Press Release

Mahika Packaging India Limited

July 05, 2019

Rating Reaffirmed and Withdrawn

Total Bank Facilities Rated*	Rs. 28.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Withdrawn)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs. 28.00 crore bank facilities of Mahika Packaging India Limited (MPIL). The outlook is **'Stable'**. Further, Acuité has withdrawn the short term rating of '**ACUITE A3**' **(read as ACUITE A three).**

The withdrawal of short term rating is on the request of the client as short term limit of packing credit has been now converted into sub limit of cash credit and there is no separate limit to be rated.

Mahika Packaging India Limited (MPIL) was established in 2005. The Mumbai-based company is engaged in manufacturing of injection molded plastic articles, injection blow molded bottles and seamless tubes. The manufacturing facility is located at Daman with installed capacity of 10 crore for bottle caps, 10 crore for plastic tubes and 2 crore bottles a month. The company has presence in domestic as well as international market.

Analytical Approach

For arriving at the rating, Acuité has considered the standalone financial and business risk profile of MPIL.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

  The company has established track record of over a decade in domestic as well as international market in plastic and packaging industry. The promoters, Mr. Amit Sushil Gupta and Mr. Sumit Sushil Gupta have extensive experience of nearly two decades in the plastic and packaging industry. The extensive network of promoters has helped the company to establish long term relations with customers and suppliers. The company is well supported by second line of management.

- **Established relations with reputed and geographically diversified clients**

  MPIL caters to a reputed client base including Pidilite Industries Ltd, Dabur India, Unilever, Camlin Limited, Patanjali Ayurved Limited and torrent pharmaceuticals among others. The operations of the company are spread across various countries such as Australia, Spain, Sri Lanka, UAE and United States among others.

- **Moderate financial risk profile**

  The moderate financial risk profile of the company is marked by net worth of Rs.34.48 crore (including unsecured loans from Directors of Rs.9.53 crore) in FY2019 (Provisional) as compared to Rs.24.17 crore (including unsecured loans from Directors of Rs.4.55 crore) in FY2018 due to ploughing back of profits in the business. The debt-equity ratio stood comfortable at 0.82 times in FY2019 (Provisional) as against 0.88 times in FY2018. Interest Coverage Ratio (ICR) stood comfortable at 5.17 times in FY2019 (Provisional), an increase from 3.82 times in FY2018. TOL/TNW stood at 0.97 times in FY2019 (Provisional) as against 0.90 times in FY2018. Debt Service Coverage Ratio stood at 3.74 times in FY2019 (Provisional).

Weaknesses

- **Moderate working capital cycle and stretched liquidity profile**

  The company has moderate working capital cycle marked by Gross Current Asset (GCA) of 189 days in FY2019 (Provisional) which increased significantly from 146 days in FY2018. The elongation in working capital cycle is due to high inventory holding period of 133 days in FY2019 (Provisional) as against 62 days in FY2018. The debtor period stood moderate at 63 days in FY2019 (Provisional) as against 72 days in FY2018. The liquidity profile of the company is slightly stretched marked by low current ratio of 0.93 times in FY2019 (Provisional) and 0.74 times in FY2018. Consequently, MPIL's average utilisation of working capital limits stood at ~90 percent in the last six months ended May 2019. Acuité believes that the company needs to focus on overcoming the current working capital crunch in the near future.

- **High competition and susceptibility of margins to fluctuations in raw material prices**

  The plastic and packaging industry is marked by large number of organised and unorganised players. The industry is marked by low entry barriers leading to increase in competition. The company's products find application in the packaging industry. The operating and profit margins are susceptible to fluctuations in the raw material prices of high-density polyethylene (HDPE) and linear polymer (polyethylene) which are linked to fluctuations in crudeprices.

Liquidity Position:

MPIL has adequate liquidity profile as marked by net cash accruals of Rs. 11.90 crore as against repayment obligations of Rs. 1.96-2.00 crore for FY2019 (Provisional). The current ratio of the company stood low at 0.93 times and gross current asset days stood at 189 days in FY2019 (Provisional). The liquidity profile of the company is stretched marked by current ratio, which stood low at 0.93 times in FY2019 (Provisional) as against 0.74 times in FY2018. The company maintains low unencumbered cash and bank balances of Rs. 0.02 crore as on March 31, 2019 (Provisional). The company's reliance on working capital borrowing is high; the cash credit limit of the company remains utilised at ~90.00 percent during the last six months period ended May 2019. The cash accruals of MPIL are estimated to remain adequate during FY 2020-22. Acuité expects the liquidity of the company to improve over the near to medium term on account of improvement in scale of operations.

Outlook: Stable

Acuité believes that MPIL will maintain a 'Stable' outlook over the medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case of substantial increase in scale of operations while achieving better profit margins and improving liquidity profile. Conversely, the outlook may be revised to 'Negative' in case of failure to achieve scalability in revenues or further deterioration in the financial risk profile, especially liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	47.39	34.59	37.46
EBITDA	Rs. Cr.	17.56	7.34	6.68
PAT	Rs. Cr.	5.33	0.73	0.78
EBITDA Margin	(%)	37.06	21.21	17.83
PAT Margin	(%)	11.24	2.11	2.08
ROCE	(%)	22.29	9.02	10.14
Total Debt/Tangible Net Worth	Times	0.82	0.88	0.35
PBDIT/Interest	Times	5.17	3.82	5.23
Total Debt/PBDIT	Times	1.61	2.83	1.20
Gross Current Assets (Days)	Days	189	146	132

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

Not Applicable

Any other information
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-17.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
26-Apr-2018	Cash Credit	Long Term	5.00	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	15.00	ACUITE BBB- / Stable (Assigned)
	Packing Credit	Short Term	8.00	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit*	Not Applicable	Not Applicable	Not Applicable	13.00 (Enhanced from 5.00)	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB- / Stable (Reaffirmed)
Cash Credit (Adhoc)	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- / Stable (Reaffirmed)
Packing Credit*	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 (Withdrawn)

**Working Capital facility is fully interchangeable.*

Contacts

Analytical	Rating Desk
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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.