November 24, 2023

# Alliance Polysacks Private Limited: Ratings reaffirmed; outlook revised to Stable from Positive

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term Fund-based – Cash credit** | 66.0 | 66.0 | [ICRA]BBB- (Stable); reaffirmed, outlook revised from Positive to Stable |
| **Long-term Fund-based – Term loan** | 57.0 | 48.9 | [ICRA]BBB- (Stable); reaffirmed, outlook revised from Positive to Stable |
| **Short-term – Non-fund Based** | 24.0 | 31.0 | [ICRA]A3; reaffirmed |
| **Long-term/Short-term Unallocated** | 3.0 | 4.1 | [ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed, outlook revised from Positive to Stable |
| **Total** | **150.0** | **150.0** | |

**Instrument details are provided in Annexure-I*

## Rationale

The revision in rating outlook on the long-term rating of Alliance Polysacks Private Limited (APPL) reflects ICRA's expectation that the overall improvement in its credit profile will be more gradual than the earlier expected pace, given the sharp volatility in commodity prices and its impact on the company's profitability and coverage metrics. Due to the sharp decline in polypropylene (PP) granule prices (key raw material) over the past several quarters, APPL reported inventory losses (Rs. 6.2 crore) in FY2023, which affected its operating profits. In addition, the high share of trading business (mainly raw material trading, which has thin margins) led to moderation in its operating margins (OPM) to 6.7% in FY2023, from 9% in FY2022. While revenues were lower on a YoY basis in H1 FY2024 (~Rs. 143 crore; lower on YoY basis by ~19%), it reported some improvement in operating margins with OPM at 8.2%, as per provisional data. The OPM is likely to remain rangebound around the current levels over the medium term. Further, APPL's debt levels remain high owing to large capex undertaken over the last few years and high inventory levels (Total debt outstanding was ~Rs. 104 crore as on September 30, 2023 and ~Rs. 97 crore as on March 31, 2023 Vs. Rs. 69 crore in FY2021). With pressure on its operating profits, the company's coverage metrics have moderated significantly in FY2023 (TD/OPBDITA and DSCR was 4.9 times and 1.1 times, respectively, as on March 31, 2023) and are expected to remain lower than the earlier anticipated levels over FY2024-FY2025.

The ratings continue to derive comfort the extensive experience of the promoters and the established track record of the company in the flexible packaging industry. Further, ICRA takes note of APPL's established customer base with repeat orders from reputed clients like JK Lakshmi Cement Ltd., RCCPL Pvt Ltd, Ambuja Cement Ltd., Shree Cement Ltd., etc, which allows for low counterparty risk.

The ratings, however, remain constrained by the moderate profitability and high working capital intensity of operations due to high inventory holding requirements (NWC/OI increased to 35% as on March 31, 2023 and 40% as on September 30, 2023 from 24% as on March 31, 2022) and vulnerability of the company's profitability to the fluctuations in raw material prices. ICRA also notes the segmental concentration in the customer profile with major sales derived from companies in the cement industry. The rating factors in APPL's exposure to intense competition in the PP bag manufacturing industry due to the presence of various organised and unorganised players.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of promoters and track record in the industry** – APPL's promoters, with over two decades of experience in the industry, had started with Supreme Polymers Private Limited (SPPL) in 1997. Subsequently, they established other companies, including APPL. The extensive experience and technical knowledge of the promoters has helped the company build strong relationships with its customers.

**Strong clientele with long relationships** – The company attracts repeat orders from reputed clients like JK Lakshmi Cement Ltd., Ambuja Cement Ltd., RCCPL (formerly Reliance Cement Ltd, now a part of the MP Birla Group), etc, which reduces the counterparty risk. With repeat orders from its key clients, at present, APPL is one of the leading producers of such bags in North India.

### Credit challenges

**Moderate operating profitability and exposure to volatility in raw material prices** – Polypropylene (PP) granules are the key raw material for manufacturing PP bags. Any adverse movements in its prices that cannot be entirely passed on to customers impacts profitability. The supply risks, however, are mitigated to some extent by APPL's continuing relationships with IOCL, its key vendor. The company's operating profitability has declined over the last few years, reducing to 6.7% in FY2023 from 9% in FY2022 and 11.5% in FY2018. A part of APPL's revenues is derived from trading in raw materials, wherein margins remain thin, which coupled with increasing competition, led to reduced margins. The inventory losses of Rs. 6.2 crore in FY2023 also added to the moderation in OPM. Nonetheless, the operating margins are expected to improve in FY2024 and is likely to stabilise to around 7-8% in the medium term.

**Working capital-intensive operations; moderation in debt coverage metrics** – APPL saw an increase in its working capital intensity to 35% as on March 31, 2023 and 40% as on September 30, 2023 from 24% as on March 31, 2022. It usually has higher inventory levels due to the annual purchase discount it receives from its supplier, subject to offtake of a pre-agreed amount. This apart, the company offers a maximum credit period of about two months to its clients and receives low credit from suppliers. Since APPL completed a sizeable debt-funded capex in FY2022, the term debt on its books had also increased. This increased debt, coupled with higher working capital intensity (slow ramp-up of enhanced capacity) and decline in profit margins led to moderation in its capitalisation and coverage indicators in FY2023, which are expected to improve gradually over the medium term, subject to the company's ability to improve its OPM and judiciously manage its working capital.

**Low segmental diversification with bulk of clients in cement industry** – Most of APPL's clients are cement industry players. As such, it remains exposed to sector concentration risk. However, APPL has been looking to diversify its customer base by trying to acquire customers from various other product segments such as wall putty, etc. The company has also increased its year-on-year export sales. The share of exports in the total revenues increased to ~17% in FY2023 and ~20% in H1 FY2024 from <10% till FY2020.

## Liquidity position: Adequate

APPL's liquidity is expected to remain adequate, with steady accruals from operations (around Rs. 15 crore p.a.) and buffer available in its working capital facilities, as reflected in the average utilisation of ~60% during the 12-month period ending in September 2023. Against the same, it has debt repayments of Rs. 10-12 crore per annum and marginal capex requirement over FY2024 and FY2025. The cash flow from operations are likely to remain sufficient to service the debt repayments as well as capex requirements over the medium term.

## Rating sensitivities

**Positive factors** – ICRA may upgrade APPL's ratings if the company demonstrates a significant improvement in its scale of operations and its profitability metrics, leading to healthy cash accruals and liquidity position on a sustained basis. Further, ROCE increasing to over 15% and Total Debt/OPBDITA below 2.7 times, on a prolonged basis, would be crucial for rating upgrade.

**Negative factors** – Negative pressure on APPL's ratings could arise if the company reports a significant decline in revenue and profitability, or undertakes any major debt-funded capital expenditure, or is unable to improve its working capital cycle, which adversely impacts its liquidity position and debt coverage metrics. Specific credit metrics which would be monitorable would be TD/OPBITDA to over 3.5 times or DSCR below 1.2 times, on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | Standalone |

## About the company

APPL was incorporated in 2010 with the primary focus on manufacturing AdStar sacks. Based in Jaipur, Rajasthan, the company is promoted by Mr. Sanjay Jain. He is the promoter of APPL's group companies, Supreme Polymers Private Limited, Siddharth Polysacks Private Limited and Star Global Endura Limited. The total installed capacity of the plant at present is 34,800 MT per annum. APPL produces AdStar PP woven sacks, along with small portion of regular PP woven sacks.

### Key financial indicators (audited)

| Amount in Rs. crore | FY2022 | FY2023 | H1 FY2024* |
|---|---|---|---|
| **Operating income** | 404.7 | 298.4 | 143.2 |
| **PAT** | 16.6 | 6.0 | 4.2 |
| **OPBDIT/OI %** | 9.0% | 6.7% | 8.2% |
| **PAT/OI %** | 4.1% | 2.0% | 2.9% |
| **Total outside liabilities/Tangible net worth (times)** | 1.7 | 1.3 | 1.4 |
| **Total debt/OPBDIT (times)** | 2.8 | 4.9 | 4.5 |
| **Interest coverage (times)** | 6.4 | 2.6 | 3.0 |

*Source: ICRA Research, Company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation;*Provisional data*

## 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 as on Sep 30, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 | |
| | | | | | Nov 24, 2023 | Jan 30, 2023 | November 29, 2021 | Feb 18, 2021, | Nov 2, 2020 |
| 1 | Long-term Fund-based – Cash credit | Long-term | 66.0 | - | [ICRA]BBB- (Stable) | [ICRA]BBB- (Positive) | [ICRA]BBB- (Positive) | [ICRA]BBB- (Stable) | [ICRA]BB+ (Positive) |
| 2 | Long-term Fund-based – Term loan | Long-term | 48.9 | 48.8 | [ICRA]BBB- (Stable) | [ICRA]BBB- (Positive) | [ICRA]BBB- (Positive) | [ICRA]BBB- (Stable) | [ICRA]BB+ (Positive) |
| 3 | Short-term Non-fund based | Short term | 31.0 | - | [ICRA]A3 | [ICRA]A3 | [ICRA]A3 | [ICRA]A3 | [ICRA]A4+ |
| 4 | Long-term/Short-term Unallocated | Long-term and short term | 4.1 | - | [ICRA]BBB- (Stable)/ [ICRA]A3 | [ICRA]BBB- (Positive)/ [ICRA]A3 | [ICRA]BBB- (Positive)/ [ICRA]A3 | [ICRA]BBB- (Stable)/ [ICRA]A3 | [ICRA]BB+ (Positive)/ [ICRA]A4+ |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long-term Fund-based – Cash credit** | Simple |
| **Long-term Fund-based – Term loan** | Simple |
| **Short-term Non-fund based** | Very simple |
| **Long-term/Short-term Unallocated** | NA |

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 | 66.0 | [ICRA]BBB- (Stable) |
| **NA** | **Term Loan** | FY2014-FY2021 | NA | FY2022-FY2030 | 48.9 | [ICRA]BBB- (Stable) |
| **NA** | **Short-term Non-fund Based** | NA | NA | NA | 31.0 | [ICRA]A3 |
| **NA** | **Long-term/Short-term Unallocated** | NA | NA | NA | 4.1 | [ICRA]BBB- (Stable)/[ICRA]A3 |

*Source: Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

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

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## About ICRA Limited:

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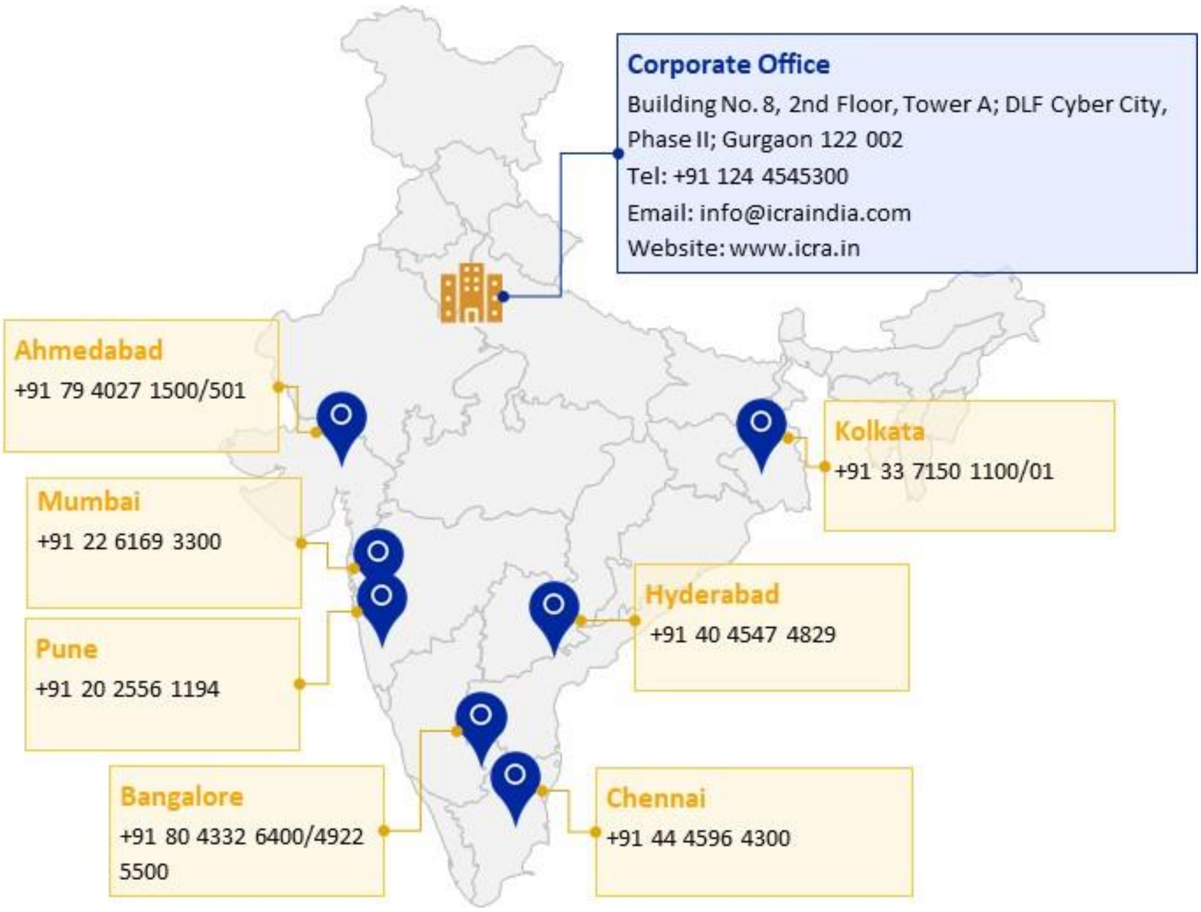




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