

Press Release

Asia Bulk Sacks Private Limited

March 28, 2023



Rating Downgraded and Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|---------------------|------------------------------------|----------------------------|
| Bank Loan Ratings | 45.50 | ACUITE BB Stable Downgraded | - |
| Bank Loan Ratings | 6.50 | - | ACUITE A4+ Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 52.00 | - | - |

Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BB**' (read as **ACUITE Double B**) from '**ACUITE BB+**' (read as **ACUITE double B Plus**) and reaffirmed its short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.52.00 crore bank facilities of Asia Bulk Sacks Private Limited (ABSPL). The outlook is '**Stable**'.

Rationale for Rating Downgrade

The downgrade in the rating reflects deterioration in the operating performance of ABSPL marked by declining profitability margins albeit stable operating income and elongated working capital cycle and stretched liquidity position. The operating margins of the company deteriorated from 11.30 percent in FY21 to 9.24 percent in FY22. Also, the PAT margins deteriorated from 4.68 percent in FY21 to 2.31 percent in FY22. Such deterioration is seen on account of volatility in raw material prices and higher input costs. Further, the company which generated a revenue of Rs. 130.86 Cr in FY2022 as against Rs.118.91 Cr in FY2021, is expected to close the year FY2023 in the range of Rs.110-115 Cr with further deterioration in the profitability margins expected. Also, the company's reliance on working capital bank limits remained high, reflected by average utilization of around ~99 percent in last 10 months ending Jan' 2023. Going forward, the company's ability to improve its liquidity position and improve its profitability margins over the medium term while maintaining its capital structure will remain a key rating monitorable.

About the Company

Incorporated 1984, Gujarat based Asia Bulk Sacks Private Limited was originally incorporated in the name of Asia Woven Sacks Pvt. Ltd. The Company was taken over by its directors Shri Ajit Chaudhari & Chatrasinh Chaudhari since 29th Dec. 2001. Since the company has made an expansion and diversified into manufacturing FIBC (Flexible Intermediate Bulk Containers) in addition to the existing product of woven sacks in the year 2012-13, hence the company's name was changed to Asia Bulk Sacks Private Limited with effect from dt.06-11-2012, the company was taken over by the Gandhi Family in 2019 wherein Geeta Nilesh Gandhi and Aditya Nilesh Gandhi are the directors, and Nilesh Gandhi is the CEO of the company.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Asia Bulk Sacks

Private Limited to arrive at the rating.

Key Rating Drivers

Strengths

>Established track record and experienced management

ABSPL has an established track record of more than two decades in this line of business with an experienced management. The company is managed by Gandhi family since 2016. The experience of the promoters has helped the company to maintain a healthy relationship with its customers and suppliers of around 5-10 years. The exports constitute about ~80 percent of its total sales, with majority being in the key markets of US, Europe, Middle Eastern Countries among others. The experience of the promoters is also reflected through stable scale of operations over the three years, with revenue of Rs.130.86 Cr in FY2022 as against Rs.118.91 Cr in FY2021. However, in current year company has achieved a turnover of Rs ~ 81 crore till December 2022 and is expecting to close this fiscal year at ~Rs.115 crore.

Acuité believes that the company will benefit from the long track record of operations along with a healthy relationship with its customer and suppliers.

>Moderate Financial Risk Profile

The financial risk profile of the company stood moderate, marked by moderate net worth, moderate gearing (debt-equity) and moderate debt protection metrics. The tangible net worth stood at Rs.33.84 crore as on 31 March 2022 as against Rs.30.82 crore as on 31 March, 2021. The total debt of the company stood at Rs.39.26 crore which includes short-term debt of Rs.24.73 crore, long-term debt of Rs.10.74 crore and CPLTD of Rs.3.80 crore as on 31 March, 2022. The gearing (debt-equity) stood at 1.16 times as on 31 March 2022 as compared to 1.24 times as on 31 March, 2021. Interest Coverage Ratio stood at 3.64 times for FY2022 as against 4.89 times for FY2021. Debt Service Coverage Ratio (DSCR) stood at 1.35 times in FY2022 as against 3.44 times in FY2021. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 1.72 times as on 31 March, 2022 as against 1.91 times as on 31 March, 2021. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.17 times for FY2022 as against 0.24 times for FY2021.

Acuité believes the financial risk profile of the company is expected to remain moderate backed by moderate cash accruals and no major debt-funded capex in the near to medium term.

Weaknesses

>Working capital intensive nature of operations.

The working capital management of the company is intensive marked by GCA days of 176 days in FY22 as against 188 days in FY21. The GCA days are driven by debtors and inventory days. The company maintains inventory levels of around 113 days in FY22 as against 98 days for FY21. Generally, the inventory holding period that the company follows for raw material is ~45-50 days, for WIP is ~90-105 days and for finished product is ~45-60 days. Subsequently, the debtor's collection period stood at 31 days in FY22 as against 46 days for FY21. Generally, the company does its major business on cash against document, but at times it gives a credit period of 20-30 days to its customers. Furthermore, the creditor days stood at 79 days in FY22 as against 91 days in FY21. Further, the reliance of working capital limits remained high reflected by average utilization of its working capital limits of around ~99 percent in last 10 months ending Jan' 2023.

Acuité expects the working capital management to remain intensive over the medium term on account of the high inventory level maintained, which is inherent in the aforementioned industry.

>Highly competitive industry with Vulnerability in profitability

Company faces an intense competition from the other FIBC players in the industry which limits its bargaining power with customers. And also, the polypropylene which is the major raw material for the company is linked to crude oil prices which is highly volatile in nature. Hence, any adverse fluctuations in the prices of raw material will put pressure on margins and eventually on revenue.

Rating Sensitivities

- Improvement in scale of operations along with profitability margins
- Elongation of working capital cycle

Material covenants

None.

Liquidity Position

Stretched

The company's liquidity position is stretched, marked by moderate net cash accruals against the maturing debt obligations. The company generated sufficient net cash accruals in the range of Rs.3.83-9.27 Crore from FY2020-22 against its maturity repayment obligations in the range of Rs.0.69-4.21 crore in the same tenure. In addition, it is expected to generate sufficient cash accrual in the range of Rs.5.19-5.98 crore against the maturing repayment obligations of Rs.3.55-4.02 crore over the medium term. The working capital management of the company is intensive marked by GCA days of 176 days in FY2022 as against 188 days in FY2021. The reliance of working capital limits remained high reflected by average utilization of its working capital limits of around ~99 percent in last 10 months ending Jan' 2023. The company maintains unencumbered cash and bank balances of Rs.0.25 crore as on March 31, 2022. The current ratio stands at 1.21 times as on March 31, 2022, as against 1.13 times as on 31 March, 2021.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals to its maturing debt obligation.

Outlook: Stable

Acuité believes that ABSPL will maintain a 'Stable' outlook and continue to benefit over the medium term owing to the extensive experience of the promoters, established track record of operations and moderate financial risk profile. The outlook may be revised to 'Positive' if the company achieves significant growth in revenue and improvement in profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of significant elongation in working capital cycle leading to deterioration of liquidity profile of company.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 130.86 | 118.91 |
| PAT | Rs. Cr. | 3.02 | 5.57 |
| PAT Margin | (%) | 2.31 | 4.68 |
| Total Debt/Tangible Net Worth | Times | 1.16 | 1.24 |
| PBDIT/Interest | Times | 3.64 | 4.89 |

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>
- 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 |
|-------------|--------------------------------|------------|-----------------|--------------------------------|
| 30 Mar 2022 | Term Loan | Long Term | 1.69 | ACUITE BB+ Stable (Assigned) |
| | Cash Credit | Long Term | 5.00 | ACUITE BB+ Stable (Assigned) |
| | Letter of Credit | Short Term | 6.50 | ACUITE A4+ (Assigned) |
| | Packing Credit | Long Term | 20.00 | ACUITE BB+ Stable (Assigned) |
| | Proposed Bank Facility | Long Term | 5.59 | ACUITE BB+ Stable (Assigned) |
| | Term Loan | Long Term | 8.75 | ACUITE BB+ Stable (Assigned) |
| | Term Loan | Long Term | 0.42 | ACUITE BB+ Stable (Assigned) |
| | Term Loan | Long Term | 4.05 | ACUITE BB+ 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 | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 6.50 | ACUITE A4+ Reaffirmed |
| State Bank of India | Not Applicable | PC/PCFC | Not Applicable | Not Applicable | Not Applicable | Simple | 30.00 | ACUITE BB Stable Downgraded |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | Simple | 4.34 | ACUITE BB Stable Downgraded |
| State Bank of India | Not Applicable | Term Loan | Not available | 7.5 | Not available | Simple | 1.52 | ACUITE BB Stable Downgraded |
| State Bank of India | Not Applicable | Term Loan | Not available | 7.40 | Not available | Simple | 2.93 | ACUITE BB Stable Downgraded |
| State Bank of India | Not Applicable | Term Loan | Not available | 9.15 | Not available | Simple | 3.52 | ACUITE BB Stable Downgraded |
| State Bank of India | Not Applicable | Term Loan | Not available | 7.40 | Not available | Simple | 3.19 | ACUITE BB Stable Downgraded |

Rs.1.00 crore Bank Guarantee is the Sub-limit of Letter of Credit

Full interchangeability between EPC & CC limit

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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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