Press Release

Kamakshi Flexiprints Private Limited

April 20, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs. 101.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** and short-term rating of **'ACUITE A3' (read as A three)** on the Rs. 101.00 crore bank facilities of Kamakshi Flexiprint Private Limited (KFPL). The outlook is **'Stable'**.

The rating reflects healthy revenue visibility for KFPL on the back of its strategic tie up with Sudpack Holding GmbH (SHG) – one of the largest manufacturers of flexible packaging in Europe. Tie up with SHG will include augmentation in installed capacity from 3500 MTPA to 17000 MTPA and diversification of its product profile. The rating also derives comfort from the extensive experience of the promoters in the industry. The above mentioned strengths are partly offset by project implementation risk, particularly the timely completion of the ongoing capex funded primarily by debt leading to scale up of KFPL's operations, which is likely to continue to remain a key rating sensitivity.

About the Company

KFPL is an Ahmedabad-based company which was incorporated in July 1994 and is promoted by Mr. Surendrakuamar Goel, Mr. Harish Goel and Mr. Narendra Dhupar. KFPL is engaged in reverse printing of bi-axially oriented polypropylene (BOPP)/ polyethylene (PE)/polyethylene terephthalate (PET) films as well as manufacturing of co-extruded three-layer films and various types of flexible pouches and bags. The company caters to various industry segments such as packaged food, confectionary, grain packaging, pharmaceuticals and fertilizers. It currently has a manufacturing capacity of 3500 metric tonnes per annum (MTPA) at its manufacturing facility in Ahmedabad, Gujarat.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of KFPL while arriving at the rating.

Key Rating Drivers

Strengths

• **Extensive experience of the promoters, established track record in the industry and tie up with Sudpack Holdings GmbH**

KFPL is an Ahmedabad-based company which was incorporated in July 1994. It is promoted by Mr. Surendrakumar Goel, Mr. Harish Goel and Mr. Narendra Dhupar who also look after its operations. In 2019 the company has tied up with a German flexible packaging manufacturer – SHG. Post tie-up with SHG, Mr. Tharcisse Michel Carl has joined the board of KFPL as a representative from SHG. Acuité believes, tie-up with SHG is likely to help KFPL augment its capacity, product profile and give them access to newer overseas market such Europe.

All the promoters of KFPL have more than two decades of experience in the industry. The company has established relations with its customers and suppliers base. This has helped the company achieve increasing revenue trend along with increase in capacity utilization consistently over 90 percent. The company has reported revenue of Rs. 54.87 crore in FY2020 against Rs. 50.05 crore in FY2019 and Rs.

46.93 crore in FY2018. Further, in 9M FY2021 it has reported revenue of Rs. 38.92 crores.
The company has an ongoing expansion project. The estimated total project cost is around Rs. 132.00 crore. Out of this Rs. 72.00 crores will be funded by debt and rest from shareholders contribution. SHG has invested Rs. 40.00 crores as on March 31, 2020 in KFPL for a stake of ~26 percent. Further, SHG has committed Rs. 15.00 crore investment with an option of additional Rs. 5.00 crore for contingencies. The project is expected to augment the existing capacity of the company and also diversify its product profile. The strategic tie up will also help KFPL to expand into European markets. Besides its existing product profile the company plans to add products such as 7 layer barrier films, 5 layer POD films and vacuum pouches. The installed capacity after the planned expansion will be ~ 17000 MTPA. The scheduled commercial operations date is July, 2021.

Acuité believes that KFPL is likely to benefit from its experienced management, established operational track record and long term tie-up with SHG.

- **Healthy financial risk profile albeit modest net worth**

The KFPL has healthy financial risk profile despite modest tangible net worth. The coverage indicators and debt protection metrics are healthy. The company's tangible net worth stood at Rs. 53.46 crore as on March 31, 2020 against 11.69 crore as on March 31, 2019. The increase is primarily on account of investment made by SHG to the tune of Rs. 40.00 Cr. The gearing (debt-equity) stood healthy at 0.22 times as on March 31, 2020 against 1.68 times as on March 31, 2019. The coverage indicators are healthy marked by interest coverage ratio of 4.43 times in FY2020 which improved from 2.95 times in FY2019 this primarily on account of decline in interest costs. The interest cost declined to Rs. 1.04 Cr. in FY2020 as against Rs. 1.39 Cr. in the previous year. Further, total outside liabilities/tangible net worth stood at 0.40 time as on March 31, 2020 against 2.07 times in the previous year. Debt/ EBITDA stood at 2.60 times as on in FY2020 against 4.79 times in FY2019.
KFPL currently has ongoing capital expenditure plans primarily funded by debt. The estimated total project cost is around Rs. 132.00 crore. Out of this Rs. 72.00 crores will be funded by debt and rest from shareholders contribution. Further, the debt will be drawn in a phased manner in FY2021 and FY2022 and with no initial contribution in revenues and margins, thus the debt protection metric is likely to be impacted in FY2021 and FY2022.

Acuite believes KFPL's financial risk profile to remain stable over the medium on account of adequate capitalization in spite of the additional borrowings expected from expansion projects.

- **Moderately efficient working capital management**

KFPL's working capital management is moderately efficient marked by gross current asset of 152 days in FY2019 and 175 days in FY2018. The GCA for FY2020 stood at 276 days, however, these include Rs. 18.94 crore of cash balances on account of investment from SHG. The GCA days are dominated by inventory and receivable days. KFPL has a diversified product profile and therefore has to maintain inventory for the same. Further it also gives extends around 90 days of credit to its clients. The inventory days stood at 49 days in FY2020 against 71 days in FY2019. Going forward the working capital requirement is expected to be would be higher on account of higher inventory holding for its expanded capacity. KFPL working capital management is moderately efficient. This makes the company dependent on bank borrowing to fund its working capital requirement. Bank limit utilization remain above 90 percent for the period ended December 31, 2020.

Acuité believes KFPL's continued ability manage its working capital efficiency will be a key rating sensitivity.

Weaknesses

- **Project execution and demand risk**

KFPL currently has ongoing expansion plans. It plans to augment its product profile as well as installed capacity. It has existing capacity of 3500 MTPA which will increase to 17000 MTPA. Total project cost is estimated to be Rs. 132.00 crore. This will be funded by Rs. 72.00 crore of debt and rest will be funded by promoter's contribution. Out of the promoters contribution Rs. 55.00 crore will be brought in by SHG. SHG has already invested Rs. 40.00 crores in KFPL as on March 31, 2020 for a stake of 26 percent.

For the rest of the committed amount, SHG will receive 7.5 percent stake for every Rs. 10 crore investment. The maximum stake for SHG can go up to 40 percent. The project started in October 2019 and the company is likely to achieve COD in July 2021. Out of the total project cost of as on December 31, 2020 Rs. 32.00 crores has been incurred and Rs. 100.00 crores needs to be further incurred. Although the KFPL has completed financial tie ups for the project it is susceptible to project execution risk on a timely manner. Post completion of the project, KFPL may faces some offtake risk. For it to generate cash flows commensurate with the repayment obligations it will have to increase its scale of operations. This is mitigated to some extent on account of its tie ups with SHG which will give them access to newer overseas markets.

Acuité believes that for KFPL to generate cash inflows commensurate with its repayment obligation in the medium term timely completion of the ongoing capex and scaling up of operations remains a key factor. Any delay in achieving COD leading to any cost overrun will entail a negative biased towards the rating.

- **Susceptibility of margins to fluctuations in the oil prices**
  KFPL's primary raw material is derivative of crude oil. Any adverse movement in oil prices or forex rates will directly impact the KFPL's margins as the production costs will rise without corresponding increase in the revenues.

- **Highly competitive and fragmented industry**
  The company operates in a highly competitive and fragmented packaging industry characterized by a large number of unorganized players. This limits the pricing power of the company putting pressure on profitability.
  Acuité believes that the highly fragmented and competitive industry will remain a key concern for the Company going ahead.

Liquidity Position: Adequate

KFPL is currently incurring substantial capex augmenting its installed capacity. This is primarily funded by debt. Hence the repayment obligations are expected to be high over the medium term. For the period FY2021-2023 the repayment obligations are expected to be in the range of Rs. 4.31 to Rs. 5.91 crore against net cash accruals in the range of Rs. 7.15 crore to Rs. 11.09 crore. KFPL working capital management is moderately efficient. This makes the company dependent on bank borrowing to fund its working capital requirement. Bank limit utilization remain above 90 percent for the period ended December 31, 2020. Acuité expects KFPL's liquidity profile to remain adequate on account of adequate cushion between the repayment obligations and net cash accruals partially offset by low unutilized bank limits.

Rating Sensitivities

- Completion of the planned capex without significant time and cost over runs and timely scaling up of operations.

Material Covenants

None

Outlook: Stable

Acuité believes that the KFPL will maintain a 'Stable outlook over the medium term on account of extensive experience of management and strategic tie-up with SHG. The outlook may be revised to positive in case of faster than expected completion of project and increase in scale of operations. Conversely, the outlook may be revised to 'Negative' in case of significant cost and time overruns in completion of the project and slower than expected increase in the scale of operations.

About the Rated Group – Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	54.87	50.05
Profit after Tax (PAT)	Rs. Cr.	1.96	1.34

PAT Margin	(%)	3.57	2.68
Total Debt/Tangible Net Worth	Times	0.22	1.68
PBDIT/Interest	Times	4.42	2.95

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

Any other information

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/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	2.50	ACUITE BBB-/Stable (Assigned)
Term Loan	March 2021	8.55	April 2029	22.50	ACUITE BBB-/Stable (Assigned)
Term Loan	March 2021	8.55	April 2029	7.00	ACUITE BBB-/Stable (Assigned)
Cash Credit*	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE BBB-/Stable (Assigned)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 (Assigned)
Cash Credit**	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE BBB-/Stable (Assigned)
Term Loan	March 2021	9.25	April 2029	20.00	ACUITE BBB-/Stable (Assigned)
Cash Credit#	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB-/Stable (Assigned)
Term Loan	March 2021	9.55	April 2029	22.50	ACUITE BBB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A3 (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3 (Assigned)

** Sublimit of LC and BG of Rs. 2.50 crore each
*CC has sublimit of PCFC and BD of Rs. 3.00 crore and Rs. 2.00 crore respectively
#CC is fully changeable with PCFC and WCDL

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.