Rating Rationale

November 28, 2022 | Mumbai

Manjushree Technopack Limited

Rating Action

Total Bank Loan Facilities Rated	**Rs 1166 crore**
Long Term Rating	**CRISIL AA-/Stable**
Short Term Rating	**CRISIL A1+**

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1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings on the bank facilities of Manjushree Technopack Limited (MTL) reflects the strong business risk profile of MTL due to continued healthy performance over the medium term, supported by good demand prospects, leading market position in the rigid packaging segment in India, improving product diversity, and marquee client profile. The large capital expenditure (capex) undertaken in the past couple of fiscals towards organic and inorganic growth in fiscals 2020 and 2021 as well as setting up of the Greenfield unit at Silvassa and capacity enhancements will help bolster production capacities and register strong revenue growth over the medium term. MTL is expected to maintain healthy operating profitability of 16-18%, supported by superior operating capabilities, thus increasing annual cash flow to Rs 180-250 crore over the medium term from ~Rs 135 crore in fiscal 2022.

The healthy financial risk profile continues to improve, strengthened by steady cash accrual and equity infusion by the parent, Advent International (Advent), the global private equity investor, which helped part fund capital spend and acquisitions. This enhanced debt protection metrics; debt to earnings before interest, depreciation, taxes and amortization (EBITDA) ratio improved to 1.7 times in fiscal 2022, from 2.3 times in fiscal 2021, while the total outside liabilities to tangible networth ratio improved to 0.99 time on March 31, 2022 (1.58 times on March 31, 2021). These ratios are expected to improve gradually over the medium term, supported by healthy business performance, progressive repayment of debt and moderate capital spending.

In the recent past, MTL has done acquisitions to increase the scale of operations, add new products to its portfolio and improve geographic presence. Going forward, the group may continue pursuing small to mid-sized bolt on acquisitions to enhance revenue growth, but is expected to maintain financial prudence, as demonstrated recently.

The ratings continue to reflect established market position of MTL, strong operating efficiency, and healthy and improving financial risk profile. These strengths are partially offset by moderately high working capital requirement and intense competition in the plastic packaging industry.

Analytical Approach

CRISIL Ratings has consolidated MTL and its wholly owned subsidiary – MTL New Initiatives Pvt Ltd – as the two companies have common management and financial and operational linkages.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Established market position, marked by strong customer base and increasing revenue diversity**
  The company is one of the largest players in the rigid pla stics packaging business in India with installed capacity of over 1,90,000 tonne per annum. MTL enjoys leading market position in the rigid plastics packaging segment. Strong market share is supported by established relationship with customers such as Reckitt Benckiser (India) Ltd, Dabur India Ltd ('CRISIL AAA/Stable/CRISIL A1+'), Hindustan Coca Cola Beverages Private Ltd, PepsiCo India Private Ltd, and Mondelez India Foods Private Ltd. Over the past few years, MTL has diversified its customer base, increased its presence in various categories of the fast-moving consumer goods packaging industry such as packaging for food & beverages, personal care, home care, liquor and pharmaceuticals. The company has a manufacturing base in Bengaluru; with the acquisition of Varahi Ltd (Varahi) in fiscal 2017 and National Plastics Industries Ltd (NAPLA)'s facilities in fiscal 2020 in north India, the overall market reach and ability to service diverse clients improved substantially. In April 2021, MTL completed the acquis ition of business-to-business services of Pearl Polymers Ltd (PPL), which helped increase its market share. Acquisition of NAPLA has added dispensers and sprays to the product portfolio. The acquisitions helped MTL improve its product diversity, add new clients, and supply new products to existing clients, thereby improving the wallet share. MTL also expanded into East Indian markets by setting up a plant at Guwahati (Assam) in 2017. In fiscal 2021, it commissioned a Greenfield capacity at Silvassa that will help enhance geographical diversification in the western market. The company has also commissioned a rigid plastic recycling plant at Bengaluru in fiscal 2021. Further, in January 2022, MTL completed acquisition of Classy Kontainers. In July 2022, MTL announced acquisition of Hitesh Plastics. These helped MTL to expand in the new client segment and product segments such as caps and closures.

- **Strong operating efficiency**
  Freight costs are an important element in the overall cost structure of the packaging industry. Geographic proximity plays an important role in the acquisition of clients. Presence in north India has improved post acquisition of Varahi, NAPLA and PPL and should continue to help MTL integrating its manufacturing units with the supply chain systems of customers. Additionally, the newly commissioned Silvassa plant and acquisition of Hitesh Plastics will cater to the rigid packaging demand in the western Indian market. Furthermore, well-developed, in-house design facilities, and capabilities of diverse manufacturing processes allow the company to maximise potential revenue from a particular geographical region.

  Despite volatile raw material prices, MTL is expected to have operating margin of 16-18% over the medium term, driven by ability of the company to pass on raw material price variations to clients.

- **Healthy and improving financial risk profile**
  Higher annual cash accrual of Rs 180-250 crore over the medium term (Rs 134 crore in fiscal 2022) and progressive debt repayment should help fund capex/acquisition plans. Support is also expected from Advent to fund the acquisitions. Though the funding is via compulsorily convertible debentures with coupon of 9%, interest coverage ratio may moderate but still remain comfortable at ~4 times in fiscal 2024. The debt/EBITDA ratio is expected to improve to ~1.4 times by fiscal 2024 from 1.7 times in fiscal 2022. Besides, net cash accrual to debt should increase to over 0.4 time in fiscal 2024, from ~0.34 time in fiscal 2022.

Weaknesses:

- **Moderately large working capital requirement**
  Moderately high working capital intensity is due to seasonality in most end-user segments. As the company significantly caters to beverage manufacturers, sales peak during summer, leading to sizeable inventory. Inventory is high at 60-80 days, peaking from March to May. Also, credit of 60-90 days is extended to customers. The working capital cycle may remain stretched, with gross current assets of around 180-190 days over the medium term.

- **Exposure to intense competition**
  The packaging industry is highly fragmented and hence intense competition may continue to constrain scalability, pricing power and profitability. However, the established presence of MTL and strong customer relationship help mitigate the impact of competition. Research and development capabilities of the company are also expected to maintain better margin than peers.

Liquidity: Strong

Cash accrual is projected at Rs 180-250 crore per annum, against debt repayment obligation of Rs 25-50 crore o ver the medium term and the annual capex needs of ~Rs 150 crore. Bank limit of ~Rs 325 crore was utilised at 83% on average for 12 months through August 2022, and headway exists for meeting incremental working capital needs. Mid-sized acquisitions if any, are likely to be partly supported by equity fund infusion from Advent. Besides, Advent may provide timely, need-based funding support.

Outlook: Stable

MTL will continue to benefit from increased contribution from newly commissioned capacities and recen t acquisitions, leading to rise in scale and geographic diversity as well as steady increase in offtake by existing customers. Healthy financial risk profile should sustain, with improving cash accrual and prudent capex spend.

Rating Sensitivity factors

Upward factors

- Sustained annual revenue growth of at least ~15%, and operating profitability of 18-20%, leading to healthy cash generation
- Improvement in debt protection metrics, for instance debt-to-EBITDA ratio of 1.5-1.6 times

Downward factors

- Sharp decline in business performance, impacting operating profitability (below 14-15%), and cash accrual
- Large, debt-funded capex or acquisition, leading to weakening of debt protection metrics; for instance debt-to-EBIDTA ratio of over 3 times

About the Company

MTL was established in 1987 as a private-limited company and reconstituted as a public-limited company in 1994. It manufactures polyethylene terephthalate (PET) jars and bottles, multilayer containers, PET hot-fillable bottles, and pre-forms for use in the food, beverage, pharmaceutical, cosmetic, agricultural chemicals, and allied sectors. In February 2013, it started operations at its state-of-the-art PET preform manufacturing facility at Bidadi, Bengaluru. This facility has a 'platinum green' certification under the Leadership in Energy & Environmental Design programme and is the largest of its kind in South Asia.

As of March 2022, Advent is a majority stake holder with ~97% shareholding and ~3% is held by other public shareholders.

Key Financial Indicators

As on / for the period ended March 31		2022	2021
Revenue	Rs crore	1468	1047
Adjusted profit after tax (PAT)	Rs crore	71	91
PAT margin	%	4.8	8.7
Adjusted debt/adjusted networth	Times	0.48	1.05
Interest coverage	Times	4.93	4.86

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure – Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities – including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisil.com/complexity-levels. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity Level	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	200	NA	CRISIL AA-/Stable
NA	Cash Credit	NA	NA	NA	105	NA	CRISIL AA-/Stable
NA	Cash Credit	NA	NA	NA	60	NA	CRISIL AA-/Stable
NA	Proposed Cash Credit Limit	NA	NA	NA	35	NA	CRISIL AA-/Stable
NA	Long Term Loan	NA	NA	Aug-26	25.32	NA	CRISIL AA-/Stable
NA	Long Term Loan	NA	NA	Oct-27	83.97	NA	CRISIL AA-/Stable
NA	Long Term Loan	NA	NA	Sep-27	150.0	NA	CRISIL AA-/Stable
NA	Proposed Term Loan	NA	NA	NA	443.71	NA	CRISIL AA-/Stable
NA	Bank Guarantee	NA	NA	NA	3.0	NA	CRISIL A1+
NA	Letter of Credit	NA	NA	NA	20.0	NA	CRISIL A1+
NA	Letter of Credit	NA	NA	NA	40.0	NA	CRISIL A1+

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	1103.0	CRISIL AA-/Stable	27-10-22	CRISIL AA-/Stable	24-08-21	CRISIL AA-/Stable	04-03-20	CRISIL A+/Positive		--	CRISIL A+/Positive / CRISIL A1
			--		--	30-06-21	CRISIL AA-/Stable		--		--	--
			--		--	24-06-21	CRISIL AA-/Stable		--		--	--
Non-Fund Based Facilities	ST	63.0	CRISIL A1+	27-10-22	CRISIL A1+	24-08-21	CRISIL A1+	04-03-20	CRISIL A1		--	CRISIL A1
			--		--	30-06-21	CRISIL A1+		--		--	--
			--		--	24-06-21	CRISIL A1+		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	3	State Bank of India	CRISIL A1+
Cash Credit	200	State Bank of India	CRISIL AA-/Stable
Cash Credit	105	ICICI Bank Limited	CRISIL AA-/Stable
Cash Credit	60	HDFC Bank Limited	CRISIL AA-/Stable
Letter of Credit	20	State Bank of India	CRISIL A1+
Letter of Credit	40	HDFC Bank Limited	CRISIL A1+
Long Term Loan	25.32	HDFC Bank Limited	CRISIL AA-/Stable
Long Term Loan	150	HDFC Bank Limited	CRISIL AA-/Stable
Long Term Loan	83.97	ICICI Bank Limited	CRISIL AA-/Stable
Proposed Cash Credit Limit	35	Not Applicable	CRISIL AA-/Stable
Proposed Term Loan	443.71	Not Applicable	CRISIL AA-/Stable

This Annexure has been updated on 28-Nov-22 in line with the lender-wise facility details as on 03-Nov-22 received from the rated entity.

Criteria Details

Links to related criteria
[CRISILs Approach to Financial Ratios](#)
[CRISILs Bank Loan Ratings - process, scale and default recognition](#)
[Rating criteria for manufaturing and service sector companies](#)
[CRISILs Criteria for Consolidation](#)

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations **CRISIL Limited** M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com **Prakruti Jani** Media Relations **CRISIL Limited** M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com **Rutuja Gaikwad** Media Relations **CRISIL Limited** B: +91 22 3342 3000 **Rutuja.Gaikwad@ext-crisil.com**	Anuj Sethi Senior Director **CRISIL Ratings Limited** B:+91 44 6656 3100 anuj.sethi@crisil.com Aditya Jhaver Director **CRISIL Ratings Limited** B:+91 22 3342 3000 aditya.jhaver@crisil.com Mahir Kantilal Gada Manager **CRISIL Ratings Limited** B:+91 22 3342 3000 mahir.gada@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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