

Press Release

Wheel Flexible Packaging Private Limited

June 10, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 21.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed)

* 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. 21.00 cr. bank facilities of Wheel Flexible Packaging Private Limited (WFPPL). The outlook is '**Stable**'.

Rationale for rating reaffirmed

The rating is reaffirmed on account of sustained business risk profile, moderate financial risk profile marked by moderate net worth, healthy debt protection metrics. Further, the rating derives comfort from extensive experience of promoters spanning more than two decades in the flexible packaging industry with reputed clientele. On the contrary, the rating is constrained by WFP's restricted operational performance, intensive nature of working capital operations and fragmented nature of the industry.

About the company

Vapi, Gujarat based Wheel Flexible Packaging Private Limited was incorporated in 2016. The directors of the company are Mr. A.C.B. Nambiar and Ms. Vidya Pathak. The company is engaged in manufacturing printed, unprinted & laminated pouches and rolls. The manufacturing unit has an installed capacity of 6000 MT. The company commenced its operations in January 2018. The company procures polyester, granules, ink and processes the same to produce packaging material in the factory located in Vapi, Gujarat.

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. 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 develop healthy relationship with its customers and suppliers.

Owing to experience of promoters, the group has been able to report the operating income of Rs.203.76 Cr in FY2021 (Prov.) as against Rs. 191.95 Cr in FY2020 and 149.26 Cr in FY2019. Wheel Group revenues have grown at a CAGR of ~21 per cent from FY2018 to FY2021 (Prov.). Furthermore, profitability margins have improved i.e. EBITDA margin improved from 5.17% in FY2020 to 5.33% in FY2021 (Prov.). Further, Net Profit margin improved from 1.41% in FY19 to 1.85% in FY2020 to 2.07% in FY2021 (Prov.) as the group incurred lower proportionate interest cost and depreciation.

Acuité believes that Wheel Group will sustain its existing business profile on the back of established track record of operations and experienced management.

• **Moderate Financial Risk Profile**

The financial risk profile of the group is moderate marked by moderate net worth, low gearing levels and improving debt protection metrics and coverage indicators.

The group's net worth stood at Rs. 34.94 Cr as on 31st March 2021 as against Rs. 31.83 Cr as on 31st March 2020 and Rs. 29.74 Cr as on 31st March 2019. During FY21 (Prov.), the promoters have subordinated unsecured loan of 7.42 crores to support the business activities. The said subordinated unsecured loans are going to retain in the business.

The group has followed a moderately aggressive financial policy in the past and is continuing with the same policy as reflected through its gearing of 1.18 times as on 31st March 2021 as against 1.00 as on 31st March 2020 and total outside liabilities to tangible net worth (TOL/TNW) levels of 2.28 times as on March 31, 2020.

The group has improved debt coverage indicators as evident by improvement in debt-service-coverage-ratio of 1.70 times as on 31st March, 2021 as against 1.53 times as on 31st March, 2020 and interest coverage ratio of 2.76 times as on 31st March, 2021 as against 2.63 times as on 31st March, 2020.

Acuité believes that the financial risk profile of the group will continue to remain healthy on account of healthy net worth and debt protection metrics.

Weaknesses

• **Competitive and fragmented industry**

Wheel group operates in flexible packaging industry, which is marked by the presence of several small to big size players in the organized as well as unorganized sector, which limits the pricing power of Wheel group. However, this risk is mitigated to an extent as the management has been operating in this industry for more than two decades.

• **Intensive working capital operations**

Working capital operations of the group deteriorated and remained intensive as evident from gross current assets (GCA) of 148 days for FY2021 as against 134 days for FY2020. The deterioration is majorly on account of increase in inventory days of 71 days as on 31 March 2021 (Prov.) as against 68 days in the previous year, the increase in inventory days is because the group was left with higher levels of finished goods inventory at the end of the year due to Covid pandemic. However, debtors' days stood same at 60 days as on 31 March 2021 (Prov.) as against 60 days in previous year. Current Ratio stood at 1.50 times as on 31 March 2021 (Prov.) as against 1.32 in the previous year

Acuité believes that Wheel group's working capital intensive operations will be mitigated by the availability of adequate liquidity over the medium term.

Rating Sensitivity

- Deterioration in profitability margins.
- Significant decline in scale of operations
- Substantial deterioration in working capital operations

Material Covenants

None

Liquidity position: Adequate

The group has adequate long-term liquidity marked by healthy net cash accruals to its maturing debt obligations. However, there is high utilization of fund-based working capital limits. The average utilization for

the fund based facility stood at 93.78 per cent in the last twelve months. The group generated cash accruals of Rs. 6.55 crore for FY2021(Prov.) as against Rs. 2.96 crore of repayment obligations for the same period. The group has unencumbered cash and bank balances of only Rs. 0.74 crore as on 31st March 2021(Prov.). Therefore, there are enough net cash accruals & limits available to utilize more funds if required to support incremental requirements.

Outlook: Stable

Acuite believes that WG will continue to benefit over the medium term on account of the group's established presence in the industry and experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected revenues and cash accruals while demonstrating improvement in the working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the group's business risk profile weakens resulting in lesser than expected revenues or profitability and lower-than-expected net cash accruals leading to significant stretch in the group's working capital cycle.

About the Rated Entity - Key Financials(Consolidated)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	203.76	191.95
PAT	Rs. Cr.	4.21	3.56
PAT Margin	(%)	2.07	1.85
Total Debt/Tangible Net Worth	Times	1.18	1.00
PBDIT/Interest	Times	2.76	2.63

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Consolidation of entities - <https://www.acuite.in/view-rating-criteria-60.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
12-Mar-20	Cash Credit	Long term	8.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan- I	Long term	12.91	ACUITE BBB-/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.09	ACUITE BBB-/Stable (Reaffirmed)
21-Jan-19	Cash Credit	Long term	5.00	ACUITE BBB- /Stable (Assigned)
	Term Loan- I	Long term	15.00	ACUITE BBB- /Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB-/ Stable (Reaffirmed)
Term Loan- I	Not Available	Not Available	Not Available	10.85	ACUITE BBB-/Stable (Reaffirmed)
Proposed Term Loan	Not Available	Not Available	Not Available	2.15	ACUITE BBB-/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel:022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Rohan Gambhir Rating Analyst - Rating Operations Tel: 011-49731313 rohan.gambhir@acuite.in	

About Acuité Ratings & Research:

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