

Press Release

A B Polypacks Private Limited

December 29, 2020



Rating reaffirmed and Outlook revised

Total Bank Facilities Rated	Rs.14.00 crore
Long Term Rating	ACUITE BBB-/ Stable (Reaffirmed and outlook revised)
Short Term Rating	ACUITE A3 (Reaffirmed)

Rating Rationale

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

The outlook revision factors in the improvement in the business risk profile of the company marked by sharp increase in revenues and profitability. The operating revenue of the company has grown from Rs.48.82 crores in FY2018 to Rs.69.75 crores in FY2020 (Provisional) at a compounded annual growth rate(CAGR) of 19.53 per cent. ABPPL's operating margin has also improved from 9.94 per cent in FY2018 to 12.08 per cent in FY2020(Provisional). Acuite believes that the entity would sustain the revenue growth and improved profitability going forward too resulting in better cash accruals. The higher accruals would, in turn, translate into improvement in their capital structure and debt protection measures. The company continues to draw comfort from its experienced management and reputed clientele.

Incorporated in 2007, A B Polypapcks Private Limited (ABPPL) is a Kolkata based company engaged in the manufacturing of flexible packaging items such as multilayer film, shrink film, stretch film, laminated film, and pouches. ABPPL is promoted by Mr. Chinmay Kumar and Mr. Mrinmay Kumar. The company has its manufacturing unit located in Howrah (West Bengal) with an installed capacity of 6000 MTPA. The company caters to clients in various industries such as Amul, Coca-Cola, Dupont Fertilizer, Sonic Wheels, Emami Limited, Parle Agro Private Limited, Saj Food Products (P) Limited and Pidilite Industries Limited.

Analytical Approach

Acuite has taken the standalone view of the business and financial risk profile of ABPPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

The promoters, Mr. Chinmay Kumar and Mr. Mrinmay Kumar, have more than 13 years of experience in the plastic industry. Acuite believes that the extensive experience of the management and long track record of operations has enabled the company to maintain healthy relationships with their key customers and suppliers.

• Improving revenue and reputed clientele

The operating revenue of the company has grown from Rs.48.82 crores in FY2018 to Rs.69.75 crores in FY2020 (Provisional) at a compounded annual growth rate(CAGR) of 19.53 percent. The improvement in revenue is mainly due to optimal utilisation of increased capacity levels. The company caters to reputed clientele such as Parle Agro Pvt. Ltd., Diamond Beverages (P) Limited, Haldiram Bhujawala Limited, Tata Chemicals Limited, Hindustan Coca-Cola Beverages Private Limited and Pidilite Industries Limited among others. Acuite believes steady demand for the products along with a healthy relationship with customers will support the revenues growth of the company going forward.

- **Comfortable financial risk profile**

The company's financial risk profile is marked by moderate net worth, improving gearing and healthy debt protection metrics. The net worth of the company increased to Rs.12.02 crores as on March 31, 2020(Provisional), compared to Rs.9.60 crores on March 31, 2019 due to retention of profits and capital infusion of Rs. 0.44 crore. The company's gearing stood moderate at 1.86 times on 31 March, 2020 (Provisional) as against 2.39 times as on 31 March, 2019. The debt of Rs.22.39 crores mainly consists of cash credit of Rs.10.54 crores, term loan of Rs.7.21 crores and maturing obligations of Rs.4.09 crores as on March 31, 2020(Provisional). The healthy debt protection metrics of the company is marked by Interest Coverage Ratio which stood at 3.08 times in FY2020(provisional) as against 2.49 times in FY2019 and Debt Service Coverage Ratio (DSCR) which stood at 1.26 times in FY2020(provisional) as against 1.35 times in FY2019. The NCA/TD(Net Cash accruals to total debt) stood at 0.25 times in FY2020(provisional). Acuite believes that going forward the financial risk profile of the company will remain at similar levels over the medium term backed by stable accruals and in the absence of any major debt funded capital expenditure plans.

Weaknesses

- **Working capital intensive operations**

The company's working capital operations are intensive marked by high gross current asset (GCA) days of 122 in FY2020(Provisional) compared to 114 days in FY2019. The GCA days are driven by an increase in debtor days to 65 days in FY2020 (Provisional) as against 56 days in FY2019 and increase in inventory days to 46 days in FY2020 (Provisional) as against 37 days in FY2019. The increase in debtor days took place due to delay in realization from the customers as a result of lockdown during the year end due to the global pandemic. Acuite believes that going forward that working capital operations of the company will remain at similar levels over the medium term backed by high debtor period.

- **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 ABPPL. 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.

Rating Sensitivity

- Growth in scale of operations while maintaining operating profitability
- Deterioration in the capital structure due to any debt funded capex

Material Covenants

None

Liquidity Profile: Adequate

The company's liquidity position is adequate marked by sufficient cash accruals of Rs.5.09 crores in FY2020 (provisional) against debt repayments of Rs.4.09 crores during the same financial year. The company does not have any significant debt funded capex plans over the medium term. The current ratio stood below unity at 0.96 times as on March 31, 2020 as compared to 0.99 times as on March 31, 2019. The fund based limit remains utilized at 93 percent over six months ended on October, 2020. ABPPL has not availed loan moratorium but has availed COVID loan of Rs.1.71 crores. The unencumbered cash and bank balances stood at Rs.0.43 crores as on March 31, 2020 (Provisional). Acuite believes that the liquidity of the company will improve supported by an increase in accruals over the medium term.

Outlook: Stable

Acuite believes that ABPPL will maintain a 'Stable' outlook over the medium term backed by an experienced management and reputed clientele. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues coupled with sustained improvement in operating margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of a decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Prov)	FY19 (Actual)
Operating Income	Rs. Cr.	69.75	58.08
PAT	Rs. Cr.	1.99	1.50
PAT Margin	(%)	2.86	2.59
Total Debt/Tangible Net Worth	Times	1.86	2.39
PBDIT/Interest	Times	3.08	2.49

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
21-May-19	Cash Credit	Long Term	9.00	ACUITE BBB-/Negative (Reaffirmed and outlook revised from stable)
	Term Loan	Long Term	1.50	ACUITE BBB-/Negative (Assigned)
	Proposed Short Term	Short Term	1.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	0.80	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	1.00	ACUITE A3 (Reaffirmed)
	Proposed bank facility	Long Term	0.70	ACUITE BBB-/Negative (Assigned)
19-Mar-18	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	10.50	ACUITE BBB-/ Stable (Reaffirmed and outlook revised from Negative)
Term Loan	Not Available	Not Available	Not Available	1.50	ACUITE BBB-/ Stable (Reaffirmed and outlook revised from Negative)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE BBB-/ Stable (Reaffirmed and outlook revised from Negative)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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