July 19, 2022

PTG Technopak Private Limited: 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	5.85	5.85	[ICRA]B+ (Stable); reaffirmed
Long-term: Fund Based/Term Loan	5.00	5.00	[ICRA]B+ (Stable); reaffirmed
Short-term: Interchangeable^	(5.85)	(5.85)	[ICRA]A4; reaffirmed
Total	**10.85**	**10.85**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action factors in PTG Technopak Private Limited's (PTG) steady revenue growth, driven by an increase in sales volumes with higher capacity utilisation in FY2022. The rating also factors in the expanding customer base which includes reputed names such as Pidilite Industries Limited, Indian Oil Corporation Limited and Bajaj Hindustan Sugar Limited. PTG has no external debt as on date other than working capital limits which is typically sparsely utilised. PTG meets its funding requirement mostly through internal cash accruals and surplus funds from other Group companies (like Track Innovations (India) Private Limited), which are partially interest-bearing. Moreover, while the company has been mostly able to pass on the price hikes in raw materials to the end-consumers, the operating margins have been declining to 5.95% in FY2022 from 6.7% in FY2021, primarily owing to a change in the product mix. Additionally, the ratings continue to derive comfort from the promoter's extensive experience in the plastic rigid packaging industry and a favourable demand outlook for PTG's products (high-density polyethylene drums, barrels and containers).

The ratings, however, remain constrained by the highly fragmented and competitive industry, which limits the pricing flexibility of the industry participants, and PTG's modest scale of operations, resulting in limited economies of scale. Despite some improvement, its financial profile remains average. However, given the low capital base and accretion to reserves due to the limited operational track record, PTG's capital structure has remained leveraged with a gearing of 3.82 times (2.63 times excluding unsecured loans) and TOL/TNW of 5.4 times as of March 2022. Moreover, the company's profit margins remain vulnerable to the volatility in key raw material prices (high-density polyethylene or HDPE) and also to the adverse movement in foreign currency exchange rates, given that a part of its raw material requirement is met through imports.

The Stable outlook on the ratings reflects ICRA's expectation that PTG will continue to benefit from the extensive experience of its promoters in the industry and a favourable demand outlook for its products, enabling it to scale up its operations steadily.

Key rating drivers and their description

Credit strengths

Extensive domain experience of promoters – PTG is a part of the Padia Group, which is involved in the timber and plastic rigid packaging businesses through various companies. The company's promoters have an extensive experience of over a decade in manufacturing HDPE barrels, drums and containers. This has helped them to scale up PTG's operations steadily since the commencement of its operations in 2017.

Growing customer base; includes reputed names –The promoters have been able to grow PTG's customer base because of their prior experience in the industry. The company has reputed clients such as Pidilite Industries Limited, Indian Oil Corporation Limited and Bajaj Hindustan Sugar Limited. However, given its current scale, PTG only meets a part of the total requirements of its major customers. The customer concentration was relatively high with top five clients accounting for 75-76% of the total sales in FY2022.

Favourable demand outlook for domestic HDPE barrel industry – There is good demand prospect for the polymer-based packaging industry, supported by cost and quality advantages, against that for metal-based containers.

Credit challenges

Fragmented and competitive nature of the industry limits pricing flexibility – The low manufacturing technological complexity and, consequently, a moderate capital investment in setting up an injection moulding plastic manufacturing plant have resulted in intense competition. Moreover, there are several organised and unorganised players in the field, of which the former accounts for a greater share of the market. Intense competition limits the pricing flexibility of the industry participants, including PTG.

Modest scale due to limited track record of operations – Though the company's operating income (OI) has increased to ~Rs.37 crore in FY2022, its existing scale of operations remains modest. This constrains its ability to benefit from the economies of scale and limits its pricing flexibility vis-à-vis the bigger entities operating the same business.

Average financial risk profile – Despite some improvement, PTG's financial profile remains average. The company's capital structure remains leveraged owing to low net worth, marked by a gearing of 4.08 times as on March 31, 2022. This, coupled with increasing working capital requirements and some contraction in margins, led to average debt protection metrics for FY2022.

Profit margins vulnerable to volatility in raw material prices and foreign exchange – Any adverse movement in raw material prices – that cannot be entirely passed on to its customers – may have a negative impact on the company's margins. This is also demonstrated by some contraction in margins in FY2022 owing to the sizeable firming up of raw material prices. Though the share of material requirement which is met through imports is decreasing, PTG's margins remain vulnerable to foreign exchange rate fluctuations in the absence of an adequate hedging mechanism.

Liquidity position: Adequate

PTG's liquidity position is adequate, supported by steady internal accrual generation and cushion in the form of undrawn bank lines. Moreover, PTG does not have any major capex plans over the medium term and the cash accrual generation is expected to be sufficient to meet the debt repayment obligations.

Rating sensitivities

Positive factors – The company's ratings could be upgraded if it demonstrates a sustained improvement in revenue and cash accrual generation, leading to a strengthened net worth position and improvement in its debt protection metrics.

Negative factors – Negative pressure on the company's ratings could arise if there is a significant decline in revenues or margins, resulting in a reduction of cash accruals. Further, any significant capex or stretch in the working capital cycle adversely impacting the liquidity profile might result in a rating downgrade. A specific credit metric that could lead to a downgrade includes a DSCR of less than 1.1 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

PTG, incorporated in 2016, is a wholly promoter Group-owned organisation of the Padia Group, with its manufacturing facility in Ambala, Haryana. The company commenced commercial operations in February 2017 and manufactures high-density polyethylene (HDPE) drums, barrels and containers. The major promoter of PTG, Mr. Amit Padia, has ~15 years of experience in manufacturing plastic-moulded products and the direct marketing of products for industrial packaging.

Key financial indicators

PTG Technopak Standalone	FY2021	FY2022*
Operating income	28.9	37.17
PAT	0.28	0.53
OPBDIT/OI	6.7%	5.95%
PAT/OI	1.0%	1.42%
Total outside liabilities/Tangible net worth (times)	7.0	5.39
Total debt/OPBDIT (times)	6.1	4.86
Interest coverage (times)	2.8	3.54

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore *as per provisional financials*

Status of non-cooperation with previous CRA: Not applicable

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 March 31,2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					July 19, 2022	July 12,2021		February 7,2020
1	Fund Based - Cash Credit	Long-term	5.85	5.08	[ICRA] B+(Stable)	[ICRA] B+(Stable)		[ICRA] B+(Stable)
	Fund Based - Term Loan	Long-term	5.00	.37	[ICRA] B+(Stable)	[ICRA] B+(Stable)		[ICRA] B+(Stable)
2	Non-fund based - Interchangeable*	Short-term	(5.85)	.5	[ICRA]A4	[ICRA]A4		[ICRA]A4

&= Under Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based - Cash Credit	Simple
Fund Based -Term Loan	Simple
Non-Fund Based - Interchangeable	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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance/Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund Based/Cash Credit	-	–	–	5.85	[ICRA]B+ (Stable)
-	Fund Based/ Term Loan	2018	~10.25%	FY2023	5.00	[ICRA]B+ (Stable)
-	Non-Fund Based; Interchangeable	–	–	–	(5.85)	[ICRA]A4

Source: *Company*

Annexure-2: 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.

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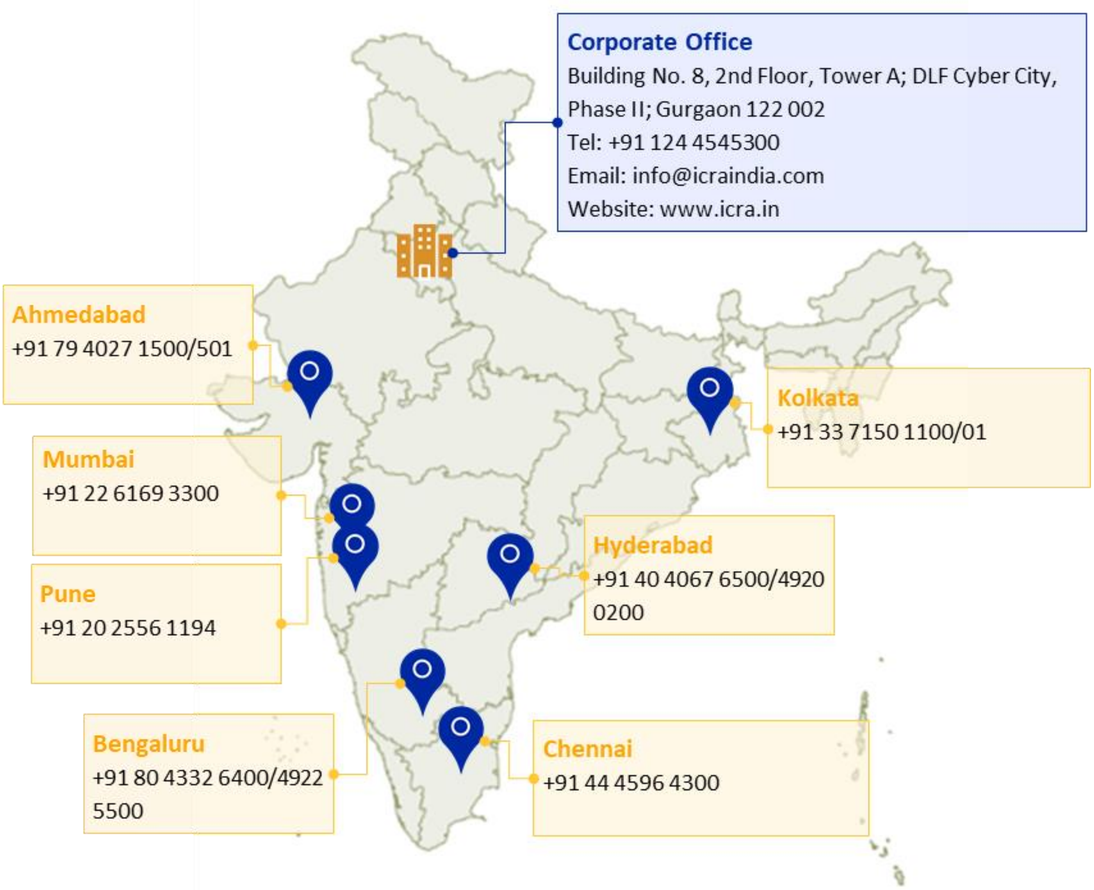

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