported by SPIL's reputed and diversified customer base and the proximity of many of its plants to its key clients. Extensive experience of the promoters, who have been involved in the packaging industry for more than three decades, provides further comfort.

ICRA also notes the acquisition of Parekhplast India Limited (PIL) by SPIL in November 2022, which resulted in higher business diversification, coupled with impetus to the overall earnings of the company. The year FY2024 was the first fiscal when the full year performance of PIL was consolidated into SPIL. PIL primarily caters to the paints industry and is a key vendor of Asian Paints Limited. It has further diversified the reputed client base at the consolidated level. While the acquisition led to a significant growth in SPIL's scale as the company witnessed a ~38% revenue growth, the profitability moderated from 27.8% in FY2023 to 25.9% in FY2024, given the relatively lower margin business of PIL. Nonetheless, the profitability is expected to improve in the medium term as operational synergies between SPIL and PIL continue to play out. The company is also diversifying further with augmentation of its product offerings such as dosage medical devices and injectables bags.

The ratings also continue to consider SPIL's high working capital intensity on account of the elevated inventory levels required to meet the just-in-time demand from clients albeit the same has improved in FY2024. In addition, high receivables driven by long credit periods offered to the clients also contribute to high working capital intensity. The ratings are further constrained by the high concentration of the end-user industry as SPIL's major portion of revenues is driven by its pharmaceuticals clients. The ratings are further constrained by the vulnerability of SPIL's profitability to fluctuations in raw material prices, which are largely driven by global crude prices, and foreign exchange rates as most of the raw materials are imported, and direct exports are limited. However, most escalations are passed on to end consumers with a time lag. Further, SPIL's business is indirectly exposed to the regulatory risks in the pharmaceutical sector and the need to maintain manufacturing standards as well as customer specifications.

The Positive outlook on the long-term rating reflects ICRA's expectations that SPIL will continue to expand its scale of operations, while maintaining healthy profitability levels and will further augment its earnings while diversifying its product profile. Any major debt addition plans and the impact of the same on the credit profile will be key rating monitorable.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of promoters in the rigid packaging industry –** The promoters have been involved in the packaging business for more than 30 years with different entities in the production of corrugated boxes, polyethylene terephthalate (PET) bottles, high-density polyethylene (HDPE) containers and poly propylene (PP) caps. The company has demonstrated its ability to maintain quality and thus enjoys established relationships with various reputed pharmaceutical players, which supported its business prospects.

**High entry barriers due to stiff compliance requirements –** SPIL received the United States Foods and Drug Administration's (USFDA) approval for Drug Master File (DMF) Type III (Packaging Material) in 2006. The requirements of filing the DMF with the USFDA are stringent and the process is time consuming. Additionally, its manufacturing facilities are in proximity to its key clients and are also required to be regularly audited by them. All these factors create high entry barriers and necessitate sizeable investments in plant and machinery to adhere to the USFDA guidelines. PIL also has a long track record of supplying its key clients with plants in the vicinity, which acts as a competitive advantage.

**Established relationship with reputed pharmaceutical players; improving customer diversification with addition of key players in paints industry –** SPIL was among the first pharmaceutical packaging manufacturers to receive the DMF Type III approval in India. Consequently, it had an early-mover advantage and was able to establish strong relationships with suppliers and customers. The company has been dealing with various reputed pharmaceutical companies such as Lupin Limited, Dr. Reddy's Laboratories Limited, Glenmark Pharmaceuticals and Sun Pharmaceutical Industries Ltd., for several years and has been continuously diversifying its customer base. The company is also expected to improve its presence in the Chinese pharmaceutical market. The compliance requirements and high-quality standards in addition to high customer retention make it difficult for new players to become a part of the existing supply chain in the pharmaceutical export industry over a relatively shorter time span. Through acquisition of PIL, the company has added another reputed client, Asian Paints Limited (APL), resulting in further client and industry diversification. PIL is also adding new clients and diversifying its product mix gradually. The company has also added Aditya Birla Group paints division (Grasim) as a client under its paint rigid packaging segment. Diversification towards new product lines including injectable bags and pouches and new medical devices augur well for the company, going forward. However, any material time and cost overrun in the ongoing projects will be closely monitored by ICRA.

**Comfortable financial risk profile despite moderation in return metrics, given the acquisition of relatively lower-margin business –** SPIL witnessed a revenue growth of ~38% in FY2024 over FY2023, led by volume growth in its pharma business and full year consolidation of PIL's revenues. The pharmaceuticals packaging business witnessed a revival in FY2024 after facing demand slowdown, in line with the industry scenario in FY2023. SPIL has been maintaining healthy operating profit margins in this segment. However, on a consolidated basis in FY2024, its margins moderated but remained healthy post consolidation of the relatively low-margin business of PIL. This apart, the capital structure remained comfortable as characterised by a gearing of 0.4 times as on March 31, 2024. The coverage indicators further improved, as reflected in TD/OPBDITA of 1.3 times as on March 31, 2024 from 1.6 times as on March 31, 2023. With improvement in operating efficiencies on a consolidated basis, SPIL's leverage and coverage indicators are expected to gradually improve further.

## Credit challenges

**Significant exposure towards single end-user industry –** At the consolidated level, ~78% of the company's revenue are derived from the pharmaceutical industry, resulting in high concentration towards a single end-user industry. However, the risk is mitigated to a certain extent, given the long relationship between SPIL and its customers. In the pharmaceutical segment, the clients are less likely to change their vendors or suppliers quickly, resulting in higher customer retention, which results in high entry barriers.

**High working capital intensity due to maintenance of raw material inventory–** The company's working capital intensity remained in the range of 36-43% over FY2020-FY2023 due to an increase in the inventory holding period and liberal credit terms for customers, as prevalent in the sector. However, in FY2024, the NWC/OI improved to 33.4% from 41.2% in FY2023 largely because of full year consolidation of PIL, which is relatively a shorter working capital cycle business. SPIL manufactures more than 200 types of bottles and caps for different customers, demands of which are diverse as well as erratic. Apart from that, it maintains a higher inventory of raw materials to reduce the supply shock risks, given the imported nature of components. The associated funding requirement has been largely funded internally owing to healthy cash accruals. Going forward, the working capital intensity is expected to remain rangebound.

**Exposed to fluctuations in prices of key raw materials –** The company remains exposed to raw material price and foreign exchange rate fluctuation risks. Nonetheless, SPIL mitigates these risks by passing on the price rise to its end customers. The company also uses a hedging mechanism to cover the volatility in foreign currency for its imports. As PIL's business has a relatively lower margin, the company's ability to effectively pass on the price increases and manage its cost structure will be monitored.

**Pharmaceutical industry exposed to regulatory risks –** The pharmaceutical industry, SPIL's key end-user industry, is exposed to regulatory risks in developed markets related to patent challenges, product launches and manufacturing facilities/processes. SPIL falls under the USFDA DMF's Type III category, where only approvals from customers are required and the company has not faced any challenge during the customer's audit till date. SPIL's ability to maintain global manufacturing standards and customer specifications remains crucial.

## Liquidity position: Adequate

SPIL's liquidity position is adequate on account of the cushion available in the working capital limit. The average cushion in the limits for SPIL at a standalone level stood at ~Rs. 61 crore between August 2023 and July 2024. The liquidity is further supported by free cash balances of ~Rs. 44 crore as on March 31, 2024, at the consolidated level. SPIL has made sufficient cash generation from the business to manage its working capital requirement and repay its term debt in a timely manner. The debt repayments, at the consolidated level for FY2025 and FY2026, stand at Rs. 26.46 crore and Rs. 25 crore, which are expected to be comfortably serviced by the cash accruals generated by the company. While the company has moderate capex plans of Rs. 100-120 crore at the consolidated level, the major portion of it is expected to be funded internally and partially by debt. The company has recently availed additional working capital debt of Rs. 40 crore in SPIL and Rs. 30 crore in PIL, which are expected to further support the liquidity of the company.

## Rating sensitivities

**Positive factors –** ICRA could upgrade the ratings if there is a sustained increase in SPIL's revenues and earnings, resulting in improved credit and liquidity profile, on a sustained basis.

**Negative factors –** The outlook on the ratings could be revised from Positive to Stable in case there is a material decline in earnings, or a higher-than-anticipated debt-funded capex results in a leveraged capital structure and moderation in debt coverage indicators on a sustained basis. Additionally, debt/OPBDIT of more than 1.5 times on a sustained basis could result in ratings downgrade.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the consolidated financials of SPIL. The list of consolidated companies is shared in Annexure-2. |

## About the company

SPIL manufactures high-density polyethylene (HDPE) containers/ bottles and polypropylene (PP) caps/ closures for packaging pharmaceutical products, which are exported primarily to regulated markets such as the US, Canada and China by the company's clients. SPIL is a Drug Master Files (DMF) holder of the USFDA, Canadian FDA and Chinese FDA. It is an ISO 15378, ISO 9001 and ISO 13485 certified pharma packaging company. At the consolidated level (excluding PIL), the company's manufacturing facilities are located in Ujjain (Madhya Pradesh), Pithampur SEZ (Madhya Pradesh), Ahmedabad (Gujarat), Goa, Hyderabad (Telangana), Baddi (Himachal Pradesh), China and the US with a combined annual plant capacity of ~23,145 MTPA as on March 31, 2024.

In December 2022, SPIL acquired a ~77% stake in PIL and acquired the remaining stake in the previous fiscal. PIL is also a rigid packaging manufacturer, and is catering to paints industry, followed by foods, pharmaceuticals etc.

### Key financial indicators (audited)

| SPIL Consolidated | FY2023 | FY2024 |
|---|---|---|
| **Operating income** | 558.9 | 772.1 |
| **PAT** | 56.5 | 80.2 |
| **OPBDIT/OI** | 27.8% | 25.9% |
| **PAT/OI** | 10.1% | 10.4% |
| **Total outside liabilities/Tangible net worth (times)** | 0.7 | 0.6 |
| **Total debt/OPBDIT (times)** | 1.6 | 1.3 |
| **Interest coverage (times)** | 11.6 | 7.1 |

*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*

### 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 |
| | | | | Nov 19, 2024 | Oct 09, 2023 | Dec 19, 2022 | Jul 28, 2022 | Jul 08, 2021 |
| 1 | **Cash credit** | Long term | 121.00 | **[ICRA]A+ (Positive)** | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A (Positive) |
| 2 | **Term Loans** | Long term | 32.28 | **[ICRA]A+ (Positive)** | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A (Positive) |
| 3 | **Non fund-based facilities** | Long Term | 20.00 | **[ICRA]A+ (Positive)** | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A (Positive) |
| 4 | **Non-fund Based facilities** | Short term | 115.10 | **[ICRA]A1** | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 |
| 5 | **Non Fund based facilities** | Long term/ Short Term | - | - | - | - | - | [ICRA]A (Positive)/ [ICRA]A1 |
| 6 | **Unallocated** | Long term/ Short Term | - | - | - | [ICRA]A+ (Stable)/ [ICRA]A1 | [ICRA]A+ (Stable)/ [ICRA]A1 | [ICRA]A (Positive)/ [ICRA]A1 |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long term fund based – Cash Credit | Simple |
| Long term fund based - Term loan | Simple |
| Long Term Non Fund Based – Others | Very Simple |
| Short Term Non Fund Based – Others | 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 | Cash credit | - | - | - | 121.00 | [ICRA]A+ (Positive) |
| NA | Term Loans | FY2014 | NA | FY2026 | 32.28 | [ICRA]A+ (Positive) |
| NA | Non fund-based facilities | - | - | - | 20.00 | [ICRA]A+ (Positive) |
| NA | Non-fund Based facilities | - | - | - | 115.10 | [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

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| **Direct Subsidiary** | | |
| Four M Propack Private Limited | 100.00% | Full Consolidation |
| Shriji Polymers LLC | 96.57%^ | Full Consolidation |
| Parekhplast India Limited | 100.00% | Full Consolidation* |
| Shriji Polymers Medical Devices Private Limited | 100.00% | Full Consolidation |
| **Joint Venture** | | |
| Shriji Polymers (Hubei) Limited | 49.00% | Proportionate Consolidation |

*Source: Company; * from FY2023, ^remaining 3.43% through subsidiary Four M Propack Private Limited*

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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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