

Press Release

Ideal Pet Industries

December 27, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs.18.50 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) to the Rs.18.50 crore bank facilities of Ideal Pet Industries (IPI). The outlook is '**Stable**'.

Himachal Pradesh based, Ideal Pet Industries (IPI) was established in 2008 as a partnership firm called Ideal Strips and subsequently the name was changed to Ideal Pet Industries in 2018. The firm is engaged in the manufacturing of PET bottles for pharmaceutical companies.

The plant is located in Sirmour district, Himachal Pradesh and has an installed capacity of ~20 lakh bottles per day. The notable customers include Shree Baidyanath Ayurved Bhawan Private Limited, Tirupati Medicare Limited, Akums Drugs and Pharmaceuticals Limited to name a few.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

IPI was established in 2008 as a partnership firm. The partners of the company, Mr. Rajesh Kumar and Mr. Yogesh Jindal have an experience of about two decades and eighteen years respectively in the aforementioned line of business. The established track record of operations and experience of management has helped the firm to develop healthy relationships with customers and suppliers. Acuité believes that IPI will sustain its existing business profile backed by established track record of operations and experienced management.

- **Moderate financial risk profile**

IPI has moderate financial risk profile marked by low gearing and above average debt protection metrics. The net worth stood at Rs.19.02 crore as on 31 March, 2019 as against Rs.17.20 crore as on 31 March 2018 due to steady accretion to reserves. The firm has followed a conservative financial policy in the past, the same is reflected through its gearing levels of 1.32 times as on March 31, 2018. The gearing improved to 0.97 times as on March 31, 2019. Further, the interest coverage ratio stood at 2.85 times for FY2019 as compared to 3.01 times for FY2018. Total outside liabilities to total net worth (TOL/TNW) stood at 1.09 times as on 31 March, 2019 as against 1.52 times as on 31 March, 2018.

Acuité believes that financial risk profile of the firm is likely to remain moderate over the medium term, on account of low gearing and above average debt protection metrics.

Weaknesses

- **Reduced profitability margins**

The operating margins in FY2019 plummeted to 10.76 per cent vis-à-vis 15.67 per cent in FY2018; this was mainly on account of intense competition in the said industry, thus limiting the bargaining power of the firm. The PAT margins have also declined to 2.36 percent for FY2019 as against 4.19 percent for FY2018. Acuite believes that the ability of the firm to improve its profitability margins will be critical.

- **Working capital intensive nature of operations**

The operations of the firm are working capital intensive marked by gross current assets (GCA) of 160 days in FY2019 as compared to 178 days in FY2018. This is on account of debtors' collection period of 116 days in FY2019 as against 134 days in FY2018.

Acuité believes that the working capital operations of the firm will continue to remain intensive over the medium term on account of elongated debtors' collection period.

- **Competitive and fragmented industry**

The firm operates in a highly competitive and fragmented industry, characterised by a large number of players mainly on account of low entry barriers. This can have an impact on the profitability margins of the firm.

Liquidity position: Adequate

The firm has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.3.72 crore for FY2019, with debt repayment obligations of Rs.1.52 crore for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.4.82 crore to Rs.6.67 crore during FY2020-22 against debt repayment obligations of Rs. 1.52 crore each year in the same period. The average bank limit utilization was ~32 percent for the past six months, ended November 2019. The firm's working capital operations are intensive, marked by GCA of 152 days for FY2019. The firm maintained cash and bank balances of Rs. 3.73 crore as on 31 March, 2019. The current ratio stood at 1.81 times as on 31 March, 2019. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate cash accruals against major debt repayments over the medium term.

Rating Sensitivities:

- Substantial improvement in profitability margins.
- Stretch in working capital cycle leading to increased reliance on working capital borrowings

Outlook: Stable

Acuité believes that the firm will maintain a 'Stable' outlook on account of experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case of significant improvement in working capital operations while, maintaining revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in scale of operations or profitability or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	64.74	53.84
PAT	Rs. Cr.	1.53	2.26
PAT Margin	(%)	2.36	4.19
Total Debt/Tangible Net Worth	Times	0.97	1.32
PBDIT/Interest	Times	2.85	3.01

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

None

Any other information

None

Material Covenants

Not Applicable

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/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	13.00	ACUITE BB+/ Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE BB+/ Stable (Assigned)

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About Acuité Ratings & Research:

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