Press Release

Navodaya Packing Industries

December 29, 2020

Rating Upgraded

Total Bank Facilities Rated*	Rs. 6.00 Cr.
Long Term Rating	ACUITE B+/ Outlook: Stable (Upgraded)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE B+' (read as ACUITE B plus) from 'ACUITE B-' (read as ACUITE B minus)** on the Rs. 6.00 Cr bank facilities of Navodaya Packing Industries. The outlook is **'Stable'**.

The rating upgrade factors the sustained improvement in the operations marked by improvement in revenue at Rs.29.65 Cr in FY2020 (Prov) against Rs.28.24 Cr in FY2019 and Rs.14.34 Cr in FY2018. The margins have also improved significantly at 9.25 percent in FY2020 (Prov) from 7.69 percent in FY2019. The upgrade also accounts for the proprietor's experience in the said line of business which has helped the firm liaise with reputed clientele and suppliers. Acuité believes that the improvement in operations while sustaining the margins and whilst maintaining the working capital management will remain a key rating monitorable.

Navodaya Packing Industries (NPI) is a proprietorship concern established in the year 2000. It initially started as a "Navodaya Chemical Agencies" purely into trading of chemicals. In 2014, the firm changed its name to "Navodaya Packing Industries" and started manufacturing of fiber drums and HDPE drums supplying to pharma companies and bulk drug manufacturers.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of NPI for arriving at the rating.

Key Rating Drivers

Strengths

- **Experienced proprietor 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 22 percent over three years through FY2020 (Prov) at Rs.29.65 Cr. Acuité believes that the firm will benefit from the experience of the management and long track record of operations over the medium term.

- **Average financial risk profile**
  Financial risk profile of the firm stood average marked by average gearing, total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. Gearing stood average at 1.01 times as on 31 March, 2020 (Prov) as against 1.80 times as on 31 March, 2019. TOL/TNW stood moderate at 1.67 times as on 31 March, 2020 (Prov) as against 3.27 times as on 31 March 2019. Net worth stood modest at Rs.7.46 Cr as on 31 March, 2020 (Prov) as against Rs.5.23 Cr as on 31 March, 2019.
  Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 2.91 times and 0.24 times, respectively in FY2020 (Prov). The firm's cash accruals stood at Rs.1.80 Cr in FY2020 (Prov). 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.1.80 Cr to Rs.2.20 Cr over the medium term against debt obligations of Rs.0.20 Cr - Rs.0.50 Cr 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.
Acuité expects the financial risk profile to remain average over the medium term in the absence of any significantly debt-funded capital expenditure supported by moderate margins to support it accretion to net worth and improve its debt protection metrics.

Weaknesses

- **Modest scale of operations**
  Though the revenues of the firm improved from Rs.24.34 Cr in FY2018 to Rs.29.64 Cr in FY2020 (Prov), they remained modest. Further from April-November 2020, the firm reported revenues of Rs.24 Cr and is expecting revenues about Rs.40 Cr by the end of March 2021. Further, operating margins of the firm has improved and stood in the range of 8-9 percent for the last three years through FY2020. 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.

- **Moderately working capital intensive operations**
  The operations of the firm are working capital intensive marked by high Gross Current Assets (GCA)of about 173 days in FY2020 (Prov) as against 210 days in FY2019, mainly due to high debtors. Debtors stood high at 138 days in FY2020 (Prov) as against 133 days in FY2019 due to slow realization from customers. The same led to full utilization of bank lines for the last six months through November, 2020. Also, investment in capex also constrained 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.

Rating Sensitivities
1. Growth in the operations with sustained improvement in the profitability margins
2. Elongation in the working capital management leading to any negative impact on the liquidity profile

Liquidity: Stretched

Liquidity of NPI is stretched marked by working capital intensive operations due to high debtors, the same led to high utilisation of its bank lines. Also, investment in capex also constrained the financial flexibility. Current ratio is moderate around 1.03 to 1.21 times for the last three years through FY2020. Cash accruals have also remained modest in the range of Rs.1.18 Cr to Rs.1.80 Cr through the last three years ending FY2020. The same is expected to be in the range of Rs.1.80 Cr to Rs.2.20 Cr for the near to medium term against debt obligations of Rs.0.20 Cr - Rs.0.50 Cr. The firm had low unencumbered cash and bank balances at Rs.0.08 Cr as on March 31, 2020 (Prov).

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	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	29.65	28.24
PAT	Rs. Cr.	1.24	0.91
PAT Margin	(%)	4.18	3.22
Total Debt/Tangible Net Worth	Times	1.01	1.84
PBDIT/Interest	Times	2.91	2.98

Status of non-cooperation with previous CRA
Not Applicable

Any other information
Not Applicable

Any Material Covenants
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios and Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.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
27-Mar-2020	Cash Credit	Long Term	6.00	ACUITE B- (Indicative)
08-Mar-2019	Cash Credit	Long Term	6.00	ACUITE B-/ Stable (Assigned)

***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 (Upgraded)

Contacts

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About Acuité Ratings & Research:
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