

Press Release

RAINBOW PACKAGING PRIVATE LIMITED

February 09, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 29.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BB-**' (read as **SMERA BB minus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 29.00 crore bank facilities of RAINBOW PACKAGING PRIVATE LIMITED. The outlook is '**Stable**'.

Rainbow Packaging Private Limited (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 also manufactures co-extruded polyethylene (PE) films near Ahmedabad. The installed capacity stands at around 6,000 metric tonnes per annum (MTPA) for polyethylene film. The day-to-day activities are managed by Mr. Dhavalbhai Parmar and Mrs. Niveditha Makwana.

Key Rating Drivers

Strengths

- **Experienced management**

Mr. Dhavalbhai Parmar, Director, possesses experience of around a decade in the polymer industry. This experience has helped RPPL establish long term relations with customers and suppliers.

- **Comfortable working capital cycle**

The working capital cycle is comfortable marked by GCA of 96 days in FY2017 as compared to 109 days in FY2016. The GCA days are mainly dominated by debtors days of 78 in FY2017 as compared to 80 days in FY2016.

Weaknesses

- **Susceptibility of margins to fluctuations in raw material prices**

The raw material prices are linked to crude oil, the prices of which are volatile in nature thus exposing the margins of the company to fluctuations in raw material prices.

- **Average financial risk profile**

RPPL has average financial risk profile marked by low net worth of Rs 9.66 crore in FY2017 as compared to Rs 8.79 crore in FY2016. The Interest Coverage Ratio stood at 1.75 times in FY2017 compared to 1.66 times in FY2016. The DSCR stood at a low of 1.22 times in FY2017 compared to 1.37 times in FY2016. The company has completed a project of Rs.7.90 crore for purchase of high quality printing machine from Taiwan. The project has been funded through a term loan of Rs. Rs.4.50 crore and issue of 10% Optionally Convertible Debentures to IFCI of Rs.2.41 crore under the government scheme. The balance was funded by way of unsecured loans and internal accruals. The debt funded capex has led to an increase in gearing levels.

- **Low profitability**

The company has low profitability with operating margins of 2.30 per cent in FY2017 mainly on account of the trading nature of business which comprises around 70 per cent of the total revenue.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Rainbow Packaging Private Limited to arrive at the rating.

Outlook: Stable

SMERA believes that RPPL will maintain a Stable outlook and continue to benefit over the medium term from 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 financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue and profitability or if the financial risk profile weakens because of stretch in working capital cycle or large debt-funded capital expenditure.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	191.47	175.76	194.98
EBITDA	Rs. Cr.	4.41	4.55	4.44
PAT	Rs. Cr.	0.62	0.86	0.87
EBITDA Margin	(%)	2.30	2.59	2.28
PAT Margin	(%)	0.33	0.49	0.45
ROCE	(%)	12.03	12.99	23.34
Total Debt/Tangible Net Worth	Times	2.52	2.35	2.96
PBDIT/Interest	Times	1.71	1.66	1.88
Total Debt/PBDIT	Times	4.91	4.57	5.16
Gross Current Assets (Days)	Days	96	109	76

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.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>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
01-Feb-2017	Cash Credit	Long Term	INR 14.5	SMERA BB- / Stable
	Working Capital Demand Loan	Long Term	INR 2	SMERA BB- / Stable
	Term Loan	Long Term	INR 5.4	SMERA BB- / Stable
	Letter of Credit	Short Term	INR 1.1	SMERA A4
	Letter of Credit	Short Term	INR 6	SMERA A4

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.50	SMERA BB- / Stable
Working capital demand loan (WC DL)	Not Applicable	Not Applicable	Not Applicable	0.44	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.96	SMERA BB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4
Letter of credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA A4

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