

Press Release

Dairyflex Packaging Solutions Private Limited

July 20, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	29.50	ACUITE B+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	29.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs.29.50 Cr bank facilities of Dairyflex Packaging Solutions Private Limited (DPSPL). The outlook is '**Stable**'.

The rating on DPSPL takes into cognizance the availability of demand in the market for the products manufactured by the company. The strength is, however, constrained due to the presence of project implementation risk and below average financial risk profile.

About the Company

Based in Jharkhand, Dairyflex Packaging Solutions Private Limited (DPSPL) is incorporated in the year 2020. The company is headed by Mr. Amit Agarwal, Mr. Ajay Kumar Agarwal, Mr. Pratik Shanker Dayal and Mr. Pratyush Shanker Dayal. The company is engaged in the production of printed sacks, rice bags, ice-cream cups, dahi cups, paneer pouch, WMP bag, SMP bag, laminates and sweet boxes.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of DPSPL to arrive at this rating.

Key Rating Drivers

Strengths

- Increase in the demand of dairy packaging products

The global dairy packaging market is expected to expand at a CAGR of over 4.02 per cent throughout the forecast period between 2021 and 2028. The outbreak of Covid-19 had definitely applied brakes to the manufacturing industry. However, milk and milk products fall in the category of essential commodities. As such, their production as well as consumption hasn't stopped. In fact, it has increased manifold as consumers are playing safe with packaged milk products. The risk of contamination is minimal. Acuite believes awareness regarding the risk of contamination will continue driving the sales.

Weaknesses

- **Project implementation risk prevails**

DPSPL's greenfield project of setting up of packaging and printing plant in Ranchi completed in March, 2022. The project cost was 27.50 Cr. It was funded by 21 Cr term loan by UCO bank, Rs.5.00 Cr from promoter's contribution and rest Rs.1.50 Cr as unsecured loans by the promoters. The commercial operations started from April, 2022. The company has achieved revenues of Rs.2.50 Cr (approximately) in the Q1 of FY23. Hence, greater part of the implementation risk exists for the company. Acuité believes that going forward, timely completion and successful stabilisation of the operations as a new unit will remain a key rating sensitivity factor.

- **Nascent stage of operations**

DPSPL has just started the commercial operations in the first quarter of FY23. Therefore, the company is at the budding stage of operations. Going forward, successfully achieving the goals of the company is a key factor. Acuité believes that the growth in scale of operations will be key monitorable.

- **Below Average financial risk profile**

The company's financial risk profile is expected to remain below average marked by low networth and high gearing over the medium term. The tangible net worth of the company stood low at Rs.5.36 crores as on 31st March, 2022 but it is expected to improve going forward due to accretion to reserves. Gearing of the company will increase and is expected to remain at high levels in FY2023-24 as the company plans to avail long term facility from bank for machinery purchase and installation. With this the gearing level is expected to rise to 3.98 times in FY23. The debt protection metrics of the company is expected to remain strong in FY2023-24. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) is expected to remain high over the medium term, but if the unsecured loans from the promoters remain in the business as quasi equity then the ratio will be not increase as much. Acuité believes that going forward the financial risk profile of the company is expected to be below average due to leveraged capital structure over the medium term, backed by steady accruals and no major debt funded capex plans.

Rating Sensitivities

- Growth in scale of operations along with improvement in profitability margins
- Improvement in the financial risk profile

Material covenants

None

Liquidity Position: Stretched

The net cash accruals of the company are expected to remain adequate post FY2022-23, adequate to repay the debt obligations. Net cash accrual is expected to be 5.91 Cr in FY2023-24 against yearly debt obligation of Rs 3.18 crore, over the medium term. The cash and bank balances of the company stood is expected to increase gradually as the business will scale up in the medium term. Acuité believes that going forward the liquidity position of the company will remain moderate and hence key monitorable over the medium term due to leveraged capital structure.

Outlook: Stable

Acuité believes that DPSPL will maintain a 'Stable' outlook on the basis of the increase in the

demand of dairy packaging products. The outlook may be revised to 'Positive' in case of sustained increase in revenues and profit margin or improvement in liquidity position. Conversely, the outlook may be revised to 'Negative' in case of dip in revenue and profitability or any higher than expected capex undertaken leading to deterioration of its financial risk profile and liquidity.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	2.70	0.00
PAT	Rs. Cr.	0.36	0.00
PAT Margin	(%)	13.33	0.00
Total Debt/Tangible Net Worth	Times	2.36	0.00
PBDIT/Interest	Times	5.18	0.00

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

CRISIL, vide its press release dated March 17, 2022 had denoted the rating of Dairyflex Packaging Solutions Private Limited as 'CRISIL B/Stable; ISSUER NOT COOPERATING'.

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

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
UCO Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE B+ Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE B+ Stable Assigned
UCO Bank	Not Applicable	Term Loan	Not available	Not available	Not available	22.25	ACUITE B+ Stable Assigned

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About Acuité Ratings & Research

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