

Shri Pankaj Shah
Managing Director
PG Foils Limited
PO - Pipalia Kalan,
District Pali,
Pali
Rajasthan 306307

December 28, 2021

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your Company for FY21 (Audited) and H1FY22 (Provisional), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	90.00 (Enhanced from 65.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	55.00	CARE A-; Stable / CARE A1 (Single A Minus ; Outlook: Stable / A One)	Reaffirmed
Total Facilities	145.00 (Rs. One Hundred Forty-Five Crore Only)		

- Refer **Annexure 1** for details of rated facilities.
- The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure 2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by December 30, 2021, we will proceed on the basis that you have no any comments to offer.
- CARE Ratings Ltd. reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
- CARE Ratings Ltd. reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE Ratings Ltd. warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE Ratings Ltd. so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE Ratings Ltd. shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE Ratings Ltd. shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

¹Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.
CARE Ratings Limited

6. Our ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.
8. Users of this rating may kindly refer our website www.careedge.in for latest update on the outstanding rating.
9. CARE Ratings Ltd. ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,



Anuja Parikh
Assistant Director
anuja.parikh@careedge.in



Nikita Akhilesh Goyal
Assistant Director
nikita.goyal@careedge.in

Encl.: As above

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

CARE Ratings Limited

32, Titanium,
Prahladnagar Corporate Road, Satellite
Ahmedabad – 380 015
Phone: +91-79-4026 5656
CIN-L67190MH1993PLC071691

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off
Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone: +91-22-6754 3456
Email: care@careedge.in • www.careedge.in

Annexure 1

Details of Rated Facilities

1. Long Term Facilities

1.A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	IDBI Bank Ltd.	55.00	Cash Credit; Includes sublimit of working capital demand loan and bill discounting (drawn under letter of credit)
2.	HDFC Bank Ltd.	35.00	Cash Credit
	Total	90.00	

Total Long Term Facilities : Rs.90.00 crore

2. Long Term / Short Term Facilities

2.A. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	IDBI Bank Ltd.	40.00	Letter of Credit; includes sublimit of Buyers' Credit of Rs.30 crore, Bank Guarantee of Rs.5 crore and Treasury limit of Rs.5 crore
2.	HDFC Bank Ltd.	15.00	Letter of Credit
	Total	55.00	

Total Long Term / Short Term Facilities : Rs.55.00 crore

Total Facilities (1.A+2.A) : Rs.145.00 crore

CARE Ratings Limited

32, Titanium,
Prahlanagar Corporate Road, Satellite
Ahmedabad – 380 015
Phone: +91-79-4026 5656
CIN-L67190MH1993PLC071691

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off
Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone: +91-22-6754 3456
Email: care@careedge.in • www.careedge.in

Annexure 2
Press Release

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	90.00 (Enhanced from 65.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	55.00	CARE A-; Stable / CARE A1 (Single A Minus ; Outlook: Stable/ A One)	Reaffirmed
Total Bank Facilities	145.00 (Rs. One Hundred Forty-Five Crore Only)		

Detail of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PG Foils Limited (PGFL) continue to derive strength from the vast experience of its promoters in aluminium foil manufacturing with more than three decades of operational track record and its diversified clientele with whom PGFL has a long-standing business relationship. The ratings also factor in PGFL's moderate scale of operations which reported healthy volume backed growth in FY21 (refers to the period April 1 to March 31) as well as in H1FY22, healthy operating profitability, moderate capital structure albeit with gradual increase in debt level, comfortable debt coverage indicators and adequate liquidity supported by cushion available in the form of substantial investments in mutual funds, bonds and unit linked insurance policies which exceeded its outstanding debt as on September 30, 2021.

The ratings, however, continue to remain constrained by PGFL's elongated operating cycle, susceptibility of profitability to raw material price volatility as well as foreign exchange rate fluctuation and its presence in an intensely competitive aluminium foil industry.

Key Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Volume driven growth in its scale of operations with total operating income (TOI) above Rs.500 crore along with PBILDT margin and ROCE above 15% on sustained basis while maintaining its leverage.
- Improvement in operating cycle to less than 120 days through better collection efficiency on a sustained basis leading to reduced reliance on bank borrowings for funding working capital requirements.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Significant decline in scale of operations or decline in PBILDT margin to below 10% on sustained basis
- Major debt funded capex for manufacturing of unrelated products wherein no synergy with existing business operations exist which adversely affects its leverage and debt coverage
- Any unfavourable outcome of the long ongoing court case in the matter of forgery of FDRs of PGFL affecting its credit profile
- Any stress on liquidity arising from declaration of large dividend, non-recoupment of its investments or extension of loans and advances to unrelated entities

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters: Mr. Pankaj P. Shah, promoter, and Managing Director of PGFL, has industry experience of more than three decades and looks after the overall operations of the company. He is assisted by Mr. Sahil Shah, Whole Time Director, who looks after product development and marketing functions.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications
CARE Ratings Limited

Established track record in aluminium foil manufacturing and diversified clientele: Incorporated in November 1979, PGFL has established track record of more than three decades in manufacturing of aluminium foils and has long-standing relationship with its key clientele in pharmaceutical and fast-moving consumer goods (FMCG) industries as well as manufacturers of packing products for dairy industry.

PGFL's clientele is well-diversified with top five customers accounting for ~23% of net sales in FY21 (~20% in FY20). Moreover, PGFL has been able to acquire and retain its major clients through continuous focus on quality and customer service. The company predominantly remains a domestic player with only ~13% of its net sales being exports. The company has a geographically diversified presence in domestic market with marketing offices located at Ahmedabad, Mumbai, Delhi, Jaipur, Chennai, Hyderabad, Bengaluru and Kolkata.

Moderate scale of operations and profitability: During FY21, PGFL's total operating income (TOI) registered healthy y-o-y growth of 16% and continued to remain moderate at Rs.264.31 crore. The growth in scale of operations was mainly on account of increase in sales volume of aluminium foil coupled with increase in income from scrap sales and trading operations. Operating profitability remained stable with PBILDT margin of 12.06% in FY21 (11.92% in FY20). Lower overhead cost due to growth in scale of operations was offset by higher raw material cost including increase in proportion of trading income which fetches relatively lower margin.

During H1FY22, PGFL reported robust y-o-y growth of 54% in its TOI to Rs.211.12 crore with increase in both, sales volume as well as sales realization of aluminium foil. Increase in scale of operations supported by low-cost inventory resulted in improvement in PBILDT margin by 540 bps on y-o-y basis to 20.36%.

Moderate capital structure and debt coverage indicators albeit with gradual increase in debt level: PGFL's capital structure remained moderate with overall gearing of 0.98x as on FY21 end and 1.05x (total debt excluding financial lease liability) as on September 30, 2021. The same increased from 0.77x as on FY20 end due to avilment of higher debt in the form of unsecured loans and working capital borrowings which was used to fund working capital requirements including advances to raw material suppliers. Nonetheless, company has adequate liquid investments (mainly in the form of mutual funds) which exceed its debt levels.

PGFL's debt coverage indicators remained moderate during FY21. While interest coverage improved to 7x (3.22x in FY20) due to higher profit as well as lower interest cost (mainly due to lower forex loss on borrowings), total debt/GCA and total debt/PBILDT moderated to 8.25x and 5.54x respectively (6.36x and 4.68x in FY20) due to higher outstanding debt.

Key Rating Weaknesses

Vulnerability of profitability to volatility in prices of key raw materials and foreign exchange rate: Aluminium foil stock is the main raw material for PGFL, and it comprised more than 70% of its total raw material purchase cost. The price of aluminium foil stock has exhibited volatility in the past on account of its linkage with price of primary aluminium in the domestic market, which is in turn governed by global demand-supply scenario and foreign exchange rate fluctuation.

PGFL is also exposed to foreign currency exchange rate fluctuation risk on its imports due to significant gap between consumption of imported raw material and exports with absence of active hedging policy to mitigate the risk, along with forex debt. During FY21, PGFL reported a foreign currency loss of Rs.0.63 crore primarily on its forex denominated borrowings availed to fund these purchases. Due to these factors, PGFL's profitability could be impacted by any major adverse movement in its input cost which is generally passed on to its customers with some time lag due to intense competition in the industry.

Elongated operating cycle: PGFL's operations are working capital intensive with an elongated operating cycle of 145 days in FY21 (152 days in FY20) with sizeable investment required in receivables due to credit period of around 2-3 months offered to clients. PGFL is also required to maintain raw material inventory to readily serve the varied requirements of its diversified clientele. On the other hand, credit period from suppliers is limited due to commodity nature of raw material and direct procurement from the manufacturers who have greater bargaining power which results in a long operating cycle for the entity.

Presence in an intensely competitive aluminium foil industry: The aluminium foil industry is intensely competitive on account of ample available production capacity along with imports of regular quality foils, particularly from China and Southeast Asian nations (which however might get hampered due to levying of anti-dumping duty by the government). While the demand for aluminium foils is expected to remain stable in the medium term with regular offtake from major end user industries including

CARE Ratings Limited

32, Titanium,
Prahlanagar Corporate Road, Satellite
Ahmedabad – 380 015
Phone: +91-79-4026 5656
CIN-L67190MH1993PLC071691

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off
Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone: +91-22-6754 3456
Email: care@careedge.in • www.careedge.in

pharmaceutical and FMCG industries, the profitability of the industry players is expected to remain volatile on account of close linkage of raw material prices to global metal prices along with volatility in forex rates.

Liquidity: Adequate

PGFL has adequate liquidity with moderate utilization of its working capital limits, absence of any external long-term debt and sizeable liquid investments against outstanding debt.

Utilization of working capital limits (for one of the two lenders) was moderate at ~43% for 12 months ended October 2021, whereas utilization of working capital limits was low for another lender. Also, PGFL had healthy investments (comprising of mutual fund units, debt instruments and insurance policies) of Rs.297.41 crore vis-à-vis outstanding debt (excl. financial lease liability) of Rs.227.94 crore as on September 30, 2021, providing additional support to the company's liquidity.

Cash flow from operations was negative at Rs.15.58 crore despite higher profit due to advances given to suppliers for raw material procurement over the next 8-9 months.

However, liquidity of the company is partially tempered by an elongated operating cycle of 145 days in FY21 (152 days in FY20). Also, PGFL had invested Rs.9 crore in NCDs of Earthcon Infracon Pvt. Ltd. which was due for repayment in December 2019. However, EIPL went in insolvency and the amount has not been recovered yet. While this amount forms only 3% of PGFL's total investment and hence is not expected to have any major impact on its liquidity, any significant increase in investments towards such risky asset class could adversely impact its liquidity going forward.

Furthermore, in FY14, PGFL had placed FDs of Rs.69 crore with Dhanlaxmi Bank, which was misappropriated by certain parties in FY15. The company has recovered the entire amount misappropriated, but the same has been recovered from parties other than those with whom the FDRs were placed, which was shown as liabilities in books of accounts till FY16. In FY17, as the amount of FDs placed was fully recovered, the liability shown in books of PGFL was settled against the FDs, as per the advice received by the company. However, the outcome of the various legal cases and other complaints filed by PGFL is pending, and any adverse outcome from these cases will have bearing on the ratings of PGFL.

Analytical approach – Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the Company

PGFL, incorporated in November 1979, is the flagship company of the PG Foils group based out of Pali Marwar, Rajasthan. The company is engaged in manufacturing of aluminium foils and flexible packaging with an installed capacity of 11,700 metric tons per annum (MTPA) as on September 30, 2021.

PGFL's clientele includes pharmaceutical and FMCG companies as well as packaging manufacturers for dairy products. PGFL also has a windmill with power generation capacity of 2.1 megawatt (MW).

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22
Total operating income	227.15	264.31	211.12
PBILDT	27.08	31.87	42.98
PAT	14.96	15.29	31.53
Overall gearing (times)	0.77	0.98	*1.05
Interest coverage (times)	3.22	7.00	17.56

A: Audited; *considering total debt excluding financial lease liability

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

CARE Ratings Limited

32, Titanium,
Prahadnagar Corporate Road, Satellite
Ahmedabad – 380 015
Phone: +91-79-4026 5656
CIN-L67190MH1993PLC071691

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off
Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone: +91-22-6754 3456
Email: care@careedge.in • www.careedge.in

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure-4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ST-BG/LC	-	-	-	55.00	CARE A-; Stable / CARE A1
Fund-based - LT-Cash Credit	-	-	-	90.00	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	55.00	CARE A-; Stable / CARE A1	-	1)CARE A-; Stable / CARE A1 (03-Feb-21)	1)CARE A-; Stable / CARE A1 (13-Feb-20)	1)CARE A-; Stable / CARE A1 (11-Mar-19)
2	Fund-based - LT-Cash Credit	LT	90.00	CARE A-; Stable	-	1)CARE A-; Stable (03-Feb-21)	1)CARE A-; Stable (13-Feb-20)	1)CARE A-; Stable (11-Mar-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this Company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact

Name: Mradul Mishra
 Contact no.: +91-22-6754 3573
 Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Nikita Akhilesh Goyal
 Contact no.: +91-79-4026 5670
 Email ID: nikita.goyal@careedge.in

CARE Ratings Limited

32, Titanium,
 Prahladnagar Corporate Road, Satellite
 Ahmedabad – 380 015
 Phone: +91-79-4026 5656
 CIN-L67190MH1993PLC071691

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off
 Eastern Express Highway, Sion (East), Mumbai - 400 022
 Phone: +91-22-6754 3456
 Email: care@careedge.in • www.careedge.in

Relationship Contact

Name: Deepak Purshottambhai Prajapati

Contact no.: +91-79-4026 5656

Email ID: deepak.prajapati@careedge.in

About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**

CARE Ratings Limited

32, Titanium,
Prahlanagar Corporate Road, Satellite
Ahmedabad – 380 015
Phone: +91-79-4026 5656
CIN-L67190MH1993PLC071691

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off
Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone: +91-22-6754 3456
Email: care@careedge.in • www.careedge.in