

## Press Release

### Prakash Corrugated Products

March 01, 2019



### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 31.00 Cr.
<b>Long Term Rating</b>	ACUITE B / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A4

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE B**' (**read as ACUITE B**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 31.00 crore bank facilities of Prakash Corrugated Products. The outlook assigned is '**Stable**'.

The Goa-based, Prakash Corrugated Products (PCP) is a proprietorship concern established in 2011 by Mr. Rakesh Agarwal. The firm is engaged in manufacturing of corrugated boxes. Its manufacturing unit is located at Verna (Goa) with installed capacity of 12,000 metric tonnes annum (MTPA) of corrugated boxes per. Moreover, PCP has in-house Flexo Printing facility for printing on the boxes.

### Analytical Approach

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

### Key Rating Drivers

#### Strengths

- **Experienced management and reputed clientele**

PCP is promoted by Mr. Rakesh Agarwal who also manages the day to day operations of the company. He has an experience of around two decades in the same line of business. The extensive experience of the management has helped the firm build long term relations with customers and suppliers. The firm caters to reputed clients including Crompton Greaves, Schneider Electric, and Glenmark Pharmaceuticals amongst others.

#### Weaknesses

- **Highly fragmented and competitive industry**

PCP operates in a highly fragmented industry with limited entry barriers, wherein the presence of large number of players in the unorganised sector limits the bargaining power with customers.

- **Average financial risk profile**

The financial risk profile is average marked by average net worth and debt protection measures. The net worth is average at around Rs.7.08 crore as on 31 March, 2018 as against Rs.8.48 crore as on 31 March, 2017. The company has followed an aggressive financial policy as reflected by peak gearing of 5.00 times over the last three years through 2017-18. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 6.72 times as on 31 March, 2018 as against 3.95 times as on 31 March, 2017.

The moderate revenue levels coupled with stable operating margins have resulted in average debt protection measures. Interest Coverage Ratio (ICR) remained moderate at 1.58 times in FY2018 and 1.50 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.07 times as on 31 March, 2018 as against 0.05 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 0.91 times in FY2018 as against 1.27 times in FY2017. Acuité believes that the financial risk profile of PCP will continue to remain average over the medium term on account of its improving scale of operations.

- **Working capital intensive nature of operations**

The working capital management is marked by Gross Current Assets (GCA) of 243 days in FY2018 as against 186 days in FY2017. The company maintains inventory of around 60 days on an average and extends clean credit of around 60 days to its customers, resulting in high GCA days. The inventory and debtor levels stood at 115 days and 50 days in FY2018 as against 55 days and 79 days in FY2017, respectively. As a result, the average utilisation of bank limits stood high at ~100 percent in the last six months. Acuité believes that the working capital requirements will continue to remain high over the medium term on account of its high inventory requirements to cater to spot orders.

**Outlook: Stable**

Acuité believes that PCP will maintain a 'Stable' outlook over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in PCP's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

**Liquidity position**

PCP has stretched liquidity marked by inadequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.40 to Rs. 2.50 crore during the last three years through 2017 - 18, while its maturing debt obligations were in the range of Rs.0.50 to Rs. 3.10 crore over the same period. The cash accruals of the company are estimated to remain at around Rs. 3.20 - Rs.5.20 crore during 2019-21. The company's operations are working capital intensive as marked by Gross Current Asset (GCA) days of 243 in FY 2018. The company maintains unencumbered cash and bank balances of Rs.5.98 crore as on March 31, 2018. The current ratio of the company stood low at 0.77 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain stretched over the medium term on account of moderate cash accrual while its maturing debt obligations are estimated to be in the range of Rs.2.50 to Rs. 2.80 crore.

**About the Rated Entity - Key Financials**

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	36.96	31.96	34.08
EBITDA	Rs. Cr.	6.67	4.14	4.21
PAT	Rs. Cr.	0.06	0.80	2.12
EBITDA Margin	(%)	18.05	12.96	12.35
PAT Margin	(%)	0.17	2.52	6.23
ROCE	(%)	11.39	14.40	46.78
Total Debt/Tangible Net Worth	Times	5.00	2.97	1.73
PBDIT/Interest	Times	1.58	1.50	2.62
Total Debt/PBDIT	Times	5.25	6.06	2.39
Gross Current Assets (Days)	Days	243	186	178

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

CARE, vide its press release dated January 18, 2019 had denoted the rating of Prakash Corrugated Products as 'CARE D/CARE D; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'CARE D/CARE D' vide its press release dated March 16, 2018.

**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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE B / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE B / Stable
Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4

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### About Acuité Ratings & Research:

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