Press Release

Asia Poly Films Industries

Aug 04, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	40.37	IVR BBB-/Stable (Pronounced as IVR Triple B Minus with Stable Outlook)	Upgraded
Short Term Bank Facility	3.00	IVR A3 (Pronounced as IVR Single A Three)	
Total	**43.37 (INR Forty Three Crores and Thirty Seven Lakhs Only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings upgrade factors in the consistent rise in the revenues in the past fiscals with concurrent improvement in profitability and return indicators which are likely to be sustained in the near term. The upgrade also factors in the improvement in the capital structure through significant reduction in debt levels and a substantial amount of profits maintained as capital as also low operating cycle which also supported the reduction in the overall debt levels. The ratings, however continues to factor in the extensive experience of the key partners in the packaging industry, location benefits with proximity to the suppliers low customer concentration as also favorable demand prospects for the flexible packaging industry. However, the ratings remained constrained by vulnerability of the profitability due to movements in the raw material prices, the firm’s presence in a highly competitive and fragmented industry and inherent risk of capital withdrawal in the partnership nature of constitution.

Key Rating Sensitivities:

Upward Factors

- Sustained improvement in revenues while improving the profitability margins and return indicators.
- Improvement in working capital cycle
- Sustained improvement in financial risk profile such as gearing below 0.50x and debt protection metrics above 2.5x-3.00x.

Downward Factors

- Significant decline in revenue and/or profitability impacting adequate accrual generation.
- Large, debt-funded capital expenditure or significant capital withdrawal impacting the credit metrics.
- Stretch in the working capital cycle increasing reliance on external borrowings.
- Any significant capital withdrawals impacting debt and coverage metrics

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the key partners in packaging business
The key partners, Mr. Kiritbhai Fultaria and Mr. Pravinbhai Kasundra have close to 20 years' experience in the packaging industry. The partners are responsible for day to day to operations thus exhibiting close control over all the functions. The Morbi, Gujarat based partnership operates at 25000 MTPA capacity of BOPP films manufacturing plant.

Continual increase in revenues and profitability during a limited operations period, improvement in credit metrics and Low operating cycle
The firm in its limited period of operations has achieved a substantial scale up touching Rs. 232.02 crore while improving its profitability through absorption of fixed costs. The EBITDA margin and PAT margin remained at 14.89% and 11.44% respectively in FY 2021 (provisional) as against 9.85% and 3.99% respectively in FY 2020. With retention of substantial profits and limited withdrawals in FY2021 as compared to FY2020, the overall gearing ratio and TOL/TNW remained at moderate levels of 1.69x and 1.91x respectively in FY 2021 (provisional) as against 19.97x and 21.91x respectively in FY 2020. Debt protection metrics reflected by DSCR, and interest coverage ratio further improved to 7.36x and 6.65x respectively in FY 2021 (provisional) as against 3.13x and 3.01x respectively in FY 2020. Modest inventory levels and control on debtors has resulted in the operating cycle of the firm maintained at 30 days as per FY 2021 (provisional) as compared to the previous fiscal.

Location benefits with proximity to the suppliers
The firm manufacturing unit benefits from being in close proximity to its suppliers which results in minimizing the logistic costs to an extent. The company procures raw material such as PP Hopo Granule, Filler, Crude oil etc.. from Reliance Industries Ltd, and Indian Oil Corporation

Adequate capacity utilization, low customer concentration
The plant's average capacity utilization during the last three fiscal years stood at around 75 %. Moreover, the customer mix remains spread out with top ten customers contributing 29.00% in FY2021 alleviating the customer concentration risk. The firm's major customer contributes 7.31% to the turnover of the company indicating that there is no customer concentration risk.

Favorable demand prospects for the flexible packaging industry: Flexible packaging typically includes materials such as plastic films, paper and aluminum foil. Over the years, BOPP Film (forms of plastic-based flexible packaging film) has become the preferred choice for packaging consumer articles including food, personal products and clothing. Flexible packaging improves the shelf life of products while increasing its product appeal. Increase in purchasing power in the developing countries has resulted in a significant rise in per capita consumption of flexible packaging materials.

Key Rating Weaknesses

Profitability vulnerable to volatility in raw material prices: PP homo polymer (PPHP), a crude oil derivative, is the key raw material and its prices are subject to volatility in line with those of global crude oil prices. Hence, APFI's profitability is vulnerable to any adverse movement in the prices of its raw material, especially because of its low bargaining power vis-à-vis its customers and the competitive market for plastic films.

Presence in a highly competitive and fragmented industry having low entry barriers: The flexible packaging industry is highly fragmented in nature having few large players and several unorganized regional players apart from rising imports. Moreover, owing to low entry barriers associated with industry, moderate initial capital investment and ease of access to technology, there is large influx of small players in the industry. However, APFI operates in BOPP film industry whose growth is closely linked to various end uses like packaging, textile and cosmetic products.

Risks inherent to partnership nature of constitution

Given the partnership nature of constitution, it remains exposed to discrete risks, including the possibility of withdrawal of capital by the partners and the risk of dissolution of the firm upon the death, retirement or insolvency of partners.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Adequate

The liquidity position of the firm stood adequate given the expected healthy cash accruals in the near term sufficient to cover the debt obligations. However, the working capital utilisation remained at 80% during the last 12 months ended June 2021. The firm has minimal capex requirements in the near term with capex outflow only for maintenance. The free cash balance as on March 31,2021 remained at Rs. 7.63 crore.

About the Firm

Asia Polyfilms Industries was established in 2015 as a partnership firm. It is engaged in manufacturing of BOPP films from 12 microns to 50 microns used mainly in packing and tape industry. The manufacturing plant is located at Morbi, Gujarat, with an installed capacity of 25,000 MT per annum. Mr. Dipeshbhai Patel, Mr. Kiritbhai Fultariya, Nareshbhai Jivrajbhai Fultaria, and Mansukhlal Kanjibhai Patel are the Managing Partners and take care of day-to-day operations of the firm.

Financials (Standalone):

For the year ended*/As on	31-03-2019	31-03-2020	31-03-2021**
Total Operating Income	170.53	218.64	232.02
EBITDA	0.48	21.54	34.55
PAT	-13.08	8.57	26.96
Total Debt	51.48	55.15	37.60
Tangible Net Worth/Partners' Capital	12.75	2.76	18.25
EBITDA Margin (%)	0.28	9.85	14.89
PAT Margin (%)	-7.63	3.90	11.44
Overall Gearing Ratio (x)	4.04	19.97	1.69

**** Provisional numbers**

Status of non-cooperation with previous CRA: Issuer not cooperating by BWR vide press release dated July 01, 2021 due to non-availability of information.

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Facilities	Current Year (FY 2021-22)			Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
		Type	Amount outstanding (Rs. Crore)	Rating			
1.	Term Loan (o/s)	Long Term	13.87	IVR BBB-/Stable (Upgraded)	IVR BB+/Stable (January 09, 2021)	--	--
2.	GECL		7.50			--	--
3.	Cash Credit		19.00			--	--
4.	Bank Guarantee	Short Term	3.00	IVR A3 (Upgraded)	IVR A4+ (January 09, 2021)	--	

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Name and Contact Details of the Rating Analyst:

Name: Akshay Rastogi Tel: (011) 24611149 Email: **akshay.rastogi@infomerics.com**	Name: Shashikant Raut Tel: (022) 62396023 Email: **shashikant.raut@infomerics.com**

About Infomerics:

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Annexure 1: Details of Facilities

Name of Facilities	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facilities (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facility- Term Loan (o/s)	-	-	June, 2025	16.24	IVR BBB-/Stable (Upgraded)
Long Term Bank Facility- GECL	-	-	Sep, 2024	8.76	
Long Term Bank Facility- Cash Credit	-	-	-	10.50	
Short Term Bank Facility- Bank Guarantee	-	-	-	3.00	IVR A3 (Upgraded)

Annexure 2: List of companies considered for consolidated analysis: Not Applicable**.**

Annexure3: Facility wise lender details

(https://www.infomerics.com/admin/prfiles/lender-Asia-Poly-Films-Industries-4-aug-21.pdf)

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Facilities	Complexity Indicator
1.	Term Loan	Simple
2.	GECL	Simple
3.	Cash Credit	Simple
4.	Bank Guarantee	Simple

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it based on complexity and a note thereon is available at www.infomerics.com.