Press Release

Discover India Packaging

D-U-N-S® Number: 67-593-7378

January 09, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' **(read as ACUITE B)** to the Rs. 15.00 crore bank facilities of Discover India Packaging (DIP). The outlook is **'Stable'**.

DIP, a Pune based partnership firm was established in 2000 by Mr. Abhay Chidri, Mr. Manoj Gorte and Mr. Mayank Chidri. DIP is engaged into manufacturing of corrugated boxes, EPE foam, wooden pallets and Honeycomb boxes for packaging industry. DIP has two manufacturing units located at Bhare (Near Pirangut) and Velu (Near KhedShivapur) with a combined capacity of 8000 tons annually at Pune. DIP provides packaging solution such as Glass Packaging, sheet metal packaging, press parts packaging, heavy engineering components, and Design of Internal fitments for the complicated parts. The firm caters to Automobile, Auto components, Pharma, FMCG, solar and other industries.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**
  The promoters, Mr. Abhay Chidri and Mr. Manoj Gorte have around two decades of experience in the packaging industry through their association with this entity. Thus, the firm has been able to develop healthy relationship with its customers which help it to get repeated orders. Acuité believes that the company will be benefitted by the established track record of operations over the medium term.

- **Comfortable working capital management**
  The working capital cycle of DIP is comfortable marked by Gross Current Assets (GCA) of 88 days in FY2018 (PY: 75 days). This is majorly on account of low inventory holding period and comfortable receivable management. The inventory holding period stood low at 13 days in FY2018 (PY: 10 days). The receivable days stood at 66 days in FY2018 (PY: 59 days). Further, the working capital is supported by stretched suppliers which moderate the working capital requirements. The average bank limit utilisation stood at 75 percent for the last six months ended November, 2018.

Weaknesses

- **Debt funded capital expenditure plan**
  DIP is planning a capital expenditure plan of around Rs.16.00 crore to be partly funded by term loan of Rs. 12.00 crore from bank and remaining from internal accruals and partners' capital. This project is expected to be started by February, 2019 and completed by September, 2019. The operations from this new project are expected to commence from November, 2019. The firm is doing backward integration wherein it will be manufacturing corrugated sheets (Raw material required for the corrugated boxes) and enhancing the existing capacity to 3000 tons annually (Existing capacity is at 2000 tons annually). Considering the additional debt, the gearing is expected to range between 1 to 2.00 times over the near to medium term. Acuité believes that the ability of the firm to generate adequate net cash accruals in order to repay its debt obligation will remain key rating sensitivity.

- **Small and fluctuating scale of operations with decliningprofitability**

  DIP's scale of operations has remained small marked by total operating income of Rs. 9.18 crore in FY2018 as against Rs. 10.41 crore in FY2017 and Rs. 9.92 crore in FY2016. The reason for operating income to decline in FY2018 over FY2017 was because of intense competition and fewer orders executed in FY2018. Further, the firm has registered revenues of Rs. 8.20 crore for the period April to November, 2018 (Provisional). The profitability margins have declined during the period FY2016 to FY2018 under the study. The operating profit margin declined to 6.32 percent in FY2018 (PY: 7.86%). The margins are fluctuating on account of volatility in raw material prices and the firm's limited ability to pass on the prices to its customers because of fixed price contracts and also intense competition faced by the firm. The net profitability margin declined to 1.60 percent in FY2018 (PY: 3.14%) on account of declining operating level profits on Y-0-Y basis. Acuité believes that the ability of the company to maintain its revenue streams and profitability will remain key rating sensitivity.

- **Average financial risk profile**

  The financial risk profile of DIP is average marked by small net worth base of Rs. 3.51 crore as on 31 March, 2018 (PY: Rs. 3.57 crore). The net worth has declined on account of decline in level of profits in FY2018 over FY2017. The debt/equity ratio stood at 0.33 times as on 31 March, 2018 (PY: 0.47 times). The total debt of Rs. 1.18 crore outstanding as on 31 March, 2018 comprises of Rs. 0.87 crore of term loan from the bank and Rs. 0.30 crore as working capital borrowings. The coverage indicators both ICR and DSCR declined to 3.79 times for FY2018 (PY: 5.61 times) respectively on account of decline in profits. The net cash accruals declined to Rs. 0.46 crore in FY2018 as against Rs. 0.54 crore in FY2017.

- **Partnership constitution risk**

  DIP, being a partnership firm is exposed to risk of capital withdrawal. The partner's capital is declining at Rs.3.51 crore as on 31 March, 2018 as against Rs.3.57 crore in FY2017 and Rs.3.58 crore in FY2016.

Outlook: Stable

Acuité believes DIP will maintain a 'Stable' outlook over the medium term. The firm will continue to benefit from its established track record of operations. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position on account of capital expenditure plan undertaken by the firm.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	9.18	10.41	9.92
EBITDA	Rs. Cr.	0.58	0.82	1.12
PAT	Rs. Cr.	0.15	0.33	0.50
EBITDA Margin	(%)	6.32	7.86	11.31
PAT Margin	(%)	1.60	3.14	5.06
ROCE	(%)	6.26	12.24	36.44
Total Debt/Tangible Net Worth	Times	0.33	0.47	0.37
PBDIT/Interest	Times	3.79	5.61	6.88
Total Debt/PBDIT	Times	1.88	2.03	1.15
Gross Current Assets (Days)	Days	88	75	76

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.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)
Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE B / Stable

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About Acuité Ratings & Research:
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