Press Release

Kanpur Plastipack Limited

October 07, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs. 292.16 crore
Long Term Rating	ACUITE A-/ Stable (Assigned)
Short Term Rating	ACUITE A2+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of **'ACUITE A-' (read as ACUITE A minus)** and short term rating of **'ACUITE A2+' (read as ACUITE A two plus)** to the Rs. 292.16 crore bank facilities of Kanpur Plastipack Limited (KPPL). The outlook is **'Stable'**.

Rationale for rating assigned

The rating reflects the comfort drawn from KPL's established track record of operations, extensive experience of the promoters, healthy operating performance and healthy financial risk profile along with strong liquidity. The rating is, however, constrained by the susceptibility of margins to volatility in raw material prices and working capital intensive nature of operations.

About the company

Kanpur based, Kanpur Plastipack Limited was incorporated in July 1971 as a private limited company by Mr Mahesh Swarup Agarwal. The company is engaged in manufacturing and exporting of Flexible Intermediate Bulk Containers (FIBCs), PP Woven Fabrics and Multi Filament Yarn (MFY). The company has installed capacity 25,300 MT with additional 5000 MT is being added in FY2022. KPL is listed on BSE and NSE.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**
  Incorporated in 1971, the company commenced its operations under the leadership of Mr. Mahesh Swarup Agarwal and thus, the company boasts a long track record of operations of five decades in the Packaging industry. KPPL started manufacturing high-density polyethylene woven fabric, sacks and plastic. Currently, the company is engaged in manufacturing and exporting of Flexible Intermediate Bulk Containers (FIBCs), PP Woven Fabrics and Multi Filament Yarn (MFY).

  The company is well supported by the second line of the experienced management team. Established presence of the company along with experienced management, has helped KPPL maintain a long relationship with its customers which has aided the company in maintaining healthy revenue. The key customers of the company include names like Nortebag Industria De Embal, Pema Verpackung Gmbh, King Bag and Manufacturing amongst others with no major concentration in revenues.

  Acuité believes KPL will continue to benefit from its long track of operations, a strong presence of the company in the export market and the rich experience of the management over the medium term.

- **Healthy operational risk profile**
  The revenue of the company has grown at a CAGR of 13 percent for the past five years. KPL reported total operating income of Rs.451.92 Cr in FY2021as against Rs.319.06 Cr in FY2020. This ~41 per cent year on year growth is due to optimal utilization of increased installed capacity and significant rise in packaging material prices. Further, the company generated revenues of Rs. 142.99 Cr for Q1FY22. The operating margin improved

to 13.52 per cent in FY2021from 7.79 per cent in FY2020. Further, Profit after Tax (PAT) margins improved to 6.69 percent in FY2021from 1.55 per cent in FY2020. The improvement is driven by lower raw material cost in FY2021. The company currently has total capacity of 25,300 MT and the company is further adding 5,000 MT more to its portfolio. This increase in FIBCs capacity will help grow revenues in the near future due to push for packaging post Covid.

Acuité believes KPL's operating risk profile would remain stable over the medium term on account of increasing demand for the products.

- **Healthy financial risk profile**
  The financial risk profile of company stood healthy marked by healthy net worth, comfortable gearing and healthy coverage indicators. The tangible net worth stood healthy at around Rs. 157.49 crores as on 31 March, 2021 as against Rs. 128.57 crores as on 31 March, 2020 on the back of healthy accretion to reserves, which in turn is a result of healthy profitability levels maintained by the company over the years. The company has followed a conservative financial policy in the past, which is reflected by current gearing (debt-to-equity) stands at 1.01 times as on 31 March, 2021 and 0.83 times in the previous year. The gearing levels of the company have deteriorated mainly due to higher utilization of bank limits during end of the fiscal year for ramping up raw material inventory. The total outside liabilities to total net worth (TOL/TNW) ratio stands at 1.39 times as on 31 March, 2021 and 1.06 times as on 31 March, 2020. The total debt of Rs. 158.43 crore as on 31 March, 2021, consists of term loans of Rs. 58.11 crores, working capital borrowings of Rs. 87.94 crores and Rs. 12.39 crores of current portion of long term debt. The Debt protection metrics of the company have remained healthy marked by the interest coverage ratio 6.81 times as on 31st March 2021 as against 2.44 times in the previous year and the debt service coverage ratio of 2.49 times as on 31st March 2021. compared to 1.39 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.25 times for FY2021 (Provisional). The company reported healthy net cash accruals (NCA) of ~Rs. 39.40 crore in FY2021 and Rs. 13.81 crores in FY2020.

  Acuité believes that the company will be able to sustain its existing financial risk profile in near to medium term backed by established presence in the Industry, extensive experience of promoters, healthy net cash accruals to support any major debt-funded capital expenditure.

Weaknesses

- **Working capital intensive operations**
  The working capital operations are intensive as evident from gross current assets (GCA) of 148 days for FY2021 as against 113 days for FY2020. The deterioration is majorly on account of increase in inventory days of 94 days as on 31 March 2021(Prov.) as against 57 days in the previous year, the increase in inventory days is because the company had purchased higher levels of raw material inventory at the end of the year as the prices for raw material were increasing due to Covid pandemic. However, debtor days stood same at 44 days as on 31 March 2021(Prov.) as against 44 days in previous year. Going ahead, the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity.

- **Susceptibility of profitability margins to fluctuations in prices of raw material and foreign exchange fluctuation**
  The basic raw materials required by KPL are plastic granules which is crude oil derivative. The prices of the commodities are subject to volatility in line with those of global crude oil prices. Further, KPL exports ~77 per cent to Europe, USA and some Asian countries and on the other hand imports only ~5 per cent raw materials. Thus, it is exposed to adverse fluctuation in foreign currency exchange rates. However, KPL generally enters into forward covers which partially mitigate the forex risk.

Rating Sensitivity

- Sustained growth in operating performance along with improvement in profitability.
- Any further deterioration in the working capital cycle leading to deterioration in financial risk profile and liquidity position

Material Covenants

None

Liquidity position: Strong
The company has strong liquidity marked by healthy net cash accruals to its maturing debt obligations with low utilization of fund-based and non-fund based working capital limits. The company generated cash accruals of Rs. 39.40 crore for FY2021 as against Rs. 12.39 crore of repayment obligations for the same period. The average combined utilization for fund based facility stood at an average of 38.22 per cent in the last twelve months and non-fund based average utilization stood at 44.29 per cent in the last twelve months ended August 2021. However, gross current assets (GCA) stood at 148 days for FY2021 as against 113 days for FY2020. The company has unencumbered cash and bank balances of only Rs. 2.84 crore as on 31st March 2021 and Current ratio stood moderate at 1.26 times as on 31st March 2021. Therefore, there are enough net cash accruals & limits available to utilize more funds if required to support incremental requirements.

Outlook: Stable
Acuité believes that Kanpur Plastipack will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability while maintaining its capacity utilization. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or further elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	451.92	319.06
PAT	Rs. Cr.	30.22	4.93
PAT Margin	(%)	6.69	1.55
Total Debt/Tangible Net Worth	Times	1.01	0.83
PBDIT/Interest	Times	6.81	2.44

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
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**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
State Bank of India	Term Loan	Not Available	Not Available	Not Available	43.30	ACUITE A-/ Stable (Assigned)
State Bank of India	Stand by Line of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A-/ Stable (Assigned)
State Bank of India	Export Packing Credit	Not Applicable	Not Applicable	Not Applicable	120.00	ACUITE A-/ Stable (Assigned)
HDFC Bank	Term Loan	Not Available	Not Available	Not Available	32.86	ACUITE A-/ Stable (Assigned)

HDFC Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A-/ Stable (Assigned)
Axis Bank	Term Loan	Not Available	Not Available	Not Available	20.00	ACUITE A-/ Stable (Assigned)
Axis Bank	Export Packing Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A-/ Stable (Assigned)
State Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A2+ (Assigned)
State Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A2+ (Assigned)
State Bank of India	Proposed Short Term bank facility	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A2+ (Assigned)
HDFC Bank	Proposed Short Term bank facility	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A2+ (Assigned)

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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 8,850 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 Kanjurmarg, Mumbai.