

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

December 06, 2022

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your Company for FY22 (Audited) and H1FY23 (Un Audited), and the possible impact of the same on the credit profile of your company, our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	100.00 (Enhanced from 90.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	95.00 (Enhanced from 55.00)	CARE A-; Stable / CARE A1 (Single A Minus; Outlook: Stable / A One)	Reaffirmed
Total Facilities	195.00 (Rs. One Hundred Ninety- 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 8, 2022, 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

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

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,



Aneri Shah
Lead Analyst
Aneri.S@careedge.in



Ujjwal Manish Patel
Associate Director
ujjwal.patel@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.

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CARE Ratings Limited

32, Titanium, Prahaladnagar Corporate Road
Satellite, Ahmedabad - 380 015
Phone: +91-79-4026 5656

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

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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.	60.00	Cash Credit; Includes sublimit of working capital demand loan and bill discounting (drawn under letter of credit)
2.	HDFC Bank Ltd.	40.00	Cash Credit
	Total	100.00	

Total Long Term Facilities: Rs.100.00 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.	55.00	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.	40.00	Letter of Credit
	Total	95.00	

Total Long Term / Short Term Facilities: Rs.95.00 crore

Total Facilities (1. A+2.A) : Rs.195.00 crore

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Satellite, Ahmedabad - 380 015
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Annexure – II
Draft Press Release
PG Foils Limited

Rating/Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ²	Rating Action
Long Term Bank Facilities	100.00 (Enhanced from 90.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	95.00 (Enhanced from 55.00)	CARE A-; Stable / CARE A1 (Single A Minus; Outlook: Stable/ A One)	Reaffirmed
Total Bank Facilities	195.00 (₹ One Hundred Ninety-Five Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and 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 FY22 (refers to the period April 1 to March 31), healthy operating profitability, comfortable capital structure, satisfactory 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, 2022.

The ratings, however, continue to remain constrained by raw material price volatility as well as foreign exchange rate fluctuation, moderate working capital cycle and presence in an intensely competitive aluminium foil industry.

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 90 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

Established track record in aluminium foil manufacturing business and diversified clientele:

Incorporated in November 1979, PGFL has an 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 is predominantly a domestic player with a well-diversified clientele marked by top five customers accounting for ~21% of net sales in FY22 (~23% in FY21). The domestic market is catered through a well-established and strong marketing and distribution network with offices located at Ahmedabad, Mumbai, Delhi, Jaipur, Chennai, Hyderabad, Bengaluru and Kolkata.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications
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Volume-backed growth in scale of operations and improvement in profitability:

During FY22, PGFL's total operating income (TOI) registered healthy y-o-y growth of 58% at Rs. 395.11 crore (Rs.264.31 crore in FY21). The growth was mainly on account of increase in sales volume of aluminium foil due to imposition of anti-dumping duty on import of aluminium foil (of thickness 80 microns and below) from China, Malaysia, Indonesia and Thailand, used in food and pharmaceutical sectors for guarding domestic players and deterring cheap imports. Operating profitability improved with PBILDT margin of 12.51% in FY22 (7.23% in FY21) as the company gained on increasing aluminium prices while the RM procurement cost of aluminium foil stock was fixed through pre-booking contracts for a large part of FY22. While fixed price contract for aluminium foil procurement improved PGFL's margin in FY22, entering into any long-term fixed price contracts going forward remains crucial from the credit perspective and hence a key rating monitorable.

During H1FY23 (refers to period from April 01 to September 30), PGFL reported TOI of Rs.206.25 crore (H1FY22: Rs. 211.12 crore). Stable scale of operations were partially offset by lower sales realisation due to decline in Aluminium prices. It resulted in moderation in PBILDT margin by 824 bps on half year basis to 12.11% (H1FY22: 20.35%). While PGFL's TOI is envisaged to remain in line with FY22 levels, CARE expects its PBILDT margin to moderate further by around 100-150 bps with dip in aluminium prices during FY23.

Comfortable capital structure and debt coverage indicators:

PGFL's capital structure remained comfortable with overall gearing of 1.01x as on FY22 end (0.9x as on FY21 end). The company has adequate liquid investments (mainly in the form of mutual funds) of Rs.288.50 crore which exceed total o/s working capital borrowings of Rs.200.74 crore. Around 25% of 38,90,000 share warrants issued in FY21 were converted into equity in FY22 and balance is envisaged to be converted by April 2023. The proceeds will be utilized for capacity expansion in the existing product line or acquisition of a company which shall be present in the same line of business.

PGFL's debt coverage indicators remained comfortable during FY22 marked by interest coverage of 8.6x (4.0x in FY21) and total debt/PBILDT of 5.28x respectively (5.54x in FY21). Absence of any large debt-funded capex is envisaged to improve the financial risk profile over the medium term.

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.

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 70-80% of its TOI. 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 in turn is governed by global demand-supply scenario.

PGFL is also exposed to exchange rate fluctuation risk on its imports due to significant gap between consumption of imported raw material and exports & forex debt and absence of active hedging policy. During FY22, PGFL reported a foreign currency gain of Rs.1.75 crore (loss of Rs.0.63 crore in FY21). Due to these factors, PGFL's profitability may be impacted by any major adverse movement in its input cost which is generally passed on to its customers with some time lag.

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. Nevertheless, CARE expects the demand for aluminium foils to remain stable in the medium term with regular offtake from major end user industries including pharmaceutical and FMCG.

Liquidity: Adequate

PGFL has adequate liquidity with moderate utilization of its working capital limits, absence of long-term debt and sizeable liquid investments against outstanding debt. Utilization of working capital limits was moderate at 80% during the trailing 12 months ending August 2022. Cash flow from operations was negative at Rs.94.02 crore majorly on account of advances given to suppliers for raw material procurement of Rs.147.59 crore as on March 31, 2022 (Rs.25.62 crore in FY21). PGFL had entered into a fixed price contract with its suppliers at the end of FY21 & FY22 for bulk raw material supply for availing price benefit as evidenced through improvement in margins.

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PGFL's operating cycle improved to 105 days in FY22 (FY21: 145 days) on account of reduction in average credit period offered to customers to around 45 days in FY22 as compared to 80-90 days in FY21. Although inventory levels have increased, it follows increase in TOI and remains an average of ~2-3 months. Payment to supplier is majorly on advance basis.

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](#)

[Policy on Withdrawal of Ratings](#)

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 August 31, 2022.

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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	September 30, 2022 (UA)
Total operating income	250.56	395.12	206.25
PBILDT	18.13	49.45	24.97
PAT	15.29	46.56	16.97
Overall gearing (times)	0.98	1.01	1.02
Interest coverage (times)	3.98	8.62	6.82

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

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

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

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	100.00	CARE A-; Stable
Non-fund-based - LT/ST-BG/LC		-	-	-	95.00	CARE A-; Stable / CARE A1

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Email: care@careedge.in • www.careedge.in



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Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	95.00	CARE A-; Stable / CARE A1	1)CARE A-; Stable / CARE A1 (07-Oct-22)	1)CARE A-; Stable / CARE A1 (30-Dec-21)	1)CARE A-; Stable / CARE A1 (03-Feb-21)	1)CARE A-; Stable / CARE A1 (13-Feb-20)
2	Fund-based - LT-Cash Credit	LT	100.00	CARE A-; Stable	1)CARE A-; Stable (07-Oct-22)	1)CARE A-; Stable (30-Dec-21)	1)CARE A-; Stable (03-Feb-21)	1)CARE A-; Stable (13-Feb-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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 instruments: CARE Ratings 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.

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32, Titanium, Prahaladnagar 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



Contact us

Media contact

Name: Mradul Mishra

Phone: +91-22-6754 3596

E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Ujjwal Manish Patel

Phone: 8511193123

E-mail: ujjwal.patel@careedge.in

Relationship contact

Name: Deepak Purshottambhai Prajapati

Phone: +91-79-4026 5656

E-mail: Deepak.Prajapati@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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**For the detailed Rationale Report and subscription information,
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