

Press Release

Fibre Foils Limited

October 07, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 18.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short-term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.18.00 crore bank facilities of Fibre Foils Limited (FFL). The outlook is '**Stable**'.

Incorporated in 1968, Fibre Foils Limited (FFL) is engaged in manufacturing of consumer and industrial packaging products. The day to day operations is managed by its chairman, Mr. Diwakar S. Shetty who has an experience of over four decades of packaging industry along with Mrs. Yashoda D. Shetty, Mr. Daksharaj Shetty, Mr. Mohan Menon and Mr. Harsh Vardhan Jajoo who has experience of over two decades in the packaging industry. The Company has 3 manufacturing units located at Khopoli (Maharashtra), Bhiwadi (Rajasthan) and Bengaluru (Karnataka). Khopoli unit is owned by the company and other 2 are on a rental basis.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of FFL to arrive at the rating.

Key Rating Drivers

Strengths

• Extensive track record and experience of the management

The company is led by its chairman Mr. Diwakar S. Shetty who has an experience of over four decades of packaging industry along with Mrs. Yashoda D. Shetty, Mr. Daksharaj Shetty, Mr. Mohan Menon and Mr. Harsh Vardhan Jajoo who has experience of over two decades in the packaging industry. The long track record of the management has helped the company develop healthy relations with suppliers and reputed customers such as ITC Limited, Hindalco Limited, TATA Steels, J. K. Paper, Glaxo Smithkline Consumer, Diageo India, Allied Blenders and Dist., Wockhart Life Science, Glenmark Pharmaceuticals, Novarties India Limited, Zydus Nycomed, TVS Motor Company Limited, Titan Company Limited, Café Coffee Day Limited, Unibic Foods Limited, etc..

Acuité believes that the company will continue to benefit from its experienced management and established relationships with customers.

• Increasing trend of profitability

The operating margins of the company have been on increasing trend marked by 12.75 percent in FY2020 as against 9.84 percent in FY2019 and 7.85 per cent in FY2018. This is majorly because of the product mix. The net profit margins have also been on increasing trend marked by 5.30 percent in FY2020 as against 4.79 percent in FY2019 and 2.57 per cent in FY2018. This is majorly because of the reduction in interest cost.

Acuité believes that the company will be able to sustain the operating profitability going forward.

- **Healthy financial risk profile**

FFL has healthy financial risk profile marked by healthy net worth, debt protection metrics and low gearing. The tangible net worth stood healthy at Rs.21.69 crore as on 31 March, 2020 as against Rs.17.80 crore as on 31 March, 2019. The gearing (debt-equity) stood comfortable at 0.58 times as on 31 March, 2020 as against 0.75 times as on 31 March, 2019. Total debt stood at Rs.12.56 crore which consists of a term loan of Rs.2.98 crore and working capital of Rs.9.58 crore. Total outside Liabilities/Tangible Net Worth (TOL/TNW) ratio stood comfortable at 1.17 times as on 31 March, 2020 as against 1.45 times as on 31 March, 2019. Interest Coverage Ratio (ICR) stood healthy at 6.11 times in FY2020 as against 4.31 times in FY2019. Net cash accrual/Total debt (NCA/TD) stood at 0.40 times in FY2020 as against 0.35 times in FY2019.

Acuité believes that the financial risk profile is likely to remain healthy in near to medium term on account of comfortable net worth, coverage indicators, healthy net cash accruals and absence of any major debt-funded capex.

Weaknesses

- **Modest scale of operations**

FFL has a modest scale of operations with operating income of Rs.73.40 crore in FY2020 as against Rs.73.08 crore in FY2019. The company's revenues grew by ~0.44 percent in FY2020 over the previous year. The company has reported moderate revenue growth with compounded annual growth rate (CAGR) of around 9.00 percent through the last three years ended 31 March, 2020. Further, it has registered revenue of around Rs.30.00 crore up to September, 2020.

Acuité believes that the scale of operations will be muted in FY2021 majorly because of the COVID-19 impact, which has led to a reduction in demand.

- **Working capital intensive operations**

The company's operations are working capital intensive marked by Gross Current Asset (GCA) days of 147 in FY2020 as against 131 in the previous year. This is majorly because of the increase in current asset marked by Rs.3.01 crore from Rs.0.87 crore in FY2019. Along with inventory days of 66 for FY2020 as against 65 for FY2019. Debtor days stood at 43 for FY2020 as against 62 for FY2019.

Acuité believes that the working capital operations will remain intensive due to the high inventory of raw materials to be maintained on account of the nature of business.

- **Highly competitive and fragmented industry**

The packaging industry is highly competitive and fragmented marked by the presence of many organised and unorganised players in this industry, thus putting pressure on the profitability margins of the company. However, this risk is partially mitigated by company's experienced management and long-standing relationships with its reputed clientele.

Liquidity Position: Strong

FFL has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.5.08 crore in FY2020 as against Rs.4.64 crore in FY2019 and Rs.2.66 crore in FY2018, while its maturing debt obligation was around Rs.1.22 crore in FY2020 as against Rs.1.62 crore in FY2019 and Rs.0.97 crore in FY2018. The company's working capital operations are intensive as marked by gross current asset (GCA) days of 147 in FY2020. The company maintains unencumbered cash and bank balances of Rs.5.77 crore as on 31 March, 2020. The current ratio of the company stood at 1.40 times as on 31 March, 2020.

Acuité believes liquidity of the company will remain strong for the medium term because of healthy net cash accrual, low debt obligation and no major debt-funded capex plans.

Outlook: Stable

Acuité believes that FFL will continue to maintain a 'Stable' outlook and benefit over the medium term owing to the experienced management and reputed clientele. The outlook may be revised to 'Positive' in case the company generates revenue and profitability with prudent working capital management and sustains the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of lower than expected margins and higher working capital requirement.

Rating Sensitivities

- Significant improvement in scale of operations along with profitability margins.
- Significant deterioration in financial risk profile and working capital operations of the company.

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Crore	73.40	73.08
Profit after tax (PAT)	Rs. Crore	3.89	3.50
PAT margin	%	5.30	4.79
Total debt / Tangible Net worth	Times	0.58	0.75
PBDIT / Interest	Times	6.11	4.31

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

None.

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB-/Stable (Assigned)
Term Loan	05-12-2017	10.40%	05-06-2023	2.60	ACUITE BBB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.40	ACUITE A3 (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Saurabh Rane Analyst - Rating Operations Tel: 02249294044 saurabh.rane@acuite.in	

About Acuité Ratings & Research:

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