

Press Release

Packaging Solutions

August 21, 2020



Rating Reaffirmed and Withdrawn

Total Bank Facilities Rated*	Rs.8.59 Cr.
Long Term Rating	ACUITE B+/ Outlook: Stable(Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs.8.59 crore bank facilities of Packaging Solutions (PS). The outlook is '**Stable**'.

Established in 2012, Packaging Solutions (PS) is an Ahmedabad based partnership firm engaged in manufacturing of flexible packaging films and laminates with an installed capacity of 200 tonnes per month. The manufacturing facility is located in Kathal Road, Ahmedabad. Dr. Kanubhai P Patel, Mr. Hiteshbhai Patel, Mr. Krutibhai M Velani, Mr. Nileshbhai B Patel, Mr. Vijaybhai G Patel, Shri Shailesh Vittalbhai Patel and Ms. Maniti Dipakkumar Patel are the partners of the firm.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of PS to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

PS is promoted by Dr. Kanubhai Patel along with six more partners. The promoters have experience of more than two decades in the flexible packaging industry. The firm has been able to maintain long term relationship with its customers since its inception.

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

Weaknesses

- **Weak financial risk profile**

The financial risk profile of the firm is weak marked by low net worth, high gearing levels and weak debt protection metrics. The tangible net worth deteriorated to Rs.4.50 crore as on 31 March, 2020 (provisional) as compared to Rs.4.85 crore as on 31 March, 2019 on account of withdrawal of capital by the partners. The total debt of Rs.10.63 crore outstanding as on 31 March, 2020 (provisional) consists of long term secured loans of Rs.1.96 crore, unsecured loans of Rs.3.88 crore and working capital borrowings from the bank of Rs.4.79 crore. The gearing level of the firm remained high at 2.36 times as on 31 March, 2020 (provisional) as compared to 2.73 times as on 31 March, 2019. Interest Coverage Ratio deteriorated to 1.88 times in FY2020 (provisional) as against 2.07 times in FY2019. The net cash accruals have also deteriorated to Rs.0.81 crore in FY2020 (provisional) as compared to Rs.0.90 crore in FY2019. The NCA/TD ratio stood at 0.88 times in FY2020 (provisional) as compared to 0.07 times in FY2019.

Acuité believes that the financial risk profile of the firm is expected to remain weak over the medium term on account of modest net worth and poor accruals against repayment obligations.

- **Working capital intensive operations**

The working capital operations of the firm remained intensive marked by high GCA days of 227 days in FY2020 (provisional) compared to 236 days in FY2019. The inventory and debtors days of the firm stood at 130 days and 92 days in FY2020 (provisional) respectively. Subsequently, there was an increase in payables period from 79 days in FY2019 to 143 days in FY2020 (provisional) and also the firm gets 60-90 days of credit period from suppliers. The working capital limits are utilized more than 95 percent over the last six months.

Acuité believes the ability of the firm to manage its working capital cycle will be a key rating sensitivity.

Liquidity position: Stretched

The firm has stretched liquidity position marked by low net cash accruals against its maturing debt obligations and intensive working capital operations marked by high gross current asset (GCA) days of 227 days in FY2020 (provisional). Working capital requirement is funded through bank lines that have been utilized over 95 percent in the last six months ended July, 2020. Further, the firm had NCA of Rs.0.81 crore as against the maturing debt obligation of Rs.0.90 crores in FY2020 (provisional). The cash accruals of PS are estimated to remain around Rs.0.83 - 1.33 crore during 2021-23 while its repayment obligation is estimated to be around Rs.0.80 – 0.60 crore during the same period. The firm maintains unencumbered cash and bank balances of Rs.0.11 crore as on March 31, 2020 (prov.). The current ratio stands average at 1.03 times as on March 31, 2020 (provisional). Acuite believes that the liquidity of the firm is likely to remain stretched over the medium term on account of low cash accruals with moderate repayments over the medium term and high utilization bank limits.

Rating Sensitivities

- Improvement in profitability and scale of operations backed by healthy demand for flexible packaging films
- Any deterioration in the working capital management will have a negative bias on the rating

Material Covenants

None

Outlook: Stable

Acuité 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 a 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	FY20 (provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	20.30	20.48
PAT	Rs. Cr.	0.03	0.01
PAT Margin	(%)	0.14	0.07
Total Debt/Tangible Net Worth	Times	2.36	2.73
PBDIT/Interest	Times	1.88	2.07

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-May-2019	Cash Credit	Long Term	5.50	ACUITE B+/Stable (Downgraded from ACUITE BB-/Stable)
	Term Loan I	Long Term	1.56	ACUITE B+/Stable (Downgraded from ACUITE BB-/Stable)
	Term Loan II	Long Term	1.34	ACUITE B+/Stable (Downgraded from ACUITE BB-/Stable)
	Term Loan III	Long Term	0.03	ACUITE B+/Stable (Downgraded from ACUITE BB-/Stable)
	Proposed Bank Facility	Long Term	0.16	ACUITE B+/Stable (Downgraded from ACUITE BB-/Stable)
06-May-2019	Cash Credit	Long Term	4.00	ACUITE BB- Issuer not co-operating
	Term Loan I	Long Term	2.23	ACUITE BB- Issuer not co-operating
	Term Loan II	Long Term	2.16	ACUITE BB- Issuer not co-operating
	Term Loan III	Long Term	0.12	ACUITE BB- Issuer not co-operating
	Proposed Bank Facility	Long Term	0.08	ACUITE BB- Issuer not co-operating
28-Feb-2018	Cash Credit	Long Term	4.00	ACUITE BB-/Stable (Assigned)
	Term Loan I	Long Term	2.23	ACUITE BB-/Stable (Assigned)
	Term Loan II	Long Term	2.16	ACUITE BB-/Stable (Assigned)
	Term Loan III	Long Term	0.12	ACUITE BB-/Stable (Assigned)
	Proposed Bank Facility	Long Term	0.08	ACUITE BB-/Stable (Assigned)

*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	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE B+/Stable (Reaffirmed)
Term Loan I	Not Available	Not Applicable	Not Available	1.41	ACUITE B+/Stable (Reaffirmed)
Term Loan II	Not Available	Not Applicable	Not Available	1.14	ACUITE B+/Stable (Reaffirmed)
Term Loan III	Not Available	Not Applicable	Not Available	0.03	ACUITE B+ (Withdrawn)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.54	ACUITE B+/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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