May 27, 2024

TCPL Packaging Limited: Ratings reaffirmed

Summary of rating action

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

Instrument details are provided in Annexure-I

Rationale

The reaffirmation of TCPL Packaging Limited's (TCPL) rating considers the company's expected steady financial performance in the near-to-medium term, driven by stable demand and range-bound debt levels. The rating remains supported by the long track record of promoters in the packaging materials business, its growing and large scale of operations, diversified industries serviced by the company as well as its reputed customer base. TCPL's financial profile remains supported by its steady margin and debt protection metrics with an interest coverage of 5.0 times and 4.7 times and Total Debt/OPBIDTA of 2.1 times and 2.3 times as of FY2023 and H1 FY2024, respectively. 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 aided in strong revenue growth in FY2023 and 9M FY2024. The rating also notes 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 rating, however, remains constrained by TCPL's presence in the highly competitive packaging business, which is characterised by 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 conversion costs. Though the margins remained in the range of 14-17% in the last three years, driven by higher sales and realisation benefits, its ability to hike prices commensurate with raw material prices and other allied cost rises remains key for its margin protection. The rating also factors in TCPL's capital intensive nature of business, given its regular debt requirement and high working capital needs. Judicious capex funding and efficient working capital management, to keep the liquidity requirements at manageable levels, will remain key rating sensitivities on an ongoing basis.

The Stable outlook reflects ICRA's expectations that TCPL's credit profile will remain supported by its stable revenues and earnings on the back of its established relationships with customers and healthy demand 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. 1,474.9 crore in FY2023 and Rs.1,140.9 crore in 9M FY2024. The promoters of TCPL have a long and established track record of more than three decades in the paperboard packaging industry.

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 customers as well as its reputed client base. Foray into the flexible packaging segment from February 2017 has further enabled client diversification.

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

Large scale of operations – The company has a large scale of operation. Its revenue surged 36% on a YoY basis to Rs. 1,474.9 crore in FY2023. The revenue growth is expected to be limited to 4-6% in FY2024 on a YoY basis owing to lower realisation amid reduction in raw material prices and the impact of decartonisation in the alco beverage industry. Going forward, the revenue growth is expected to be driven by higher volumes through steady addition in the installed capacity amid a stable demand and diversified product profile of the company.

Credit challenges

Capital intensive nature of business, necessitating regular debt-funded capex – The company's capitalisation and coverage metrics improved over the years with capital structure of 1.1 times in FY2023 (1.2 times in H1 FY2024) against 1.4 times in FY2022, total Debt/ OPBDITA of 2.1 times in FY2023 (2.3 times in H1 FY2024) against 3.0 times in FY2022 and interest coverage of 5.0 times in FY2023 (4.7 times in H1 FY2024) compared to 4.5 times in FY2022. However, these are expected to remain range bound in the near-to-medium term, given its debt-funded expansion plans to support growth. 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's working capital utilisation stood high at 87% of its drawing power for the last 12 months ending in March 2024 due to its working capital intensive nature of business. TCPL's creditor days remain limited as it gets cash discounts for early payment from some of its suppliers. Given the steady rise in the top line and anticipated increase in the near-to-medium term (given the capacity addition), the working capital requirement is expected to remain at an elevated level and would entail regular enhancement in limits to support growth.

Susceptibility of profitability to volatility in raw material prices – TCPL's major raw material includes paper board, which makes up for most of its total purchase cost. The prices of raw materials have remained volatile over the years, with significant rise witnessed in FY2023 and cooling off in FY2024. The prices have been stable from H2 FY2024. Given the general norm of the industry to pass on the rise in prices (generally with a lag), the ability of the company to timely pass on the price increase to its customers remains critical for protection of its margins. The company has managed to protect it margins in the last two fiscals as well as in 9M FY2024 as it could pass on the price hikes to its customers.

Intense competition from both organised and unorganised players – The business environment remains competitive, given the fragmented and unorganised industry structure for the packaging industry. A large portion of the paperboard packaging industry's requirement is serviced by unorganised players, which cater to the small-scale needs 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 utilisation of energy, water, raw materials, logistics etc. by adopting new techniques and innovative ideas. It tries to reduce waste, conserve raw materials and pursue zero pollution through various technological upgradation and improvement projects. The company mainly generates paperboard scrap during its manufacturing activities. TCPL disposes waste through registered/ appropriate agencies involved in proper disposal, and wherever possible, the wastepaper is recycled at nearby paper mills. The company recently started commercial manufacturing of fully recyclable packaging in the flexible packaging segment, which is largely plastic based. This helps combat the issue of plastic waste management. With help from customers, government waste collection, scrap segregation and processing industries, TCPL seeks to provide a way to reuse or recycle consumer goods packaging, going forward.

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 industrial mishaps. The contractual employees receive mandatory safety training before entering the company's premises and acquire on-the-job training through the contractor and the company. TCPL takes customer centric measures like consumer satisfaction surveys to assess consumer behaviour and emerging trends on consumer preferences. These efforts have 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 in the range of Rs. 135-155 crore in FY2024) vis-à-vis its debt repayment obligations (Rs. 70-80 crore per annum) and cash balance of Rs. 45 crore as on September 30, 2023. Even though its capex requirements are high in the range of Rs.100-125 crore in FY2025, the same would be largely funded by debt. Its working capital limits were utilised to the extent of ~87% of its drawing power over the last 12 months ending in March 2024. The company also avails unsecured borrowings over and above the sanctioned limits, to the extent of the drawing power, which further supports its liquidity profile.

Rating sensitivities

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

Negative factors – Pressure on TCPL's rating could arise if there is a notable decline in its scale of operations along with moderation in profitability, leading to weakening of cash accruals. A stretch in the working capital cycle or high debt-funded capex, impacting the coverage indicators and liquidity profile materially, could also be a negative rating 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, 2023, the company had three subsidiaries, which are all enlisted in Annexure-2.

About the company

Twenty-First Century Printers Limited, incorporated in August 1987, is 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 24 printing lines at Silvassa, Haridwar, Goa and Guwahati, as on March 31, 2024.

Key financial indicators (audited)

TCPL (Consolidated)	FY2022	FY2023
Operating income	1,085.7	1,474.9
PAT	46.9	110.4
OPBDIT/OI	14.2%	16.1%
PAT/OI	4.3%	7.5%
Total outside liabilities/Tangible net worth (times)	2.1	1.7
Total debt/OPBDIT (times)	3.0	2.1
Interest coverage (times)	4.5	5.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 27, 2024	-	Feb 27, 2023	-
1	**Term loans**	Long term	10.0	33.8	**[ICRA]A (Stable)**	-	**[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	87.66%^	Full Consolidation

*Source: Annual report, *as on March 31, 2023, ^Increased to 100% as on March 31, 2024*

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About ICRA Limited:

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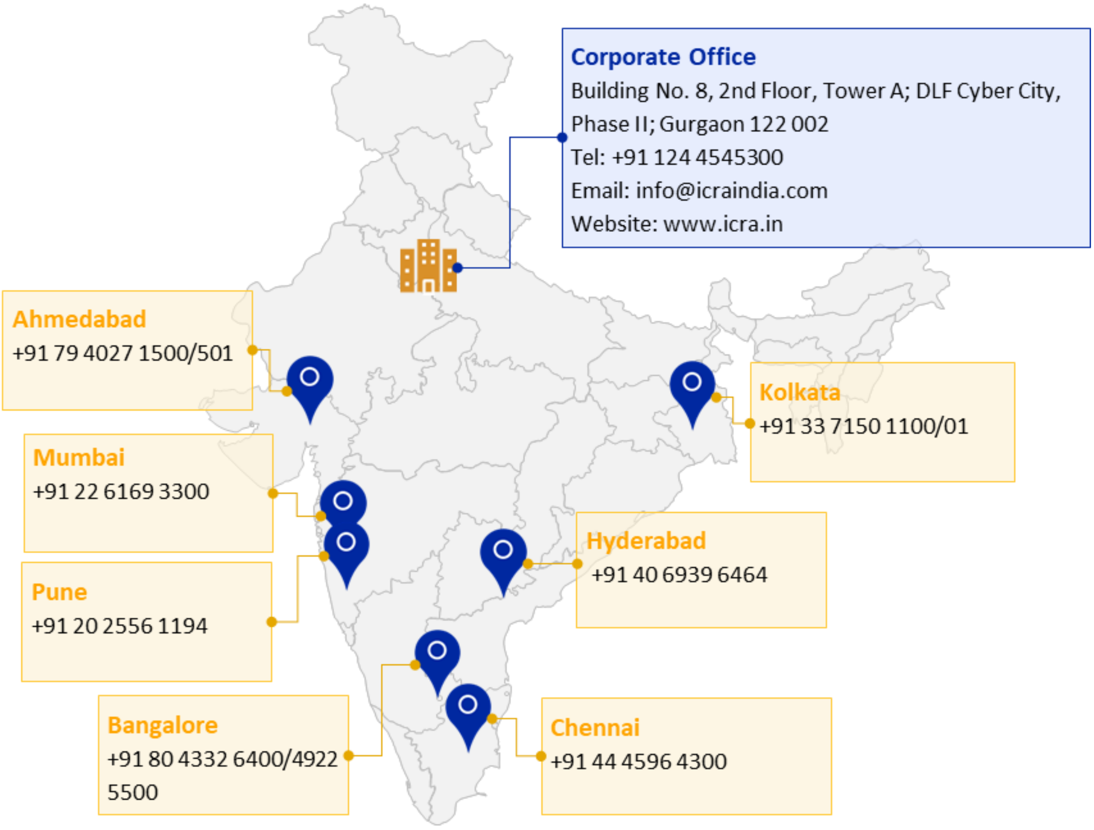

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