

Press Release
Pep Cee Pack Industries
February 21, 2024
Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	23.00	ACUITE BB+ Stable Reaffirmed	-
Bank Loan Ratings	12.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	35.00	-	-

Rating Rationale

Acuite has reaffirmed its long term rating at '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating at '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 35.00 Cr. bank facilities of Pep Cee Pack Industries. The outlook is '**Stable**'.

Rationale for rating reaffirmed

The rating reaffirmation takes into account the established position of the firm and extensive experience of the partners in the industry. The rating also factors in augmentation in business operations of the firm as reflected by 18.67% YoY growth in revenue to Rs. 345.76 Cr in FY23 as against Rs. 291.35 Cr in FY22. The rating also factors in the moderate working capital operations and adequate liquidity position. The aforesaid factors are underpinned by exposure of margins to the raw material price fluctuations and below average financial risk profile.

About the Company

Pep Cee Pack industries, established as a partnership firm in 2003, manufactures food-grade plastic bags, plastic rolls, and plastic sheets, which are used for packaging in industries such as fast-moving consumer goods, pesticides, and chemicals. The current partners of the firm are Mr. Jay Shah, Mr. Mihir Shah, Mr. Bhupat B.Shah & Mr.Akash P. Shah. The manufacturing plant of the company is located at Daman.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone financial and business risk profiles of Pep-Cee Pack Industries to arrive at the rating.

Key Rating Drivers

Strengths

Steady rise in the scale of operations coupled with experienced management

Pep-Cee pack industries, established as a partnership firm in 2003, manufactures food-grade plastic bags, plastic rolls, and plastic sheets, which are used for packaging in industries such as fast-moving consumer goods, pesticides, and chemicals. The firm earns majority of its revenue from trading of raw materials. The partners of the entity Mr. Jay Shah and Mr. Mihir Shah, Mr. Bhupat B.Shah & Mr.Akash P. Shah has vast experience in the aforementioned line of business. Their experience into this line of business would help the company to flourish. Acuite believes that the company will continue to benefit from its operations and excellence.

The revenue from operations of the firm witnessed a growth of 18.67% YoY in its scale of operations in FY23 to Rs. 345.76 Cr as against Rs. 291.35 Cr in FY22. In 9MFY24, the firm reported revenues of Rs. 324.86 Cr out of which Rs. 144.55 Cr was from manufacturing and Rs. 180.31 Cr from trading. The PAT margins of the firm witnessed an improvement and stood at 1.35% in FY23 as against 1.25% in FY22.

Acuite believes that the operational track record of the company and promoter's extensive understanding and expertise will support the company's growth plans going forward.

Moderate working capital operations

The operations of the firm are moderate in nature marked by moderate GCA days of 71 days in FY23 compared against 68 days in FY22. The receivable days of the firm stood at 43 days in FY23 & FY22. The inventory levels of the firm stood low at 24 days in FY23 as against 22 days in FY22. The average credit period of debtors is 10-15 days and the average credit period allowed by their suppliers is 45-60 days. The average bank limit utilisation for fund-based facilities of the firm remained at 93.48% and 53.39% for non-fund based facilities in FY23.

Acuite believes that the financial risk profile of the company will remain moderate in the near to medium term.

Weaknesses

Below average Financial Risk Profile

The financial risk profile of the firm continues to remain below average marked by low albeit improving networth, high gearing and moderate debt protection metrics. The tangible net worth of the firm stood at Rs. 11.06 Cr as on 31st March 2023 as against Rs. 10.33 Cr as on 31st March 2022. The total debt of the firm stood at Rs. 26.59 Cr as on 31st March 2023 as against Rs. 25.66 Cr as on 31st March 2022. The debt profile of the firm comprises of Rs. 2.52 Cr of long-term debt, Rs. 16.52 Cr of short-term debt and Rs. 7.55 Cr of 12% interest bearing unsecured loan. The gearing of the firm stood high at 2.40 times as on 31st March 2023 as against 2.48 times as on 31st March 2022. The TOL/TNW increased to 5.71 times as on 31st March 2023 as against 4.90 times as on 31st March 2022. The debt protection metrics remained comfortable with debt service coverage ratio of Rs. 2.41 times and interest service coverage ratio of 3.32 times in FY23.

Acuite believes the firm ability to improve its financial risk profile over the medium term will remain a key rating monitorable.

Profit margins are susceptible to volatility in raw material prices and competition

The profitability margins of the company are susceptible to raw material price fluctuations along with competition in a fragmented market. The EBITDA margins of the firm have witnessed a downward trend over the last 3 years with EBITDA margins of 2.30% in FY23 as against 2.51% in FY22 and 2.96% in FY21. The continuous decline in the EBITDA margins is on account of volatility in the prices of raw material.

Rating Sensitivities

- Sustained revenue growth in operating performance along with improvement in profitability.

- Any deterioration in the working capital cycle leading to deterioration in financial risk profile and liquidity position

Liquidity Position

Adequate

The liquidity position of the firm remains adequate with net cash accruals of Rs. 5.66 Cr in FY23 as against Rs. 4.88 Cr in FY22. Going forward, the company is expecting to generate net cash accruals under the range of Rs.6.07 Cr - Rs. 8.40 Cr as against the debt repayment obligations of Rs. 0.40 Cr - 0.60 Cr from FY24-FY26. The average bank limit utilisation for fund-based facilities of the firm remained at 93.48% and 53.39% for non-fund based facilities in FY23. The firm maintains a cash balance of Rs.0.08 Cr as on 31st March 2023.

Acuité believes that, going forward, the liquidity position of the company may continue to remain adequate backed by steady accruals.

Outlook: Stable

Acuité believes that Pep-Cee Pack Industries 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	345.76	291.35
PAT	Rs. Cr.	4.67	3.64
PAT Margin	(%)	1.35	1.25
Total Debt/Tangible Net Worth	Times	2.40	2.48
PBDIT/Interest	Times	3.32	2.90

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>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.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
02 Jan 2023	Proposed Long Term Loan	Long Term	2.54	ACUITE BB+ Stable (Assigned)
	Working Capital Term Loan	Long Term	3.08	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	17.00	ACUITE BB+ Stable (Assigned)
	Letter of Credit	Short Term	8.00	ACUITE A4+ (Assigned)
	Term Loan	Long Term	0.38	ACUITE BB+ Stable (Assigned)
	Bills Discounting	Short Term	4.00	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not avl. / Not appl.	Bills Discounting	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	4.00	ACUITE A4+ Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	17.00	ACUITE BB+ Stable Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	8.00	ACUITE A4+ Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	4.34	ACUITE BB+ Stable Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	30 Sep 2022	Not avl. / Not appl.	29 Sep 2027	Simple	0.74	ACUITE BB+ Stable Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Working Capital Term Loan	30 Dec 2021	Not avl. / Not appl.	29 Mar 2025	Simple	0.92	ACUITE BB+ Stable Reaffirmed

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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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