

Press Release

K-Pack Systems Private Limited

April 07, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.50	ACUITE BB Stable Reaffirmed	-
Bank Loan Ratings	2.00	-	ACUITE A4+ Assigned
Bank Loan Ratings	2.13	ACUITE BB Stable Assigned	-
Bank Loan Ratings	5.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	10.63	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its 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**) on the Rs.6.50 crore bank facilities of K-Pack Systems Private Limited (KPSPL). The outlook is '**Stable**'.

Acuite has assigned its 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**) on the Rs.4.13 crore bank facilities of K-Pack Systems Private Limited (KPSPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating factors in the company's established track of operations, experienced management, and moderate financial risk profile. The profitability margins of the firm have been affected by the impact of the Covid-19 pandemic, it is expected to improve in the medium term. However, highly competitive industry, deterioration in profitability margin, and intensive working capital operations constrain the rating.

About the Company

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 the wastewater treatment industry. The company is based in Bengaluru and has a Wastewater treatment system manufacturing plant in Bengaluru.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and established track record of operations

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

Acuité 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 stood moderate marked by modest net worth, low gearing, and moderate debt protection metrics. The tangible net worth stood at Rs.6.70 crore as on March 31, 2021 as against Rs.6.40 crore as on March 31, 2020. The total debt of the company stood at Rs.3.98 crore including Rs.1.36 crore of unsecured loans and Rs.2.62 crore of short-term debt as on March 31, 2021. The gearing (debt-equity) stood at 0.59 times as on March 31, 2021 as compared to 0.56 times as on March 31, 2020. The Interest Coverage Ratio stood at 3.42 times for FY2021 as against 3.33 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 2.46 times for FY2021 as against 1.55 times for FY2020. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 1.41 times as on March 31, 2021 as against 1.23 times on March 31, 2020. Net Cash Accruals to Total Debt (NCA/TD) also stood at 0.10 times for FY2021 as against 0.15 times for FY2020.

Acuité believes that the financial risk profile of the firm will continue to remain the same over the medium term.

Weaknesses

Intensive working capital operations

The working capital management of the company is intensive marked by GCA days of 209 days in FY2021 as against 227 days in FY2020. The inventory days stood at 43 days in FY2021 as against 66 days in FY2020. In addition, the debtor days stood at 150 days in FY2021 as against 132 days in FY2020. The average bank limit utilization stood high at around 83 percent during the last 6 months ended as on February 2022.

Acuité believes that efficient working capital management will be crucial to the company in order to maintain a healthy risk profile.

Competitive industry

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

Modest scale of operations and decline in profitability margin

The revenue of the company stood at Rs.20.55 crore in FY2021 as against Rs.16.85 crore in FY2020. The revenue of the company has improved by 22 percent. However, the operating margin of the company declined and stood at 3.35 percent in FY2021 as against 4.51 percent in FY2020. The company has experienced a decline in PAT margin which stood at 1.43 percent in FY2021 as against 2.56 percent in FY2020. The decline in margin is due to the impact of Covid-19.

Going forward, the ability of the firm to improve its scale of operations along with profitability margins will remain a key rating sensitivity.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt coverage indicators or the liquidity position of the entity.

Material covenants

None

Liquidity Position: Adequate

The company has adequate liquidity marked by adequate net cash accruals to maturing debt obligations. The company has cash accruals that stood at Rs.0.40-0.60 crore during the last three years through 2019-21, as against maturing debt obligation of Rs.0.01-0.25 crore during the same period. The company's working capital operation stood intensive marked by GCA days of 209 days in FY2021 as against 227 days in FY2020. The current ratio of the company stood at 1.52 times as on March 31, 2021. The average bank limit utilization stood high at around 83 percent during the last 6 months ended as on February 2022.

Outlook: Stable

Acuité 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 a steep decline in the company's profitability or significant deterioration in the capital structure and liquidity position.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	20.55	16.85
PAT	Rs. Cr.	0.29	0.43
PAT Margin	(%)	1.43	2.56
Total Debt/Tangible Net Worth	Times	0.59	0.56
PBDIT/Interest	Times	3.42	3.33

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

Not Applicable

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 May 2020	Bank Guarantee	Short Term	4.00	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	1.50	ACUITE BB Stable (Assigned)
	Letter of Credit	Short Term	0.50	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ Assigned
Kotak Mahindra Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4+ Reaffirmed
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+ Reaffirmed
Kotak Mahindra Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.13	ACUITE BB Stable Assigned

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About Acuité Ratings & Research

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