

Press Release

A B Polypacks Private Limited

May 21, 2019

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 14.00 Cr. (Enhanced from Rs.11.00 CR.)
Long Term Rating	ACUITE BBB-/ Outlook: Negative (Reaffirmed, Assigned and outlook Revised from Stable)
Short Term Rating	ACUITE A3 (Reaffirmed and Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed, assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 14.00 crore bank facilities of A B Polypacks Private Limited (ABPL). The outlook is revised to '**Negative**' from '**Stable**'.

The revision in outlook is based on new debt funded capex undertaken and completed by the company leading to significant deterioration in debt protection metrics and stretch in liquidity profile. The same is reflected in increase in debt-equity ratio to 2.57 times in FY2019 (Provisional) as compared to 1.79 times in FY2018 and persistent high level of bank limit utilisation. Acuite believes that liquidity pressure will continue to persist till the company is able to match up with increased bank limits to commensurate with its expected growth in near to medium term.

The rating continues to draw support from experienced management, longstanding relationship with reputed clientele, moderate financial risk profile and improving scale of operations. However, the aforementioned strengths are partially offset by susceptibility of the profitability to volatility in raw material prices along with competitive and fragmented nature of industry.

ABPL was incorporated in 2007 at Kolkata by Mr. Chinmay Kumar and Mr. Mrinmay Kumar. The company is engaged in the manufacturing of flexible packaging items such as multilayer film for liquid packaging solutions, shrink film, stretch film, laminated film, and pouches. The company has its manufacturing unit located in Howrah (West Bengal) with an installed capacity of 3000 TPA and is an ISO 9001:2008 certified unit. The company caters to clients in varied industries such as Tata Bearing Limited, Amul, Coca-Cola, Dupont Fertilizer, Sonic Wheels, Emami Limited, Parle Agro Private Limited, Saj Food Products (P) Limited and Pidilite Industries Limited. Apart from this, the company also supplies to the local food manufacturing companies.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of ABPL for arriving at the rating.

Key Rating Drivers

Strengths

• Experienced management

Mr. Chinmay Kumar and Mr. Mrinmay Kumar have more than 15 years of experience in the plastic industry. Prior to this, they were into manufacturing of plastic bags through a group entity since 2001. The extensive experience of the company has helped the company in establishing long standing relationship with its customers and suppliers. The company is well supported by second line of management.

- **Improving revenue and reputed clientele**

The operating income of the company has improved to Rs. 48.89 crore in FY2018 as compared to Rs. 46.06 crore in FY2017. The revenue of the company has further improved to Rs. 57.84 crore in FY2019 (Provisional). The improvement in revenue is well supported by increase in customer base and optimal utilisation of increased capacity levels. The company also caters to reputed clientele such as Parle Agro Pvt. Ltd., Diamond Beverages (P) Limited, Haldiram Bhujawala Limited, Tata Chemicals Limited and Pidilite Industries Limited among others.

- **Moderate financial risk profile**

The financial risk profile of the company is marked by net worth of Rs. 8.09 crore as on 31 March, 2018 as compared to Rs.7.09 crore as on 31 March, 2017. The same has improved to Rs.9.57 crore in FY2019 (Provisional). The gearing ratio (debt-equity) stood moderate at 2.23 times in FY2019 (Provisional) as compared to 1.79 times in FY2018. The interest coverage ratio stood at 2.34 times in FY2018 as compared to 2.55 times in FY2017. TOL/TNW stood at 2.64 times in FY2018 as compared to 2.87 times in FY2017. The DSCR stood at 1.35 times in FY2018.

Weaknesses

- **Moderately working capital intensive nature of operations**

The operations of the company are marked by moderate gross current assets (GCA) of 143 days in FY2018 as compared to 150 days in FY2017. The GCA days is marked by increase in receivable days to 60 days in FY2018 as compared to 52 days in FY2017. The working capital facility utilisation stood at 97.00 percent for last six months ending April 2019.

- **Highly competitive and fragmented industry**

The Indian flexible packaging industry is highly fragmented on account of the low capital intensity, low entry barriers and easy availability of raw materials. High competition put pressure on margins thereby reducing bargaining powers with customers for players such as ABPL. Further, raw material used in packaging is plastic granules the prices of which are fluctuating having direct impact on operating margins. Acuite believes that the ability of the company to pass on such adverse impact to its customers remain a key sensitivity factor.

Liquidity position:

The liquidity profile of the company is marked by moderate net cash accruals of Rs. 2.35 crore as against repayment obligations of Rs. 1.97 crore for FY2018. The net cash accruals of the company are expected to remain in range of Rs.3.00 to 3.50 crore in FY2019-21. The current ratio stood low at 1.15 times and DSCR stood at 1.35 times in FY2018. The operation of the company is marked by moderate gross current asset (GCA) of 143 days in FY2018 as compared to 150 days in FY2017. The working capital facility utilisation stood at 97.00 percent for last six months ending April 2019. Acuite believes that the liquidity of the company is likely to improve in near to medium term.

Outlook: Negative

Acuite has changed the outlook of ABPL to 'Negative' based on new debt funded capex undertaken by the company leading to significant deterioration in debt protection metrics and liquidity profile of the company reflected in persistently high level of bank limit utilisation. The rating may get downgraded if there is no improvement seen in the scale of operations, revenues and margins from the new expansion undertaken by the company or in case of significant elongation of working capital cycle leading to deterioration in financial risk profile. The outlook may be revised to 'Stable' if the scale of operations increases substantially while improving its operating margins while maintaining its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	48.82	46.06	37.87
EBITDA	Rs. Cr.	4.85	3.80	3.50
PAT	Rs. Cr.	0.99	0.86	0.63
EBITDA Margin	(%)	9.94	8.26	9.25
PAT Margin	(%)	2.02	1.86	1.67
ROCE	(%)	15.58	14.80	33.11
Total Debt/Tangible Net Worth	Times	1.79	2.27	1.70
PBDIT/Interest	Times	2.34	2.55	2.26
Total Debt/PBDIT	Times	2.93	3.94	2.70
Gross Current Assets (Days)	Days	143	150	162

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

Not Applicable

Any other information

None

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. Crore)	Ratings/Outlook
19-Mar-2018	Cash Credit	Long term	9.00	ACUITE BBB-/ Stable (Assigned)
	Proposed Short Term	Short term	1.00	ACUITE A3 (Assigned)
	Letter of Credit	Short term	1.00	ACUITE A3 (Assigned)

*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	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB-/ Negative (Reaffirmed and Outlook revised)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB-/ Negative (Assigned)
Proposed Short Term	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.70	ACUITE BBB-/ Negative (Assigned)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Rupesh Patel Analyst - Rating Operations Tel: 02249294032 rupesh.patel@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité 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. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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.acuite.in) for the latest information on any instrument rated by Acuité.