

Press Release

K-Pack Systems Private Limited

May 20, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.6.00 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has assigned a long term rating of '**ACUITE BB**' (read as **ACUITE double B**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.6.00 crore bank facilities of K-Pack Systems Private Limited(KPSPL). The outlook is '**Stable**'.

K-Pack Systems Private Limited (KPSPL) is a manufacturer of wastewater treatment systems. The company is incorporated in the year 1991 by Mr. Pratima Vinay Chipalkatti who holds 5 decades of experience and the current managing director Mr. Vivek Shah holds 3 decades of experience in waste water treatment industry. The company is based out in Bengaluru and has Waste water treatment system manufacturing plant in Bengaluru.

Analytical Approach

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

Key Rating Drivers

Strengths

• **Long track record of operations and reputed clientele**

KPSPL's is set up in the year 1991 and has long track record in designing and manufacturing waste water treatment systems and its allied products. The company's risk profile is supported by promoter's extensive industry experience. Over a period of time, KPSPL has developed relationship with reputed clientele such as Reliance Industries Limited, L&T Bengaluru International Airport Limited (L&T BIAL) and many more.

Acuite believes that KPSPL will continue to benefit from the promoter's established presence in the industry and its improving business risk profile over the medium term

• **Moderate financial risk profile**

The financial risk profile of the company has moderately improved in over the three years 2017-19 with revenue clocked in Rs. 23.26 for FY 2019 as compared to Rs. 14.47 crore for FY 2018. The net worth of the company stood modest at Rs.5.31 crores as on March 31, 2019 against Rs.4.91 crores as on March 31, 2018. The gearing stood at 0.74 as on March 31, 2019 as against 0.57 as on March 31, 2018. Coverage indicators are moderately improving year on year owing to increasing profitability. Interest coverage ratio (ICR) stood at 2.09 times in FY2019 as against 2.04 times in FY2018.

Weaknesses

• **Modest scale of operations**

Despite 29 years of established track record of the company and experience of the directors, KPSPL has modest scale of operations with revenue of Rs. 23.26 crore in FY2019 and low operating margins of 4.67% for FY 2019 which has resulted in limited accretion of reserves over the last three years through FY2019.

• **Moderate working capital management**

KPSPL's working capital is improved as reflected by its gross current days (GCA) of 164 days as on March 31, 2019 as against 296 days as on March 31, 2018. The company maintains inventory days of around 37 days. The reliance on working capital limits is moderate with average utilization of its bank lines of approximately 80% over the last six months through February 2020.

• **Competitive and fragmented industry**

The company is engaged in waste water treatment manufacturing industry. This particular sector is marked by presence of several mid to big size players. The company faces competition from the other players in the sectors.

Liquidity position: Adequate

The liquidity position of the company is adequate marked by moderate cash accruals vis-à-vis debt repayment obligation. The cash accruals for FY2019 is Rs.0.56 crore as against debt repayment obligation of Rs. 0.25 crore. Bank limit utilization is ~80% for the last 6 months ended February 2020. The current ratio of the company improved to 1.83 times as on March 31, 2019 as against 1.23 times as on March 31, 2018. Acuite believes that going forward, the liquidity position of the company is likely to improve over the medium term backed by timely execution of orders.

Rating Sensitivities

- Significant improvement in revenues while maintaining the profitability
- Any deterioration in liquidity

Material Covenants

None

Outlook: Stable

Acuite believes KPSPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its established operations and long-standing relations with customers and suppliers. The outlook may be revised to 'Positive' in case the company registers higher-than-expected cash accruals on the back of sustained growth in revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of steep decline in the company's profitability or significant deterioration in the capital structure and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	23.26	14.47
PAT	Rs. Cr.	0.39	0.26
PAT Margin	(%)	1.70	1.80
Total Debt/Tangible Net Worth	Times	0.74	0.57
PBDIT/Interest	Times	2.09	2.04

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

None

Any other information

None

Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB/Stable
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4+
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+

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About Acuité Ratings & Research:

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