TCPL Packaging Limited

November 23, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	188.86	162.75	[ICRA]A- (Stable); Reaffirmed
Long-term, Fund-based Facilities	120.00	141.00	[ICRA]A- (Stable); Reaffirmed
Short-term, Non-fund Based Facilities	20.00	20.00	[ICRA]A2+; Reaffirmed
Long-term / Short-term – Unallocated	15.73	20.84	[ICRA]A- (Stable) / [ICRA]A2+ Reaffirmed
Total	**344.59**	**344.59**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus)[1] assigned to the Rs. 162.75-crore[2] (reduced from Rs. 188.86 crore) term loans and the Rs. 141.00-crore (increased from Rs. 120.00 crore) fund-based facilities of TCPL Packaging Limited (TCPL or the company). ICRA has also reaffirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) assigned to the Rs. 20.00-crore non-fund based facilities of the company. ICRA has also reaffirmed the [ICRA]A- and [ICRA]A2+ ratings assigned to the Rs. 20.84-crore (increased from Rs. 15.73 crore) unallocated limits of the company. The outlook on the long-term rating is Stable.

Rationale

The ratings take into account the moderation in the financial profile of the company in FY2018 and H1 FY2019, as reflected by a decline in its operating profit margins (OPM) and weakened coverage indicators and liquidity profile. The increased working capital requirements due to increasing scale of operations has resulted in an increase in short-term borrowings and thus almost full utilisation of its working capital limits during FY2018 and H1 FY2019. TCPL's OPM declined to 12.3% in FY2018 from 15.8% in FY2017 due to an increase in raw material prices, which the company has not been able to pass on to few customers due to competitive pressures, and the operating losses at its newly commissioned flexible packaging unit due to low utilisation as this unit is yet to stabilise its operations. Furthermore, the appreciation of the Indian Rupee against the US Dollar during FY2018 impacted the profit margins on its export sales (which constituted ~15-20% of its total revenues in FY2018). In addition, the company made a one-time bad-debt provision of Rs. 2.91 crore in Q4 FY2018. With a decline in OPM, the company's return on capital employed (RoCE) deteriorated to 10.2% in FY2018 from 15.6% in FY2017. During H1 FY2019, the performance of the company marginally improved as reflected in an improvement in its OPM to 13.3% from 12.8% in H1 FY2018. However, the company's liquidity profile continues to be impacted by its high working capital requirements. With increasing scale of operations, the working capital requirement is expected to increase further. Coupled with sizeable debt repayment obligations and planned debt funded capital expenditure in the current fiscal, this is expected to keep the debt levels high. Achieving stabilisation of the flexible packaging unit, judicious funding of the capital expenditure and efficient working capital management are the key rating sensitivities.

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

[2] *100 lakh = 1 crore = 10 million*

The ratings continue to draw comfort the long track record of the promoters of the company in the packaging materials business and TCPL's sizeable presence in the organised packaging industry. The ratings also factor in the diversified industries catered to by the company as well as its reputed customer base. While the company caters to a wide range of industries, the company has sizeable exposure to the fast-moving consumer goods (FMCG), cigarette industry and food beverages, which together contributed ~75% to the company's revenues in H1 FY2019. In addition, the packaging business is characterised by stiff competition with the fragmented nature of the industry and a large number of unorganised players in the field. The company's profit margins remain susceptible to raw material price fluctuations.

Outlook: Stable

The Stable outlook reflects ICRA's expectations that TCPL's credit profile will improve as the operations of the new flexible packaging unit stabilises and the long track record of its promoters in the packaging materials industry which shall help in better working capital management. The outlook may be revised to Positive if the company shows higher than expected improvement in its profitability metrics and better working capital management, resulting in strengthened financial risk profile of the company. The outlook may be revised to Negative in case of a further deterioration in the company's performance.

Key rating drivers

Credit strengths

Long and established track record of promoters and TCPL's sizeable presence in the organised domestic packaging industry – TCPL, established in 1987, is one of the largest paperboard packaging companies within the organised domestic packaging industry with revenues of Rs. 698.0 crore in FY2018. While the small to medium sized players with low bargaining power would likely be impacted more, large players like TCPL (catering to larger demand segments like FMCG) with high economies of scale should be in a position to maintain their bargaining power.

Wide range of target industries; benefits derived from established relations with reputed customers – The company caters to a wide range of industries, including FMCG, tobacco, liquor, among others. The sales concentration towards the top three industries (FMCG, cigarette, and food and beverages) remains high, contributing ~80% to the total sales in FY2018 and ~75% in H1 FY2019. While this signifies high sector concentration, the same is mitigated to an extent by the company's long-term association with its clients as well as its reputed client base. Some of its top clients include, among others, Hindustan Unilever Limited, Godfrey Phillips India Limited, Mondelez India Foods Limited and Colgate Palmolive.

Favourable demand for packaging industry augurs well for the company's growth – The future revenue growth for the industry is expected to be driven by rising income levels, increasing share of organised retail as well as rural penetration, and the resultant increase in the market size of the food processing industry, the largest consumer of packaging products in the country. With recent expansion in capacities, the company will be able to meet the increasing requirements, which will drive TCPL's growth, going forward.

Credit challenges

Weakened OPM; profitability susceptible to input price fluctuations – TCPL's OPM declined to 12.3% in FY2018 from 15.8% in FY2017 and 17.0% in FY2016 due to an increase in raw material prices, which the company was not able to pass on to few customers due to surplus capacities available in the domestic market, resulting in an increase in competitive pressures. Furthermore, the newly commissioned flexible packaging unit has been unable to scale up its operations, thereby impacting the financials. In addition, the appreciation of the Indian Rupee against the US Dollar during FY2018 impacted the profit margins on its export sales. The company also made a one-time bad-debt provision of Rs. 2.91 crore in Q4 FY2018. During H1 FY2019, the performance of the company marginally improved as reflected in an improvement in its OPM to 13.3% from 12.8% in H1 FY2018.

Leveraged capital structure and weakened coverage indicators; moderation in liquidity position – The capital structure of the company remains leveraged with a gearing of 1.3 times as on September 30, 2018. Increase in scale of operations along with stretched receivables cycle has resulted in an increase in working capital requirements resulting in an increase in the short-term borrowings and thus almost full utilisation of its working capital limits during FY2018 and H1 FY2019. Coupled with deterioration in profitability, this has impacted the liquidity profile of the company. The same has also resulted into weakened coverage indicators with TD/OPBDITA at 3.5 times as on March 31, 2018 and interest coverage at 3.4 times in FY2018. However, with an improvement in OPM in H1 FY2019, TCPL's TD/OPBDITA improved marginally to 2.9 times as on September 30, 2018. TCPL has incurred sizeable debt-funded capital expenditure over the past few years and plans to incur ~Rs. 90-95 crore capital expenditure during FY2019 towards capacity enhancements. The same is to be largely debt funded and thus the debt levels are expected to remain high.

High competitive pressures from both large and unorganised sector – The business environment remains competitive, given the fragmented and unorganised industry structure for the packaging industry. A large portion of the paperboard packaging industry is serviced by unorganised players, who cater to the small-scale requirements of clients across various industries. The balance is dominated by a few major players such as ITC Limited (Packaging Limited), Huhtamaki PPL Limited, Parksons Packaging Limited, Borkar Packaging Private Limited and York Print and Pack Private Limited. This limits the company's pricing flexibility, while exerting pressure on its OPM.

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

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

Incorporated as Twenty-First Century Printers Limited (TCPL) in August 1987 as a public listed company, this entity is promoted by the Kanoria family. It began operations by manufacturing packaging materials—mainly printed blanks used in the cigarette industry, using a gravure printing press installed at Silvassa (Dadra and Nagar Haveli). The company was renamed as TCPL Packaging Limited in 2008.

At present, the company is engaged in the manufacturing of packaging materials, based on gravure and offset printing technologies. The company had forayed into the flexible packaging segment from February 2017. Its end-products find application in a wide range of industries, such as FMCG, cigarettes, liquor, pharmaceuticals, pesticides, stationery, and food products, among others.

For the 12 months ended March 31, 2018, TCPL reported a profit after tax (PAT) of Rs. 20.2 crore on an operating income (OI) of Rs. 698.0 crore, as against a PAT of Rs. 33.2 crore on an OI of Rs. 613.0 crore for the 12 months ended March 31, 2017. For the six months ended September 30, 2018, as per provisional financials, TCPL reported a PAT of Rs. 16.0 crore on an OI of Rs. 396.7 crore.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	613.0	698.0
PAT (Rs. crore)	33.2	20.2
OPBDIT/ OI (%)	15.8%	12.3%
RoCE (%)	15.6%	10.2%
Total Debt/ TNW (times)	1.7	1.4
Total Debt/ OPBDIT (times)	3.1	3.5
Interest Coverage (times)	4.4	3.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating November 2018	Date & Rating July 2018	Date & Rating in FY2018 January 2018	Date & Rating in FY2017 December 2016	Date & Rating in FY2016 -
1	Term Loans	Long-term	162.75	162.75	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	-
2	Long-term, Fund-based Bank Facilities	Long-term	141.00	NA	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	-
3	Short-term, Non-fund Based Bank Facilities	Short-term	20.00	NA	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	-
4	Unallocated Amount	Long-term / Short-term	20.84	NA	[ICRA]A- (Stable) / [ICRA]A2+	[ICRA]A- (Stable) / [ICRA]A2+	[ICRA]A (Negative) /[ICRA]A2+	-	-

**As on September 30, 2018; NA-Not Applicable*

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	Long-term Loan	FY2014	6.7%	FY2023	54.65	[ICRA]A- (Stable)
NA	Long-term Loan	FY2014	10.6%	FY2021	39.63	[ICRA]A- (Stable)
NA	Long-term Loan	FY2016	10.1%	FY2022	28.84	[ICRA]A- (Stable)
NA	Long-term Loan	FY2015	4.3%	FY2019	39.63	[ICRA]A- (Stable)
NA	Long-term, Fund-based Facility	NA	NA	NA	141.00	[ICRA]A- (Stable)
NA	Short-term, Non-fund based Facility	NA	NA	NA	20.00	[ICRA]A2+
NA	Long-term / Short-term, Unallocated	NA	NA	NA	20.84	[ICRA]A- (Stable)/ [ICRA]A2+

Source: TCPL Packaging Limited

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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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