Press Release

Shakti Containers Private Limited (SCPL)

May 10, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs.8.98 Crore.
Long Term Rating	SMERA BB+/ Stable (Assigned)
Short Term Rating	SMERA A4+

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of **'SMERA BB+' (read as SMERA BB plus)** and short term rating of **SMERA A4+ (read as SMERA A four plus)** on the Rs.8.98 crore bank facilities of SCPL. The outlook is **'Stable'**.

Incorporated in 1984, SCPL is a Chennai-based company engaged in manufacture of plastic barrels ranging from 1 liter to 260 liters catering to the needs of industries processing lubricating oils, chemicals, paints among others. The day to day operations of the company are managed by Mr. Chhatarmal Baid and Mr. Vinith Kumar Baid. The company has facilities located at Sriperumbudur and Chennai in Tamil Nadu.

Key rating drivers

Strengths

Revenue growth supported by experienced management:

The promoters, Mr. Chhatarmal Baid and Mr. Vinith Kumar Baid are seasoned players in the packaging industry having experience of three and five decades, respectively. The promoters have other group entities which are entirely into the plastic extrusion industry. This helped SCPL in improving its revenues from Rs.38.04 crore in FY2015 to Rs.52.37 crore (provisional) in FY2018 at a CAGR of 11.2 percent. Further, with the increasing demand, the company kept expanding its production capacities from 1200 tonnes per annum (TPA) in FY2016 to 1650 TPA in FY2018. The promoters' experience coupled with their longstanding presence enables the company to win repetitive orders from reputed clients in the lubricants, chemicals and paints industry and SMERA believes that it will help SCPL benefit over the medium term.

Moderate financial risk profile:

The financial risk profile is moderate marked by gearing of 1.1 times as of March 31, 2017 though underpinned by modest net worth of Rs.7.26 crore. SCPL has implemented a moderate capex of Rs.4.35 crore in FY2018 funded out of unsecured loans from promoters of about Rs.3.25 crore and balance out of internal accruals. Though SCPL is planning to undertake capex of about Rs.2.00 crore with debt of Rs.1.60 crore, the gearing levels are expected to be moderate at around 1.3 times over the medium term, owing to accretion to reserves and no dividend plans. The debt protection metrics are comfortable with Interest Coverage Ratio (ICR) and Net Cash Accruals to Total Debt (NCA/TD) at 3.32 times and 0.24 times respectively for FY2017. SMERA believes that in the absence of major debt-funded capex program, the debt protection metrics are expected to be comfortable over the medium term.

Moderate working capital operations:

The working capital operations remained moderate as reflected in Gross Current Assets (GCA) of 117 days as on March 31, 2017 compared to 143 days as on March 31, 2016 due to high debtor days. Debtor days stood at 76 as on March 31, 2017 since, the company provides trade credit of up to 75 days to its customers. However, inventory levels declined from 51 days as on March 31, 2016 to 33 days as on March 31, 2017 due to decline of goods in transit inventory levels.

Weaknesses

Vulnerability of margins to fluctuations in raw material prices:

The prices of raw materials such as High Density Polyethylene (HDPE) are vulnerable to fluctuations due to their dependence on crude oil. Since cost of raw materials is high, upward movement in prices would increase cost of sales and thus affect margins. However, the company is hedging imports to some extent.

Analytical approach:

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

Outlook – Stable

SMERA believes that SCPL will maintain a 'Stable' outlook over the medium term on account of the management's experience and established relations with reputed clientele. The outlook may be revised to 'Positive' in case of sustained increase in revenues while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of any significant volatility in profitability or larger-than-expected debt funded capex impacting its liquidity.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	47.47	40.61	38.04
EBITDA	Rs. Cr.	3.57	3.97	2.65
PAT	Rs. Cr.	1.21	1.48	0.80
EBITDA Margin	(%)	7.53	9.78	6.96
PAT Margin	(%)	2.56	3.65	2.10
ROCE	(%)	19.39	23.90	32.89
Total Debt/Tangible Net Worth	Times	1.11	1.46	2.06
PBDIT/Interest	Times	3.32	3.39	2.58
Total Debt/PBDIT	Times	2.21	2.18	3.38
Gross Current Assets (Days)	Days	117	143	110

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):

Not Applicable

Rating History (Upto last three years)

Not Applicable

*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	3.00	SMERA BB+/Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	1.73	SMERA BB+/Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA A4+ (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	SMERA A4+ (Assigned)

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ABOUT SMERA

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