Press Release

Excel Pack Private Limited

October 13, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs.18.00 Cr.
Long Term Rating	ACUITE BB/Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the 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.18.00 crore bank facilities of Excel Pack Private Limited (EPPL). The outlook is **'Stable'**.

Incorporated in the year 1999, EPPL is a Delhi based company. The MD of the company- Mr. Rajnish Mehra has been associated with the company since its inception and has an experience of more than two decades in the industry. The company is engaged in the manufacturing of various types of cap liners, i.e. induction heat seals cap liners and EP cap liner. It is also engaged in the production of flexible laminates. The company has its manufacturing unit located at Haridwar, Uttarakhand.

EPPL has a wholly owned subsidiary company- Amar Real Build Private Limited (ARBPL) which was incorporated in the year 2011. ARBPL is engaged in the real estate business and the company owns a property at Greater Kailash, New Delhi. The property owned is given on lease basis and the company is earning a rental income of Rs.0.60Cr per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

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

EPPL was incorporated in the year 1999. The Managing Director of the company Mr. Rajnish Mehra has been associated with the company since its inception and has an experience of more than two decades in the aforementioned industry and is ably assisted by an experienced second line of management. The extensive experience of the directors has helped the company to maintain a healthy relationship with its customers and suppliers. The company also exports the products to countries like Turkey, Saudi Arabia and South Africa, to name a few. On the back of stable and repeated orders from its customer, the operating income of the company has increased by around 9.38 percent to Rs.84.14crore (Prov.) in FY2020 from Rs.76.92crore in FY2019.

Acuité believes that the company will benefit from the extensive experience of the directors, along with a healthy relationship with its customer and suppliers.

- **Moderate financial risk profile**

EPPL's financial risk profile is moderate, marked by moderate net worth, low gearing and moderate debt protection metrics. The company's net worth is moderate and is estimated at around Rs.39.42crore (Prov.) as on March 31, 2020 as against Rs.38.13crore as on March 31, 2019. The net worth levels have seen improvement over the last three years through FY2020 on account of limited accretion to reserves during the same period. The gearing is low at around 0.76 times (Prov.) as on March 31, 2020 as against 0.68 times as on March 31, 2019. As on March 31, 2020, total outside liabilities to tangible net worth (TOL/TNW) levels stand at 1.12 times (Prov.) as against 1.15 times as on March 31, 2019. The company, on the other hand, generated cash accruals of Rs.4.12crore (Prov.) in FY2020.

The revenue of the company has increased by around 9.38 percent to Rs.84.14crore (Prov.) in FY2020 from Rs.76.91crore in FY2019. EBITDA in absolute term has declined to Rs.7.74crore (Prov.) in FY2020 as against Rs.10.15crore in FY2019. The decline in EBITDA is due to an increase in the employee cost and write off of bad debts amounting to Rs.2.09crore in FY2020. Subsequently, the PAT of the company has declined to Rs.1.39crore (Prov.) in FY2020 from Rs.2.74crore in FY2019. The decline in the profitability level, coupled with a moderate debt level, has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY2020 stands at 0.14times (Prov.) and 2.20times (Prov.) respectively as against 0.21times and 2.92times in FY2019, respectively. The Debt-EBITDA ratio stands at 3.48time (Prov.) in FY2020 against 2.47 time in FY2019.

Weaknesses

- **Working capital intensive nature of operations**

EPPL's working capital operation is intensive in nature. However, it has improved in FY2020 as against FY2019 as it is reflected by its gross current asset (GCA) days of around 160 days (Prov.) in FY2020 as against 192 days in FY2019. The working capital cycle days have improved from 81 in FY2019 to 60 days (Prov.) in FY2020. The company has well managed its inventory marked by inventory holding period of 56 days (Prov.) as on 31 March, 2020 as against 72 days as on 31 March, 2019. EPPL has receivable days of 85 (Prov.) as on 31 March, 2020 as against 115 days as on 31 March, 2019. On the other hand, the company has a credit payment of 81 days (Prov.) as on 31 March, 2020 as against 106 days as on 31 March, 2019. The average bank limit utilization stood high at around 96.10 percent for nine months ended August, 2020, while its peak utilization was high at around 99.41 percent during the same period. Acuité expects the working capital management to remain intensive over the medium term on account of high credit terms offered to their customer.

- **Significant exposure of the investment in its subsidiary company**

The financial risk profile is expected to be constrained by significant exposure to its subsidiary company. As on March 31, 2020, the investment in its subsidiary company stood at Rs.18.04crore. The total exposure to its subsidiary company stood at 45.76 percentage of the total tangible net worth. Since the unwinding of these exposures is uncertain, the adjusted net worth is Rs.21.38crore as on March 31, 2020. Acuité believes that the credit profile of EPPL will depend on its ability to curtain this exposure.

Liquidity Position: Stretched

The company has slightly stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.4.12crore (Prov.) in FY2020 as against the maturing debt obligations of Rs.2.30crore during the same period. The cash accrual of the company is estimated to remain around Rs.7.10crore to Rs.10.76crore during 2021-23 against repayment obligations of around Rs.0.95crore to Rs.5.97crore during the same period. The company's working capital operation is intensive marked by the gross current asset (GCA) days of 160 days (Prov.) in FY2020 as against 192 days in FY2019. The average bank limit utilization stood high at around 96.10 per cent for nine months ended August, 2020. The company maintains unencumbered cash and bank balances of Rs.2.22crore (Prov.) as on 31 March 2020. The current ratio of the company has declined to 1.03 times (Prov.) as on 31 March 2020 from 1.16 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to improve in the near term with the decline in the long term debt obligation and no major debt-funded capex plan.

Rating Sensitivities

- Significant improvement in operating performance
- Any further slippage in the debtor collection may affect the liquidity of the company in near to medium term period

Outlook: Stable

Acuité believes that EPPL will maintain a stable outlook over the medium term backed by its experienced management and established track record of operation in the aforementioned industry. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative', if the company generates lower-than-anticipated cash accruals, most likely as a result of a sharp decline in operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	84.14	76.92
PAT	Rs. Cr.	1.39	2.74
PAT Margin	(%)	1.65	3.56
Total Debt/Tangible Net Worth	Times	0.76	0.68
PBDIT/Interest	Times	2.20	2.92

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
None

Any Material Covenants
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- 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 (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	17.00*	ACUITE BB/Stable (Assigned)
Proposed Short Term Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Assigned)

***** *Cash Credit of Rs.17.00Cr includes sublimit of WCDL to the extent of Rs.16.00Cr, Packing credit to the extent of Rs.3.00Cr and Foreign Bill Purchased to the extent of Rs.3.00Cr.*

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Kumar Abhisek Analyst - Rating Operations Tel: 011-49731308 kumar.abhisek@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:
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