February 27, 2020

Commercial Syn Bags Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ Cash Credit	37.15	44.15	[ICRA]BBB+ (Stable); reaffirmed
Long Term – Fund-based Term Loan	35.48	31.62	[ICRA]BBB+ (Stable); reaffirmed
Short Term - Non-fund Based	12.00	10.00	[ICRA]A2; reaffirmed
Long Term / Short Term - Unallocated	1.37	0.23	[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 take into account the improvement in the company's revenues in the past two years following increased order inflows from its key customers in the export market, further supported by the recent capacity expansion. Moreover, with an increase in business scale thereby efficient absorption of overheads, and an increasing proportion of value-added products in its overall revenue mix, the company's operating profitability has improved. Further, ICRA positively notes the company's established customer base, across various end-user industries, which insulates it from the risk of slowdown in any particular industry. 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. ICRA also notes the moderation in the company's revenues in 9M FY2020 following a weakness in demand and decline in polymer prices. Further, with the majority of the revenues being derived from the European market, the company faces high geographical-concentration risk. The ratings also consider the vulnerability of the company's profitability to any adverse currency fluctuations along with the susceptibility to regulatory changes in the global markets. The ratings also factor in the company's working capital-intensive operations due to high inventory holding requirements and vulnerability of profitability to fluctuations in polypropylene (PP) granules (key raw material) prices. The ratings also take into account the fragmented nature of the packaging industry, which adds to the competitive pressure and limits pricing flexibility. ICRA also takes note of the company's ongoing debt-reliant capital expenditure and significant debt repayments thereon. 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.

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 and its established track record in the FIBC manufacturing business.

Key rating drivers and their description

Credit strengths

Extensive experience of promoter 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, CSBL has been appointed as the DCA/CS (del credere associate cum consignment stockist) for ONGC Petro Additions Limited (OPaL), which has widened its revenue streams.

Diversified product profile and presence across multiple industries: 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 has been deriving revenues from exports since the past several years. This has helped it in achieving a large and established customer base with repeat orders from major clients.

Sustained improvement in revenues and profitability: The company has been increasingly focusing on improving the value addition in its product offerings and hence, has added food grade FIBC as well as laminated bags to its existing product profile. In addition, aided by the improved capacity utilisation of its facilities, the company has recorded a sustained improvement in its revenues and profitability over the past two years.

Successful completion of capex expected to support further operational growth: The company has regularly upgraded its production facilities to meet the increased demand. It has upgraded one of its facilities to a food grade unit and accordingly its total production capacity (all units) has increased to 17,000 MTPA from 13,100 MTPA. Further, a debt-funded capex is being undertaken to expand the FIBC capacity and set up a lamination plant. Accordingly, the total capacity will be increased to 20,540 MTPA from 17,000 MTPA. The increased production should help the company meet incremental demand.

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 the rising demand from end-user segments. The revenue contribution from FIBC was 77% in FY2019. This segment is likely to remain one of the key revenue drivers.

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. 206.9 crore in FY2019. 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.

Geographical-concentration risks: A major portion of the company's export sales take place in the European market, resulting in high geographical-concentration risks. While CBSL is gradually diversifying into other markets, an increase in sales to other geographies would be a credit positive.

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

High working capital intensity: The company's operations remain working capital intensive on account of high inventory holding. Higher inventory holding was attributed to the company's growing scale of operations, along with a change in revenue recognition policy.

Moderate coverage indicators: Notwithstanding, the improvement in the company's profitability, the coverage indicators remained moderate, primarily on account of the debt-funded capex undertaken in the past and high working capital requirements.

Liquidity position: Adequate

CSBL's liquidity position is **adequate,** supported by healthy cash flow generation from operations and adequate cushion in working capital limits, both against drawing power and sanctioned limits. Although the scheduled long-term debt repayment obligations are sizeable at ~Rs. 5-6 crore over the next three years, the company is expected to have sufficient cash accruals to service its debt obligations comfortably.

Rating sensitivities

Positive triggers: ICRA could upgrade CSBL's rating if it is able to sustain 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. Specific credit metrics that could lead to an upgrade include Total Debt/OPBIDTA of less than 2 times on a sustained basis.

Negative triggers: Downward pressure on the rating 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 (i) Total Debt/OPBIDTA greater than 3 times (ii) interest coverage less than 3 times on sustained basis.

Analytical approach

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. The company has 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 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)

	FY2018	FY2019
Operating Income (Rs. crore)	161.1	206.9
PAT (Rs. crore)	6.2	11.2
OPBDIT/OI (%)	9.4%	12.4%
RoCE (%)	16.1%	21.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.3
Total Debt/OPBDIT (times)	2.6	2.1
Interest Coverage (times)	5.7	4.6
DSCR	2.9	2.9

Source: Financial statements of CSBL; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

SNo	Name of Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the Past 3 years		
			Rated amount	Amount outstanding	Month-year & Rating	Month- year and Rating in FY2019	FY2018	FY2017
			(Rs. crore)		February 27, 2020	January 4, 2019	-	-
1	Cash Credit	Long Term	44.15	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
2	Term Loans	Long Term	31.62	31.62	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
3	Non-fund based	Short term	10.00	-	[ICRA]A2	[ICRA]A2	-	-
4	Unallocated	Long Term/ Short term	0.23	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-

Amount in Rs. Crore

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	-	-	-	44.15	[ICRA]BBB+ (Stable)
-	Term Loan I	2015	-	FY2022	0.56	
-	Term Loan II	2016	-	FY2021	1.04	
-	Term Loan III	2018	-	FY2028	3.21	
-	Term Loan IV	2016	-	FY2025	14.06	
-	Term Loan V	2018	-	FY2024	1.44	
-	Term Loan VI	2019	-	FY2022	1.81	
	Term Loan VII	2019		FY2026	9.50	
-	Non-fund based	-	-	-	10.00	[ICRA]A2
-	Unallocated	-	-	-	0.23	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: CSBL

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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