

April 05, 2023

Chemco Plastic Industries Pvt. Ltd.: Ratings upgraded to [ICRA]A+(Stable)/[ICRA]A1; rated amount enhanced, and issuer rating upgraded and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	96.0	98.0	[ICRA] A+ (Stable); upgraded from [ICRA] A (Stable) and assigned to enhanced limits
Long-term – Fund-based – Term Loans	98.7	119.9	[ICRA] A+ (Stable); upgraded from [ICRA] A (Stable) and assigned to enhanced limits
Long-term – Fund-based Limits	-	50.0	[ICRA] A+ (Stable); assigned
Short-term – Non-fund Based	19.5	14.5	[ICRA] A1; upgraded from [ICRA] A2+
Long-term/Short-term – Unallocated	0.8	-	-
Issuer rating	0.0	0.0	[ICRA]A+ (Stable); upgraded from [ICRA] A (Stable) and withdrawn
Total	215.0	282.4	

*Instrument details are provided in Annexure-I

Rationale

The upgrade in Chemco Plastic Industries Private Limited's (CPIPL) ratings factor in the significant improvement in its operational performance over the recent past, and expectations that this will sustain over the medium term. In line with favourable demand from end-user industries and capacity expansions undertaken over the past few years, operating income witnessed healthy growth of 48% in FY2022. This is expected to continue over the medium term with 20-25% growth expected in FY2023, considering its healthy share of business with key customers, and their continued growth prospects. At the same time, the company has maintained stable operating margins of ~17%, despite volatilities visible in crude oil prices. The ratings also favourably factor in the strong operational profile of the company as characterised by its established presence and vast experience of the promoter in the manufacturing and supply of plastic PET preforms, jars and bottles, and its long-standing association with reputed customers such as Bisleri International Private Limited, Hindustan Coca Cola Beverages Private Limited (HCCB), and Moon Beverages Limited, which augur well for its business prospects. The company has also been expanding into new product segments such as geomembranes, and enhancing its presence in categories such as baby care, to reduce its dependence on the beverage segment, and further enhance its revenue growth and diversification prospects.

The ratings also factor in CPIPL's healthy financial risk profile, characterised by robust operating margins, and comfortable gearing of 1.0 time as on March 31, 2022. Further, the debt protection metrics remain healthy with interest coverage of 8.0 times, total debt/OPBITDA of 1.9 times, DSCR of 2.6 times and Net cash accruals/total debt of 38.9% in FY2022. Despite some expectations of capex outgo over the near to medium term, the healthy cash accruals from operations and stable profitability are expected to support the company in retaining comfortable debt coverage indicators over the near term.

The ratings are, however, constrained by the capital-intensive nature of business necessitated by stable demand for its end products and the company's propensity to achieve business diversity by adding new products/ segments. The ratings also factor in the working capital requirements, given the need for maintaining optimal inventory levels and managing its debtors and creditors. The ratings also factor in the exposure of earnings to price fluctuations of key raw materials such as polyethylene terephthalate (PET), polypropylene (PP) and polyethylene (PE) granules. Nevertheless, CPIPL has been able to pass on the increased costs to its customers with minimal lag, thus mitigating the risk, and maintaining stable profitability over the years. Given the favourable demand outlook for its products, the company is likely to sustain its revenue growth and earnings.

However, to meet the same and achieve better diversity, the company has capex plans lined up over the medium term, which is expected to be funded partly by debt. Nevertheless, ICRA notes that the company has been able to ramp-up its new capacities in a short period of time in the past, mitigating project related risks to a large extent.

The Stable outlook reflects ICRA's belief that the company will continue to benefit from its strong relationship with its customers, which would support healthy growth in the company's scale of operations while it continues to maintain healthy profitability and comfortable debt metrics.

Key rating drivers and their description

Credit strengths

Vast promoter experience and strong operational profile – The promoter has significant experience of over two decades in manufacturing and supply of plastic PET preforms, jars and bottles as well as the baby care segment in the packaging industry and enjoys healthy relationships with its customers. Furthermore, the company has been focusing on strengthening its business profile by entering into new product segments like geomembranes and adding new customers to minimise its dependence on the beverage segment and achieve better product diversity.

Established track record of operations and healthy relationships with key customers – The group is an established player in the speciality plastic PET preforms, jars and bottles, and shrink films packaging industry with a track record of over two decades in catering to the food and beverage (F&B), baby care and FMCG sectors. The company also has an established market position, long track record of operations and a reputed client base, which has supported its business prospects over the years. It enjoys a long association and healthy relationships with its reputed customers such as Bisleri International Private Limited, HCCB, Moon Beverages Limited, Procter & Gamble, Dabur, Hindustan Unilever, Wipro, and Amazon, to name a few. Supported by these factors, the company's operating income (OI) increased at a CAGR of 26% (from FY2018 to FY2022) to Rs. 609.9 crore in FY2022 from Rs. 242.4 crore in FY2018 on the back of increase in the sale volumes and realisations. This is expected to continue at a healthy growth trajectory.

Healthy profitability and debt protection metrics – The company has a healthy financial profile characterized by robust operating margins (17.3% in FY2022), and comfortable gearing of 1.0 time as on March 31, 2022. Further, the debt protection metrics also remained healthy with interest coverage of 8.0 times in FY2022 (5.4 times in FY2021), total debt/OPBITDA of 1.9 times in FY2022 (1.9 times in FY2021), DSCR of 2.6 times in FY2022 (2.3 times in FY2021) and Net cash accruals/total debt of 38.9% in FY2022 (38.5% in FY2021). Given continued healthy cash accruals from operations and stable profitability, the company's debt coverage indicators are expected to remain comfortable in the near term.

Credit challenges

Moderate working capital intensity and capital-intensive nature of operations – CPIPL's operations are inherently capital intensive in nature as regular capex outlay is required to increase the scale of operations, launch new products or cater to new customers. Also given the nature of business, the company requires working capital to hold an optimal level of inventory and manage its debtors and creditors. With favourable demand prospects, the company also has some capex plans lined up for the medium term, which could be part-funded by debt. However, ICRA notes that the company has been able to ramp-up its new capacities in a short period of time in the past, mitigating any adverse impact on its profitability.

Vulnerability of profitability to fluctuations in raw material prices – PET, PP and PE granules are the key raw material needed to manufacture PET preforms. Hence, the company's profitability remains exposed to fluctuations in its prices, which in turn depend on the price of crude oil. However, since it enters into cost-plus margin contracts with its customers, and fluctuations in raw material prices are typically passed on with minimal lag, the company has been able to maintain a relatively stable profitability over the years. CPIPL is exposed to fluctuations in foreign currency exchange rates because of the export sales in

its revenue mix; however, it has foreign currency borrowings, providing a natural hedge and mitigating the risk of exchange rate risks to an extent.

Product concentration risk – The company’s top three products are preforms, jars and containers, and shrink films that drove more than 80% of CPIPL’s revenues in FY2022. Any change in consumer preference for the same, or any adverse regulatory developments impacting their usage will be a key risk for the company. However, healthy industrial demand prospects and established relationships with its customers, coupled with the absence of many economical alternatives, help to mitigate the risk to a large extent.

Liquidity position: Adequate

CPIPL’s liquidity position is adequate with expected cash accruals from operations of ~Rs. 90-120 crore annually, working capital limit buffer of ~Rs. 20 crore as on December 31, 2022, and free cash and liquid investments of ~Rs. 8 crore, against debt repayment of ~Rs. 30 crore over the next 12 months, and annual capex outgo of ~Rs. 65-75 crore.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings in case of a significant and sustained improvement in the company’s scale while maintaining its profitability. At the same time, efficient management of working capital that would support its liquidity profile and help limit reliance on external borrowings, and improve its credit metrics, would also support a rating improvement.

Negative factors – Negative pressure on the company’s rating could arise if any slowdown in demand or sharp contraction in earnings impacts its debt indicators, or any large debt-funded capex or elongation in working capital cycle impacts its credit profile. Specific credit metrics that could lead to a rating downgrade include total debt/OPBDITA greater than 1.7 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 CPIPL and Gaurav Containers Limited (GCL). Kindly refer to Annexure 2.

About the company

Incorporated in 1996, CPIPL is engaged in manufacturing PET preforms, bottles, jars and containers, caps and closures, baby feeding bottles and accessories, nettings, bubble films, insulation and related products, packaging of bathing and FMCG products, pond liners, roof liners, high quality tarpaulin, etc. CPIPL’s manufacturing facilities are located at Silvasa (inaugurated in 1996), Vadodara (2010), Halol and Sanand (2019). Since 2019, CPIPL has also forayed into multi-layered fabric manufacturing at its Halol facility, given the growing demand for the same. The company has a long association and strong relationships with its reputed customers such as Bisleri International Private Limited, Hindustan Coca Cola Beverages Private Limited, Moon Beverages Limited, Procter & Gamble, Dabur, Hindustan Uniliver Limited, Wipro and Amazon.

Gaurav Containers Limited (GCL) was incorporated in 1986 and predominantly manufactures the final PET, HDPE, PP bottles, jars and containers, caps and closures, which are mainly supplied to customers in the FMCG and healthcare and hygiene sectors. It has a manufacturing facility at Daman.

Key financial indicators (Audited)

CPIPL – Consolidated	FY2021	FY2022
Operating income	411.9	609.9
PAT	24.8	51.1
OPBDIT/OI	17.3%	17.3%
PAT/OI	6.0%	8.4%
Total outside liabilities/Tangible net worth (times)	1.5	1.7
Total debt/OPBDIT (times)	1.9	1.9
Interest coverage (times)	5.4	8.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history				
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	for the past 3 years		
						Date & rating in FY2022	Date & rating in FY2021	
				Apr 05, 2023	-	Feb 10, 2022	Jan 27, 2022	-
1 Fund-Based Cash Credit	Long-term	98.0	66.8	[ICRA]A+ (Stable)	-	[ICRA]A (Stable)	-	-
2 Fund-Based Term Loan	Long-term	119.9	119.9	[ICRA]A+ (Stable)	-	[ICRA]A (Stable)	-	-
3 Fund-Based Facilities	Long-term	50.0	49.6	[ICRA]A+ (Stable)	-	-	-	-
4 Non-Fund-Based Facilities	Short-term	14.5	-	[ICRA] A1	-	[ICRA] A2+	-	-
5 Unallocated	Long/Short Term	-	-	-	-	[ICRA]A (Stable)/ [ICRA] A2+	-	-
6 Issuer Rating	Long-term	-	-	[ICRA]A+ (Stable) withdrawn	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-

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-Fund Based Limits	Simple
Short-term non fund-based limits	Very simple
Issuer Rating	Not applicable

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, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-Term Cash credit	NA	NA	NA	98.0	[ICRA] A+ (Stable)
NA	Long-term fund-based Term loan	FY2016 & FY2023	NA	FY2029-FY2030	119.9	[ICRA] A+ (Stable)
NA	Long-term fund facilities	NA	NA	NA	50.0	[ICRA] A+ (Stable)
NA	Short-Term Non-Fund-Based Limits	NA	NA	NA	14.5	[ICRA] A1
NA	Issuer Rating	NA	NA	NA	NA	[ICRA] A+ (Stable) withdrawn

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Gaurav Containers Limited	-	Full Consolidation

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Branches



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