

## Press Release

### Sarthak Packaging Private Limited

June 20, 2017

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 5.50 Cr.
<b>Long Term Rating</b>	SMERA B+ / Outlook: Stable
<b>Short Term Rating</b>	SMERA A4

\* Refer Annexure for details

### Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as **SMERA B plus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 5.50 crore bank facilities of Sarthak Packaging Private Limited. The outlook is '**Stable**'.

Sarthak Packaging Private Limited (SPPL) was incorporated in 1995. The company is engaged in the manufacturing of corrugated packaging boxes and aluminium foil packaging for the pharma industry. The manufacturing facility located at Indore has an installed capacity of 180 MT per month.

### Key Rating Drivers

#### Strengths

- **Established track record of operations and experienced management**

SPPL has long track record of operations. The company is engaged in the aforementioned business since 1995. The promoter, Mr. Pankaj Bulani, possesses around two decades of experience in the packaging industry.

#### Weaknesses

- **Small scale of operations**

The scale of operations of the company is small despite being in operation for two decades. The operating income stood at Rs.15.37 crore in FY2017 (Provisional) and Rs.5.88 crore in FY2016. The growth in revenue is on account of increase in order book value for its aluminium foil packaging product which contributes ~70 per cent to total sales.

- **Uneven operating margin**

The EBITDA margins stood at 9.39 per cent in FY2015 as against 14.83 per cent in FY2016. As per provisional financials for FY2017, the EBITDA margin declined to 7.15 per cent due to increase in costs - raw materials, employees and advertisement expenses.

- **Moderate financial risk profile**

SPPL has moderate financial risk profile marked by gearing of 1.44 times as on 31 March, 2017 (Provisionals) as against 1.72 times as on 31 March, 2016 supported by unsecured loans subordinated to bank debt. The Interest coverage stood (ICR) at 1.58 times for FY2017 (Provisionals) as against 1.74 times in FY2016.

- **Working capital intensive operations**

SPPL's operations are working capital intensive with Gross Current Assets (GCAs) of 227 days on account of higher inventory and debtor levels of 117 and 110 days respectively. The liquidity profile is stretched with average utilisation of working capital limits of around 95 per cent in the last six



months.

• **Highly fragmented and competitive industry**

SPPL operates in a highly fragmented and competitive industry with several organised and unorganised players limiting the bargaining power with customers.

**Analytical Approach**

SMERA has considered the standalone business and financial risk profile of the company to arrive at the rating.

**Outlook: Stable**

SMERA believes that SPPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue, profit margins or deterioration in the financial risk profile and liquidity position.

**About the Rated Entity - Key Financials**

For FY2015-16, SPPL registered Profit after Tax (PAT) of Rs.0.08 crore on operating income of Rs.5.88 crore, as compared with PAT of Rs.0.03 crore on operating of Rs.3.00 crore in FY2014-15. The net worth stood at Rs.2.76 crore as on 31 March 2016 as compared to Rs.2.32 crore as on 31 March 2015. Further, as per FY2016-17 (Provisionals), SPPL registered PBT of Rs.0.17 crore on operating income of Rs.15.37 crore. The net worth stood at Rs.3.19 crore as on 31 March 2017 (Provisionals).

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

None

**Any other information**

None

**Applicable Criteria**

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

**Note on complexity levels of the rated instrument**

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

**Rating History (Upto last three years)**

Not Applicable

**\*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	3.50	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.30	SMERA B+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.70	SMERA A4

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### ABOUT SMERA

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