

Press Release

Rainbow Packaging Private Limited (RPPL)

01 February, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs.29.00 Cr
Long Term Rating	SMERA BB-/Stable (Assigned)
Short Term Rating	SMERA A4 (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB-**' (read as **SMERA double B minus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the above mentioned Rs.29.00 crore bank facilities of Rainbow Packaging Private Limited (RPPL). The outlook is '**Stable**'.

RPPL established in 1986 under the directorship of Mr. Gautam Makwana and Mrs. Niveditha Makwana is engaged in the trading of polymer products and manufacturing of co-extruded polyethylene (PE) films.

List of key rating drivers and their detailed description

Strengths:

Experienced management: Mr. Dhavalbhai Parmar, Director, possesses experience of around a decade in the polymer industry.

Moderate coverage indicators: The coverage indicators stand moderate with interest cover at 1.66 times and debt service coverage ratio at 1.37 times in FY2016.

Weaknesses:

Low profitability: The company has low profitability with operating margins of 2.59 per cent in FY2016 mainly on account of the trading nature of business which comprises around 71 per cent of the total revenues.

Susceptibility of margins to raw material price fluctuations: The raw material prices are linked to prices of crude which is volatile in nature, thus exposing the margins to price fluctuations.

High gearing: The total outside liability to tangible networth ratio stands high at around 5.49 times as on 31 March, 2016 mainly on account of high debt (gearing of 2.10 times) and creditors. The creditors stood at Rs. 30.48 crore as on 31 March, 2016.

Further, the company invested Rs.7.90 crore towards purchase of a printing machine from Taiwan which was funded through a term loan of Rs.5.40 crore (availed only Rs.4.50 crore) and loan of Rs.2.50 crore. In August, 2016, the company availed of a loan from Industrial Finance Corporation of India of Rs.2.50 crore under the government scheme to replace promoter's contribution in the project. SMERA believes that the addition of debt is likely to keep the gearing at high levels.

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

Applicable Criteria

- Trading Entities- <https://www.smera.in/criteria-trading.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that RPPL will maintain a stable outlook over the medium term owing to its promoters' extensive industry experience. The outlook may be revised to 'Positive' in case of sustainable improvement in the company's scale of operations, while improving profitability and the financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company registers decline in revenue and profitability or if the financial risk profile weakens most likely because of stretch in working capital cycle or large debt-funded capital expenditure.

About the Rated Entity

RPPL was established in 1986 under the directorship of Mr. Gautam Makwana and Mrs. Niveditha Makwana. The company is engaged in the trading of polymer products and manufacturing of co-extruded polyethylene (PE) films near Ahmedabad. The installed capacity stands at around 4,800 metric tonnes per annum (MTPA) for polyethylene film. Trading contributes around 71 per cent and manufacturing around 29 per cent to total sales. The day-to-day activities are managed by Mr. Dhavalbhai Parmar and Mrs. Niveditha Makwana.

For FY2015-16, RPPL reported profit after tax (PAT) of Rs.0.86 crore on operating income of Rs.175.76 crore, as compared to PAT of Rs.0.87 crore on operating income of Rs.194.98 crore in FY2014-15. The net worth stood at Rs.9.53 crore as on March 31, 2016 against Rs.8.74 crore a year earlier.

Status of non-cooperation with previous CRA: CARE Ratings had in its press release dated February 04, 2016 had inter-alia mentioned the following "The ratings have been suspended as the company has not furnished the information required by CARE for monitoring of the ratings"

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit**	LT	14.50	SMERA BB- /Stable (Assigned)	-	-	-	-	-	-
Working Capital Demand Loan	LT	2.00	SMERA BB- /Stable (Assigned)	-	-	-	-	-	-
Term Loan#	LT	5.40	SMERA BB- /Stable (Assigned)	-	-	-	-	-	-
Bill Discounting under Letter of Credit (DRUL)	ST	1.10	SMERA A4 (Assigned)	-	-	-	-	-	-
Letter of Credit@	ST	6.00	SMERA A4 (Assigned)	-	-	-	-	-	-

**Sublimit WCDL of Rs.11.50 crore

@Sublimit Buyers Credit of Rs.6.00 crore and Bank Guarantee of Rs.2.30 crore

#Sublimit LC of Rs.5.40 crore

***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	14.50	SMERA BB- /Stable (Assigned)
Working Capital Demand Loan	N.A	N.A	NA	2.00	SMERA BB- /Stable (Assigned)
Term Loan#	N.A	N.A	NA	5.40	SMERA BB- /Stable (Assigned)
Bill Discounting under Letter of Credit (DRUL)	N.A	N.A	NA	1.10	SMERA A4 (Assigned)
Letter of Credit@	N.A	N.A	N.A	6.00	SMERA A4 (Assigned)

**Sublimit WCDL of Rs.11.50 crore

@Sublimit Buyers Credit of Rs.6.00 crore and Bank Guarantee of Rs.2.30 crore

#Sublimit LC of Rs.5.40 crore

Note on complexity levels of the rated instrument:

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

Contacts:

Analytical	Rating Desk
Mr. Vinayak Nayak, Head – Rating Operations, SMERA Bond Ratings, Tel: +91-22-6714 1190 Email: vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: +91-22-67141 160 Email: varsha.bist@smera.in
Ms Reema Gangola, Rating Analyst, Tel: +91-22-6714 1111 Email: reema.gangola@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.