

Press Release

Packaging Solutions (PS)

28 February, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 8.59 Cr.
Long Term Rating	SMERA BB-/Stable (Assigned)

**Refer annexure for details*

SMERA has assigned long term rating of '**SMERA BB-**' (read as **SMERA double B minus**) on the abovementioned bank facilities of Packaging Solutions (PS). The outlook is '**Stable**'.

The Gujarat -based PS was established in 2012 by Mr. Dr. Purvish Patel, Dr. Kanubhai Patel, Mr. Hiteshkumar Patel and others. The firm is engaged in the manufacturing of flexible packaging films and laminates i.e. plastic, blow films for food, pharma and agri industry.

Key rating drivers

Strengths

Experienced management: The partnership firm was established in 2012 by Dr. Purvish Patel, Dr. Kanubhai Patel, Mr. Hiteshkumar Patel and others who possess more than two decades of experience in the industry.

SMERA believes that PS will continue to benefit from its experienced management.

Stable operating margins: The operating margins have been stable during the period under study at 16.98 per cent in FY2017, 12.44 per cent in FY2016 and 6.44 percent in FY2015 mainly on account of stabilisation of operations and decline in raw material cost. However, PAT margins have been uneven and declined from 1.73 per cent in FY2016 to 0.03 per cent in FY2017 mainly on account of interest cost paid on the loan and capital. However, the firm has reported a net profit margin of 1.08 percent for the period Apr to Dec 17 (Provisional).

Weaknesses

Average financial risk profile: The financial risk profile is average marked by net worth of Rs.5.76 crore as on 31 March, 2017 as compared to Rs.3.02 crore as on 31 March, 2016. The networth comprises interest bearing unsecured loan of Rs.2.50 crore are subordinated to bank debt. The gearing stood at 1.69 times as on 31 March, 2017 as against 3.18 times as on 31 March, 2016. The ICR stood modest at 1.63 times in FY2017 and 3.58 times in FY2016 on account of increase in finance cost. The DSCR stood at 1.60 times in FY2017 and 3.37 times in FY2016. The total debt includes term loan of Rs.5.79 crore and working capital loan of Rs. 3.92 crore. Moreover the net cash accruals stood at 0.84 crore for FY2017 as against debt obligation of ~Rs.1.32 crore for FY2018.

Modest scale of operations: The operations of the firm remain at a modest scale marked by operating income of Rs.13.38 crore in FY2017 over Rs.12.11 crore in FY2016. However, the firm registered revenue of Rs. 16.23 crore as on January 2018 with outstanding order book of Rs.3.75

crore to be executed in Feb 2018.

SMERA believes that revenues would further improve in FY2018 on the basis of repeat orders from customers and increase in demand.

Working capital intensive business: The operations are working capital intensive marked by Gross Current Asset days of 297 and 232 in FY2017 and FY2016. The high GCA days emanate from high inventory holding period of 194 days and collection days of 105 for FY2017. Moreover, the working capital is high with bank limit utilisation of around 90 per cent on an average as confirmed by the banker.

Highly competitive and fragmented industry: The Indian packaging industry is highly fragmented on account of the low capital intensity, low entry barriers and easy availability of raw material.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of PS to arrive at the rating.

Outlook: Stable

SMERA believes that PS will maintain a stable outlook in the medium term on the back of the extensive experience of the promoter in the business. The outlook may be revised to 'Positive' in case of significant improvement in revenue and profitability while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the liquidity or financial risk profile on account of large debt funded capex plan.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	13.38	12.11	10.82
EBITDA	Rs. Cr.	2.27	1.51	0.70
PAT	Rs. Cr.	0.00	0.21	0.13
EBITDA Margin	(%)	16.98	12.44	6.44
PAT Margin	(%)	0.03	1.73	1.16
ROCE	(%)	10.19	8.69	22.33
Total Debt/Tangible Net Worth	Times	1.69	3.18	0.65
PBDIT/Interest	Times	1.63	3.58	2.72
Total Debt/PBDIT	Times	4.27	6.36	2.30
Gross Current Assets (Days)	Days	297	232	178

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing entities- <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable): Care Ratings vide its press release dated May 11, 2017 has stated, "CARE has been seeking information from Packaging Solutions to monitor the ratings vide e-mail communications/letters dated June 05, 2017, June 20, 2017, July 05, 2017, July 21, 2017, August 01, 2017, August 16, 2017, August 28, 2017, August 30, 2017 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In the absence of minimum information required for the purpose of rating, CARE is unable to express opinion on the rating. Furthermore, Packaging Solutions has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on Packaging Solution's bank facilities will now be denoted as CARE BB-/CARE A4; ISSUER NOT COOPERATING".

Rating History for the 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. Crore)	Ratings/Outlook
Cash Credit	NA	NA	NA	4.00#*	SMERA BB-/ Stable (Assigned)
Term Loan I	NA	NA	NA	2.23	SMERA BB-/ Stable (Assigned)
Term Loan II	NA	NA	NA	2.16	SMERA BB-/ Stable (Assigned)
Term Loan III	NA	NA	NA	0.12	SMERA BB-/ Stable (Assigned)
Proposed	NA	NA	NA	0.08	SMERA BB-/ Stable (Assigned)

*Includes sublimit of PC/PCFC/FBP/FBD/FCBP/FCBD to the tune of Rs.1.00 crore

#Includes sublimit of ILC/Buyer Credit to the tune of Rs.1.50 crore

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ABOUT SMERA

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