

Press Release

Honourable Packaging Private Limited (HPPL)

16 February 2018

Rating Downgraded



Total Bank Facilities Rated	8.20 Cr.
Long Term Rating	SMERA B+/Stable (Downgraded from SMERA BB-/Stable)

SMERA has downgraded the long term rating to '**SMERA B+**' (read as SMERA B plus) from '**SMERA BB-**'(read as SMERA double B minus) on the Rs. 8.20 cr. bank facilities of Honourable Packaging Private Limited (HPPL). The outlook is '**Stable**'.

The downgrade is in view of deterioration in financial risk profile, continuous decline in margins along with the stretched liquidity position of the company.

Indore-based HPPL, incorporated in 2010 was promoted by Mr. Mr. Binod Kumar Agarwal who possesses over a decade of experience in packaging industry. The company is engaged in the manufacturing of plastic granules, polyethylene fabric and tarpaulin from waste material, procured from its group companies namely, Shree Tirupati Balajee Agro Trading Company Private Limited, Shree Tirupati Balajee FIBC Private Limited, Jaganath Plastic Private Limited as also from Reliance Industries Limited.

List of Key Rating drivers

Strengths:

Established Management: The Group has established track record of more than a decade in packaging material business and over the years management has developed an in-depth understanding of the nuances of the industry. Mr. Binod Kumar Agarwal, the promoter of HPPL, has over two decades of experience in the packaging industry. He has also been key driver of the group's business and expanding the clientele, which now spans across various markets including Europe, USA, Africa, Asia, etc. apart from its established customer base in the domestic industry.

Weaknesses

Deterioration in financial risk profile: The financial risk profile of the company has deteriorated in FY2017 over FY2016.. The net worth declined to Rs. 6.32 crores as on March 31, 2017 as against Rs. 8.13 crores as on March 31, 2016. The gearing has increased to 1.75 times on March 31, 2017 as against 1.30 times as on March 31, 2016 mainly due to withdrawal of a major portion of unsecured loans, earlier treated as quasi-equity. The interest coverage ratio stood at 1.91 times in FY2017 as against 2.36 times in FY2016. DSCR has reduced to 1.11 times in FY2017 as against 1.31 times in FY2016. The firm generated net cash accruals of Rs. 0.82

crores in FY2017 and has an annual debt repayment obligation of Rs. 0.90 crores. The NCA/TD stood at 0.07 times for FY2017 as against 0.11 times in FY2016.

Uneven revenue trend: HPPL registered a decline in revenue In FY2017 over FY2015. The revenue stood at Rs. 29.01 crores in FY2017 as against Rs. 30.03 crores in FY2016 and Rs. 23.90 crores in FY2015.

Continuous declining profit margins: The profit margins of HPPL have been continuously declining during the last three years. The EBITDA margins declined to 6.59 per cent in FY2017 from 8.47 per cent in FY2016 and 10.91 per cent in FY2015. The PAT margins also declined to 0.63 per cent in FY2017 as against 2.00 per cent in FY2016 and 3.16 per cent in FY2015.

Stretched liquidity position: The operations of HPPL are working capital intensive marked by stretched liquidity position in FY2017 with GCA (Gross current asset) of 254 days in FY2016-17 compared to 213 days in FY2015-16 and 164 days in FY2014-15. This is mainly on account of increase in inventory holding period of 218 days in FY17 against 165 days in FY16 and 129 days in FY15.

Competitive and fragmented nature of industry: The Company is engaged in the manufacture of reprocessed plastic granules, liner, polyethylene fabric and tarpaulin. The company is operating in packaging industry which is marked by low entry barriers and shift competition.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of HPPL to arrive at the rating.

Applicable Criteria

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

Outlook – Stable

SMERA believes that HPPL will continue to benefit over the medium term on account of the company's established track record of operations in the plastic industry and extensive experience of the promoters. The outlook may be revised to 'Positive' in case the firm registers healthy revenue growth or significant improvement in its capital structure. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenue growth, sharp decline in company's profitability margins or significant deterioration in the financial risk profile arising out of debt-funded capital expenditure or elongated working capital cycle.

About the Rated Entity: Key financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	29.01	30.03	23.90
EBITDA	Rs. Cr.	1.91	2.54	2.61

PAT	Rs. Cr.	0.18	0.60	0.76
EBITDA Margin	(%)	6.59	8.47	10.91
PAT Margin	(%)	0.63	2.00	3.16
ROCE	(%)	6.94	12.20	14.62
Total Debt/Tangible Net Worth	Times	1.75	1.30	1.22
PBDIT/Interest	Times	1.91	2.36	2.42
Total Debt/PBDIT	Times	5.81	4.16	3.00
Gross Current Assets (Days)	Days	254	213	164

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-Nov-2016	Cash Credit	Long Term	5.50	SMERA BB-/Stable
	Term Loan	Long Term	2.36	SMERA BB-/Stable
	Proposed Bank Facility	Long Term	0.34	SMERA BB-/Stable

*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	N.A	N.A	N.A	5.50	SMERA B+/Stable (Downgraded from SMERA BB-/Stable)
Term Loan	N.A	N.A	N.A	2.36	SMERA B+/Stable (Downgraded from SMERA BB-/Stable)
Proposed Bank Facility	N.A	N.A	N.A	0.34	SMERA A4 (Downgraded from SMERA A4+)

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ABOUT SMERA

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