October 04, 2024

Vacmet India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term Fund-based – Cash Credit	325.00	325.00	[ICRA]A+ (Stable); reaffirmed
Short Term Non-fund Based#	(325.00)	(325.00)	[ICRA]A1; reaffirmed
Long Term – 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 reaffirmation of ratings on the bank lines of Vacmet India Limited (Vacmet) factors in the expected improvement in its top line and earnings in the near-to-medium term, led by recovery in selling prices on a sequential basis. The ratings continue to consider its established presence in the packaging film industry as one of the leading manufacturers of bi-axially oriented polyethylene terephthalate (BOPET) and bi-axially oriented polypropylene (BOPP). Vacmet's operational profile is healthy on the back of the integrated nature of its operations with sizeable capacity, enabling it to command healthy market share in the domestic packaging film industry. The ratings continue to factor in Vacmet's location-specific advantages as its plants are close to major demand centres besides steady demand of packaging film in India.

In FY2024, the company's operating income and net profit declined to Rs. 2,657.9 crore (Rs. 3,168.5 crore in FY2023) and Rs. 9.4 crore (Rs. 178.6 crore in FY2023), respectively. ICRA notes the decline is revenue and earnings in FY2024 mainly due to fall in the selling prices of packaging film on account of excess supply. Also, DSCR and interest coverage slipped further to 1.6 times (3.9 times in FY2023) and 4.2 times (31 times in FY2023), respectively due to a continued decline in earnings in FY2024. However, it is expected that the excess supply scenario is likely to improve gradually from FY2025, which is also evident from the fact there has been an increase in the selling price in the current fiscal amid stable demand. The ratings also factor in the company's comfortable coverage metrics, reflected in healthy capitalisation, low debt levels along with robust cash accruals, comfortable liquidity and long-tenure debt. In the absence of any major debt raising plan, ICRA expects the coverage metrics to improve gradually to comfortable level in the medium term.

The ratings are, however, constrained by the vulnerability of the company's profitability to raw material (crude oil derivatives) prices and excess capacity at the industry level, which is only expected to correct in a gradual manner with demand. Consequently, realisations declined sharply in FY2023 and FY2024, impacting the operating profit margin (OPM). Given the cyclicality of the industry, the OPM is expected to remain moderate 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 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 comfortable liquidity profile and no debt-funded capex on cards.

Key rating drivers and their description

Credit strengths

Long and established track record in 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. At present, the company holds a 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 strong cash accruals and long-tenure term debt – Vacmet's financial risk profile is comfortable, supported by healthy cash accruals and limited debt. In FY2024, the company's credit metrics were impacted with a sharp decline in profitability, which is expected to improve gradually from FY2025, with increase in realisations on a sequential basis since Q4 FY2024, with steady demand scenario. In the absence of any major capex plan, the company's credit metrics are expected to be comfortable in the near-to-medium term. The same is also supported by the long tenure of its existing term debt and healthy cash/bank balance.

Location-specific advantage of plants for 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. As Vacmet's plants are 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 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 states in domestic markets.

Credit challenges

Margins remain vulnerable to demand-supply dynamics due to commoditised nature of product – There has been a substantial increase in the domestic capacity of BOPET and BOPP in the last two-three years, which has put pressure on realisations of films, as it is a commoditised product. As witnessed by the industry, Vacmet's OPM also declined further to ~4.3% in FY2024 from ~11.6% in FY2023 due to a decline in the selling price by ~16.3% in FY2024 over FY2023. The OPM is expected to improve gradually from the current fiscal, however, the same will remain moderate in the near-to-medium term as overcapacity in the system is expected to correct materially only over the medium term, as demand catches up with the steady growth of the packaging film industry. ICRA understands that the major part of the current capex cycle was over in FY2024. Hence, there is unlikely to have any large capacity addition in the medium term.

Cyclical nature of the industry coupled with intense competition and commoditised nature of products – The packaging film industry has historically faced bouts of capacity additions, which significantly exceeded the demand growth, leading to situation 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 the European markets. Moreover, it has been focusing on pushing volumes for value-added films.

Liquidity position: Adequate

Vacmet's liquidity is **adequate** supported by healthy cash accruals and large unutilised fund-based limits. The company had cash and bank balance of ~Rs. 557 crore and Rs. 248 crore of unutilised working capital limits as of August 2024. Vacmet has been generating healthy cash flow from operations, which would be sufficient to address the existing repayment obligations (~Rs. 82 crore annually). Further, the company does not have any major capex plan in the near-to-medium term.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings 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 profit margins while maintaining a strong credit profile and liquidity on a sustained basis would be considered positively for ratings upgrade.

Negative factors – ICRA could downgrade the ratings if there is a sharp decline in profit margins, apart from industry conditions like weak demand and/or overcapacity 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 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 1,07,000 MTPA of BOPET films and 1,00,000 MTPA of BOPP films along with some capacity of value-added products.

Key financial indicators (audited)

Vacmet standalone	FY2023	FY2024
Operating income	3,168.5	2,657.9
PAT	178.6	9.4
OPBDIT/OI	11.6%	4.3%
PAT/OI	5.6%	0.4%
Total outside liabilities/Tangible net worth (times)	0.7	0.7
Total debt/OPBDIT (times)	1.6	5.0
Interest coverage (times)	31.0	4.2

Source: Company; Note: All financial ratios as per ICRA's calculation; 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 year (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2021	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long Term	325.00	4-Oct-2024	[ICRA]A+ (Stable)	27-Jul-2023	[ICRA]A+ (Stable)	30-Jun-2022	[ICRA]A+ (Stable)	04-Mar-2021	[ICRA]A+ (Stable)
									07-Dec-2020	[ICRA]A- (Positive)
									05-Nov-2020	[ICRA]A- (Positive)
									28-Aug-2020	[ICRA]A- (Positive)
Letter of Credit #	Short Term	(325.00)	4-Oct-2024	[ICRA]A1	27-Jul-2023	[ICRA]A1	30-Jun-2022	[ICRA]A1	04-Mar-2021	[ICRA]A1
									07-Dec-2020	[ICRA]A2+
									05-Nov-2020	[ICRA]A2+
									28-Aug-2020	[ICRA]A2+
Unallocated	Long Term	111.25	4-Oct-2024	[ICRA]A+ (Stable)	27-Jul-2023	[ICRA]A+ (Stable)	30-Jun-2022	[ICRA]A+ (Stable)	-	-
Term Loans	Long Term	-							04-Mar-2021	[ICRA]A+ (Stable)
									07-Dec-2020	[ICRA]A- (Positive)
									05-Nov-2020	[ICRA]A- (Positive)
									28-Aug-2020	[ICRA]A- (Positive)
Issuer Rating	Long Term	-							07-Dec-2020	[ICRA]A- (Positive) Withdrawn
									05-Nov-2020	[ICRA]A- (Positive) Put on notice of withdrawal for 30 days
									28-Aug-2020	[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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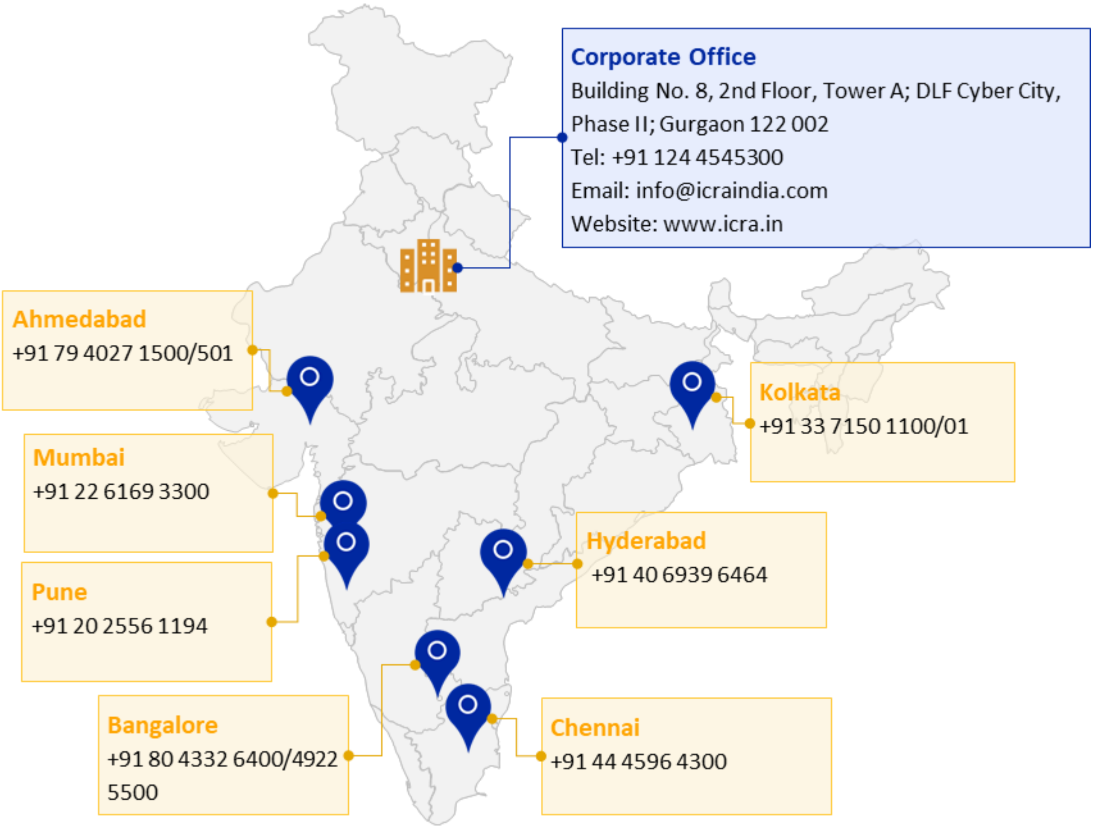

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