

Press Release

Wheel Flexible Packaging

September 05, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	16.25	ACUITE BBB- Negative Reaffirmed Stable to Negative	-
Bank Loan Ratings	21.04	ACUITE BBB- Negative Assigned	-
Total Outstanding Quantum (Rs. Cr)	37.29	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) Rs.16.25 Cr bank facilities of Wheel Flexible Packaging (WFP). The outlook has been revised from 'Stable' to 'Negative'.

Further, Acuite has also assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 21.04 Cr bank facilities of WFP. The outlook is 'Negative'.

Rationale for rating reaffirmation and revision in outlook

The change in outlook takes into account the deteriorating financial risk profile of the group. The debt to equity of the group increased stood at 2.01 times as on March 31, 2022 (Provisional) against 1.66 times as on March 31, 2020. Further, the aggregate revenue of the group has remained stagnant at ~Rs. 200 Cr through FY2020-22. Additionally, the bank limit utilization of the group for the 7 month period ended July 2022 stood at 97 percent, despite availing adhoc facilities to the extent of Rs. 1.50 Cr from March-June 2022 due to increase the working capital cycle days from 74 in FY2021 to 102 in FY2022 (Provisional).

However, the rating draws comfort from the increase in fund-based limits from June 2022 thus improving the Group's liquidity profile to some extent. However, with continued elongation in working capital cycle the Group's reliance on bank borrowing is expected to remain high. Also, the group has managed to earn a revenue of ~Rs. 62 Cr for the 3 month ended June 2022 against Rs. 54 Cr and Rs. 46 Cr during the same period in FY2021 and FY2020. Besides, the group has an order book of Rs. 21.00 Cr as on July 31, 2022. The rating also factors the relocation of the exiting plant to Vapi, Gujarat from Dadra Nagar Haveli which is expected to increase the overall operating margins by 1.5-2 percent due to reduction in administration and employee cost going forward.

About the Company

Dadra and Nagar Haveli based Wheel Flexible Packaging was established as a partnership firm in 1999. The partners of the firm are Mr. A.C.B. Nambiar, Mr. P.A. Mohammed Abdul Rehaman, Ms. Vidya Pathak, Mr. Zaidali Babu V.M. and Mr. Abhilash Nambiar. The firm is engaged in manufacturing printed, unprinted & laminated pouches and rolls. The manufacturing unit has an installed capacity of 9000 MT per annum.

About the Group

Wheel Group was founded in 1992 by Mr. A.C.B. Nambiar. The group is engaged in manufacturing of printed, unprinted & laminated multilayer flexible packaging material in form of pouches and rolls based on polyester, BOPP, etc. and other variety of similar product line. The group has total installed capacity of 15000 MT per annum with 60-70 percent utilization.

Analytical Approach

For arriving at the rating, Acuité has taken a consolidated view on the business and financial risk profile of Wheel Flexible Packaging Private Limited and Wheel Flexible Packaging. The aforementioned entities are collectively referred to as the Wheel Group (WG). The consolidation is in view of the companies' similar business model, common management, operational and financial synergies.

Extent of consolidation: Full

Key Rating Drivers

Strengths

- **Experienced Management and established track record of operations:**

Wheel Group (WG) comprises of two companies, Wheel Flexible Packaging (WFP) and Wheel Flexible Packaging Private Limited (WFPPL). WFP was established in 1999, and WFPPL was incorporated in 2016. Thus, have an operational track record of over two decades. Mr. A.C.B. Nambiar (Managing Partner) has an experience of around five decades in the flexible packaging industry. Hence, long track records of operations and vast experience of management has helped the group diversify its customer base.

Also, the decision to relocate the plant at Dadra and Nagar Haveli to Vapi, Gujarat along with capacity addition of further 3000 metric tonnes will enable the group to increase their operating margins by 1.5-2 percent due to overall reduction in the administration and employee cost. The relocation is expected to be complete by FY2023. For the plant at Dadra Nagar Haveli the group intends to install shrink flee plant capacity with additional project cost of Rs. 0.40 Cr. The annual revenue from this plant is expected to be around 1.75 Cr.

Acuité believes that WG will sustain its existing business profile on the back of established track record of operations and strategic decision by the management to increase overall scale of operations.

- **Stable operating margins albeit stagnating scale of operations:**

The operating margins of the group remain stable in the range of 5 percent through FY2020-22. The major raw material procured by the group include Polyethylene and Polyester films. These raw material are susceptible to change in crude oil prices and fluctuation in USD. The average purchase price of increased from Rs. 160 per kg in FY2021 Rs. 180 per kg in FY2022, correspondingly the average selling prices increased from Rs. 200-220 per kg in to Rs. 232-250 per kg, thereby not impacting the overall operating margins. The ability to transfer the fluctuation in raw material prices ensure overall stability in operating margins. Also, there is adequate customer diversification, the group derives about 26 percent of its revenue in FY2022 through top 10 customers against 21 percent in the previous year.

However, the revenue of the group has stagnated at an average of ~Rs. 200 Cr through FY2020-22 with domestic revenue declining since FY2020, the group earned Rs. 181 Cr in FY2020 against Rs. 164 Cr in FY2022 (Provisional). However, the export revenue growth has been considerable the export revenue increased from Rs. 9.08 Cr in FY2020 to Rs. 32.62 Cr in FY2022 (Provisional). Further, WG derives 95 percent of the revenue through food product packaging and the rest through pharmaceuticals and personal and homecare products thereby resulting into sectoral concentration.

Nonetheless, the Group until June 2022 has earned an aggregate revenue of Rs. 62 Cr and has an outstanding order book of Rs. 21.00 Cr.

- **Favorable industry outlook for packaging industry:**

As per CMIE data, the packaging industry reported y-o-y 34.7 percent growth in sales from Rs.45.7 billion for March 2021 quarter to Rs.61.5 billion for March 2022 quarter. In FY22, the exports value increased by 31.4 percent to Rs.137.3 billion as compared to Rs.104.4 billion for FY21. Growth in modern retailing, high consumer income, and acceleration in e-commerce activities, especially in the emerging economies, are likely to support the growth of the flexible plastic packaging market over the medium term.

Weaknesses

- **Deterioration in the capital structure:**

WG has an average financial risk profile marked by moderate net worth, high gearing and moderate coverage metrics. The net worth of the group stood at Rs. 32.12 Cr as on March 31, 2022 (Provisional) against Rs. 27.28 Cr in the previous year. The increase in net worth is attributable to moderate accretion to reserves.

The aggregate debt of the group increased to Rs. 64.58 Cr as on March 31, 2022 (Provisional) against Rs. 51.23 Cr as on March 31, 2021. The debt consists of long term loans Rs. 24.54 Cr, Rs. 7.70 Cr unsecured loan from promoters and Rs. 32.34 Cr short term debt. The increase in debt is attributable to increased short term debt from Rs. 22.06 Cr as on March 31, 2021 to Rs. 32.24 Cr as on March 31, 2022 (Provisional). The stretch in working capital cycle primarily due to increase in inventory days from 75 in FY2021 to 101 in FY2022 (Provisional) has resulted into increased dependence on external funding. Also, the group has availed Covid loans of ~Rs. 4.00 Cr in FY2022.

The group follows an aggressive leverage policy marked by average gearing (debt to equity) 1.85 times through FY2020-22 and peak gearing of 2.01 times as on March 31, 2022 (Provisional). However, the moderate accretion to reserves ensures adequate coverage metrics, interest coverage ratio and debt coverage ratio stood at 2.41 times and 1.42 times as on March 31, 2022 (Provisional). Going forward considering the debt funded expansion plans the gearing is expected to be around 2.09 times by FY2023.

Acuité believes any further debt funded capital expenditure will result into further deterioration in the overall financial risk profile.

- **Working capital intensive nature of operations:**

The operations of the group are working capital intensive marked by working capital (WC) cycle days of 102 as on March 31, 2022 (Provisional) against 74 in the previous year. The increased inventory days by 26 in FY2022 (Provisional) has contributed to overall increase in WC cycle days against the previous year. WG procured increased stocks during the year end to fulfill orders for the first quarter of FY2023. The group has managed to earn a revenue of ~Rs. 62 Cr for the 3 month ended June 2022 against Rs. 54 Cr and Rs. 46 Cr during the same period in FY2021 and FY2020.

However, the overall operations of the group has remained working capital intensive marked by average WC cycle days of 80 through FY2020-22.

Rating Sensitivities

- Deterioration in the financial risk profile and coverage indicators high debt funded capital expenditure.
- Substantial improvement in the scale of operation and profitability margin.
- Stretch in the working capital cycle resulting into increased reliance on working capital borrowings.

Material covenants

None.

Liquidity Position: Adequate

The liquidity profile of the group is adequate. The net cash accruals of the group was in the range of Rs. 5.79-5.78 Cr through FY2020-22 against repayment obligations of Rs. 1.83-3.32 Cr. The working capital cycle days stood at 102 against 74 in the previous year. The increase in working capital cycle has led to bank limit utilization of 97% for the 7 month ended July 2022.

However, the group from June 2022 has availed enhanced limits from earlier Rs. 30 Cr to Rs. 40 Cr. Further, the group has unencumbered cash and Bank balance of Rs. 5.00 Cr and the current ratio stood 1.45 times as on March 31, 2022 (Provisional).

Outlook: Negative

Acuité has revised the outlook on WG to 'Negative' due to deteriorating financial risk profile, stagnating scale of operations and increased reliance on short term funding due to increase in WC cycle days. The rating may be further downgraded in case of further deterioration in the financial risk profile due to debt funded capital expenditure. Conversely, the outlook may be revised to 'Stable' due to improvement in its scale of operations and profitability along with reduced dependence on short term funding through decline in WC cycle days.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	199.39	202.51
PAT	Rs. Cr.	3.46	3.30
PAT Margin	(%)	1.73	1.63
Total Debt/Tangible Net Worth	Times	2.01	1.88
PBDIT/Interest	Times	2.41	2.48

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

None.

Any other information

None.

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>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.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
10 Jun 2021	Proposed Term Loan	Long Term	1.25	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.33	ACUITE BBB- (Withdrawn)
12 Mar 2020	Term Loan	Long Term	0.33	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.92	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Reaffirmed)
21 Jan 2019	Proposed Bank Facility	Long Term	4.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	11.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	1.25	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Punjab National Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	2.18	ACUITE BBB- Negative Assigned
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	14.50	ACUITE BBB- Negative Assigned
Punjab National Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.25	ACUITE BBB- Negative Reaffirmed Stable to Negative
Punjab National Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	2.81	ACUITE BBB- Negative Assigned
Punjab National Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.55	ACUITE BBB- Negative Assigned

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About Acuité Ratings & Research

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