

November 30, 2020

Vishal Containers Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit	12.00	12.00	[ICRA]BBB(Stable); Reaffirmed
Fund-based Term Loan	20.46	20.46	[ICRA]BBB(Stable); Reaffirmed
Non-fund Based Letter of Credit	13.00	13.00	[ICRA]A3+; Reaffirmed
Unallocated Limits	11.54	11.54	[ICRA]BBB(Stable)/A3+; Reaffirmed
Total	57.00	57.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation in ratings favourably factors in the extensive track record of the Vishal Containers Limited (VCL) and its promoters in the packaging industry. The ratings derive comfort from the company's reputed clientele base, with history of repeat orders, its diversified product profile, and the enhanced capacity that is expected to drive the company's growth. ICRA also favourably considers the comfortable capital structure and coverage indicators of the company, supported by equity infusion, and the interest-free unsecured loans that comprises a significant portion of its debt.

The ratings, however, remain constrained by the company's moderate profitability and return indicators, which is aggravated by the high customer concentration risk as majority of its revenues are derived from a single customer group. ICRA also takes into consideration the near-to medium-term demand disruptions caused by the Covid-19 pandemic and the high competitive intensity in the industry, which along with the exposure of its profitability to volatility in raw material and foreign exchange prices, may constrain the profitability and the working capital intensity of the company.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the company is expected to maintain its business positioning.

Key rating drivers and their description

Credit strengths

Established track record of promoters in packaging industry; diversified product profile - VCL's promoters have extensive experience of over three decades in the packaging industry. VCL started its operations as a partnership concern in 1985 with a range of corrugated boxes and subsequently diversified its portfolio into flexible packaging. With the recent capacity expansion and installation of new technology, the company remains favourably placed to capture the increasing requirements in the packaging segment.

Established relationships with reputed clientele - The company caters to a wide range of industries such as tobacco, FMCG, food, beverages, and pharmaceutical. Over the years, the company has developed established relationship with its customers, which ensures repeat orders. Some of its top clients include Baghban Group, McCain Foods (India), Britannia Industries and Colgate Palmolive.

Comfortable capital structure and coverage indicators - The company's capital structure stood comfortable, supported by a history of equity infusion; the gearing was 0.7 times in FY2020 (1.2 times in FY2019). Further, its interest coverage indicator stood comfortable at 5.6 times in FY2020; however, the Total Debt/OPBDITA was 2.6 times in FY2020 as a predominant share of the company's debt (~44%) comprised of interest-free unsecured loans from the promoters.

Credit challenges

Moderate profitability and return indicators - The company's operating income grew at a CAGR of ~14% over the past five years to Rs. 200.2 crore in FY2020, aided by increased demand and capacity expansion. The operating profitability of the company also improved by 76 bps to 8.9% in FY2020, supported by backward integration and new printing technology, though it continues to be moderate. The return indicator also stood moderate, with expected ROCE at 11.7% in FY2020, and is likely to remain modest till commensurate return from the newly concluded capex flows in.

High customer concentration risk - VCL is predominantly a domestic player; majority of its revenues (~57% in FY2020) is derived from a single customer group, Baghban group, which is a tobacco and food products manufacturing group. However, with expansion of capacity and advent of new printing technology, the company is diversifying its customer profile by acquiring new customers, which is likely to moderate the risk of customer concentration.

Profitability susceptible to input price and foreign exchange fluctuations - VCL's major raw material includes paper, duplex sheets, poly films and aluminum foil, which comprise ~50%-60% of the total manufacturing cost. The prices of raw materials have remained volatile over the years, thus, any adverse movement in the input prices will impact the profitability of the company. Further, the company procures ~35%-40% of its raw material requirement through imports from China, South Korea, USA, Africa and the UAE, exposing the company to fluctuations in foreign exchange prices.

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

Liquidity position: Adequate

The company's liquidity is **adequate** supported by equity infusion in FY2020 and cushion in working capital limits (average utilisation stood at ~41% from April 2019 to October 2020). Further, the company has availed moratorium on debt repayments from March 2020 to August 2020 and has infused ~Rs. 7 crore of interest-free promoter loans in the current fiscal, which is likely to provide additional comfort.

Rating sensitivities

Positive triggers - ICRA could upgrade VCL's ratings if the company demonstrates a significant ramp up in scale and profitability, leading to higher-than-expected cash accruals on a sustained basis. Additionally, strengthening of the net worth with moderation in the working capital intensity, leading to improvement in the capital structure and liquidity, may also lead to a rating upgrade.

Negative triggers - Negative pressure on VCL's ratings could arise if slower-than-expected ramp up in scale along with moderation in profitability leads to lower-than-expected cash accruals; or if any major debt-funded capex, or stretch in the working capital cycle impacts the capital structure and the liquidity profile.

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 the issuer.

About the company

VCL was established as a partnership firm in 1985 by Mr. Arvind Patel and subsequently converted to a private limited company in 2004 and further to a closely-held limited company in 2008. It started operations with manufacturing of three-ply and five-ply corrugated boxes and subsequently forayed into flexible packaging products such as laminated films and pouches in 2006. The manufacturing facility of the company is located at GIDC Kalol in Gandhinagar and has an installed capacity of manufacturing 30,000 MTPA of corrugated boxes and 14,400 MTPA of flexible packaging.

In FY2019, the company reported a net profit of Rs. 6.0 crore on an operating income of Rs. 176.7 crore compared to a net profit of Rs. 5.3 crore on an operating income of Rs. 179.5 crore in FY2018. In FY2020, on a provisional basis, the company reported a net profit before taxes of Rs. 9.8 crore on an operating income of Rs. 200.2 crore.

Key financial indicators (audited)

	FY2018	FY2019	FY2020*
Operating Income (Rs. crore)	179.5	176.7	200.2
PAT (Rs. crore)	5.3	6.0	9.8^
OPBDIT/OI (%)	6.0%	8.1%	8.9%
PAT/OI (%)	3.0%	3.4%	4.9% [^]
Total Outside Liabilities/Tangible Net Worth (times)	2.0	2.0	1.2
Total Debt/OPBDIT (times)	3.5	3.7	2.6
Interest Coverage (times)	14.0	6.3	5.6

*Provisional; ^Profit before taxes

Status of non-cooperation with previous CRA

As per CRISIL rationale dated December 13, 2019, despite repeated attempts to engage with the management, CRISIL failed to receive any information on either the financial performance or strategic intent of VCL, which restricts CRISIL's ability to take a forward looking view on the entity's credit quality. CRISIL believes information available on VCL is consistent with 'Scenario 1' outlined in the 'Framework for Assessing Consistency of Information with CRISIL BB' rating category or lower'. Therefore, on account of inadequate information and lack of management cooperation, CRISIL has migrated the rating on bank facilities of VCL to '**CRISIL BB+/Stable/CRISIL A4+ Issuer not cooperating**'. Furthermore, the company has not paid the fee for conducting rating surveillance as agreed to in the rating agreement.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					30-Nov-2020	31-May-2019	-	-
1	Cash Credit	Long Term	12.00	-	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	-	-
2	Term Loan	Long Term	20.46	5.4^	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	-	-
3	Letter of Credit	Short Term	13.00	-	[ICRA]A3+	[ICRA]A3+	-	-
4	Unallocated Limits	Long Term/ Short Term	11.54	-	[ICRA]BBB(Stable)/A3+	[ICRA]BBB(Stable)/A3+	-	-

Amount in Rs. crore; ^As on March 31, 2020

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	~9%-9.25%	NA	12.00	[ICRA]BBB(Stable)
NA	Term Loan	FY2019	~9%-9.25%	FY2024	20.46	[ICRA]BBB(Stable)
NA	Letter of Credit	NA	NA	NA	13.00	[ICRA]A3+
NA	Unallocated Limits	NA	NA	NA	11.54	[ICRA]BBB(Stable)/A3+

Source: Vishal Containers Limited

Annexure-2: List of entities considered for consolidated analysis: None

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