

Press Release

Mahika Packaging India Limited

December 27, 2021



Rating Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Ratings	2.00	ACUITE BBB- Reaffirmed & Withdrawn	
Bank Ratings	28.00	ACUITE BBB- Stable Reaffirmed	
Total	28.00	-	-

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.28.00 Cr. bank facilities of Mahika Packaging (India) Limited (MPIL). The outlook is '**Stable**'.

Further, Acuité has reaffirmed and withdrawn the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.2.00 Cr. bank facilities of Mahika Packaging (India) Limited (MPIL).

Rationale for reaffirmation of ratings

The reaffirmation of ratings draws comfort from the stable scale of operations albeit the impact of covid-19 while improving on a Y-O-Y basis, this is further supported by its diversified customer base, moderate financial risk profile, and adequate liquidity position. The rating remains constrained by its intensive working capital requirements with near 100 percent bank limit utilization and susceptibility of margins to fluctuations in raw material prices.

About the Company

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 facilities are located in Daman and Vapi with an installed capacity of fourteen crore laminated tubes, twelve crore seamless tubes, and two crore bottles a month. The company has its presence in domestic as well as international markets such as Australia, the U.S.A, the Middle East, South Africa, and Turkey to name a few.

Analytical Approach

Acuité has considered the standalone view of the business and financial risk profile of MPIL to arrive at the rating.

Key Rating Drivers

Strengths

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

The company has an established track record of over a decade in domestic as well as in the international market in the 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 established

presence of MPIL has helped the company to establish long-term relations with customers and suppliers. The company is well supported by the second line of management. The extensive experience of promoters has helped the company to grow at Compounded Annual Growth Rate (CAGR) of 16 percent since 2018. The company has reported revenues of Rs.54.55 crore in FY2021 (Provisional) as against Rs.43.05 crore in FY2020. The operating margins stood at 27.72 percent in FY2021 (Provisional) as against 30.17 percent in FY2020. Nonetheless, in FY2021 (Provisional), the company's PAT margin improved to 6.16 percent as against 2.74 percent in FY2020.

Established relations with reputed and geographically diversified clients

MPIL caters to a reputed client base including Pidilite Industries, Dabur, Unilever, Camlin, Patanjali Ayurved, and Torrent Pharmaceuticals, Ipcda Laboratories, Abbott Laboratories in India to name a few. In the international market, the company has its presence in Australia, the USA, the Middle East, South Africa, and Turkey to name a few. Its portfolio of international clients consists of Walmart, Walgreens, CVS Pharmacy to name a few. The Export contributes 30 percent to the revenue of MPIL in FY2021.

Moderate financial risk profile

The financial risk profile of the company stood moderate, marked by modest net worth, moderate gearing (debt to equity), and coverage indicators. The Gearing stood at 1.63 times as on March 31, 2021 (Provisional) as against 1.67 times as on March 31, 2020. The Net worth of the company is modest at Rs.25.63 crore as on March 31, 2021 (Provisional) as against Rs.21.66 crore as on March 31, 2020. The improvement in net worth is on account of the retention of profits into the business. The total outside liabilities to total net worth (TOL/TNW) stood at 1.97 times as on March 31, 2021 (Provisional) as against 2.10 times as on March 31, 2020.

The company is undergoing capex which is 90 percent funded by Debt and the remaining from internal accruals. While this is expected to the Gearing and maturing debt obligations in the near to medium term, the growth in revenue expected and subsequent the higher NCA is expected to be adequate to satisfy those obligations. The interest coverage ratio stood at 3.45 times as on March 31, 2021 (Provisional) as against 3.05 times as on March 31, 2020. The net cash accruals to total debt stood comfortable at 0.24 times in FY2021 (Provisional) as against 0.21 times in FY2020. The Debt Service Coverage Ratio (DSCR) stood at 1.87 times as on March 31, 2021 (Provisional) as against 1.33 times as on March 31, 2020.

Weaknesses

Intensive working capital requirements

The working capital requirements remain intensive albeit improving on a Y-O-Y basis marked by Gross Current Asset (GCA) of 187 days as on March 31, 2021 (Provisional) as against 195 days as on March 31, 2020. The debtor's days stood at 68 days as on March 31, 2021 (Provisional) as against 82 days in FY2020. The inventory days stood high at 141 days as on March 31, 2021 (Provisional) as against 148 days as on March 31, 2019. The creditors' payment period as improved to 95 days as on March 31, 2021 (Provisional) as against 133 days as on March 31, 2020. The working capital limits are utilized at more than 97 percent for the past 7-month period ending November 2021.

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

The plastic and packaging industry is marked by a large number of organized and unorganized 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.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the entity.

Material covenants

Not Applicable

Liquidity Position: Adequate

Liquidity of MPIL's is adequate, marked by adequate cash accruals of Rs.10.35 crore as against repayment obligations of ~Rs.5.00 crore in FY2021 (Provisional). The accruals are expected to be in the range of Rs.10.00 to 20.00 crore against repayment obligation of Rs.5.00-10.00 crore during the FY2022-24 period on the back of debt-funded capex. The working capital limits are utilized at more than 97 percent for the past 7 month period ending November 2021. The current ratio of the company stood low at 0.84 times as on March 31, 2021. 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, 2021 (Provisional).

Outlook: Stable

Acuité believes that MPIL will maintain a 'Stable' outlook in the near to medium term on account of its stable business risk profile supported by its established position in the market and diversified revenue profile. The outlook may be revised to 'Positive' if the entity registers higher-than-expected growth in its scale of operations, while also improving its operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' in case the entity registers a significant decline in revenues or profitability indicators or if the financial risk profile deteriorates due to a higher-than-expected increase in debt-funded Capex/requirements or working capital requirements resulting in deterioration in the overall capital structure.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	54.55	43.05
PAT	Rs. Cr.	3.36	1.18
PAT Margin	(%)	6.16	2.74
Total Debt/Tangible Net Worth	Times	1.63	1.67
PBDIT/Interest	Times	3.45	3.05

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>
- Entities In Manufacturing Sector -<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 Sep 2020	Cash Credit	Long Term	2.00	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	13.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	13.00	ACUITE BBB- Stable (Reaffirmed)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB- Stable Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	6.29	ACUITE BBB- Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	11-12-2017	Not available	31-03-2024	8.71	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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