

Press Release

Sarthak Packaging Private Limited

September 17, 2018



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B+** (read as **ACUITE B plus**) and short term rating of '**ACUITE A4**' (read as **ACUITE 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 by Mr. Pankaj Bulani. SPPL is into the business of manufacturing corrugated boxes and recently started producing aluminium foil i.e. alu alu foil and blister foil used for packaging in pharma sector in 2017. Company has its manufacturing unit located at Indore with installed capacity of 180 metric tons per month.

Key Rating Drivers

Strengths

- Experienced management and reputed clientele**

The promoter possesses almost two decades of experience in the packaging industry. This has helped SPPL to build strong relations with reputed customers which includes Glenmark, Amber Nutritions Private Limited, Ranbaxy Laboratories Limited among others. Acuité believes that SPPL will continue to benefit from its reputed customer base and experienced management.

- Average financial risk profile**

SPPL has an average financial risk profile marked by net worth of Rs.3.45 crore as on March 31, 2018 (Provisional) from Rs.3.12 crore in the previous year. This includes unsecured loan of Rs.0.82 crore as on 31 March, 2018 (Provisional) which is considered as quasi-equity. The gearing stood at 1.31 times as on March 31, 2018 (Provisional) as against 1.43 times in the previous year. The total debt of Rs.4.54 crore in FY2018 (Provisional) comprises working capital borrowing to the tune of Rs.3.44 crore and term loan to the tune of Rs.1.10 crore. Interest Coverage Ratio (ICR) stood at 1.63 times in FY2018 (Provisional) and 1.78 times in FY2017. Total outside liabilities/ Total net worth (TOL/TNW) has reduced to 2.08 times as on March 31, 2018 (Provisional) as against 3.07 times as on March 31, 2017.

Weaknesses

- Decline in profitability margins**

Although there is an increase in the revenues the profitability margins have declined during the period under study. The operating margins stood at 7.28 percent in FY2018 (Provisional) as against 7.81 percent in FY2017 and 14.83 percent in FY2016. The decline is mainly on account of increase in the raw material cost. Also, the PAT margins have experienced downward trend to 1.06 percent in FY2018 (Provisional) from 1.35 percent in FY2017.

- Working capital intensive nature of operations**

SPPL has intensive working capital operations marked by Gross Current Asset (GCA) days 226 days in FY2018 (Provisional) as against 272 days in the previous year. The intensive nature is due to the long stock holding period of 146 days in FY2018 (Provisional) as compared to 130 days in FY2017. However, collection period and creditor days also are on the higher side at 77 days and 70 days respectively in the FY2018 (Provisional). Moreover, working capital borrowings are fully utilised for last six months ended in August 2018. SPPL receives an ad-hoc facility in the month of March 2018 which is reflected in FY2018 (Provisional). Acuité believes that improvement in working capital cycle would be the key

rating sensitivity in the medium term.

Analytical Approach

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

Outlook: Stable

Acuité believes that the outlook on SPPL will remain 'Stable' over the medium term on account of the experienced management and reputed client base in the industry. The outlook may be revised to 'Positive' if the company registers growth in profitability margins while maintaining a comfortable liquidity position and capital structure. Conversely, the outlook may be revised to 'Negative' in case of further deterioration of its financial risk profile due to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	14.60	14.61	5.88
EBITDA	Rs. Cr.	1.06	1.14	0.87
PAT	Rs. Cr.	0.15	0.17	0.08
EBITDA Margin	(%)	7.28	7.81	14.83
PAT Margin	(%)	1.06	1.18	1.35
ROCE	(%)	11.93	12.03	10.68
Total Debt/Tangible Net Worth	Times	1.31	1.43	1.72
PBDIT/Interest	Times	1.63	1.78	1.74
Total Debt/PBDIT	Times	3.87	3.75	5.42
Gross Current Assets (Days)	Days	226	272	462

Any other information

Not Applicable

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
20-Jun-2017	Cash Credit	Long Term	INR 3.50	ACUITE B+ / Stable (Assigned)
	Term Loan	Long Term	INR 1.30	ACUITE B+ / Stable (Assigned)
	Letter of Credit	Short Term	INR 0.70	ACUITE A4 (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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE B+ / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.30	ACUITE B+ / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.70	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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