February 20, 2023

Commercial Syn Bags Limited: Ratings downgraded

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	59.00	[ICRA]BBB (Stable); downgraded from [ICRA]BBB+ (Stable)
Long-term – Fund-based – Term Loan	40.97	40.97	[ICRA]BBB (Stable); downgraded from [ICRA]BBB+ (Stable)
Long-term/ Short-term- Unallocated	26.03	26.03	[ICRA]BBB (Stable)/ [ICRA]A3+; downgraded from [ICRA]BBB+ (Stable)/ [ICRA]A2
Short-term – Non-fund Based	15.00	15.00	[ICRA]A3+; downgraded from [ICRA]A2
Total	**141.00**	**141.00**	

**Instrument details are provided in Annexure-I*

Rationale

The change in the ratings represents ICRA's expectation of moderation in Commercial Syn Bags Limited's (CSBL) credit metrics led by pressure on its operating margins amid a weak demand scenario in the export market. CSBL was able to pass on input cost inflation only partly, which affected its operating margins. ICRA expects the operating margins to remain in a similar range owing to subdued demand in the European market resulting from the ongoing Russia–Ukraine conflict. CSBL's debt levels have risen owing to ongoing capex in the geotech segment, whose benefits will accrue gradually. However, with the pressure on operating profits, CSBL's leverage and coverage metrics are expected to be moderate in the near to medium term over earlier expectations. The ratings also factor in the stiff competition in the fragmented packaging industry as well as CSBL's working capital-intensive operations. CSBL's scale is moderate, though the capacity expansion will support growth prospects in the long-term.

Nevertheless, ICRA expects CSBL to maintain its established market position in the flexible intermediate bulk container (FIBC) segment. The diverse end-user industries for CSBL's products provide cushion from industry-specific downturns to some extent. Moreover, the geotech products are expected to provide additional growth avenues once full-fledged commercial operations start from Q1 FY2024.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the company will benefit from the planned capacity expansion and a track record as an established player in the FIBC space.

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 and foray into geotextile to further expand offerings – CSBL offers a diversified product range such as FIBC, woven sacks, tarpaulin and printed packaging, which find application in diverse end-user industries including cement, chemicals, agro-commodities, etc. Thus, the operations remain largely insulated from the risk of slowdown in any end-user sector. Moreover, CSBL is expected to start production of two geotech products—ground covers and primary carpet backing—in Q1 FY2024, which will further diversify CSBL's product portfolio.

Credit challenges

Susceptibility to fluctuations in raw material prices and forex, decline in margins in current fiscal – Polypropylene (PP) granules are the key raw material for manufacturing FIBC bags. Any adverse movements 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 to some extent by CSBL's continuing relationships with vendors. The margins have declined substantially in the current fiscal owing to input cost pressures and weak export demand from Europe. The company is also exposed fluctuations in foreign currency given that it is a net exporter, part of which is mitigated through hedging undertaken.

Debt-funded acquisition of assets for foray into geotextile, whose benefits will accrue gradually, thus leading to pressure on return and coverage metrics in the medium-term – CSBL has acquired geotech assets worth Rs. 30.51 crore in Q2 FY2022. The company is incurring a total capex of Rs. 45 crore , part of which will be debt funded. The plant is expected to be operational by early FY2024 and benefits shall accrue gradually. Consequently, against a backdrop of a weak demand scenario and ongoing margin pressures, the debt-funded capex is expected to exert pressure on CSBL's credit metrics. Moreover, CSBL's working operations are also expected to remain capital-intensive owing to the long inventory holding period.

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. 229.6 crore in 9M FY2023, which limits 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. Moreover, the demand slump in Europe has affected the revenues in 9M FY2023, which would continue in the medium-term. However, the ongoing capex to foray into the geotextile segment will augment the revenues of CSBL in the long term. Geotextile, being a higher value-added product, is set to help CSBL to differentiate itself in the face of stiff competition.

Environmental and Social Risks

Environmental considerations: Environmental considerations for players in the packaging industry include handling of waste disposal. These expose CSBL to increase in costs and liabilities associated with non-compliances to regulations. CSBL recycles its waste products, i.e., plastics, in its premises. CSBL also uses an in-house solar power plant as part of its green initiatives.

Social considerations: CSBL is exposed to social risks, including implementation of labour rights and maintaining corporate governance. CSBL works towards improving the quality of lives of the local communities near its manufacturing facilities. CSBL also supports causes like imparting primary education to underserved children.

Liquidity position: Adequate

CSBL's liquidity position remains adequate as reflected by moderate working capital limit utilisation. The company's average utilisation of total working capital limits has remained ~75% for the six-month period ending December 2022. CSBL's cash accruals are sufficient to service the debt obligations of ~Rs. 9.1 crore in FY2023 and Rs. 12.4 crore in FY2024 along with capex of ~Rs. 45 crore in FY2023 and ~Rs. 3 crore in FY2024. The company will be funding the capex from sanctioned term loans and there are no plans to take additional debt.

Rating sensitivities

Positive factors – ICRA could upgrade CSBL's ratings if it sustains its 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/OPBIDTA is less than 2.5 times, on a sustained basis.

Negative factors – Pressure on the ratings will emerge if there is a lack of commensurate and timely returns from the ongoing capex, impacting 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.

About the company

CSBL was incorporated in 1984 as a private limited company by Mr. Anil Choudhary and Mr. Mohanlal Choudhary. It was reconstituted to a closely held public limited company in 1993 and was later 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 manufactures 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 20,500 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 from FY2022 and is involved in manufacturing HDPE fabrics, most of which is captively consumed by CSBL for manufacturing FIBC bags. In July 2022, the company announced the acquisition of the assets of Neo Corp International Limited (NCIL) for foraying into the geotech segment, which will diversify the product portfolio of CSBL and result in incremental revenue and margins, once full-fledged production begins from early FY2024.

Key financial indicators (audited)

CSBL consolidated	FY2021	FY2022	9M FY2023*
Operating income	213.7	322.6	229.6
PAT	12.0	18.3	5.7
OPBDIT/OI	11.5%	10.4%	7.3%
PAT/OI	5.6%	5.7%	2.5%
Total outside liabilities/Tangible net worth (times)	1.5	1.1	-
Total debt/OPBDITA (times)	3.5	2.5	-
Interest coverage (times)	6.2	5.1	3.8

*PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore *Unaudited figures*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					20-Feb-23	29-Jul-22	30-Aug-21	-	27-Feb-20
1	**Cash credit**	Long-term	59.00	-	**[ICRA]BBB (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	-	**[ICRA]BBB+ (Stable)**
2	**Term Loan**	Long-term	40.97	29.34	**[ICRA]BBB (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	-	**[ICRA]BBB+ (Stable)**
3	**Non-Fund based**	Short-term	15.00	-	**[ICRA]A3+**	**[ICRA]A2**	**[ICRA]A2**	-	**[ICRA]A2**
4	**Unallocated**	Long-term/ short term	26.03	-	**[ICRA]BBB (Stable)/ [ICRA]A3+**	**[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
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	-	59.00	[ICRA]BBB (Stable)
NA	Term Loan I	FY2021	NA	FY2025	2.00	[ICRA]BBB (Stable)
NA	Term Loan II	FY2021	NA	FY2025	4.26	[ICRA]BBB (Stable)
NA	Term Loan III	FY2021	NA	FY2026	1.46	[ICRA]BBB (Stable)
NA	Term Loan IV	FY2019	NA	FY2026	9.50	[ICRA]BBB (Stable)
NA	Term Loan V	FY2019	NA	FY2023	0.29	[ICRA]BBB (Stable)
NA	Term Loan VI	FY2021	NA	FY2028	4.50	[ICRA]BBB (Stable)
NA	Term Loan VII	FY2021	NA	FY2026	2.60	[ICRA]BBB (Stable)
NA	Term Loan VIII	FY2019	NA	FY2025	0.20	[ICRA]BBB (Stable)
NA	Term Loan IX	FY2019	NA	FY2025	1.06	[ICRA]BBB (Stable)
NA	Term Loan X	FY2019	NA	FY2025	15.10	[ICRA]BBB (Stable)
NA	Non-fund-based working capital limits	-	NA	-	15.00	[ICRA]A3+
NA	Unallocated	-	NA	-	26.03	[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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 022 61143400
kinjal.shah@icraindia.com

Sheetal Sharad
+91 124 4545308
sheetal.sharad@icraindia.com

Susovan Mondal
+91 124 4545392
susovan.mondal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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