August 30, 2021

Commercial Syn Bags Limited: [ICRA]BBB+ (Stable)/A2 reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/Cash credit	44.15	47.00	[ICRA]BBB+ (Stable); reaffirmed
Long-term – Fund-based/Term Loan	31.62	28.26	[ICRA]BBB+ (Stable); reaffirmed
Short-term – Non-fund Based limits	10.00	10.00	[ICRA]A2; reaffirmed
Long-term/Short-term – Unallocated	0.23	0.74	[ICRA]BBB+ (Stable)/ [ICRA]A2; reaffirmed
Total	**86.00**	**86.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings continue to favourably factor in the promoters' extensive experience and the established position of Commercial Syn Bags Limited (CSBL) as a supplier of bulk packaging material in the global market. The ratings consider the completion of capacity expansion over the last few quarters, which is expected to result in a ramp-up in scale. Higher proportion of value-added products, along with backward integration, is likely to augur well for the company's profitability going forward. The ratings also note CSBL's established customer base, across various end-user industries, which insulates it from the risk of slowdown in any particular industry. The rating reaffirmation is also supported by the favourable demand prospects of the flexible intermediate bulk container (FIBC) bags industry.

The ratings, however, are constrained by CSBL's relatively modest scale of operations that limits the benefit derived from economies of scale. ICRA notes the moderation in its profitability in Q1 FY2022 on account of increase in polymer prices and rising freight container costs. Further, the ratings are constrained by the increase in the external debt availed by the company for setting up and operational ramp-up of its wholly-owned subsidiary Comsyn India Private Limited (CIPL), resulting in pressure on leverage metrics. However, with returns being generated from these capacities, going forward, ICRA expects the leverage to moderate. The ratings also factor in CSBL's working capital-intensive operations with high inventory holding requirements and vulnerability of its profitability to fluctuations in polypropylene (PP) granules prices. Further, the 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 company will continue to benefit from the extensive experience of its promoters, its established track record in the FIBC manufacturing business and the recent capacity additions.

Key rating drivers and their description

Credit strengths

Experienced management and good reputation in industry – The promoters have over three decades of experience in the packaging industry. The company's long operational track record has helped it in establishing 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 and multiple end-user industry presence – CSBL offers a diversified product range such as FIBC bags, woven sacks, tarpaulin and printed packaging, which find application in diverse end-user industries including cement, chemicals and agro-commodities, etc. Thus, the operations remain largely insulated from the risk of slowdown in any particular industry.

Favourable demand outlook, capacity enhancement to support – The demand outlook remains favourable for FIBC in both domestic and international markets on the back of increased conversion from other forms of packaging, together with the rising demand from the end-user segments. The revenue contribution from FIBC segment was around 80% in FY2021 and it is likely to remain one of the key revenue drivers for CSBL. Further, it has increased its capacities to 20,630 MTPA from 17,000 MTPA over FY2019-FY2021. It has also set up capacities towards multi-filament yarn, which will act as a backward integration and improve efficiencies apart from supporting margins.

Credit challenges

Moderate scale of operations in a fragmented industry – CSBL continues to operate at a moderate scale, as reflected by its operating income (OI) of Rs. 213 crore in FY2021, which limits economies of scale. The FIBC industry itself 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. This restricts substantial scale-up of operations and exerts pricing pressure on the players. However, with the commencement of operations in its subsidiary company and capex incurred by CSBL leading to a sizeable increase in the operational capacity, the scale is expected to increase in the coming fiscals. In Q1 FY2022, the company registered sales and a PAT of Rs. 75.30 crore and Rs. 5.06 crore, respectively, against sales of Rs. 35.02 crore and a PAT of Rs. 2.15 crore in the first quarter of the previous fiscal.

Susceptibility to fluctuations in raw material prices and foreign exchange – Polypropylene (PP) granules is the key raw material required to manufacture FIBC bags. Any adverse movement in its prices that cannot be entirely passed on to customers may have a negative impact on the company's margins. The supply risks, however, are mitigated by CSBL's continuing relationship with the vendors. Further, around 75% of the total revenue is derived from exports, which exposes its margins to forex risk. However, forex risk is significantly mitigated by its hedging practices implemented through forward contracts and foreign currency term loans.

High working capital intensity – The company's operations remain working capital-intensive by nature due to high inventory holding, which can be attributed to its growing scale of operations and diverse product portfolio. The high working capital requirements will be supported by the recent enhancement in its working capital facilities.

High leverage in FY2021 leading to modest coverage indicators – The company's capital structure continues to remain debt reliant on account of sizeable capex over the last four fiscals. Moreover, the debt level has increased further in FY2021 owing to fresh debt availed for setting up of its subsidiary. Consequently, CSBL's consolidated gearing and debt/OPBDIT stood at 1.09 times and 3.47 times, respectively, for FY2021. However, it benefits from attractive interest rates on bank debts due to subventions and export credit lines, leading to a healthy interest coverage of 6.30 times. With returns being generated from the new capacities, ICRA expects the leverage to moderate going forward.

Liquidity position: Adequate

The company's liquidity position is **adequate**, driven by the healthy annual cash accrual and supported by recent enhancements in the working capital limits sanctioned by the bank. The average utilisation of fund-based working capital limits over the last 12 months period ending in May 2021 stood at 77%. Further, while there is an increase in the long-term debt availed by the entity, the repayment of additional loans is to commence in FY2023. With ramp-up in the operations of the subsidiary, along with healthy expected cash accruals of CBSL, the cash flows are likely to be adequate for its future repayment obligations.

Rating sensitivities

Positive factors – ICRA could upgrade CSBL's ratings if it is able to sustain its revenue growth, along with improvement in profitability and coverage indicators. An improved working capital cycle leading to an improvement in the liquidity, or Total Debt/OPBIDTA of less than 2 times on a sustained basis, could also trigger a rating upgrade.

Negative factors – Downward pressure on the ratings will emerge if the reliance on external borrowings increases to higher than-budgeted levels, resulting in deterioration in the capital structure, or lack of commensurate and timely returns from the ongoing capex impacts the financial profile and the overall liquidity position. Specific credit metrics that could lead to a downgrade include Total Debt/OPBIDTA greater than 3 times or interest coverage less than 3 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 the CSBL and its 100% owned subsidiary CIPL

About the company

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

It is involved in manufacturing of bulk packaging materials including FIBC/jumbo bags, bulk bags, poly tarpaulin, woven sacks, box bags, PP/high density polyethylene (HDPE) fabrics and flexible packaging. The company has four manufacturing facilities at Pithampur, Indore (Madhya Pradesh) with a combined manufacturing capacity of 20,630 MTPA. In FY2018, CSBL commenced trading/agency business of plastic granules as a DCA cum CS of OPaL. The company also has a 1.0-megawatt (MW) solar power plant for captive consumption.

In August 2020, CSBL incorporated its 100% owned subsidiary: Comsyn India Private Limited. The subsidiary became operational in FY2022 and is involved in manufacturing of HDPE fabrics, majority of which is captively consumed by CSBL in manufacturing of FIBC bangs.

Key financial indicators (audited)

MML Standalone	FY2020 (A)	FY2021* (A)
Operating Income (Rs. crore)	190.97	213.72
PAT (Rs. crore)	11.42	11.98
OPBDIT/OI (%)	12.44%	11.58%
PAT/OI (%)	6.0%	5.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.03	0.82
Total Debt/OPBDIT (times)	2.19	3.47
Interest Coverage (times)	5.54	6.30

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

**Consolidated financials of CBSL and CIPL are taken for FY2021. CIPL was incorporated in August 2020.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2019
					Aug 30, 2021	Feb 27, 2020	Jan 4, 2019	-
1	Cash credit	Long-term	47.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
2.	Term Loans	Long-term	28.26	28.26	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
3.	Non-fund based limits	Short-term	10.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	
4.	Unallocated	Long-term/ Short-term	0.74	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash credit	Simple
Long-term Fund-based – Term Loan	Simple
Short-term Non Fund Based Limits	Simple
Long-term / Short term– Unallocated	NA

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, is available on ICRA's 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	Cash credit	-	NA	-	47.00	[ICRA]BBB+ (Stable)
NA	Term Loan - I	FY2019	NA	FY2025	11.43	[ICRA]BBB+ (Stable)
NA	Term Loan – II	FY2019	NA	FY2023	1.16	[ICRA]BBB+ (Stable)
NA	Term Loan – III	FY2019	NA	FY2024	0.28	[ICRA]BBB+ (Stable)
NA	Term Loan – IV	FY2019	NA	FY2027	8.70	[ICRA]BBB+ (Stable)
NA	Term Loan – V	FY2021	NA	FY2028	6.69	[ICRA]BBB+ (Stable)
NA	Non-fund based limits	-	NA	-	10.00	[ICRA]A2
NA	Unallocated	-	NA	-	0.74	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	CSBL ownership	Consolidation Approach
Comsyn India Private Limited	100%	Full Consolidation

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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