July 27, 2023

Vacmet India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	325.00	325.00	[ICRA]A+ (Stable); reaffirmed
Non-fund Based#	(325.00)	(325.00)	[ICRA]A1; reaffirmed
Unallocated	111.25	111.25	[ICRA]A+ (Stable); reaffirmed
Total	**436.25**	**436.25**	

**Instrument details are provided in Annexure-I, # fully interchangeable with fund-based cash credit*

Rationale

The rating reaffirmation factors in Vacmet India Limited's (Vacmet) established presence in the packaging film industry as a leading manufacturer of Bi-Axially Oriented Polyethylene Terephthalate (BOPET) and Bi-Axially Oriented Polypropylene (BOPP). Vacmet's operating profile is healthy on the back of the integrated nature of its operations with sizeable capacity enabling it to command meaningful market share in the domestic packaging film industry. The recent capacity expansion has supported the company in achieving a ~34% volumetric growth in FY2023. The rating also factors in the company's comfortable coverage metrics reflected in the healthy capitalisation, low debt levels along with healthy cash accruals, comfortable liquidity and long tenor debt. In the absence of any major debt raising plans, ICRA expects coverage metrics to remain comfortable despite oversupply concerns in the industry. The ratings continue to factor in Vacmet's locational advantages with its plants being close to major demand centres and steady demand of packaging film in India.

The ratings are, however, constrained by the vulnerability of the company's profitability to raw material (crude oil derivatives) prices and over-capacity at the industry level. Consequently, realisations sharply declined in FY2023, impacting on the operating profit margin (OPM). Given the cyclicality of the industry, OPM is expected to remain modest in the near to medium term. The packaging film industry, being commoditised in nature, remains vulnerable to pricing pressure in case of more than a normal time lag in passing the rise in input cost to end-customers. There is intense competition in the industry owing to several large players in the field. The pricing pressure also occurs when players aggressively expand capacities resulting in a scenario of over-capacity.

The Stable outlook on the long-term rating reflects ICRA's belief that the company will continue to benefit from its established position in the industry and its healthy market share in the packaging film industry along with steady for the packaging film industry.

Key rating drivers and their description

Credit strengths

Long and established track record in the BOPET and BOPP films industry – Vacmet began manufacturing metallised films in 1993 and since then scaled up its operations by setting up two BOPP and three BOPET lines. Currently, the company holds around 13-15% market share in the overall packaging film industry in India, commanding a prominent place in the sector. Over the years the company has improved its operating profile by adding value-added products as well as by setting up backward integration lines.

Healthy financial risk profile with healthy cash accruals, comfortable debt coverage indicators and long tenure term debt – Vacmet's financial risk profile is comfortable supported by healthy cash accruals and limited indebtedness. In FY2023, the company's scale witnessed a ~34% volume growth, albeit with a declined realisation. The company's net worth expanded to Rs. 1,404 crore while debt levels continued to be moderate at Rs. 600 crore in FY2023. Consequently, the coverage metrics were comfortable with DSCR and Net Debt/OPBDIT of 3.9 times and 0.3 time in FY2023; however, the same declined over FY2022 due to a sharp decline in operating profit. In the absence of any major capex plans, the company's credit metrics are expected to be comfortable in the near to medium term. The same is also supported by the long tenor of its existing term debt.

Locational advantage of plants being in proximity to demand centres and ports in northern and central India – In India, the northern and western markets are the key demand centres for packaging films. With Vacmet's plants located in and around Agra in Uttar Pradesh and Dhar in Madhya Pradesh, it enjoys proximity to both the major markets. The plant in Madhya Pradesh also provides proximity to ports along India's western coast, which enables exports with low freight costs. The company derives nearly 80% of its revenue from the northern and western domestic markets.

Credit challenges

Sharp decline in OPM in FY2023 due to overcapacity and adverse movement of raw material prices; OPM to remain at modest levels in near to medium term –There has been a substantial increase in the domestic capacity of BOPET and BOPP in the last two years and the undergoing addition of capacity by more players has put pressure on realisation of films. Moreover, there was an increase in raw material (mainly crude oil derivatives) price, especially for BOPET in FY2023, owing to supply chain pressures. As witnessed for the industry, Vacmet's OPM also declined, much higher than expectations, to ~11.6% in FY2023 from ~20.9% in FY2022. The OPM will remain modest in the near to medium term as overcapacity is expected to persist for the next two to three years till the time demand catches up with the steady growth of the packaging film industry. While some softening of key raw material prices was witnessed in Q1 FY2024, the company's ability to improve its margins remains to be seen. Vacmet derives ~25% revenue from its export business; and, hence, has a natural hedge for import and foreign currency term loans.

Cyclical nature of the industry coupled with highly competitive intensity and commoditised nature of products – The packaging film industry has historically faced bouts of capacity additions, which had significantly exceeded the demand growth leading to situations of over-capacity in the industry. As a result, the realisation and contribution margins have contracted during such times. Additionally, with the commoditised nature of most of the products with little scope for differentiation, industry players have faced periods of heightened competition resulting in weakening of margins. ICRA notes that Vacmet has increased its focus on export revenues as a source of diversification; and currently derives ~15-17% of its revenues from European markets. Moreover, it has been focusing on pushing volumes for value-added films.

Liquidity position: Adequate

Vacmet's liquidity is **adequate** supported by the healthy cash accruals and large unutilised fund-based limits. The company had cash and bank balance of ~Rs. 500 crore and Rs. 249 crore of unutilised working capital limits as on May 31, 2023. Vacmet has been generating healthy cash flow from operations, which would be sufficient to address the existing repayment obligations. Further, the company does not have any major capex plans in the near to medium term.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a sustained improvement in scale with a diversified product portfolio, resulting in an improved market position. The company's ability to improve return metrics and profitability margins while maintaining a strong credit profile and liquidity on a sustained basis would be considered positively for an upgrade.

Negative factors – ICRA could downgrade the rating in case there is a sharp decline in profitability margins, apart from industry conditions like weak demand and/or over-capacity on a sustained basis. In terms of specific credit metrics, DSCR lower than 2.5 times on a sustained basis could be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financials of Vacmet.

About the company

Vacmet India Limited is one of the leading players in the packaging film industry in India. It was set up in 1993 by the Late D.C. Aggarwal in Agra, with a metallising and coating unit. The company has since expanded its manufacturing capability and now manufactures BOPET and BOPP films along with PET chips. The company has a manufacturing capacity of 107,000 MTPA of BOPET films and 100,000 MTPA of BOPP films. This includes the recently completed expansion of BOPET and BOPP lines at the company's Dhar plant near Indore, Madhya Pradesh. The company is currently headed by Mr. Mayank Agrawal and is headquartered in Agra, Uttar Pradesh.

Key financial indicators (audited)

Vacmet standalone	FY2022	FY2023
Operating income	2,526.6	3,168.5
PAT	332.4	178.6
OPBDIT/OI	20.9%	11.6%
PAT/OI	13.2%	5.6%
Total outside liabilities/Tangible net worth (times)	0.8x	0.7x
Total debt/OPBDIT (times)	1.1x	1.6x
Interest coverage (times)	71.7x	31.0x

Source: Company,
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2021			
					Jul 27, 2023	June 30, 2022	Mar 4, 2021	Dec 7, 2020	Nov 5, 2020	Aug 28, 2020
1	**Cash Credit**	Long Term	325.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Positive)
2	**Term Loan**	Long Term	-	-	-	-	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Positive)
3	**Letter of Credit #**	Short Term	(325.00)	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	**Unallocated**	Long Term	111.25	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-	-	-
5	**Issuer Rating**	Long Term	-	-			-	[ICRA]A- (Positive) Withdrawn	[ICRA]A- (Positive) Put on notice of withdrawal for 30 days	[ICRA]A- (Positive)

Source: Company, # Non-fund-based limits also include bank guarantee, are fully interchangeable with fund-based cash credit

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Cash Credit	Simple
Short Term – Letter of Credit	Very Simple
Long Term – Unallocated	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 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	**Cash Credit**	NA	NA	NA	325.00	[ICRA]A+ (Stable)
NA	**Letter of Credit#**	NA	NA	NA	(325.00)	[ICRA]A1
NA	**Unallocated**	NA	NA	NA	111.25	[ICRA]A+ (Stable)

Source: Company, # Non-fund-based limits also include bank guarantee, are fully interchangeable with fund-based cash credit

Annexure II: 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.

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