

Press Release

Mahika Packaging India Limited

September 29, 2020

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite 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**'.

Mahika Packaging India Limited (MPIL) is a Mumbai-based company which was established in 2005. The company is engaged in the manufacturing of injection-molded plastic articles, injection blow molded bottles and seamless tubes. The manufacturing facility is located at Daman and Vapi with an installed capacity of 14 crore for bottle caps, 12 crore for plastic tubes and 2 crore bottles a month. The company has a presence in domestic as well as international market.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management, long track record and improving scale of operations**

The company has established track record of over a decade in domestic as well as in the 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 and establish presence of MPIL has helped the company to establish long term relations with customers and suppliers. The company is well supported by a second line of management. The extensive experience of promoters has helped the company to grow at Compounded Annual Growth Rate (CAGR) of 27.01 percent since 2016. The company has reported revenues of Rs. 48.39 crore in FY2020 (Provisional) against Rs. 37.24 crores in FY2019 and Rs. 34.59 crores in FY2018. The operating margins also stood improved at 26.85 percent in FY2020 (Provisional) as against 26.69 percent in FY2019. Further in FY2020 (Provisional), the company's PAT margin stood improved at 3.74 percent as against 2.32 percent in FY2019. Acuite believes the company is likely to benefit from an establish position and extensive experience of promoters in the industry over the medium term.

- **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 the United States, among others. The Export revenue of the company stood around 10-15 in previous years, which is likely to increase in FY2021.

- **Moderate financial risk profile**

The financial risk profile of the company stood moderate, marked by moderate gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW), and debt protection metrics. The Gearing stood comfortable at 1.16 times as on March 31, 2020 (Provisional) as against 1.36 times as

on 31 March, 2019. The Net worth of the company is moderate at Rs. 27.36 crore as on March 31, 2020 (Provisional) as against Rs. 24.74 crore as on 31 March, 2019. The improvement in net worth is on account of the retention of profits into the business. The net worth includes unsecured loans of Rs.4.25 crores which are treated as quasi capital. The total debt of Rs. 31.87 crore as on March 31, 2020 (Provisional) majorly consist of working capital limits of Rs.14.25 crores and long term debt of Rs. 11.36crores. The interest coverage ratio stood at 3.27 times as on March 31, 2020 (Provisional) as against 2.84 times as on 31 March, 2019. The net cash accruals to total debt stood comfortable at 0.26 times in FY2020 (Provisional) and 0.19 times in FY2019. The Debt Service Coverage Ratio (DSCR) stood at 1.41 times as on March 31, 2020 (Provisional) as against 2.40 times as on 31 March, 2019.

Weaknesses

• Moderate working capital cycle

The company has moderate working capital cycle marked by Gross Current Asset (GCA) days stood at 174 days as on March 31, 2020 (Provisional) as against 214 days as on March 31, 2019. The debtor's days stood at 72 days as on March 31, 2020 (Provisional) as against 87 days in FY2019. The inventory days stood high at 126 days as on March 31, 2020 (Provisional) and as on March 31, 2019. The working capital limits are utilized almost full for the last six months ending July 2020. The liquidity profile of the company is slightly stretched marked by a low current ratio of 0.80 times in FY2020 (Provisional) and 0.70 times in FY2018. 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 a large number of organised and unorganised players. The industry is marked by low entry barriers leading to an 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 crude prices. However, the packaging sector has higher demand and more advantages in the current pandemic scenario, which is likely to drive the growth of the industry.

Liquidity Position: Adequate

Liquidity of MPIL's is adequate, marked by comfortable cash accruals of Rs.6.00 to 8.35 crore against repayment obligations of Rs. 0.70-3.25 crores during FY2018-2020. The accruals are expected to be in the range of 6.00 to 8.50 crores against repayment obligation of Rs.3.25 -4.00 crores during FY2021-23. The current ratio of the company stood low at 0.80 times as on March 31, 2020. The current ratio stood low due to higher current maturity obligations, infusion of unsecured loans from promoters and advances from customers. It has unencumbered cash balances low at Rs. 0.01 crore as on March 31, 2020 (Provisional).

Rating Sensitivities

- Improving the scale of operations and stable margins
- Moderately working capital operations and higher reliance on bank lines

Outlook: Stable

Acuité has revised MPIL outlook to 'Positive' on account of company's demonstrated ability to show improvement in the operating performance while maintaining its overall financial risk profile and favorable industry outlook. The company will continue to benefit over the medium term from the extensive experience of its promoters. Conversely, the outlook may be revised to 'Stable' in case of company inability to achieve the expected increase in revenue and profitability or deterioration in overall financial, liquidity profile is observed.

About the Rated Entity - Key Financials

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	48.39	37.24
PAT	Rs. Cr.	1.81	0.86
PAT Margin	(%)	3.74	2.32
Total Debt/Tangible Net Worth	Times	1.16	1.36
PBDIT/Interest	Times	3.27	2.84

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

None

Any other information

Not Any

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Jul-2019	Cash Credit	Long Term	13.00	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	13.00	ACUITE BBB-/ Stable (Reaffirmed)
	Packing Credit	Short Term	8.00	ACUITE A3 (Withdrawn)
	Cash Credit	Long Term	2.00	ACUITE BBB-/ Stable (Reaffirmed)
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	ACUITE BBB-/ Stable (Reaffirmed)
Term loans	Not Available	Not Applicable	Not Available	13.00	ACUITE BBB-/ Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/ Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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