October 08, 2024

Commercial Syn Bags Limited: Ratings reaffirmed and removed from Rating Watch with Developing Implications and Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	59.00	89.00	[ICRA]BBB (Stable); reaffirmed, removed from Rating Watch with Developing Implications and Stable outlook assigned
Long-term – Fund-based – Term Loan	40.97	40.00	[ICRA]BBB (Stable); reaffirmed, removed from Rating Watch with Developing Implications and Stable outlook assigned
Long-term/ Short-term- Unallocated	26.03	2.00	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed, removed from Rating Watch with Developing Implications and Stable outlook assigned
Short-term – Non-fund-based	15.00	10.00	[ICRA]A3+; Reaffirmed and removed from Rating Watch with Developing Implications
Total	**141.00**	**141.00**	

**Instrument details are provided in Annexure-I*

Rationale

The removal of Watch from the rating reflects the completion of acquisition of Smartlift Bulk Packaging Limited (SBPL) by Commercial Syn Bags Limited (CSBL), with the latter acquiring a 49% stake in SBPL at a total outlay of Rs. 22.3 crore (GBP 21,31,500) funded via internal accruals. Further, 1% will be acquired for Rs. ~0.50 crore (GBP 43,500) within one year from the last day of payment. SBPL has wholesale and retail presence in the flexible intermediate bulk container (FIBC) bags segment, which is procured from CSBL. With the said acquisition, CSBL is expected to benefit from increased presence in the European market and would gain access to the retail market.

The ratings derive comfort from CSBL's stablished market position in the FIBC segment as well as its diverse end-user industries, which provide cushion from industry-specific downturns to some extent. The ratings, however, remain constrained by its modest scale of operations with revenues of Rs. 288.4 crore in FY2024. While CSBL witnessed a 24% YoY growth in sales volumes in FY2024, its revenues declined by 0.6% due to a fall in realisations amid softening of raw material prices. The capacity utilisation of the new plant related to geo-textiles also remains low, which further restricted the revenues. This also resulted in pressure on the operating profit margin (OPM), which moderated to 8.8% in FY2024 from 8.4% in FY2023. The financial profile of the company also moderated amid elevated debt levels due to debt-funded acquisitions undertaken in the past and increased working capital intensity of operations.

Going forward, the financial profile is expected to improve, led by pick-up in revenues as the company ramps up the capacity of the geo-textiles plant. This coupled with stabilisation in raw material prices and thus, realisations, will translate into stable OPMs. Besides scheduled debt repayments and absence of any debt-funded capex, this will result in improvement in the financial profile. The ratings also factor in CSBL's working capital-intensive operations with moderately high inventory holding requirements and vulnerability of its profitability to the fluctuations in polypropylene (PP) granule prices. Further, stiff competition in the fragmented packaging industry limits its pricing flexibility.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the debt coverage indicators will gradually improve, led by the ramp-up in capacity of the new plant and absence of any large debt-funded capex.

Key rating drivers and their description

Credit strengths

Extensive promoter experience and established track record in packaging industry – The promoters have over three decades of experience in the packaging industry. The company's long operational track record has helped it establish strong business ties with its key customers and suppliers, resulting in repeat business from its major clients. In addition, CSBL is an appointed del credere associate cum consignment stockist (DCA/CS) for ONGC Petro Additions Limited (OPaL), which supports its revenue streams.

Diversified product profile with multiple end-user industries – CSBL has a diversified product range that includes FIBC, woven sacks, tarpaulin and technical textiles, which find application in diverse end-user industries including cement, chemicals, agro-commodities, infrastructure etc. Thus, the operations remain largely insulated from the risk of slowdown in any end-user sector.

Credit challenges

Moderation in financial profile over the last two years, though the same is expected to improve, going forward –CSBL's revenue moderated to Rs. 290.1 crore in FY2023 and Rs. 288.4 crore in FY2024 from Rs. 324 crore in FY2022. The top line of the company remained flat in the past two years due to pressure on realisations, amid softening in raw material prices and sub-optimal utilisation of geotextiles. OPMs have remained in the range of 8-9% in the last two years, declining from 11-12% due to rise in operational expenses of the new unit and increased freight charges. The debt levels also increased to Rs. 108.5 crore as on March 31, 2024 from Rs. 83.9 crore as on March 31, 2022 due to the debt-funded acquisition of Neo Corp International Limited. The working capital debt also remained high as on March 31, 2024, amid high debtor and inventory levels due to container shortages and utilisation of internal accruals towards acquisition of SBPL. Going forward, the financial profile is expected to improve, led by pick-up in revenues as company ramps up the capacity of the geo-textiles plant. This coupled with stabilisation in raw material prices and thus, realisations, will translate into stable OPMs. Besides scheduled debt repayments and absence of any debt-funded capex, this will improve the financial profile.

Susceptibility of profit margins to fluctuations in raw material prices and forex – PP granule is the key raw material for manufacturing FIBC bags. Being crude derivatives, any adverse movement in the prices of the same, , that cannot be entirely passed on to the customers, may have a negative impact on the company's margins. The supply risks, however, are mitigated to some extent by CSBL's continuing relationships with vendors. The margins have declined substantially in the current fiscal owing to input cost pressure and weak export demand from Europe. The company is also exposed to fluctuations in foreign currency as it is a net exporter, a part of which is mitigated through hedging undertaken.

Moderate scale of operations in a highly fragmented and competitive industry – CSBL continues to operate at a moderate scale, reflected in its operating income (OI) of Rs. 288.4 crore in FY2024, which limits the economies of scale. The FIBC industry remains fragmented because of low entry barriers as capital and technology requirements are limited, the gestation period is small, and raw materials are easily available. Revenue is expected to pick up in the coming quarters as the company is focused on increasing capacity utilisation, particularly of the geo textiles unit.

Environment and social risks

Environmental considerations: The packaging industry is exposed to environmental risks of air, water and land pollution, as discarded bags make up a sizeable portion of solid municipal waste in landfill. The company has its own recycling facility in

Unit III. It uses 20-30% products by recycled material. The company is captively using wastage generated from its manufacturing process by reprocessing the same.

Social considerations: Entities operating in the packaging industry are exposed to the risk of operational disruption from their inability to properly manage human capital in terms of their safety and overall well-being. The company has implemented a facility management initiative to ensure adequate welfare facilities for its workers.

Liquidity position: Adequate

The company's liquidity position is adequate with free cash and bank balance of Rs. 0.46 crore as on March 31, 2024. Besides, CSBL has sanctioned CC limit of Rs. 75 crore with an average utilisation of 54% (against the drawing power) in the last 12 months ending in July 2024. No major capex is planned in the near future, other than the capex for maintenance and repairs. CSBL has repayment obligation of ~Rs. 13 crore in FY2025, which is expected to be adequately covered by the company's cash flows.

Rating sensitivities

Positive factors – ICRA could upgrade CSBL's ratings in case of a healthy revenue growth, along with improvement in profitability and coverage indicators. An improved working capital cycle leading to improvement in liquidity could also trigger a rating upgrade. A specific credit metric that could lead to an upgrade is if total debt vis-à-vis operating profit before depreciation, interest and tax improves to less than 2.5 times, on a sustained basis.

Negative factors – Pressure on the ratings will emerge in case a sharp decline in revenues and profits or stretch in the working capital or debt funded acquisition adversely impacts the financial profile and the overall liquidity position. Specific credit metrics that could lead to a downgrade include interest coverage less than 3.0 times, on a sustained basis.

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 CSBL. As on March 31, 2024, CSBL has one subsidiary and one associate, details of which are given in Annexure II.

About the company

CSBL was incorporated in 1984 as a private limited company by Mr. Anil Choudhary and Mr. Mohanlal Choudhary. The company was reconstituted to a closely held public limited company in 1993 and subsequently got itself listed on the SME platform of the Bombay Stock Exchange in July 2016. The company migrated to the BSE main platform in May 2019.

The company manufactures and exports bulk packaging materials including FIBC/ jumbo bags, bulk bags, poly tarpaulin, woven sacks, box bags, polypropylene (PP)/ high density polyethylene (HDPE) fabrics and flexible packaging. The company has four manufacturing facilities located at Pithampur, Indore (Madhya Pradesh) with a combined manufacturing capacity of 24,530 metric tonnes per annum (MTPA) at a standalone level. In FY2018, the company commenced trading/agency business of plastic granules as a DCA/CS of ONGC Petro Additions Limited. The company also has a solar power plant for captive consumption. In FY2021, the company commenced operations in ComSyn India Private Ltd. (CIPL) as a 100% subsidiary, which manufactures FIBC fabrics. In FY2022, the company acquired Neo Corp International Limited (NCIL), which manufactures technical textiles. In FY2024, the company acquired a 49% stake in SBPL, which is involved in warehousing and retailing of FIBC bags and other packaging products. SBPL is incorporated in the United Kingdom and has one wholly-owned subsidiary in Ireland.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	290.1	288.4
PAT	8.1	7.7
OPBDIT/OI	8.4%	8.8%
PAT/OI	2.8%	2.7%
Total outside liabilities/Tangible net worth (times)	0.9	1.1
Total debt/OPBDIT (times)	3.1	4.3
Interest coverage (times)	4.0	3.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crorePAT: 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

	Current rating (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	October 8, 2024	Date	Rating	Date	Rating	Date	Rating
Long term-term loan-fund based	Long Term	40.00	[ICRA]BBB (Stable)	03-JAN-2024	[ICRA]BBB Rating Watch with Developing Implications	29-JUL-2022	[ICRA]BBB+ (Stable)	30-AUG-2021	[ICRA]BBB+ (Stable)
				-	-	20-FEB-2023	[ICRA]BBB (Stable)	-	-
Long term-cash credit-fund based	Long Term	89.00	[ICRA]BBB (Stable)	03-JAN-2024	[ICRA]BBB Rating Watch with Developing Implications	29-JUL-2022	[ICRA]BBB+ (Stable)	30-AUG-2021	[ICRA]BBB+ (Stable)
				-	-	20-FEB-2023	[ICRA]BBB (Stable)	-	-
Long term / short term-unallocated-unallocated	Long Term/ Short Term	2.00	[ICRA]BBB (Stable)/ [ICRA]A3+	03-JAN-2024	[ICRA]BBB/ [ICRA]A3+ Rating Watch with Developing Implications	29-JUL-2022	[ICRA]BBB+ (Stable)/ [ICRA]A2	30-AUG-2021	[ICRA]BBB+ (Stable)/ [ICRA]A2
				-	-	20-FEB-2023	[ICRA]BBB (Stable)/[ICRA]A3+	-	-
Short term-others-non fund based	Short Term	10.00	[ICRA]A3+	03-JAN-2024	[ICRA]A3+ Rating Watch with Developing Implications	29-JUL-2022	[ICRA]A2	30-AUG-2021	[ICRA]A2
				-	-	20-FEB-2023	[ICRA]A3+	-	-

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 / Short-term - Unallocated	Not applicable
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	-	NA	-	89.00	[ICRA]BBB (Stable)
NA	Term loan I	FY2022	NA	FY2026	1.96	[ICRA]BBB (Stable)
NA	Term loan II	FY2020	NA	FY2025	0.12	[ICRA]BBB (Stable)
NA	Term loan III	FY2020	NA	FY2026	4.38	[ICRA]BBB (Stable)
NA	Term loan IV	FY2022	NA	FY2026	0.76	[ICRA]BBB (Stable)
NA	Term loan V	FY2021	NA	FY2028	2.73	[ICRA]BBB (Stable)
NA	Term loan VI	FY2019	NA	FY2025	0.47	[ICRA]BBB (Stable)
NA	Term loan VII	FY2020	NA	FY2025	0.04	[ICRA]BBB (Stable)
NA	Term loan VIII	FY2019	NA	FY2026	0.20	[ICRA]BBB (Stable)
NA	Term loan IX	FY2019	NA	FY2026	0.79	[ICRA]BBB (Stable)
NA	Term loan X	FY2019	NA	FY2026	0.81	[ICRA]BBB (Stable)
NA	Term loan XI	FY2019	NA	FY2026	0.57	[ICRA]BBB (Stable)
NA	Term loan XII	FY2021	NA	FY2026	1.10	[ICRA]BBB (Stable)
NA	Term loan XIII	FY2023	NA	FY2029	26.07	[ICRA]BBB (Stable)
NA	Non-fund-based working capital limits	-	NA	-	10.00	[ICRA]A3+
NA	Unallocated	-	NA	-	2.00	[ICRA]BBB (Stable)/ [ICRA]A3+

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	CSBL ownership	Consolidation Approach
Comsyn India Private Limited	100%	Full Consolidation
Smartlift Bulk Packaging Limited U.K.	49%	Equity method

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About ICRA Limited:

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