

November 19, 2024

Parekhplast India Limited: Ratings upgraded to [ICRA]BBB+(Stable)/[ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facilities/ Cash credit	27.37	27.37	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Fund-based facilities/ Term loans	35.93	35.93	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Non-fund based	7.70	7.70	[ICRA]BBB+(Stable)/[ICRA]A2; upgraded from [ICRA]BBB(Stable)/[ICRA]A3+
Total	71.00	71.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings upgrade for Parekhplast India Limited (PIL) reflects ICRA's expectations that the company will witness a healthy revenue growth on the back of newly acquired clients and its diversifying product mix while maintaining strong profitability. ICRA further expects PIL to continue to derive strong financial flexibility for being a wholly-owned subsidiary of Shriji Polymers India Limited (SPIL) (rated [ICRA]A+(Positive)/A1). The resultant synergistic benefits are also expected to improve the earnings profile of the company. The ratings further favourably factor in PIL's track record as an established player in the rigid packaging space with a track record in paints and other industries with the key vendor status from Asian Paints Limited (APL), one of the India's leading paints manufacturers. ICRA also notes the consistent efforts of the company to further diversify its client base coupled with the addition of new product lines, which is likely to support its business prospects.

The ratings are, however, constrained by the company's moderate scale, which is expected to improve gradually. ICRA factors in the competitive nature of the industry, coupled with the vulnerable profit margins, which can be attributed to the volatility in raw material prices. Nonetheless, PIL's ability to partly pass on the price increase to its clients mitigates the risk to some extent. Moreover, there are high sectoral and client concentration risks for PIL, as most of its revenue is generated by the paint industry, particularly from APL. However, going forward, the client concentration risk is expected to moderate with the addition of new clients. The ratings also factor in the modest coverage indicators as the company availed significant debt for expansion in the past, resulting in high debt service obligations. The same further led to asset liability mismatches and a weak current ratio. ICRA expects the coverage metrics to gradually improve, going forward.

The Stable outlook on PIL's ratings reflects ICRA's opinion that the company will be able to leverage its association with SPIL and increase its operational efficiency, leading to an improvement in its return metrics.

Key rating drivers and their description

Credit strengths

Established track record in rigid packaging industry supports business – PIL has almost four decades of experience in the rigid packaging industry, catering primarily to the paints industry. The company caters to other industries as well such as pharmaceuticals, foods, healthcare and others. However, most of its revenue is derived from the paints industry. The track record of the company is further supported by the extensive experience of the promoters of the Shriji Group, who have been in the rigid packaging business for more than 30 years with different entities involved in the production of corrugated boxes, polyethylene terephthalate (PET) bottles, high-density polyethylene (HDPE) containers and poly propylene (PP) caps. The

Group has demonstrated its ability to maintain quality and thus, enjoys established relationships with various reputed pharmaceutical players.

Financial flexibility and operational synergies post the acquisition by Shriji Group – The company's acquisition by SPIL has brought expected operational synergies, which has resulted in increase in its gross and operating margins. The improvement in the overall efficiency at the operating level, coupled with synergies at the raw material procurement level, and strategic decision making have lent synergistic benefits to the company, which may result in further improvement in the profitability. Moreover, such factors have resulted in the overall improvement in the credit risk profile of the company. ICRA expects SPIL to provide funding support to PIL, as and when required, indicating the company's healthy financial flexibility.

Reputed client base – The company has a reputed client base and derives most of its revenue from APL, a leading player in its segment. While PIL is exposed to high client concentration risk, ICRA derives comfort from PIL's established relationship with APL, the proximity of its plants to APL, as well as APL's market position. In addition, the company caters to other reputed clients across industries. PIL has also added Aditya Birla Group's paints division (Grasim) in its clientele through its newly commercialised plant located in Cheyyar, Tamil Nadu. The company is further seeking to onboard new clients and add new products to mitigate its client and industry concentration risks.

Credit challenges

Moderate scale of operations – The company's revenue stood at a moderate ~Rs. 214 crore in FY2024, which increased by ~12% from ~Rs. 192 crore in FY2023. The overall revenue base is further expected to grow with revenue from the Cheyyar plant scaling up. Additionally, the overall financial risk profile is characterised by moderate coverage indicators, as reflected in TD/OPBIDTA of 2.4 times, as of March 31, 2024. The current ratio stood at 0.8 times, as of March 31, 2024, as some portion of high long-term repayments were catered by short-term funds, resulting in asset-liability mismatch. The coverage indicators are expected to improve, going forward, owing to the reduced cost of debt and the expected increase in cash accruals, which would be utilised towards funding the capex, while PIL's reliance on debt decreases gradually.

Exposed to high sectoral concentration risk – Almost 66% of PIL's revenues came from the paints industry in FY2024, which results in high sectoral concentration. However, ICRA derives comfort from PIL's overall clientele, which includes major players from the paints industry, including APL.

Vulnerability of earnings to fluctuations in input prices – PIL's profit margins remain susceptible to fluctuations in the prices of raw materials. Despite the company's established position and relationship with its clients, it is subject to competition that limits its pricing power and profitability to some extent.

Liquidity position: Adequate

The liquidity of the company is adequate, backed by a cushion of ~Rs. 10 crore in working capital limits, as on July 31, 2024. In the past 12 months ending in July 2024, the average cushion in the limits of the company stood at ~Rs. 3.2 crore. However, the enhancements availed by the company in the recent months provided flexibility, which will remain subject to the availability of the drawing power. Besides, the company maintains limited free cash balances and has sizeable debt repayments of Rs. 11.70 crore and Rs. 15.19 crore in FY2025 and FY2026, respectively which are likely to be funded through its expected cash flow of Rs. 25-30 crore.

Rating sensitivities

Positive factors – The ratings may be upgraded in case of a significant growth in revenue while maintaining its profitability and liquidity. Improvement in the credit profile of the parent may also trigger ratings upgrade.

Negative factors – Pressure on revenue, resulting in deterioration in profitability and liquidity on a sustained basis may warrant ratings downgrade. Deterioration in the credit profile of the parent or weakening of linkages with the parent may also result

in downward revision of ratings. Besides, TD/OPBDITA of more than 3.0 times on a sustained basis may trigger ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	SFIL holds a 100% stake in PIL (as of March 31, 2024) and ICRA expects SFIL to extend funding support to PIL, as and when needed
Consolidation/Standalone	Standalone

About the company

In 1981, Parekhplast India Limited (PIL) started as a rigid packaging manufacturer of molded plastic products. In over three and a half decades, Parekhplast has become one of the leading suppliers of rigid plastic molded articles, catering to various industries including paints, pharmaceuticals, medical devices, nutraceuticals, healthcare, food and dairy, cosmetics and chemicals and pesticides. However, the major portion of its revenue is derived from the paints industry and approximately 56% from a single client, Asian Paints, as per FY2024 audited data shared by the management. The company operates through four plants spread across the country. PIL has ISO-9001, FSSC-22000, DMF-III (US FDA), CGMP approvals. The company has recently closed its Palghar plant due to poor infrastructure, resulting in weak efficiencies and losses. SFIL purchased a ~77% stake of PIL in December 2022, while the remaining stake was acquired in November 2023.

Key financial indicators (audited)

PIL Standalone	FY2023	FY2024
Operating income	191.7	214.3
PAT	3.6	11.7
OPBDIT/OI	11.0%	15.5%
PAT/OI	1.9%	5.4%
Total outside liabilities/Tangible net worth (times)	2.1	2.4
Total debt/OPBDIT (times)	2.6	2.4
Interest coverage (times)	2.3	3.3

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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Nov 19, 2024	Oct 10, 2023	-	-
1 Cash credit	Long Term	27.37	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	-
2 Term loans	Long Term	35.93	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	-
3 Non-fund based	Long Term/Short Term	7.70	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Term loans	Simple
Non-fund based	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	-	NA	-	27.37	[ICRA]BBB+ (Stable)
NA	Term loans	March 2020	NA	March 2029	35.93	[ICRA]BBB+ (Stable)
NA	Non-fund based	-	-	-	7.70	[ICRA]BBB+ (Stable)/ [ICRA]A2

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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