

July 19, 2024

Chemco Plastic Industries Pvt. Ltd.: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term-Fund Based- Cash Credit	98.0	170.5	[ICRA]A+ (Stable); reaffirmed and assigned for enhanced amount
Long term-Fund Based- Term Loans	119.9	155.4	[ICRA]A+ (Stable); reaffirmed and assigned for enhanced amount
Long term-Fund Based Limits	50.0	54.5	[ICRA]A+ (Stable); reaffirmed and assigned for enhanced amount
Short term-Non-Fund Based	14.5	8.0	[ICRA]A1; reaffirmed
Total	282.4	388.4	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of Chemco Plastic Industries Private Limited's (CPIPL) ratings factor in the strong business model, coupled with stable operating income and profitability in the recent past, and expectations that the same will sustain over the medium term. Despite a tough operating year for the beverage industry (key clients for CPIPL) in FY2024, CPIPL managed to sustain its revenue level of around Rs. 778 crore and maintain an operating margin of 17.4% against 17.9% in FY2023.

ICRA expects the operating income to increase in the medium term, while the operating margins are expected to remain steady in FY2025, but improve from FY2026 (as the benefits from the greenfield capex flows in). 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 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.

In addition, the company has expanded into a greenfield operation which will eventually result in an improvement in the cost structure. The expansion would be funded by debt (~Rs. 69 crore), because of which the coverage metrics would deteriorate in the short term. As the cost benefits start coming from FY2026, the total debt / OPBITDA ratio is expected to gradually improve. The company is also present in unique product segments such as geomembranes, hippo shield, geotextiles and in categories such as baby care, which helps reduce its dependence on the beverage segment, and further boosts its revenue growth and diversification prospects.

The ratings also factor in CPIPL's healthy financial risk profile, characterised by healthy operating margins, and a comfortable gearing of 1.0 times as on March 31, 2024. ICRA notes that the company's debt protection metrics remained constrained in FY2024, with total debt / OPBITDA of 2.4 times, and this trend is expected to continue in FY2025 (due to the debt funded capex). However, in FY2024, the working capital intensity was higher because of elongated receivables cycle across the industry, which is expected to correct in the medium term. In addition, benefits from the capex will trickle only from FY2026, but the capex will strengthen CPIPL's business strategy over the long term.

The ratings remain constrained by the capital-intensive nature of business, necessitated by stable demand for its end products and the company's propensity to diversify its business 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 a 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.

The outlook on the entity continues to remain Stable. CPIPL's ability to maintain its customer base, long experience of the promoters in the preform business, and high entry barriers in the industry provide comfort and are main drivers for the Stable outlook.

Key rating drivers and their description

Credit strengths

Vast promoter experience and strong operational profile – The promoter has significant experience of over three decades in manufacturing and supplying 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. Besides, 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 diversify its products.

Established track record of operations and healthy relationships with key customers – The Group is an established player in the plastic PET preforms, jars and bottles, and shrink films packaging industry with a track record of over three decades of catering to the food and beverage (F&B), baby care and FMCG sectors. The company also has an established market position, a long track record of operations and a reputed client base, which supported its business prospects over the years. It enjoys a long association and healthy relationship with its reputed customers such as Bisleri International Private Limited, HCCB, Moon Beverages Limited, Procter & Gamble, among others. Supported by these factors, the company's operating income (OI) increased at a CAGR of 21% (from FY2018 to FY2024) and touched Rs. 778.8 crore in FY2024 against Rs. 242.4 crore in FY2018 on the back of a rise in the sales volumes and realisations.

Healthy operating profitability but coverage indicators to moderate on the back of debt funded capex – The company has an adequate financial profile, characterised by robust operating margins (17.4% in FY2024), and a comfortable gearing of 1.0 times as on March 31, 2024. ICRA notes that the debt protection metrics remained constrained in FY2024, with total debt / OPBITDA of 2.4 times. The trend is likely to continue in FY2025 (due to the debt funded capex). However, in FY2024, the working capital intensity was higher because of elongated receivables cycle across the industry, which is expected to correct in the medium term. In addition, benefits from the capex will come from FY2026, but the capex will strengthen CPIPL's business strategy over the long 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 expand the scale of operations, launch new products or cater to new customers. The company also plans to enter into a greenfield capex which in the longer run will improve the company's cost structure. This capex is funded through debt (~Rs. 69 crore), which would deteriorate the coverage metrics in the short term, however, this debt-funded capex will result in cost savings for CPIPL in the long run. Also, given the nature of the 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 in 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 materials needed to manufacture PET preforms. Hence, the company's profitability remains exposed to fluctuations in prices, which in turn depend on the price of crude oil. As it enters into cost-plus margin contracts with its customers, and fluctuations in raw material prices are typically passed on with a 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 business segments are preforms and packaging, baby care, and geotextiles of which preforms and packaging constitute more than 80% of CPIPL’s revenues in FY2024. Any change in consumer preference for the same, or any adverse regulatory development 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 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. 19 crore as of February 2024, and free cash and liquid investments of ~Rs. 4.59 crore, against debt repayment of ~Rs. 38 crore over the next 12 months, and annual capex outgo of ~Rs. 85 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 DSCR of less than 1.6 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated

About the company

Incorporated in 1996, Chemco Plastic Industries Private Limited (CPIPL) is engaged in the manufacturing of polyethylene terephthalate (PET) preforms, bottles, jars & containers, caps & closures, baby feeding bottles & 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 Silvassa (inaugurated in 1996), Vadodara (inaugurated in 2010), Halol and Sanand (inaugurated in 2019) and Daman. The business is bifurcated into three segments, including preforms and packaging, baby care and geotextiles.

Gaurav Containers Limited (GCL), which was incorporated in 1986 and is predominantly involved in manufacturing of PET, HDPE, PP bottles, jars & containers, and caps & closures, where the finished products are supplied to customers mainly in the FMCG sector. As of FY2024, both the companies have been merged.

Key financial indicators (audited)

	FY2023	FY2024*
Operating income	772.7	778.8
PAT	65.6	55.9
OPBDIT/OI	17.9%	17.4%
PAT/OI	8.5%	7.2%
Total outside liabilities/Tangible net worth (times)	1.7	1.5
Total debt/OPBDIT (times)	2.0	2.4
Interest coverage (times)	6.9	4.3

Source: Company, ICRA Research; * Provisional numbers; 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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
			July 19, 2024	April 05, 2023	-	Feb 10, 2022,	Jan 27, 2022
1 Long term-Fund Based- Cash Credit	Long term	170.5	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)		[ICRA]A (Stable)	
2 Long term-Fund Based- Term Loans	Long term	155.4	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)		[ICRA]A (Stable)	
3 Long term-Fund Based Limits	Long term	54.5	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)		-	
4 Short term-Non-Fund Based	Short term	8.0	[ICRA]A1	[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 Loans	Simple
Long term-Fund Based Limits	Simple
Short term-Non-Fund Based	Very 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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-Term Cash credit	NA	NA	NA	170.5	[ICRA] A+ (Stable)
NA	Long-term fund-based Term loan	FY2016 & FY2023	NA	FY2029-FY2030	155.4	[ICRA] A+ (Stable)
NA	Long-term fund facilities	NA	NA	NA	54.5	[ICRA] A+ (Stable)
NA	Short-Term Non-Fund-Based Limits	NA	NA	NA	8.0	[ICRA] A1

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
Gaurav Containers Limited	-	Full Consolidation

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