

May 30, 2022

Secure Industries Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based / Cash Credit	22.00	22.00	[ICRA]BBB- (Stable); reaffirmed
Long-term – Fund-based / Term Loan	24.00	55.45	[ICRA]BBB- (Stable); reaffirmed/assigned
Short-term – Non-fund Based – Interchangeable	(15.00)	(22.00)	[ICRA]A3; reaffirmed
Long-term – Fund-based – Interchangeable	(4.00)	(4.00)	[ICRA]BBB- (Stable); reaffirmed
Unallocated limits	-	2.55	[ICRA]BBB- (Stable); assigned
Total	46.00	80.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation for Secure Industries Private Limited (SIPL) continues to factor in the extensive experience of the promoters in the packaging industry, which helped the company maintain healthy relationships with its reputed key clientele. This has helped it gain repeat business from the customers and also in the expansion of its product portfolio. Moreover, the company is expected to benefit from the addition of new customers in the current year. ICRA also notes that SIPL is in the process of setting up a new facility at Ahmedabad (Gujarat), which is expected to cater to the pharmaceutical sector, thereby providing incremental revenue generation and sectoral diversification starting from FY2024.

The ratings, however, remain constrained by SIPL's leveraged capital structure and moderate debt coverage indicators, as reflected by total debt/ OPBDITA¹ of 3.2 times as on March 31, 2022. However, of the total debt of Rs. 69.5 crore as on March 31, 2022, Rs. 12.2 crore was in the form of loans from related parties. ICRA notes that the company is not required to pay any interest on these loans with effect from Q2 FY2021. The company is subject to high customer concentration at present, with the top two customers contributing ~60% of the total revenues in FY2022. However, ICRA takes comfort from the long association of SIPL with these customers. Also, addition of new customers in FY2023 will help the company diversify its clientele and mitigate this risk to an extent. SIPL's profit margins remain vulnerable to fluctuations in key raw material prices as well as fluctuations in foreign exchange rates, given the considerable imports for the company, and the limited ability of the company to pass on such increases to the customers. The same was witnessed during FY2022 when its operating profit margin (OPM) declined to 10.4% from 18.8% in FY2021. SIPL's profit margins also remain exposed to the intense competition in the packaging industry, although backward integration through mould manufacturing and established relations with key clients provide some advantage over competition.

ICRA notes that one of the directors of SIPL had filed a petition with the National Company Law Tribunal (NCLT) in CY2017 to finalise the terms of settlement with SIPL, post his exit from the company. In its order dated January 16, 2020, NCLT has reserved the order in the said matter. After the verdict on the said matter is delivered, shares at present held by the said director will be bought by existing/new shareholders of SIPL in their personal capacities. Hence, there will be no cash outflow from SIPL in this matter. The same is expected to be resolved in the next two-three months.

¹ Operating profit before depreciation, interest, tax and amortisation

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the company will continue to benefit from the extensive experience of its promoters and the established track record of its operations. Diversification into the pharmaceutical segment and addition of other clients in the beverages segment is also expected to provide incremental revenue and greater sectoral diversification going forward.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters in the packaging industry – SIPL started manufacturing caps and closures from FY2013, prior to which, the promoters were associated with another company in the same line of business. Given the promoters' association with some of the large players in the beverages industry and their experience of over two decades, SIPL has bagged orders from reputed players primarily from the beverages sector, which has enabled the company to establish its position in the packaging industry.

Established association with reputed players in the beverages industry leads to repeat business – The company's customer base comprises leading beverages and mineral water manufacturers such as Hindustan Coca Cola Beverages (HCCB), Kandhari Beverages Pvt. Ltd., Dailee Fresh Fruits India Pvt. Ltd. amongst others. SIPL also entered into an agreement with Coca-Cola Beverages Sri Lanka Limited in March 2018 for supplying caps and closures, which provides export business to the company. Long-term association with some of these leading players in the beverages industry, has resulted in repeat business for SIPL. Moreover, the company is expected to benefit from addition of new customers in the current year. ICRA also notes that SIPL is in the process of setting up a new facility at Ahmedabad (Gujarat), which is expected to cater to the pharmaceutical sector, thereby providing incremental revenue generation and sectoral diversification starting from FY2024.

Credit challenges

Leveraged capital structure given the recent debt-funded expansion – With an increase in the debt levels following the ongoing debt-funded greenfield expansion at Ahmedabad, the capital structure of SIPL remains leveraged with a gearing of 1.7 times as on March 31, 2022 and total debt/ OPBDITA of 3.2 times in FY2022. However, of the total debt of Rs. 69.5 crore as on March 31, 2022, Rs.12.2 crore is in the form of unsecured loan from promoters and related parties. ICRA notes that the company is not required to pay any interest on these loans with effect from Q2 FY2021. Of these unsecured loans, Rs. 9.12 crore would remain in business till the pendency of bank debt, and servicing would be subservient to the bank debt. Of the total unsecured loans, ~Rs. 5-6 crore is likely to be converted to equity by FY2025. With no significant debt-funded capital expenditure expected in the near term, the debt level is expected to reduce gradually over the medium term.

High customer concentration; likely to reduce going forward – The company is exposed to high customer concentration risk, with top two customers contributing ~60% of the total revenues in FY2022. However, the same is expected to be mitigated to an extent with the addition of certain new customers in FY2023 along with the company's plans to cater to the pharmaceutical industry starting FY2024.

Intense competition in the packaging industry – The plastic caps and closures industry is highly competitive due to its fragmented nature since the barriers to entry are low. However, backward integration into mould manufacturing gives SIPL an edge over its competitors in terms of technical expertise and value engineering. The company's well-established relations with reputed clients also provide some comfort.

Susceptibility of profit margins to volatility in raw material prices and forex rate fluctuations – The primary raw material required for manufacturing closures are polypropylene (PP) and high-density polyethylene (HDPE). Of the total raw material procurement, SIPL imports about 80% from Thailand, Saudi Arabia and France, among other markets. The company is thus exposed to adverse movements in foreign exchange (forex) rates, although exports provide partial natural hedge. PP and HDPE being petroleum derivatives witness high volatility, given their direct linkages to crude oil prices; thus, exposing the company to raw material price fluctuation risks. SIPL's profit margins remain vulnerable to these fluctuations, given the limited ability

of the company to pass on such increases to the customers. However, effective January 2022, SIPL has in place a quarterly price revision with HCCB as against annual price revision earlier, which is expected to safeguard the margins to an extent.

Liquidity position: Adequate

The company's liquidity profile is adequate, supported by expectations of adequate cash accruals (to the tune of ~Rs. 22.6 crore in FY2023), along with undrawn working capital lines of Rs.9.2. crore and free cash of Rs.0.3 crore as on March 31, 2022. Against these sources of funds, the company has debt repayments of Rs. 11.1 crore and moderate capital expenditure plans of Rs. 10-12 crore in FY2023.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company exhibits significant growth in revenues and profitability, coupled with improvement in net worth position leading to improvement in credit metrics and liquidity profile on a sustained basis.

Negative factors – The ratings could be downgraded if the company shows (A) considerable de-growth in revenues and decline in profitability leading to stress on liquidity on a sustained basis (B) any higher than anticipated debt-funded capex leading to deterioration in credit metrics on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on standalone financial statements of Secure Industries Private Limited

About the company

Secure Industries Private Limited, originally established as Plenco Polymers Private Limited on November 16, 1999, remained dormant for a decade, before starting operations from FY2009. The company was renamed Secure Industries Private Limited on October 15, 2011. Until FY2013, SIPL primarily provided technical services to bottling and capping lines and supplied consumable parts to bottling lines that were designed and developed by it. In FY2013, SIPL ventured into the manufacturing of caps and closures that find applications in polyethylene terephthalate (PET) bottles of carbonated soft drinks (CSD), fruit juices and bottled water. The company's factory is located at Hyderabad (Telangana), with a manufacturing capacity of ~399 crore units per annum. SIPL has a separate division which designs and manufactures the moulds used by the company for manufacturing caps and closures. SIPL is also in the process of setting up a new factory at Ahmedabad (Gujarat), which will be commissioned by end-FY2023.

Key financial indicators (audited)

SIPL	FY2020 Audited	FY2021 Audited	FY2022 Provisional
Operating Income (Rs. crore)	118.01	101.71	144.0
PAT (Rs. crore)	5.7	3.9	7.0
OPBDIT/OI (%)	16.8%	18.8%	15.2%
PAT/OI (%)	4.9%	3.8%	4.9%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	1.9	-
Total Debt/OPBDIT (times)	2.4	2.6	3.2
Interest Coverage (times)	7.0	4.8	7.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA research

Status of non-cooperation with previous CRA: SIPL failed to submit information that ACUITE was requesting for to conduct the surveillance and review of its rating and was therefore flagged as 'Issuer not-cooperating'. Based on best available information, ACUITE reviewed the long-term rating of 'ACUITE D' (read as ACUITE D) on the Rs. 21.45-crore bank facilities of SIPL.

India Ratings and Research (Ind-Ra) has maintained Secure Industries Private Limited's Long-Term Issuer Rating in the non-cooperating category. The issuer did not participate in the rating exercise despite continuous requests and follow-ups by the agency. Therefore, investors and other users are advised to take appropriate caution while using these ratings. The rating will continue to appear as 'IND BB+(ISSUER NOT COOPERATING)' on the agency's website.

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020		
				May 30, 2022		Mar 5, 2021	Jun 30, 2020	Jul 08, 2019	June 04, 2019	
1	Cash Credit	Long-term	22.00	-	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)
2	Term Loan	Long-term	55.45	45.50	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)
3	Fund-based Interchangeable#	Long-term	(4.00)	-	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)
4	Non-fund Based – Interchangeable##	Short-term	(22.00)	-	[ICRA]A3	-	[ICRA]A3	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
5	Unallocated	Long-term	2.55	-	[ICRA]BBB-(Stable)	-	-	-	-	-

Sublimit within cash credit limit

Sublimit within term loan

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loans	Simple
Long-term fund-based facilities	Simple
Long-term fund-based interchangeable facilities	Simple
Short-term Non fund-based interchangeable facilities	Very Simple
Unallocated facilities	Not applicable

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	22.00	[ICRA]BBB- (Stable)
NA	Term Loan	Feb 2014	NA	Dec 2028	55.45	[ICRA]BBB- (Stable)
NA	Packing Credit / Foreign Bill Discounting [#]	NA	NA	NA	(4.00)	[ICRA]BBB- (Stable)
NA	Letter of Credit ^{##}	NA	NA	NA	(22.00)	[ICRA]A3
NA	Unallocated	NA	NA	NA	2.55	[ICRA]BBB- (Stable)

Source: Company; [#] Sublimit within cash credit limit; ^{##} Sublimit within term loan

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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