

Press Release

A B Polypacks Private Limited

January 06, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Ratings	1.80		ACUITE A3 Reaffirmed
Bank Ratings	12.20	ACUITE BBB- Stable Reaffirmed	
Total	14.00	-	-

Rating Rationale

Acuité 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 Cr bank facilities of AB Polypacks Private Limited (ABPPL). The outlook remains '**Stable**'.

The rating of ABPPL takes into account the improving business risk profile of the company as reflected from its increasing revenue backed by the extensive experience of the promoters in the plastic packaging industry with well-established supplier and customer relationship. The rating also factors in its moderate financial position characterized by modest net worth, improving gearing and healthy debt protection metrics. These strengths are partially offset by increasing yet average scale of operations amid intense competition, exposure to volatility in input cost and stretched liquidity position.

About the Company

Incorporated in 2007, A B Polypacks 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 7500 units. 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.

Key Rating Drivers

Strengths

- Extensive experience of the promoters and reputed customer base across multiple industries**

The promoters' experience of over two decades, their strong understanding of local market dynamics, and healthy relations with suppliers and customers will continue to support the business. The clientele comprises reputed players such as Parle Agro Pvt Ltd, Saj Food Products Pvt Ltd, Haldiram Bhujjawala Limited, Coca Cola India Ltd among others. This has resulted in increase in revenues over the years. Company has a diversified product profile that includes plastic rigid sheets, various types of packaging products, varied size containers, cups and bottles made of 100 per cent food grade materials. The products find application in various end-user industries such as- food and beverages sectors.

The company has a diversified customer base, with top 4 customers contributing ~50 per cent of the FY 2021 revenue. Moreover, the company got enlisted with two new reputed clients namely Britannia Industries Ltd & Hector Beverages Pvt Ltd (Paper Boat) in FY 2021-22 to supply packaging products to entire eastern zone. Thus, diversified product profile and reputed customer base de-risks the business to a large extent.

- **Steady growth in operating income and profitability margins**

The company has achieved revenues of Rs. 80.38 Cr in FY2021 as compared to revenues of Rs.69.75 Cr in FY2020 and Rs. 48.82 Cr in FY2018. The top line has been growing at a compounded annual growth rate (CAGR) of 18.08 per cent. The company has achieved revenues of Rs 50.78 Cr till September 2021(Provisional).The steady growth in revenue is driven by increase in the geographical reach and adding new customers. Since, freight costs are an important element in the overall cost structure of the packaging industry, the geographic proximity plays an important role in the acquisition of clients aligning with the customers' supply chain systems. Lock down measures taken by government because of Covid outbreak has not impacted the company as it caters to food and beverages sector which has been classified as essential goods.

Operating margin has been volatile over the past three years, on account of fluctuations in material expenses. Major raw materials include high-density polyethylene, low-density polyethylene, and polypropylene for manufacturing industrial plastics, which are crude-oil derivatives and thus the prices for the same are fluctuating in nature. Since raw material costs account for ~75 per cent of total production cost, even a slight variation in rates of raw materials drastically impacts the profitability. The operating margin of the company have declined marginally which stood at 10.85 per cent in FY21 as compared to 12.07 per cent in the previous year since the company paid extra commission and allowed more discount to increase the sales. However, the PAT margins improved to 3.11 per cent as on FY2021 as against 2.77 per cent as on FY2020. The RoCE levels for the company of stood moderate at 15.82 per cent in FY2021 as against 16.12 per cent in FY2020.

- **Moderate financial risk profile**

The company's moderate financial risk profile is marked modest net worth, improving gearing and comfortable debt protection metrics. The tangible net worth of the company improved to Rs.18.10 Cr as on March 31, 2021 from Rs.11.97 Cr as on March 31, 2020 due to accretion of profits. Acuité has considered unsecured loans of Rs.3.07 Cr as on March 31, 2021, as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. The gearing improved to 1.23 times as on March 31, 2021 as against 1.87 times as on March 31, 2020 owing to adjusted debts. The comfortable debt protection metrics of the company is marked by Interest Coverage Ratio at 3.37 times as on March 31, 2021 and Debt Service Coverage Ratio at 1.29 times as on March 31, 2021. Acuité believes DSCR will improve with an increase in customer advances and repayment of long term debts in FY22. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.27 times as on March 31, 2021.

Acuité believes that going forward the financial risk profile of the firm will remain healthy with no major debt funded capex plans.

Weaknesses

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 138 days as on March 31, 2021 as against 121 days as on March 31, 2020, driven by higher credit extended to customers and sizeable advances extended to suppliers. The high debtor period stood at 67 days as on March 31, 2021 as compared to 65 days as on 31st March 2020. However, the inventory period also stood high at 54 days as on 31st March, 2021 against 46 days in the previous year mainly due to seasonality in most end-

user segments. As the company significantly caters to beverage manufacturers, sales peak during summer, leading to substantial inventory. Working capital requirement is partially supported by credit of around 55 days from suppliers. Going forward, Acuité believes that the working capital management of the company will remain at similar levels as evident from the high debtor level and inventory level.

- **Intense competition in plastic packaging industry**

The plastic packaging industry is highly fragmented and the consequent intense competition from various players may continue to constrain scalability, pricing power and profitability. 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.

Acuité believes that the ability of the company to pass on such adverse impact to its customers remain a key sensitivity factor.

Rating Sensitivities

- Growth in revenue along with improvement in profitability margins
- Elongation in working capital cycle

Material covenants

None

Liquidity Position: Stretched

The company's liquidity is stretched marked by high utilisation of its working capital limits and working capital intensive nature of operations. The company's working capital intensity is reflected from its high gross current asset (GCA) of 138 days in FY2021 on account of high debtor days and sizeable advances extended to suppliers. This has led to high utilisation of 95 per cent of working capital limits in the last eight months ended November, 2021. Further, the company has availed loan moratorium, and applied for additional covid loan of Rs. 3.05 Cr. However, the current ratio stood moderate at 1.19 times as on March 31, 2021 as compared to 0.96 times as on March 31, 2020. The company maintains unencumbered cash and bank balances of Rs.0.55 crore as on March 31, 2021. Acuité also notes that the company has an adequate cushion in its debt repayments as the company's net cash accruals stood at Rs.5.38 crores in March 31, 2021 as against long term debt repayment of only Rs.4.09 crores over the same period. Expected net cash accruals of Rs 8-10 crores should be sufficient against term debt obligation of Rs 4-5 crores over the medium term. Going forward, Acuité believes that the surplus accruals will act as cushion to the liquidity of the company.

Outlook: Stable

Acuité believes that ABBPL 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	80.38	69.75
PAT	Rs. Cr.	2.50	1.93
PAT Margin	(%)	3.11	2.77
Total Debt/Tangible Net Worth	Times	1.23	1.87
PBDIT/Interest	Times	3.37	3.07

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- 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>

Note on complexity levels of the rated instrument<https://www.acuite.in/view-rating-criteria-55.htm>**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Dec 2020	Bank Guarantee	Short Term	0.80	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	1.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	10.50	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.20	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	1.50	ACUITE BBB- Stable (Reaffirmed)
21 May 2019	Cash Credit	Long Term	9.00	ACUITE BBB- Negative (Reaffirmed)
	Term Loan	Long Term	1.50	ACUITE BBB- Negative (Assigned)
	Proposed Bank Facility	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 2018	Cash Credit	Long Term	9.00	ACUITE BBB- Stable (Assigned)
	Proposed Short Term Loan	Short Term	1.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	1.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.50	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	Term Loan	31-12-2020	8.00	31-03-2025	1.70	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité Ratings & Research 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 8,850 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 Kanjurmarg, Mumbai.

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