

Press Release

Navodaya Packing Industries

D-U-N-S® Number: 85-990-6325



March 08, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 6.00 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 minus**) on the Rs. 6.00 crore bank facilities of Navodaya Packing Industries. The outlook is '**Stable**'.

Navodaya Packing Industries (NPI) is a Hyderabad based proprietorship firm established in 2000 by Mr. Siva Rama Krishna. It is engaged in manufacturing of HDPE drums and fiber drums mainly catering to the pharma industry. The firm's manufacturing facility is located at Sangareddy District (Telangana) with an installed capacity of 12,00,000 drums per annum. The firm caters to more than 100 customers across Telangana, Karnataka, and Andhra Pradesh.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the NPI to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The proprietorship firm, initially started in 2000 as 'Novodaya Chemical Agencies', was engaged in trading of chemicals for supplies to bulk drug manufacturers. Later in 2014, the firm changed its name to 'Navodaya Packing Industries' and business line to manufacture of HDPE and fiber drums. The firm mainly supplies its products to pharma industry. Long track record of operations coupled with experience of the management in the industry has helped the firm in maintaining healthy relationship with the reputed customers, namely, Hetero Labs Limited, MSN Laboratories Limited and Rakshit Drugs Private Limited, among others. The same reflected in compound annual growth rate (CAGR) of 24 percent over three years through FY2018 at Rs.24.34 crore. Acuité believes that the firm will benefit from the experience of the management and long track record of operations over the medium term.

- **Moderate financial risk profile**

Financial risk profile of the firm stood moderate marked by moderate gearing, total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. Gearing stood moderate at 1.43 times as on 31 March, 2018 as against 1.10 times as on 31 March, 2017. TOL/TNW stood moderate at 2.57 times as on 31 March, 2018 as against 2.34 times as on 31 March 2017. Net worth stood modest at Rs.4.71 crore as on 31 March, 2018 as against Rs.4.00 crore as on 31 March, 2017. Of the total debt of Rs.6.73 crore as on 31 March, 2018, long term debt constitutes Rs.0.79 crore and short term debt of Rs.5.94 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 2.81 times and 0.17 times respectively in FY2018. The firm's cash accruals stood at Rs.1.18 crore in FY2018. The firm did a capital expenditure of Rs.0.80 crore for purchase of additional machinery, which was funded through bank loan and internal accruals. Further, the firm has given advance for purchase of villa through bank loan of Rs.1.50 crore in the 1HFY2019. Net cash accruals are expected to be Rs.1.10-1.50 crore over the medium term against debt obligations of Rs.0.30-Rs.0.50 crore over the medium term. Modest accruals with repayment obligations and moderate capex are expected to keep the financial risk profile at similar levels over the medium term.

Weaknesses

- **Working capital intensive operations**

The operations of the firm are working capital intensive marked by high Gross Current Assets (GCA) of about 169 days in FY2018 as against 161 days in FY2017 mainly due to high debtors. Debtors stood high at 128 days in FY2018 as against 125 days in FY2017 due to slow realisation from customers. The same led to full utilisation of bank lines for the last six months through December 2018. Further, stretch in receivables also led to delays in servicing of debt obligations between June 2018 to September 2018, which were regularised in October 2018. Also, investment in capex also constrained the financial flexibility. The ability of the firm to improve the working capital cycle and the liquidity profile are key rating sensitive factors over the medium term.

- **Modest scale of operations**

Though the revenues of the firm improved from Rs.15.72 crore in FY2016 to Rs.24.34 crore in FY2018, they remained modest. Further from April-November 2018, the firm reported revenues of Rs.18.96 crore and is expecting revenues about Rs.30-35 crore over the medium term. Further, operating margins of the firm is fluctuating in the range of 7-8 percent for the last three years through FY2018. Acuité believes that the ability of the firm to increase the scale of operations while maintaining stable operating margins would be the key rating sensitivity factors over the medium term.

Liquidity position

Liquidity of NPI is moderate marked by moderate cash accruals against repayment obligations. It has reported cash accruals of Rs.1.18 crore in FY2018. Its expected cash accruals are in the range of Rs.1.20- 1.50 crore over the medium term against which its repayment obligations are about Rs.0.40 crore. Operations are working capital intensive due to high debtors, the same led to full utilisation of its bank lines. Further, stretch in receivables also led to delays in servicing of debt obligations between June 2018 to September 2018, which were regularized in October 2018. Also, investment in capex also constrained the financial flexibility. Current ratio is weak around 1.02-1.05 times for the last three years through FY2018.

Outlook: Stable

Acuité believes that the outlook of NPI will remain 'Stable' over the medium term on account of the experience of the management in the industry. The outlook may be revised to 'Positive' in case the firm registers significant growth in its revenues while maintaining its profitability and accruals. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management leading to deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	24.34	18.99	15.72
EBITDA	Rs. Cr.	1.83	1.64	1.21
PAT	Rs. Cr.	0.71	0.53	0.43
EBITDA Margin (%)	(%)	7.50	8.65	7.72
PAT Margin (%)	(%)	2.93	2.81	2.75
ROCE (%)	(%)	13.71	14.59	23.51
Total Debt/Tangible Net Worth	Times	1.43	1.10	1.15
PBDIT/Interest	Times	2.81	2.69	2.93
Total Debt/PBDIT	Times	3.69	2.69	3.14
Gross Current Assets (Days)	Days	169	161	157

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE B- / Stable

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Naveen Papisetty Analyst - Rating Operations Tel: 040-40055480 naveen.papisetty@acuiteratings.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings 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 6,000 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.