Commercial Syn Bags Limited

January 04, 2019

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ Cash Credit	37.15	[ICRA]BBB+ (Stable); assigned
Long Term - Fund Based Term Loan	35.48	[ICRA]BBB+ (Stable); assigned
Short Term - Non Fund Based	12.00	[ICRA]A2; assigned
Long Term / Short Term - Unallocated	1.37	[ICRA]BBB+ (Stable); [ICRA]A2; assigned
Total	**86.00**	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings favourably factor in the promoters' extensive experience and the established position of Commercial Syn Bags Limited (CSBL) in the packaging industry. With presence in over 28 countries, the company has an expanded base and a diversified product portfolio catering to various end-user industries. This has helped the company in achieving a large and established customer base with regular repeat orders from the major clients. In addition, it benefits from its presence in multiple end-user industries by virtue of which it remains fairly insulated from downturns in a particular segment. ICRA also notes the favourable demand prospects in the flexible intermediate bulk container (FIBC) bags industry and the company's continuous focus on value-added products.

The ratings, however, are constrained by CSBL's relatively modest scale of operations that limit its economies of scale, though increased orders from export-oriented customers and capacity expansion in place augurs well for its revenue growth over the medium term. ICRA also takes note of the moderation in the company's operating margin which declined to 9.43% in FY2018 from 10.84% in the previous year due to limited absorption of overheads. Its operating margin remains susceptible to fluctuations in the prices of the key raw material, i.e. polymer. However, back-to-back orders of raw material provide some cushion. Also, around 75% of total revenue is derived from exports, which is hedged through forward contracts that mitigate forex rate fluctuation risk. The ratings are also constrained by the moderately high working capital intensity because of the company's large inventory-holding requirements, given its vast product portfolio. The ratings also take into account the fragmented nature of the packaging industry, which adds to the competitive pressure and the high working capital intensity inherent in the business. ICRA also takes note of the company's debt-reliant capital expenditure plan and significant debt repayments thereon. This is likely to result in some moderation in the capital structure and coverage indicators.

Going forward, the company's ability to profitably scale up its operations by achieving optimal capacity utilisation levels and generate commensurate returns to support its capitalisation and debt coverage indicators will be critical from the credit perspective.

Outlook: Stable

ICRA believes that CSBL will continue to benefit from its established presence in the export market and its long-standing relations with its key customers. The outlook may be revised to Positive if there is substantial improvement in the profitability indicators while increasing the scale of operations, and maintain a comfortable capital structure. The outlook may be revised to Negative if the reliance on external borrowings exceeds the budgeted levels and results in deterioration of the capital structure, or lack of commensurate and timely returns from the proposed capex impacts the financial profile and overall liquidity position.

Key rating drivers

Credit strengths

Extensive promoter experience and established track record of CSBL in the industry: Incorporated in 1984, CSBL is majorly owned by the Choudhary family of Madhya Pradesh. The promoters have over two decades of experience in the packaging industry. This has helped the company establish strong business ties with its key customers and suppliers. In addition, the company has been appointed as the DCA/CS (del credere associate cum consignment stockist) for ONGC Petro Additions Limited (OPaL), which has increased its revenue streams.

Diversified product profile and multiple industry presence: The company 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. It is insulated from the risk of slowdown in any particular industry. In addition, about 75% of CSBL's revenues are derived from exports since the past several years. This has helped in achieving a large and established customer base with repeat orders from the major clients.

Favourable demand outlook: 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 an increasing demand from end-user segments. The revenue contribution from FIBC was 68% in FY2018. This segment is likely to remain one of the key revenue drivers.

Successful completion of capex expected to support further operational growth: Till FY2017, CSBL had been operating at a capacity of 13,000 metric tonne per annum (MTPA) with capacity utilisation of over 90%. In the past, the company regularly upgraded its production facilities to meet the increased demand. It upgraded one of its facility to a food grade unit and accordingly its total production capacity (all units) increased from 13,100 MTPA to 17,000 MTPA. Further, a debt-funded capex is being undertaken to expand the FIBC capacity and set up a lamination plant. The increased production should help the company meet incremental demand.

Credit challenges

Moderate scale of operations in a highly fragmented and competitive industry: ICRA notes the consistent increase in the company's production levels with revenues of Rs. 161.12 crore in FY2018. However, CSBL continues to operate at a moderate scale, which limits economies of scale. Also, the FIBC industry is 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 players.

Moderation in operating profit margins: The company's operating margin has been declining over the past two years. The OPM moderated to 9.43% in FY2018 from 10.84% in the previous year. Further, the company has been undertaking capex, which has resulted in increased debt levels. With moderation in profitability and increased debt levels, the gearing and return indicators moderated as well in FY2018.

Susceptibility to fluctuations in raw material prices and foreign exchange: Polypropylene 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 are mitigated by the continuing relationship with the vendors. Also, around 75% of total revenue is derived from exports. However, this is hedged by using forward contracts, thereby mitigating forex rate fluctuation risk.

High working capital intensity: The company's operations remain working capital intensive. ICRA believes that CSBL's operations will remain working capital intensive over the medium term.

Capital structure to witness moderation due to debt-funded capex: ICRA notes the expected moderation in capital structure and coverage indicators due to fresh debt-funded capex being executed by the company. The timely completion of capex project and stabilisation of production process remains crucial and will be monitored.

Liquidity position

CSBL has term loan repayment obligation of Rs. 5–6 crore over the next three years. It has sufficient cash accrual against annual debt obligation over the medium term. The company's average working capital utilisation in the last 12 months remained around 90%, and it had a free cash balance of Rs. 2.70 crore as on March 31, 2018.

Analytical approach

	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on standalone financial statements of the issuer

About the company

CSBL was incorporated in 1984 as a private limited company by Mr. Anil Choudhary and Mr. Mohanlal Choudhary. The company was reconstituted 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. It manufactures bulk packaging materials including FIBC/ jumbo bags, bulk bags, poly tarpaulin, woven sacks, box bags, polypropylene (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 17,000 MTPA. In FY2018, the company 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.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	120.28	161.12
PAT (Rs. crore)	5.32	6.16
OPBDIT/OI (%)	10.84%	9.43%
RoCE (%)	16.23%	16.14%
Total Debt/TNW (times)	0.64	0.82
Total Debt/OPBDIT (times)	2.04	2.60
Interest Coverage (times)	5.13	5.74

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital Employed; TNW: Tangible Net worth; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); Source: Financial statements of CSBL; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

SNo	Name of Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 years		
		Type	Rated amount (Rs. crore)	Amount outstanding (Rs. crore)	Month-year & Rating January 2019	Month- year and Rating in FY2018	FY2017	FY2016
						-	-	-
1	Cash Credit	Long Term	37.15	-	[ICRA]BBB+ (Stable)	-	-	-
2	Term Loan I	Long Term	1.10	1.10		-	-	-
3	Term Loan II	Long Term	1.90	1.98		-	-	-
4	Term Loan III	Long Term	17.20	17.02		-	-	-
5	Term Loan IV	Long Term	3.78	3.67		-	-	-
6	Term Loan V*	Long Term	9.50	-		-	-	-
7	Term Loan VI*	Long Term	2.00	-		-	-	-
8	Non-fund based	Short term	12.00	-	[ICRA]A2	-	-	-
9	Unallocated	Long Term/ Short term	1.37	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-

*proposed

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
-	Cash Credit	-	-	-	37.15	[ICRA]BBB+ (Stable)
-	Term Loan I	2015	-	FY2020	1.10	
-	Term Loan II	2016	-	FY2022	1.90	
-	Term Loan III	2018	-	FY2028	17.20	
-	Term Loan IV	2016	-	FY2028	3.78	
-	Term Loan V*	-	-	-	9.50	
-	Term Loan VI*	-	-	-	2.00	
-	Non-fund based	-	-	-	12.00	[ICRA]A2
-	Unallocated	-	-	-	1.37	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: CSBL; *proposed

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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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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