

Press Release

Kamakshi Flexiprints Private Limited

June 22, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	4.55	-	ACUITE A3 Reaffirmed
Bank Loan Ratings	96.45	ACUITE BBB- Negative Reaffirmed Stable to Negative	-
Total Outstanding Quantum (Rs. Cr)	101.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 101 crore bank facilities of **Kamakshi Flexiprint Private Limited (KFPL)**. The outlook has been revised to '**Negative**' from '**Stable**'.

Rationale for the rating:

The outlook has been revised on account of delay in completion of ongoing capex project and consequent stretch in liquidity position of KFPL. The ongoing debt funded capex project will augment KFPL's production capacity to 17000 MTPA from 3500 MTPA. The project originally planned to achieve COD by July, 2021 is expected to commence commercial production from June, 2022 onwards. The delay in project completion also led to escalation of project cost, which was funded by KFPL's strategic investor Sudpack Holding GmbH (SHG) – one of the largest manufacturers of flexible packaging in Europe. The rating derives strength from the continuous support provided by SHG to KFPL. Timely completion of the project as per the revised timelines and significant improvement in scale of operations while maintaining the profitability margins and capital structure will be a key monitorable.

About the Company

Incorporated in 1994, Ahmedabad based Kamakshi Flexiprints Pvt Ltd 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. KFPL's current product portfolio includes stand-up pouches, sealed pouches, vacuum pouches, zipper pouches, patch handle bags, sealed bags etc. which find application across various industry segments like packaged food, confectionary, grain packaging, pharmaceuticals and fertilizers. KFPL has its sole manufacturing facility located in Ahmedabad, Gujarat. The Company is currently promoted by SHG, Mr. Harish Goel and Mr. Narendra Dhupar, among others.

Analytical Approach

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

Key Rating Drivers

Strengths

> Association with Sudpack Holdings GmbH, extensive experience of the promoters and established track record in the industry

KFPL is an Ahmedabad-based company which was incorporated in July 1994. In 2019 the company tied up with a German flexible packaging manufacturer – Sudpack Holdings GmbH (SHG). Post tie-up with SHG, Mr. Tharcisse Michel Carl has joined the board of KFPL as a representative from SHG. SHG's stake in KFPL has increased to 41 percent as on March 31, 2022 as against 26 percent as on March 31, 2020. The tie-up with SHG has aided KFPL augment its capacity, product profile and shall give them access to newer overseas market such as Europe. The company has an ongoing expansion project which is expected to commence operations by end of June, 2022. Post the completion of the project, KFPL's installed manufacturing capacity will increase to 17000 MTPA from existing 3500 MTPA. The Company will also add new products such as 7 layer barrier films, 5 layer POD films and vacuum pouches to its existing product profile.

KFPL started operations in 1994 to manufacture co-extruded three-layer films and various types of flexible pouches and bags. The company has been in this business for almost three decades now. Mr. Harish Goel and Mr. Narendra Dhupar, promoters of KFPL, are involved in day to day operations of the Company and have more than two decades of experience in the industry. The company has established relations with its customers and suppliers base, majority of which have been associated with KFPL for more than a decade.

Acuite believes that KFPL is likely to benefit from its association with SHG, experienced management and established track record of operations.

> Moderate financial risk profile

KFPL has a moderate financial risk profile marked by moderate net worth, overall gearing and moderate debt protection measures. The net worth stood at Rs.64.53 crore as on March 31, 2021 as against Rs.53.64 crore as on March 31, 2020, which further improved to Rs.75.60 crore as on December 31, 2021 (Prov.) The improvement is on account of accretion of profit to reserves and infusion of equity share capital by SHG. The company's total debt of Rs.12.02 crore as on March 31, 2021 (Rs.11.94 crore as on March 31, 2020) includes short term debt of 10.72 crore and Rs.1.3 crore of long term debt. As on December 31,2022 (Prov.), long term debt stood at Rs. 46.51 crore and short term debt stood at Rs. 8.92 crore. The company's overall gearing stood at 0.19 times as on March 31, 2021 as against 0.22 times as on March 31, 2020. The total outside liabilities to tangible net worth ratio stood at 0.37 times as on March 31, 2021 as against 0.40 times as on March 31, 2020. The interest coverage ratio (ICR) of the Company declined to 2.58 times in FY2021 as against 4.42 times in FY2020. The debt service coverage ratio (DSCR) stood at 1.25 times for FY2021 as against 1.75 times for FY2020.

The Company's ongoing capex project is significantly funded by debt. The total project cost which was earlier estimated at ~Rs. 132.00 crore escalated to ~Rs.167 crore. Out of this Rs. 72.00 crores is funded by debt and rest is funded by shareholders/investors contribution. As on December 31, 2022 the Company had incurred a total cost of ~Rs.104 Cr out of which ~Rs.44 Cr was funded by debt. The debt is being drawn in phased manner and no initial contribution in terms of revenues and margins is generated from the project until its completion. The debt protection metrics of KFPL which deteriorated marginally in FY2021 is also expected to remain moderate in FY2022, due to delay in completion of the project. However, Acuite believes adequate capitalisation driven by infusion of funds by SHG and commencement of production at new facility from June, 2022 onwards will aid in maintaining the financial risk profile of KFPL over the medium term.

> Moderately efficient working capital management

KFPL's working capital management is moderately efficient marked by gross current asset of 186 days as on March 31, 2021 as against 276 days as on March 31, 2020. 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 56 days in FY2021 against 49 days in FY2020. Going forward the working capital requirement is expected to be higher on account of higher inventory holding for its expanded capacity. KFPL's working capital management is moderately efficient. This makes the company dependent on bank borrowing to fund its working capital requirement. KFPL's utilisation of its fund based short term bank borrowings ranged between 60-65 percent for the six months period ended April, 2022.

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

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. The project was earlier estimated to be completed by July, 2021 at total project cost of Rs.132.00 crore. This was to be funded by Rs. 72.00 crore of debt and rest by promoter's contribution. Out of the promoters contribution Rs. 55.00 crore was to be brought in by SHG. The project got delayed and is now expected to commence commercial production from June, 2022 onwards. The cost of the project has also increased to Rs. 167 Cr. SHG will be funding the incremental cost, vide infusion of funds through equity and interest free external commercial borrowings. Further, post completion of the project, KFPL may face some offtake risk. For it to generate cash flows commensurate with the repayment obligations it will have to increase its scale of operations. However, this risk is mitigated to some extent on account of its association with SHG as it will get access to newer overseas markets and reputed clientele.

Acuité believes that for KFPL's ability to generate cash inflows commensurate with its repayment obligation in the medium term and timely scaling up of operations will remain a key rating monitorable.

> 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.

Rating Sensitivities

- > Ability to scale up operations while maintaining its capital structure and profitability margins
- > Elongation of working capital cycle
- > Timely completion of capex

Material covenants

None

Liquidity Position: Stretched

KFPL's liquidity profile is stretched marked by modest cash accruals against debt repayment obligations. The company generated net cash accruals (NCA) of Rs.1.64 Cr in FY2021 vis-à-vis

maturing debt repayment obligations of Rs. 1.08 Cr for the same period. Going forward, the cash accruals of the company are expected to remain in the range of Rs. 2-9 Cr. for the FY2022-24 period against debt repayment obligations of Rs. 0.5-8 Cr. The company operations are moderately working capital efficient, marked by GCA days of 186 days as on March 31, 2021. The current ratio of the company stood at 1.66 times as on March 31, 2021 as against 1.79 in the previous year. The fund based working capital limits remained moderately utilised, ranging between 60-65 percent for the trailing 6 month period until April,2022. The company maintained unencumbered cash and bank balances of Rs.1.7 crore as on March 31,2021. Acuité expects KFPL's liquidity profile to remain stretched on account of moderate cash accruals against repayment obligations.

Outlook: Negative

Acuité believes that KFPL will maintain a 'Negative' outlook over the medium term on account of stretched liquidity position. The rating may be downgraded in case of further deterioration in liquidity position of KFPL or further delays in completion of capex project. Conversely, the outlook may be revised to 'Stable' in case of improvement in liquidity position and significant improvement in scale of operations while maintaining the profitability margins and capital structure.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	52.51	54.87
PAT	Rs. Cr.	0.88	1.96
PAT Margin	(%)	1.68	3.57
Total Debt/Tangible Net Worth	Times	0.19	0.22
PBDIT/Interest	Times	2.34	4.42

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
	Cash Credit	Long Term	2.50	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	8.50	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Short Term	2.50	ACUITE A3 (Assigned)
	Term Loan	Long Term	22.50	ACUITE BBB- Stable (Assigned)

20 Apr 2021	Cash Credit	Long Term	2.50	ACUITE BBB- Stable (Assigned)
	Packing Credit	Short Term	3.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	22.50	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	1.50	ACUITE A3 (Assigned)
	Term Loan	Long Term	20.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	7.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	8.50	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB- Negative Reaffirmed Stable to Negative
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE BBB- Negative Reaffirmed Stable to Negative
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE BBB- Negative Reaffirmed Stable to Negative
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB- Negative Reaffirmed Stable to Negative
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A3 Reaffirmed
Bank of Baroda	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE A3 Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	28-09-2021	Not available	Not available	2.45	ACUITE BBB- Negative Reaffirmed Stable to Negative
HDFC Bank Ltd	Not Applicable	Term Loan	20-03-2021	8.55	01-04-2029	22.50	ACUITE BBB- Negative Reaffirmed Stable to Negative
							ACUITE BBB-

Bank of Baroda	Not Applicable	Term Loan	31-03-2021	8.55	01-04-2029	7.00	Negative Reaffirmed Stable to Negative
Indusind Bank Ltd	Not Applicable	Term Loan	31-03-2021	9.55	01-04-2029	22.50	ACUITE BBB- Negative Reaffirmed Stable to Negative
Yes Bank Ltd	Not Applicable	Term Loan	31-03-2021	9.25	01-04-2029	20.00	ACUITE BBB- Negative Reaffirmed Stable to Negative

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Simran Kesharwani Management Trainee-Rating Operations Tel: 022-49294065 simran.kesharwani@acuite.in	

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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