Hariwansh Packaging Private Limited: Assigned

Facilities	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	12.50	SMERA B+/Stable (Assigned)
Term Loan	6.00	SMERA B+/Stable (Assigned)

SMERA has assigned rating of **'SMERA B+' (read as SMERA B plus)** to the Rs.18.50 crore bank facilities of Hariwansh Packaging Private Limited (HPPL). The outlook is **'Stable'**.

The rating derives comfort from the experienced management and increase in operating income. However, the rating is constrained by the below average financial risk profile, declining operating profitability, working capital intensive business and the highly fragmented and competitive packaging industry.

HPPL, incorporated in 2010, is a manufacturer and supplier of packaging material such as cartons and corrugated boxes. The company benefits from its experienced management. Mr. Vijaya Murarka, Managing Director possesses experience of over two decades in the industry. The company operates on a modest scale with increase in revenue to Rs.44.23 crore in FY2015-16 from Rs.31.17 crore in FY2014-15. The operating profit margins have shown a declining trend over the last two years from 17.51 per cent in FY2014-15 to 11.58 per cent in FY2015-16 on the back of increase in raw material cost as a percentage of sales.

HPPL has below average financial risk profile marked by low net worth of Rs.3.86 crore as on March 31, 2016. The gearing stands at 5.16 times as on 31 March, 2016 as compared to 6.17 times in the previous year. The debt protection metrics is moderate with interest coverage ratio at 1.68 times for FY2015-16 as against 1.83 times for FY2014-15. The operations of the company are working capital intensive due to high inventory levels of 150 days in FY2015-16 (177 days in FY2014-15). Further, the company has stretched liquidity profile as it fully utilises its working capital limits.

HPPL operates in a highly fragmented and competitive packaging industry with several organised as well as unorganised players limiting the bargaining power with customers.

Rating Sensitivity Factors

- Sustainable and substantial growth in revenues with improvement in profitability
- Volatility in raw material prices impacting profitability
- Improvement in the financial risk profile

Outlook-Stable

SMERA believes that HPPL will maintain a stable outlook in the medium term and benefit from its experienced management. The outlook may be revised to 'Positive' if the scale of operations increases substantially while also maintaining operating profitability and improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability amidst intensifying competition in its area of operations or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded capex or working capital requirements.

Criteria to arrive at the ratings:

- Manufacturing Entities

About the Company

HPPL, incorporated in 2010, is a Nagpur-based company engaged in the manufacture of corrugated packaging boxes. The company, headed by Mr Vijaya Murarka has an installed capacity of 2500 MT per month.

In FY2015-16, the company reported profit after tax (PAT) of Rs.0.56 crore on operating income of Rs.44.23 crore against PAT of Rs.0.41 crore on operating income of Rs.31.17 crore in the previous year.

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