

Royal Touch Fablon Private Limited

December 12, 2017

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	78.55	65.55	[ICRA]BBB (Stable); Rating reaffirmed and removed from the 'Issuer Not Cooperating' category
Non Fund-based limits	15.50	15.00	[ICRA]A3+; Rating reaffirmed and removed from the 'Issuer Not Cooperating' category
Unallocated limits	5.95	19.45	[ICRA]BBB (Stable); Rating reaffirmed and removed from the 'Issuer Not Cooperating' category
Total	100.00	100.00	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA triple B) assigned to the Rs. 8.55-crore¹ term loan (revised from Rs. 13.55 crore earlier), the Rs. 57.00-crore cash credit (revised from Rs. 65.00 crore earlier), and the Rs. 19.45-crore unallocated limits (revised from Rs. 5.95 crore earlier) of Royal Touch Fablon Private Limited (RTFPL or the company)². ICRA has also reaffirmed the short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) assigned to the Rs. 15.00-crore non fund-based limits (revised from Rs. 15.50-crore earlier) of RTFPL. The outlook on the long-term rating is 'Stable'. ICRA has also removed the ratings from the 'Issuer Not Cooperating' category.

Rationale

The reaffirmation of the ratings take into account the extensive experience of the promoters in manufacturing woven bags, RTFPL's reputed and diversified customer profile across various end-user industries, which mitigates the counterparty-credit risk to a large extent and reduces demand dependence from any particular industry. The ratings also take into account the growth in the top-line, which led to an improvement in the net profit and cash accruals of the company over the past few years. The demand prospects for the plastic packaging products are favourable, given the growing demand from the end-user industries. ICRA also notes that the coverage indicators witnessed an improvement, on the back of a rise in the profitability, during the first half of the current fiscal over the previous year.

The ratings, however, continues to be constrained by the high working-capital intensity of business, which exerts pressure on the liquidity position of the company, and leveraged capital structure. Moreover, the highly competitive nature of the industry, characterised by the presence of a large number of players, keeps RTFPL's profitability under check. The ratings also consider that the overall profitability also remains vulnerable to fluctuations in raw material prices, particularly to the extent of inventory held by the company.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

In ICRA's opinion, RTFPL's ability to scale up operations while improving its capital structure, coverage indicators and profitability, would remain key rating sensitivities, going forward. Any significant increase in the working-capital intensity of operations, which could adversely impact the liquidity position of the company, would remain a credit concern, going forward.

Outlook: Stable

ICRA believes Royal Touch Fablon Private Limited will continue to benefit from the long experience of the promoters. The outlook may be revised to Positive if the company able to scale up operations while improving its capital structure, coverage indicators and profitability. The outlook may be revised to Negative if there is any further increase in the working-capital intensity of operations, which could adversely impact the liquidity position of the company.

Key rating drivers

Credit strengths

Extensive experience of the promoters - The company is promoted by the Kolkata-based Kandoi family, who have an experience of around two decades in the manufacturing of HDPE/ LDPE/ PP woven bags, and FIBC/ Jumbo bags.

Reputed and diversified customer profile - The company caters to various industries, thus reducing demand dependence from any particular industry. The top-ten customers contributed only ~29% of the total sales in FY2017, which depicts a low customer-concentration risk. With a reputed and diversified client base, the counterparty risk is reduced to a large extent.

Steady improvement in the cash accruals - RTFPL's top-line has grown from Rs. 253.24 crore in FY2013 to Rs. 324.51 crore in FY2017, depicting a CAGR of ~6%. This has subsequently led to an improvement in the net profit and cash accruals of the company.

Favourable demand outlook for the packaging industry - The demand prospects for the plastic-packaging products are favourable given the growing demand from the end-user industries.

Credit weaknesses

Intense competition due to a large number of organised and unorganised players in the market - The company faces stiff competition from a large number of players supplying plastic bags, which limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins.

High working-capital intensity of business exerts pressure on the liquidity - The company makes payments to its domestic suppliers within 7-30 days, and imports against LC at sight. It extends a credit period of 10-90 days to its customers. RTFPL's inventory level continued to remain high, which primarily consists of semi-finished bags. This, in turn, has stretched its liquidity position and resulted in high utilisation of its fund-based limits, as reflected by an average utilisation of ~96% in the last twelve months, which also restricts its financial flexibility.

Leveraged capital structure with coverage indicators witnessing an improvement in the recent past - The capital structure of the company remained leveraged, as depicted by a gearing of 1.43 times as on September 30, 2017. Nevertheless, the coverage indicators witnessed an improvement, on the back of a rise in the profitability, during the first half of the current fiscal over the previous year.

Profitability remains susceptible to volatility in raw material prices - RTFPL remains exposed to the volatility in the prices of raw materials, polymers, which is a derivative of crude oil. This exposes the company to fluctuations in polymer prices, particularly to the extent of inventory held by the company.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Incorporated in 1999, Royal Touch Fablon Private Limited (RTFPL) manufactures high-density polyethylene (HDPE), low-density polyethylene (LDPE) and polypropylene (PP) woven bags, and flexible intermediate bulk containers (FIBC)/ jumbo bags. The company's manufacturing facilities are located in Dankuni, Uttarpara, and Kamarhatty, West Bengal and in Raipur, Chhattisgarh, with a combined annual installed capacity of 27,000 metric tonne. It is promoted by the Kolkata-based Kandoi family, who have an extensive experience in the packaging industry.

Key Financial Indicators

	FY2017	6M FY2018
	Audited	Provisional
Operating Income (Rs. crore)	324.51	144.42
PAT (Rs. crore)	5.39	2.99
OPBDIT/ OI (%)	6.16%	7.09%
RoCE (%)	11.75%	11.38%
Total Debt/ TNW (times)	1.53	1.43
Total Debt/ OPBDIT (times)	4.53	4.33
Interest Coverage (times)	1.99	2.45
NWC/ OI (%)	31%	35%

Status of non-cooperation with previous CRA:

CRA	Status	Date of release
CRISIL	CRISIL BBB-/Stable/ CRISIL A3 (Issuer Not Co-operating)	May 12, 2017

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore) March 31, 2017	Date & Rating December 2017	Date & Rating in FY2018 October 2017	Date & Rating in FY2017 April 2016	Date & Rating in FY2016 -
1 Term Loan	Long Term	8.55	7.56	[ICRA]BBB (Stable)	[ICRA]BBB (Stable) ISSUER NOT COOPERATING*	[ICRA]BBB (Stable)	-
2 Cash Credit	Long Term	57.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable) ISSUER NOT COOPERATING*	[ICRA]BBB (Stable)	-
3 Bank Guarantee/ Letter of Credit	Short Term	11.00	-	[ICRA]A3+	[ICRA]A3+ ISSUER NOT COOPERATING*	[ICRA]A3+	-
4 LER/ LEF	Short Term	4.00	-	[ICRA]A3+	[ICRA]A3+ ISSUER NOT COOPERATING*	[ICRA]A3+	-
5 Unallocated Limits	Long Term	19.45	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable) ISSUER NOT COOPERATING*	[ICRA]BBB (Stable)	-

*Issuer did not co-operate; based on best available information

Complexity level of the rated instrument:

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	Term Loan	FY2016	-	FY2021	8.55	[ICRA]BBB (Stable)
NA	Cash Credit	-	-	-	31.50	[ICRA]BBB (Stable)
NA	Cash Credit	-	-	-	25.50	[ICRA]BBB (Stable)
NA	Letter of Credit	-	-	-	3.00	[ICRA]A3+
NA	Bank Guarantee	-	-	-	3.00	[ICRA]A3+
NA	Letter of Credit/ Bank Guarantee	-	-	-	5.00	[ICRA]A3+
NA	LER/LEF	-	-	-	2.50	[ICRA]A3+
NA	LER/LEF	-	-	-	1.50	[ICRA]A3+
NA	Unallocated Limits	-	-	-	19.45	[ICRA]BBB (Stable)

Source: Royal Touch Fablon Private Limited

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