



Press Release
KANPUR PLASTIPACK LIMITED
June 06, 2023
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	306.49	ACUITE BBB+ Stable Downgraded	-
Bank Loan Ratings	60.07	-	ACUITE A2 Downgraded
Total Outstanding Quantum (Rs. Cr)	366.56	-	-

Rating Rationale

Acuite has downgraded its long-term rating to **Acuite BBB+** (read as **Acuite triple B plus**) from **Acuite A-** (read as **Acuite A minus**) and its short-term rating to **Acuite A2** (read as **Acuite A two**) from **Acuite A2+** (read as **Acuite A two plus**) on the Rs. 366.56 crore bank facilities of Kanpur Plastipack Limited (KPL). The outlook remains 'stable'.

Rationale for rating downgrade

The rating downgrade reflects the sharp decline in the operating performance of the company in FY23, which stood at Rs. 476.85 crore against Rs. 626.77 crore in FY22. Further, the downgrade in rating factors in the significant decline in operating margins of the company, which have declined to 5.51% in FY 2023 as against 9.71% in FY 2022. The rating also factors in the stretched liquidity profile as net cash accruals generated in FY 2023 are not sufficient to repay the debt obligations during the same period. However, the rating continues to positively factor in the established track record of operating and moderate financial risk profiles of the company, marked by low gearing and moderate net worth.

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 the manufacturing and exporting of flexible intermediate bulk containers (FIBCs), PP woven fabrics, and multifilament yarn (MFY). The company has an installed capacity of 30,300 MT, with an additional 5000 MT added in FY2022. KPL is listed on the BSE and NSE.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and an 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 spanning five decades in the packaging industry. KPPL started manufacturing high-density

polyethylene woven fabric, sacks, and plastic. Currently, the company is engaged in the manufacturing and exporting of flexible intermediate bulk containers (FIBCs), PP woven

fabrics, and multifilament yarn (MFY). The 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 Pema Verpackung GmbH, King Bag, and Manufacturing, among others, with no major concentration in revenues. Acuité believes KPL will continue to benefit from its long track record of operations, its strong presence in the export market, and the rich experience of its management over the medium term.

Moderate financial risk profile

The financial risk profile of the company is moderate, with moderate net worth, low gearing, and average debt protection metrics. The net worth of the company stood at Rs. 180.51 crore as of March 31, 2023, compared to Rs. 179.04 crore as of March 31, 2022. The total debt of the company stood at Rs. 165.63 crore as of March 31, 2023, compared to Rs. 182.70 crore as of March 31, 2022. There is an increase in the long-term debt, which stood at Rs. 72.96 crore in FY23 against Rs. 68.59 crore in FY22, on account of debt-funded capital expenditure related to the CPP project, which will commence in June 2023. The gearing of the company is low, which stood at 0.92 times as of March 31, 2023, compared to 1.02 times as of March 31, 2022. The TOL/TNW ratio stood at 1.26 times as of March 31, 2023, against 1.35 times on March 31, 2022. The interest coverage ratio and debt service coverage ratio of the company stood at 2.14 times and 0.91 times for FY23, respectively, against 4.37 times and 1.92 times for FY22, respectively. The ROCE of the company stood at 4% in FY23 against 14.39% in FY22.

Acuite believes that the financial risk profile of the company may improve in the medium term as the company is not planning any other debt-financed capex plans in the near future.

Weaknesses

Slowdown in the operating performance of the company

The company achieved a turnover of Rs. 474.68 crore in FY23, compared to Rs. 626.77 crore in FY22. The company has shown a sharp decline in the top-line and bottom-line of business due to the absence of fabric sales in Brazil and a recession in the EU countries. In results, a lack of demand and a highly competitive market environment led to lower realisations. The EBITDA margins of the company stood at 5.51% in FY23 against 9.71% in FY22. Also, capacity utilisation is on the lower side in Q3FY23 compared to Q3FY22.

Acuite believes that in the succeeding years, the company may improve its margins as compared to FY23 on account of a new project that is estimated to be completed by June 2023.

Working capital-intensive nature

The working capital of the company is intensive, as marked by gross current asset days, which stood at 114 days as of March 31, 2023, compared to 108 days as of March 31, 2022. The GCA days are high in FY23 as compared to FY22 on account of the increase in debtor days, which stood at 34 days for FY22 and 38 days for FY23. However, the average debtor days maintained by the company are in the range of 30–40 days. Further, the inventory days of the company stood at 66 days for FY23 against 76 days for FY22. However, the average inventory days maintained by the company are 60–70 days. On the other hand, the creditors of the company stood at 17 days for FY23 against 14 days for FY22.

Acuite believes that the working capital operations of KPL may continue to be intensive, considering the nature of the business.

Susceptibility of profitability margins to fluctuations in raw material prices and foreign exchange fluctuations

The basic raw materials required by KPL are plastic granules, which are crude oil derivatives. The prices of the commodities are subject to volatility in line with those of global crude oil prices. Furthermore, KPL exports 72% to Europe, the United States, and some Asian countries while importing only 5% of raw materials. Thus, it is exposed to adverse fluctuations in foreign currency exchange rates. However, KPL generally enters into forward contracts, which partially mitigate the forex risk.

Rating Sensitivities

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

Material covenants

None.

Liquidity Position

Stretched

The liquidity profile of the company is stretched. The company generated net cash accruals of Rs. 15.14 crore in FY23 against a debt repayment obligation of Rs. 18.07 crore in the same period. However, the shortfall will be paid off through grants received from the government. In the coming years, the company is expected to generate enough net cash accruals to repay its debt obligations in the near term. The unencumbered cash and bank balance stood at Rs. 0.54 crore in FY23. Also, the current ratio of the company stood at 1.16 times in FY23 against 1.23 times in FY22.

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 utilisation. 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	476.85	626.77
PAT	Rs. Cr.	4.14	26.21
PAT Margin	(%)	0.87	4.18
Total Debt/Tangible Net Worth	Times	0.92	1.02
PBDIT/Interest	Times	2.14	4.37

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

None

Any other information

Not applicable.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Sep 2022	Proposed Bank Facility	Short Term	12.40	ACUITE A2+ (Assigned)
	Term Loan	Long Term	10.00	ACUITE A- Stable (Assigned)
	Standby Line of Credit	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	25.72	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	42.00	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	16.00	ACUITE A2+ (Reaffirmed)
	Packing Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE A- Stable (Assigned)
	Bank Guarantee	Short Term	11.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	6.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	33.19	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	19.58	ACUITE A- Stable (Reaffirmed)
	Packing Credit	Long Term	120.00	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	20.67	ACUITE A2+ (Reaffirmed)
	Proposed Working Capital Demand Loan	Long Term	15.00	ACUITE A- Stable (Reaffirmed)
07 Oct 2021	Cash Credit	Long Term	6.00	ACUITE A- Stable (Assigned)
	Bank Guarantee	Short Term	11.00	ACUITE A2+ (Assigned)
	Packing Credit	Long Term	5.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	43.30	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	20.00	ACUITE A- Stable (Assigned)
	Standby Line of Credit	Long Term	20.00	ACUITE A- Stable (Assigned)
	Proposed Bank Facility	Short Term	12.00	ACUITE A2+ (Assigned)
	Term Loan	Long Term	32.86	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	16.00	ACUITE A2+ (Assigned)
	Proposed Bank Facility	Short Term	6.00	ACUITE A2+ (Assigned)
Packing Credit	Long Term	120.00	ACUITE A- Stable (Assigned)	

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	11.00	ACUITE A2 Downgraded
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE BBB+ Stable Downgraded
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	16.00	ACUITE A2 Downgraded
Axis Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB+ Stable Downgraded
State Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	120.00	ACUITE BBB+ Stable Downgraded
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	20.67	ACUITE A2 Downgraded
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	12.40	ACUITE A2 Downgraded
Not Applicable	Not Applicable	Proposed Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB+ Stable Downgraded
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB+ Stable Downgraded
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	33.19	ACUITE BBB+ Stable Downgraded
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	25.72	ACUITE BBB+ Stable Downgraded
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	19.58	ACUITE BBB+ Stable Downgraded
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.00	ACUITE BBB+ Stable Downgraded
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.00	ACUITE BBB+ Stable Downgraded
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	42.00	ACUITE BBB+ Stable Downgraded

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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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