

February 08, 2022

Shree Tirupati Balajee FIBC Limited: Ratings reaffirmed, outlook continues to remain negative; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based	35.27	46.79	[ICRA]BBB (Negative); reaffirmed
Long Term/Short Term-Unallocated	4.38	17.09	[ICRA]A3+; reaffirmed
Total	39.65	63.88	

*Instrument details are provided in Annexure-1

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of Shree Tirupati Balajee Agro Trading Co. Pvt. Ltd. (STBATCPL), its subsidiaries Jagannath Plastics Pvt. Ltd. (JPPL), Honourable Packaging Pvt. Ltd. (HPPL) and Shree Tirupati Balajee FIBC Limited (STBFL) due to operational and financial linkages and common promoter group.

The reaffirmation of the ratings along with Negative outlook considers the leveraged capital structure and moderate coverage metrics due to increase in borrowings to fund higher than earlier expected capex and working capital requirements, although the consolidated revenue and profitability has witnessed some improvement in FY2021 and H2FY2022, driven by healthy demand of FIBC products in domestic and export market. The liquidity profile while adequate remains under pressure due to high utilisation of working capital limits. The Group's ability to scale up its operations along with improvement in profit margin or moderate its working capital intensity leading to improvement in coverage indicators and liquidity position remains a key monitorable.

The rating continues to derive comfort the extensive experience of the promoters and the established track record of the Group in the flexible packaging industry. Further, ICRA takes note of the Group's established and reputed customer base across various end-user industries, which mitigates the counterparty credit risk to a significant extent and reduces the concentration risk.

The ratings, however, remain constrained by the Group's working capital intensive operations due to high inventory holding requirements, vulnerability of the Group's profitability to fluctuations in polypropylene granules (key raw material) prices and foreign currency exchange rates (because of high proportion of export sales in its revenue mix). ICRA notes the Group's exposure to intense competition in the flexible intermediate bulk containers (FIBC) manufacturing industry due to the presence of various organised and unorganised players.

Key rating drivers and their description

Credit strengths

- **Extensive experience of promoters and Group's long track record in FIBC industry** – The Shree Tirupati Balajee Group was promoted in 2001 by Mr. Binod Kumar Agarwal and his family to manufacture woven sacks and FIBC bags. It enjoys a strong presence and a 15-year long track record in the flexible packaging industry. STB Group is also a member of Flexible Intermediate Bulk Container Association (FIBCA).
- **Established and reputed clientele base in domestic as well as overseas market** - The Group's reputed and established customer profile in the domestic and international market reduces the counterparty credit risk to a large extent. Moreover, as it caters to various end-user industries such as FMCG, pharmaceutical, mineral and mining, and cement, its demand dependence on any particular industry is considerably reduced.

Credit challenges

- **Working capital intensive operations** – Operations remained highly working capital intensive in the past and it increased further in FY2021 with NWC/OI of ~64% against ~58% in FY2020. The Group's receivable days witnessed some moderation to 57 days as on March 31, 2021 from Rs. 68 days as on March 31, 2020 but inventory holding levels have remained high at more than 200 days. While there has been some moderation in working capital intensity in H1FY2022 it still remains at elevated level. ICRA will be monitoring the company's ability to moderate its working capital intensity.
- **Leveraged capital structure, moderate coverage indicators and debt protection metrics** – The company's capital structure has remained leveraged due to increase in debt for capex and working capital requirements. The gearing of the consolidated entity was 1.8 times as on March 31, 2021 (PY 1.5 times) and 1.4 times as on September 30, 2021. The coverage indicators and debt protection metrics have also remained moderate, with interest coverage and TD/OPBDITA of 2.7 times (PY 2.3 times) and 6.2 times (PY 5.4 times) respectively in FY2021 and 3.4 times and 4.4 times in H1FY2022. The DSCR was 1.5 times in FY2021 and H1FY2022. Going forward, the improvement in coverage indicators will depend on Group's ability to scale up its operations along with improvement in profit margin or moderate its working capital intensity.
- **Vulnerability of profitability to any fluctuations in raw material (polypropylene granules) prices and foreign exchange fluctuations** – Polypropylene granules is the key raw material needed to manufacture FIBC bags. Hence, the Group's profitability remains exposed to fluctuations in its prices, which in turn depend on the price of crude oil. Its profitability is exposed to fluctuations in foreign currency exchange rates because of high proportion of export sales in its revenue mix (~46% in FY2021).
- **Intense industry competition** - The Group faces stiff competition from a large number of organised as well as unorganised players manufacturing FIBC bags. This limits the pricing flexibility and bargaining power with its customers, thereby putting pressure on the company's revenue and margins. Stiff competition along with withdrawal of export incentives under MEIS scheme had impacted operating margins of the Group. However, the operating margin has witnessed some improvement in FY2021 and H1FY2022, due to improvement in realisations and cost rationalisation measures.

Liquidity position: Adequate

Liquidity position is adequate, driven by the expected annual cash accrual of ~Rs. 19.0-22.0 crore in FY2022 against an annual debt repayment of ~Rs. 16.8 crore. Further, the undrawn working capital facility of ~Rs. 14.00 crore and the free cash balances of Rs. 2.1 crore as on March 31, 2021, supports liquidity position. Moreover, the Group had availed COVID lines of Rs. 17 crore

in FY2021 which further supports the medium-term liquidity requirement of the group. However, the Group's working capital intensity remains high, driven by high inventory holding requirement and the average utilisation of working capital facility remains very high at ~92% in the past 12 months (January 2021 to December 2021).

Rating sensitivities

Positive Factors –

1. The outlook may be revised to stable in case of improvement in consolidated entity's scale of operations and profitability leading to improvement in DSCR of 1.4 times or above.
2. Improvement in working capital cycle of consolidated entity on sustained basis leading to improvement in Group's liquidity position.

Negative Factors –

1. Significant scale down of operations or deterioration in the operating margins of consolidated entity leading to DSCR below 1.4 times on sustained basis.
2. Any major debt funded capex or stretch in working capital cycle adversely impacting liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	ICRA has taken a consolidated view of Shree Tirupati Balajee Agro Trading Co. Pvt. Ltd., subsidiaries – Shree Tirupati Balajee FIBC Limited (STBFL), Jagannath Plastics Pvt. Ltd. (JPPL) and Honourable Packaging Pvt. Ltd. (HPPL).

About the company

Incorporated in 2009 by Mr. Binod Agarwal, Shree Tirupati Balajee FIBC Ltd. manufactures Flexible Intermediate Bulk Containers (FIBC)/ jumbo bags. It manufactures various types of high value added FIBC bags such as standard bag, baffle bag, conductive bag, cross corner bag, etc., which are used in food and pharmaceutical packaging. The company's manufacturing facility is located at Pithampur, Indore (M.P.) having the total manufacturing capacity of 7,000 metric tonnes per annum (MTPA) of FIBC bags. STBFIBC is a 100% export-oriented unit and hold the British Retail Consortium food safety certification.

STBFL is a part of Pithampur, Indore based Shree Tirupati Balajee Group, which is primarily involved in the manufacturing of FIBC. The Group companies includes Shree Tirupati Balajee Agro Trading Co. Ltd. (manufactures FIBC bags for food, pharmaceutical, mineral and mining, construction and agricultural produce packaging), Jagannath Plastics Pvt. Ltd. (manufactures intermediate technical textile fabric from polymers), Honourable Packaging Pvt. Ltd. (manufactures plastic granules, polyethylene fabric and tarpaulin from waste material). Shree Tirupati Balajee FIBC Ltd. is a 100% export-oriented unit and hold the British Retail Consortium food safety certification. The Group has combined manufacturing capacity of 25,000 MTPA of FIBC. The Group was promoted by Mr. Binod Agarwal and family, who have rich experience of more than 15 years in the packaging industry.

Key financial indicators - Standalone

STFIBCL	FY2020 (A)	FY2021 (A)
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Operating Income (Rs. crore)	111.1	117.1
PAT (Rs. crore)	3.6	4.8
OPBDIT/OI (%)	6.7%	8.1%
RoCE (%)	9.4%	11.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9
Total Debt/OPBDIT (times)	4.4	4.1
Interest Coverage (times)	3.3	4.6
DSCR (times)	1.65	2.07

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year), (P)-Provisional

Key financial indicators – Consolidated

	FY2020 (A)	FY2021 (A)
Operating Income (Rs. crore)	336.7	346.8
PAT (Rs. crore)	8.8	10.1
OPBDIT/OI (%)	8.7%	9.0%
RoCE (%)	9.2%	9.0%
Total Outside Liabilities/Tangible Net Worth (times)	2.4	2.3
Total Debt/OPBDIT (times)	5.4	6.2
Interest Coverage (times)	2.3	2.7
DSCR (times)	1.2	1.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year), (P)-Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
						January 6, 2021	May 5, 2020		
					February 2, 2022			November 21, 2019	September 12, 2018
1	Export Packing Credit/Cash Credit	Long-term	30.00	-	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB @	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Term Loan	Long-term	16.79	16.79	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB @	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Unallocated	Long-term/Short Term	17.09	-	[ICRA]BBB (Negative)/[ICRA]A3+	[ICRA]BBB (Negative)/[ICRA]A3+	[ICRA]BBB @/[ICRA]A3+@	[ICRA]BBB (Stable)[ICRA]A3+	[ICRA]BBB (Stable)[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Export Packing Credit/Cash Credit	Simple
Term Loan	Simple
Unallocated	NA

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, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Export Packing Credit/Cash Credit	NA	NA	NA	30.00	[ICRA]BBB (Negative)
NA	Term Loans -1	FY2018	8.3%	FY2027	10.00	[ICRA]BBB (Negative)
NA	Term Loans -2	FY2018	6.9	FY2023	0.79	[ICRA]BBB (Negative)
NA	Foreign Currency Term Loan	FY2020	7.2%	FY2025	1.70	[ICRA]BBB (Negative)
NA	Common Covid-19 Emergency Credit Line - 1	FY2021	8.0%	FY2025	1.60	[ICRA]BBB (Negative)
NA	Common Covid-19 Emergency Credit Line - 2	FY2021	7.5%	FY2025	2.70	[ICRA]BBB (Negative)
NA	Unallocated Limits	NA	NA	NA	17.09	[ICRA]BBB (Negative)/[ICRA]A3+

Source: Shree Tirupati Balajee FIBC Limited

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidated Approach
Shree Tirupati Balajee FIBC Limited	51.28%	Full Consolidation
Jagannath Plastics Pvt. Ltd.	82.00%	Full Consolidation
Honourable Packaging Pvt Ltd	75.00%	Full Consolidation

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