

Press Release

Honourable Packaging Private Limited

February 05, 2019



Rating Reaffirmed

| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs. 8.20 Cr. |
| Long Term Rating | ACUITE B+ / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) to the Rs. 8.20 crore bank facilities of Honourable Packaging Private Limited (HPPL). The outlook is '**Stable**'.

HPPL was incorporated in 2010 by Mr. Binod Kumar Agarwal and is engaged in the manufacturing of reprocessed plastic granules, liner 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 and also from Reliance Industries Limited.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of HPPL to arrive at the rating

Key Rating Drivers

Strengths

- **Experienced management**

The Group promoted by Mr. Binod Kumar Agarwal and his wife, Mrs. Sunita Agarwal has established track record of more than two decades in packaging material business and over the years, management has developed an in-depth understanding of the nuances of the industry. Acuité believes that the experience of the promoters in the business will help HPPL maintain healthy relations with its customers and suppliers in the near to medium term.

Weaknesses

- **Average financial risk profile**

The financial risk profile of the company is characterised by declining net worth high gearing and moderate debt protection measures. The net worth base stood at Rs.5.34 crore as on 31 March, 2018 as compared to Rs.6.32 crore as on 31 March, 2017 and Rs. 8.13 crore as on 31 March, 2016. The gearing of the company stood at 1.52 times as on 31 March, 2018 as compared to 1.75 times as on 31 March, 2017. The total debt as on 31 March, 2018 of Rs.8.15 crore includes long term debt of Rs.1.54 crore and short term working capital borrowings of Rs.6.60 crore. The interest coverage ratio (ICR) stood at 2.37 times in FY2018 as against 1.91 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.12 times in FY2018 as compared to 0.07 times in FY2017.

- **Continuous decline in profit margins**

The profit margins of HPPL have been continuously declining during the last four years. The EBITDA margins declined to 3.86 percent in FY2018 from 6.59 percent in FY2017 and 8.47 percent in FY2016. The PAT margins also declined to 0.92 percent in FY2018 as against 0.63 percent in FY2017 and 2.00 per cent in FY2016.

- **Working capital intensive**

The operations of HPPL are working capital intensive marked by stretched liquidity position in FY2018 with GCA (Gross Current Asset) of 213 days in FY2018 compared to 254 days in FY2017. This is mainly on account of high inventory holding period which stood at 186 days in FY2018 against 218 days in FY2017. The collection period stood at 20 days in FY2018 against 12 days in FY2017. Working capital

limits of the company have also been fully utilised.

Outlook: Stable

Acuité believes that HPPL will maintain a 'Stable' business risk profile over the medium term on account of its established operations and experienced management. The outlook may be revised to 'Positive' in case the company registers sustained growth in revenues while improving its profitability and financial risk profile. The outlook may be revised to 'Negative' in case of further deterioration in its financial risk profile and working capital cycle.

Liquidity Position

The company is facing liquidity pressures on account of declining margins. Net cash accruals stood at Rs. 1.00 crore for FY2018 against a repayment obligation of Rs. 0.90 crore. The company's operations are working capital intensive as evident from high GCA days of 213 in FY2018 against 254 in FY2017 which is mainly on account of increasing inventory which has led to full utilization of bank lines. Current ratio stood at 1.04 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain in stress over the medium term.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 43.04 | 29.01 | 30.03 |
| EBITDA | Rs. Cr. | 1.66 | 1.91 | 2.54 |
| PAT | Rs. Cr. | 0.40 | 0.18 | 0.60 |
| EBITDA Margin | (%) | 3.86 | 6.59 | 8.47 |
| PAT Margin | (%) | 0.92 | 0.63 | 2.00 |
| ROCE | (%) | 6.80 | 6.94 | 12.20 |
| Total Debt/Tangible Net Worth | Times | 1.52 | 1.75 | 1.30 |
| PBDIT/Interest | Times | 2.37 | 1.91 | 2.36 |
| Total Debt/PBDIT | Times | 4.92 | 5.81 | 4.16 |
| Gross Current Assets (Days) | Days | 213 | 254 | 213 |

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|-----------|------------------|------------------------------------|
| 16-Feb-2018 | Cash Credit | Long Term | 5.50 | ACUITE B+ / Stable (Downgraded) |
| | Term Loan | Long Term | 2.36 | ACUITE B+ / Stable (Downgraded) |

| | | | | |
|-------------|------------------------|-----------|------|---------------------------------|
| | Proposed Bank Facility | Long Term | 0.34 | ACUITE B+ / Stable (Downgraded) |
| 25-Nov-2016 | Cash Credit | Long Term | 5.50 | ACUITE BB- / Stable (Assigned) |
| | Term Loan | Long Term | 2.36 | ACUITE BB- / Stable (Assigned) |
| | Proposed Bank Facility | Long Term | 0.34 | 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. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|---------------------------------|
| Term loans | Not Applicable | Not Applicable | Not Applicable | 1.54 | ACUITE B+/ Stable (Reaffirmed) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 5.50 | ACUITE B+ / Stable (Reaffirmed) |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 1.16 | ACUITE B+/ Stable (Reaffirmed) |

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About Acuité Ratings & Research:

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