

November 29, 2023

## Canpac Trends Pvt. Ltd.: 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 – Term Loans	112.51	96.54	[ICRA]BBB; reaffirmed; Outlook revised to Positive from Stable
Long Term – Fund Based – Cash Credit/WCDL/Invoice Discounting	80.00	80.00	[ICRA]BBB; reaffirmed; Outlook revised to Positive from Stable
Long-term Fund based – Cash Credit	(11.00)*	(11.00)*	[ICRA]BBB; reaffirmed; Outlook revised to Positive from Stable
Short Term – Non-Fund Based – Letter of Credit, Bank Guarantee & Credit Exposure Limit	22.37	22.37	[ICRA]A3+; reaffirmed
Short Term – Non-Fund Based – Letter of Credit	(11.00)*	(11.00)*	[ICRA]A3+; reaffirmed
<b>Total</b>	<b>214.88</b>	<b>198.91</b>	

\* Instrument details are provided in Annexure-1; \*Sub-limit of invoice discounting

### Rationale

The revision in outlook to Positive factors in the expected improvement in Canpac Trends Pvt. Ltd.'s (CTPL) performance led by capacity addition in recent past supporting the sales volumes, new customer additions along with improvement in coverage indicators in FY2024, as reflected in improvement in the debt protection metrics in H1FY2024, driven by better margins on back of decline in raw material costs and focus on high margin products. The rating also continues to factor the extensive experience promoters in the packaging industry, its reputed clientele and a diversified product profile. ICRA also notes that the company had been under capex phase over the past few years towards capacity expansion and the business acquisition of Manisha Creations. With this phase concluded, the coverage and leverage metrics are expected to improve from the current fiscal as benefits related to the capex start to flow in.

The ratings, however, are constrained by CTPL's presence in a highly competitive industry along with the exposure of its margins to volatility in raw material prices; hence, CTPL's ability to pass on the price rise to customers remains critical from a credit perspective. Further, the scale of the company continues to remain at moderate level, though the new capacity addition through the recent capex is expected to support the same going forward. The rating also considers the high working capital intensive nature of the business, primarily due to high inventory holdings.

The positive outlook on the long -term rating reflects ICRA's expectation that CTPL's operational and financial profile will continue to improve, backed by its new customer additions, as well as returns stemming from the recently completed capacity expansion.

### Key rating drivers and their description

#### Credit strengths

**Established presence and extensive experience of promoters in the packaging industry** – CTPL's promoters have extensive experience of over two decades in the trading and outsourced manufacturing of paper and packaging products before venturing into the manufacturing of packaging materials. CTPL commenced manufacturing operations from October 2011 and has significantly scaled up its operations over the years with expansion of its capacity and portfolio.

**Diversified product portfolio and established relationships with reputed customers** – The company started its commercial journey by manufacturing folding cartons and corrugated boxes. To offer comprehensive packaging solutions to its clientele, the company also forayed into flexible packaging, paper bags and luxury packaging. Its enhanced product portfolio enabled CTPL to on-board reputed clients from diverse industries, such as food, FMCG, dairy, pharmaceuticals, textiles and retail. Some of its top clients include ITC Limited, Raymond Limited, Lux Industries Limited, Amul Dairy, etc. It has also added new multinational customers. Established relationships with its customers ensure repeat business and revenue stability.

**Expected improvement in financial profile backed by new capacity and focus on high margin product segments** – The company has reported sales of Rs. 345.48 crore and Rs. 386.92 crore in FY2022 and FY2023, respectively, clocking YoY growth of ~50% and ~12%, respectively. Moreover, CTPL expanded its geographical presence by setting up a new manufacturing facility at Kolkata along with acquisition of the customer base of a newly acquired entity where the first line commenced operations from Q1 FY2023 and second line from Q2 FY2023. Hence, the sale volumes are expected to grow from the current fiscal, aided by addition in installed capacity amid a stable demand scenario. This coupled with decline in raw material costs and focus on high margin product segment the margin also expanded sharply in H1FY2024 leading to improvement in debt protection metrics, with TD/OPBIDTA improving from 3.69 times in FY2023 to 2.58 times in H1FY2024 (provisional) and interest coverage from 3.26 times in FY2023 to 4.58 times in H1FY2024 (provisional). Though margins may moderate compared to highs of H1FY2024, however with stabilization in input prices (paper) the margin is expected to remain better than FY2023 levels in near to medium term, thereby impacting the coverage numbers favourably, given lack of any debt funded capex plans.

### Credit challenges

**Relatively moderate scale of operations**– Despite a healthy growth with a CAGR of ~21% over the last four years to Rs. 386.92 crore in FY2023, CTPL's scale of operations continues to remain moderate at an absolute level relative to the size of the packaging industry, resulting in limited economies of scale. However, the scale of operations is expected to get a boost with new capacity addition, and the ability of the company to timely ramp up the same, will remain a key rating monitorable.

**Susceptibility of profitability to volatile raw material prices and forex fluctuations**- CTPL's major raw materials include paper, duplex sheets and laminate films, which comprise ~60–65% of the total manufacturing cost. The prices of raw materials have remained volatile over the years, thus, any adverse movement in the input prices exposes the profitability to volatility. The company's ability to pass on any price rise, which averts further fall in profitability, will be key for its profitability metrics in the near term.

**Presence in competitive and fragmented packaging industry** - The business environment is competitive, given the fragmented and unorganised structure of the packaging industry. A large portion of the industry is serviced by unorganised players, who cater to small-scale requirements of clients across industries, while the remaining market is dominated by a few major players. This limits the company's pricing flexibility and, thereby, exerts pressure on its profitability. However, CTPL's diverse product profile and its established client relationships mitigate the risk to some extent.

### Liquidity position: Adequate

CTPL's liquidity position remains adequate supported by steady internal accrual generation and unutilised working capital limits of Rs. 35 crore, as on September 30, 2023. The working capital utilisation stood at an average of ~68% against sanctioned limits for the 12 months ending September 2023. Further, the company has also enhanced its fund based working capital limit by 18 crore which is expected to support the working capital requirements. CTPL has debt repayment obligations of ~Rs. 22 crore each in FY2024 and FY2025, and its cash accruals are expected to be sufficient to service the same.

## Rating sensitivities

**Positive factors** - ICRA could upgrade CTPL's ratings if it demonstrates a steady ramp up in scale and sustenance of healthy profitability leading to improvement in debt protection metrics. Better management of working capital, resulting in sustained improvement in liquidity position will also be positive for the rating. Specific credit metrics that could lead to a rating upgrade will be DSCR above 1.7 times on a sustained basis.

**Negative factors** – The outlook can be revised to Stable if there is notable decline in CTPL's scale of operations along with moderation in profitability, leading to lower-than-expected cash accruals. Stretch in the working capital or higher-than-expected debt-funded capex impacting the capital structure and liquidity profile could be another negative rating trigger. Specific credit metrics that could lead to a rating downgrade will be TD/OBIDTA above 3.0 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

## About the company

Ahmedabad-based Canpac Trends Pvt. Ltd., promoted by the Todi family, commenced operations from 2011. It manufactures packaging materials such as printed folded cartons (mono cartons) and micro-flute cartons (corrugated) based on offset printing technology. In FY2019, CTPL ventured into flexible packaging products such as laminates based on gravure printing technology, paper bags and luxury packaging. Its end-products find application in a wide range of industries, such as FMCG, pharmaceuticals, dairy, textiles, and foods. CTPL also merged its wholly owned subsidiary, Canpac Multi-ply Pvt. Ltd., with CTPL on March 31, 2017. CMPL was based out of Tirupur (Tamil Nadu) and is also involved in a similar business sector. Further, during FY2022, to grow its geographical presence in East India, CTPL acquired the customer base of a Kolkata-based entity, which has a track record of around 20 years in the packaging industry. CTPL has set up two new manufacturing lines for folding cartons in Kolkata wherein the first line commenced operations from Q12023 and the second line from Q22023.

## Key financial indicators (audited)

	FY2022	FY2023
Operating Income (Rs. crore)	345.48	386.92
PAT (Rs. crore)	10.11	9.82
OPBDIT/OI (%)	12.32%	13.60%
PAT/OI (%)	2.93%	2.54%
Total Outside Liabilities/Tangible Net Worth (times)	1.93	1.69
Total Debt/OPBDIT (times)	4.56	3.69
Interest Coverage (times)	2.99	3.26

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, All ratios as per ICRA calculations

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Sept 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
				Nov 29, 2023	Dec 05, 2022	Mar 11, 2022	Jul 01, 2021	-
1 Fund-based – Term loan	Long term	96.54	96.54	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
2 Fund Based Cash Credit/ WCDL/Invoice discounting	Long term	80.00	--	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
3 Fund based – Cash Credit	Long term	(11.00)*	--	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
4 Non-fund Based – Letter of Credit, Bank Guarantee & Credit Exposure Limit	Short term	22.37	--	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	-
5 Non-fund Based – Letter of Credit	Short term	(11.00)*	--	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	-
6 Unallocated Limits	Long term/ Short term	-	--	-	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	-

\*Sub-limit of invoice discounting

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term Fund based – Cash Credit/ WCDL/Invoice discounting	Simple
Long-term Fund based – Cash Credit	Simple
Short-term Non-fund Based – Letter of Credit, Bank Guarantee & Credit Exposure Limit	Very Simple
Short-term Non-fund Based – Letter of Credit	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	Term loan	FY2018-2022	NA	FY2027-2030	96.54	[ICRA]BBB (Positive)
NA	Cash Credit/ WCDL/Invoice discounting	NA	NA	NA	80.00	[ICRA]BBB (Positive)
NA	Cash Credit	NA	NA	NA	(11.00)*	[ICRA]BBB (Positive)
NA	Letter of Credit, Bank Guarantee & Credit Exposure Limit	NA	NA	NA	22.37	[ICRA]A3+
NA	Letter of Credit	NA	NA	NA	(11.00)*	[ICRA]A3+

*Source: Company; \*Sub-limit of invoice discounting*

[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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