

February 27, 2023

TCPL Packaging Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	10.00	[ICRA]A(Stable); assigned
Total	10.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned ratings favourably factors in the long track record of the promoters of TCPL Packaging Limited (TCPL) in the packaging materials business. Its growing and large scale of operations and diversified industries serviced by the company as well as its reputed customer base. While the company caters to a wide range of industries, it has sizeable exposure to the fast-moving consumer goods (FMCG), tobacco, and food and beverages (F&B) industries, which together drove a very high percentage of the company's revenues in FY2022. The rating also takes into consideration the favourable long-term growth outlook for the packaging industry on the back of increasing demand prospects from FMCG, F&B, pharmaceuticals, e-commerce and other consumer industries for packaging products.

The ratings, however, are constrained by TCPL's presence in the highly competitive packaging business, which is characterised by stiff competition amid the fragmented nature of the industry and a large number of unorganised players in the field. The margins also remain exposed to volatility in raw material prices, as well as management of conversion costs. Though the margins remained in the range of 14-16% in last three years, driven by higher sales, its ability to hike prices commensurate with raw material price rises remains key for margin protection. The ratings also factor in TCPL's moderate capitalisation and coverage metrics over the years, which is expected to remain range-bound in the near to medium term, given its regular debt-funded capex nature of business and high working capital requirements. Judicious funding of the capex and efficient working capital management, to keep the liquidity requirements at manageable levels, will remain key rating sensitivity on a ongoing basis.

The Stable outlook reflects ICRA's expectations that TCPL will continue to benefit from its established relationships with its customers and healthy demand scenario for the packaging industry.

Key rating drivers and their description

Credit strengths

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 in the organised domestic packaging industry with revenues of Rs. 1,085.7 crore in FY2022. 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 from established relationships with reputed customers – The company caters to a wide range of industries, including FMCG, tobacco and liquor, among others. The sales concentration towards the top three industries (FMCG, tobacco, and F&B) remains very high. 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. Foray into the flexible packaging segment with effect from February 2017 has further enabled client diversification.

Favourable demand for packaging industry augurs well for company's growth – Paper packaging is used in a wide variety of industries and applications. Overall, the long-term outlook for the industry remains healthy on the back of increase in economic activity coupled with increasing penetration of specialised and conventional packaging in sectors like FMCG, healthcare, e-commerce, pharma and consumer industries.

Large scale of operations – The company has large scale of operation with company reporting healthy revenue growth of 20% on a YoY basis to Rs. 1,085.7 crore in FY2022. The scale of operations is further expected to grow from FY2023 as reflected by 43% revenue growth in 9M FY2023 to Rs. 1,082.3 crore on YoY basis owing to healthy realisation levels. Going forward, the revenue growth is expected to be driven by addition in installed capacity amid a stable demand scenario.

Credit challenges

Capital intensive nature of business, necessitating regular debt-funded capex – The company has moderate capitalisation and coverage metrics over the years as indicated by capital structure of 1.4 times, total Debt/ OPBDITA of 3.0 times and interest coverage of 4.5 times as on March 31, 2022. These are expected to remain range-bound in the near to medium term, given its debt-funded expansion plans, which is mandated to support its growth plans. Though the capex will aid in capacity enhancement, TCPL's ability to scale up and garner commensurate returns from its planned capex will remain critical for improving its coverage metrics, going forward.

Working capital intensive nature of business – The company working capital utilisation has remained high at 85% of its drawing power and 91% of sanctioned limits for the last 12 months ending December 2022 due to its working capital-intensive nature of business. TCPL's creditor days remains limited as it avails cash discounts for early payment for few of its suppliers. However, its ability to avail unsecured borrowings over and above the sanctioned facilities to the extent of its drawing power supports the liquidity profile.

Susceptibility of profitability to volatility in raw material prices – TCPL's major raw materials include paper board, which make up most of its total purchase cost. The prices of raw materials have remained volatile over the years, rising recently because of the inflationary cost regime. However, the company has managed to protect its margins and grow in the last two fiscals as well as in 9M FY2023 because of its ability to pass on the price increase to its customers. Hence, this ability to pass on such price rises in a continuing inflationary environment remains key from a margin perspective.

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 established players. This limits the company's pricing flexibility, to an extent.

Environmental and Social Risks

Environmental considerations: The company works towards reduction and optimal utilization of energy, water, raw material, logistics, etc, by incorporating new techniques and innovative ideas. The company is committed to reduction of waste, conservation of raw material and pursuing zero pollution through various initiatives like technological upgradation and improvement projects. The company mainly generates paperboard scrap during its manufacturing activities. The company disposes the waste through registered/ appropriate agencies involved in proper disposal; and wherever possible, the wastepaper is recycled at nearby paper mills. During FY2022, the company started commercial manufacturing of fully recyclable packaging in the flexible packaging segment, which is largely plastic-based. This helps to combat the issue of plastic waste management. With help from customers, government waste collection, scrap segregation and processing industries, the company will provide a way to reuse or recycle consumer goods packaging, going forward. As per TCPL's FY2022 annual report, the emissions/waste generated by the company is within the permissible limits set by Central Pollution Control Board (CPCB)/ State Pollution Control Board (SPCB). During FY2022, there was no unresolved show cause/legal notices received from CPCB/SPCB.

Social considerations: TCPL tries to create a safe workplace for its employees and emphasis is given to health and safety related training programmes. Such trainings are provided on a regular basis to curtail the chances of any industrial mishaps. The contractual employees receive mandatory safety training before entering the company’s premises and also acquire on-the-job training through the contractor and the company. Consumer satisfaction surveys are also conducted to assess consumer satisfaction levels periodically. Whenever necessary, customer service teams and other management members visit customers to discuss and receive feedback. They also identify and assess consumer behaviour and emerging trends on consumer preferences. Marketing teams regularly communicate and interact with consumers for consumer-related R&D purposes. These efforts has positively impacted the company to maintain long-term association with its clients.

Liquidity position: Adequate

TCPL’s liquidity is adequate with cushion in accruals (expected more than Rs. 150 crore per annum in FY2023) vis-à-vis its repayment obligations (Rs. 50-70 crore per annum) and moderate cash balance of Rs. 9.1 crore as on March 31, 2022. Even though its capex requirements are high, they are to be funded through debt for which it has sufficient headroom (sanctioned term loan of Rs. 75-80 crore, of which the company is yet to draw Rs. 61.9 crore in H2 FY2023). Its working capital bank limits were utilised to the extent of ~85% of its drawing power over the last 12 months ending December 2022. The company also avails unsecured borrowings over and above the sanctioned limits to the extent of drawing power, which supports the liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade TCPL’s ratings if it demonstrates a steady increase in scale of operations and improvement in profitability leading to healthy cash accruals as well as improvement in liquidity profile. Specific credit metrics that could lead to a rating upgrade will be Total Debt/ OPBDITA less than 1.5 times on a sustained basis.

Negative factors – Negative pressure on TCPL’s rating could arise if there is notable decline in its scale of operations along with moderation in profitability, leading to lower-than-expected cash accruals. Stretch in the working capital or high debt-funded capex impacting the coverage indicators and liquidity profile could be another negative trigger. Specific credit metrics that could lead to a rating downgrade will be Total Debt/ OPBDITA above 2.3 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 TCPL. As on March 31, 2022, the company had three subsidiaries who are all enlisted in Annexure-2.

About the company

Twenty-First Century Printers Limited was incorporated in August 1987 as a public listed company 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 manufactures packaging materials, based on gravure and offset printing technologies. The company had forayed into the flexible packaging segment in 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. Altogether, the company had 17 printing lines at Silvassa, Haridwar, Goa and Guwahati, as on December 31, 2022.

Key financial indicators (audited)

TCPL (Consolidated)	FY2021	FY2022
Operating income	903.8	1,085.7
PAT	33.5	46.9
OPBDIT/OI	14.8%	14.2%
PAT/OI	3.7%	4.3%
Total outside liabilities/Tangible net worth (times)	1.8	2.1
Total debt/OPBDIT (times)	2.4	3.0
Interest coverage (times)	3.6	4.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of September 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Feb 27, 2023	-	-	-
1 Term loans	Long term	10.0	10.0	[ICRA]A (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	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	Term Loan	FY2023	NA	FY2029	10.00	[ICRA]A(Stable)

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	Ownership*	Consolidation Approach
TCPL Innofilms Pvt. Ltd.	100.00%	Full Consolidation
TCPL Middle East FZE	100.00%	Full Consolidation
Creative Offset Printers Pvt Ltd	80.31%^	Full Consolidation

Source: Annual report, *As on March 31, 2022, ^Increased to 85.52% as on Feb 6, 2023

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545300
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 4596 4318
ksrikumar@icraindia.com

Suprio Banerjee
+91 22 6114 3443
Supriob@icraindia.com

Karan Gupta
+91 22 6114 3416
Karan.gupta@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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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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