

November 05, 2015

Facilities	Amount (Rs. Crore)	Ratings
External Commercial Borrowings (ECB)	9.80 (reduced from Rs.21.25 crore)	SMERA BBB-/Positive (Rating Reaffirmed, Outlook Revised)
Term Loan	8.16 (reduced from Rs.8.51 crore)	SMERA BBB-/Positive (Rating Reaffirmed, Outlook Revised)
Cash Credit	21.00 (enhanced from Rs.15.00 crore)	SMERA BBB-/Positive (Rating Reaffirmed, Outlook Revised)
Bank Guarantee	1.28 (enhanced from Rs.0.87 crore)	SMERA A3 (Reaffirmed)

SMERA has reaffirmed the long-term rating of '**SMERA BBB-**' (read as SMERA triple B minus) and short-term rating of '**SMERA A3**' (read as SMERA A three) to the Rs.40.24 crore (reduced from Rs.45.63 crore) bank facilities of Canpac Trends Private Limited (Canpac). The outlook has been revised to '**Positive**' from '**Stable**'.

The revision in outlook reflects the improvement in the Canpac's business risk profile supported by steady revenue growth coupled with improvement in profitability margins and working capital cycle. The outlook revision also factors in SMERA's expectation that the company will maintain its financial risk profile over the medium term on the back of consistent increase in its net worth driven by healthy accretion to reserves. SMERA expects a healthy increase in the company's net cash accruals vis-a-vis its term debt obligations over the medium term. Moreover, the company's term debt obligations are expected to reduce substantially in the next 12-18 months.

The ratings continue to draw comfort from the company's experienced management and fully integrated manufacturing operations. The ratings are also supported by the company's strong revenue growth, diversified customer portfolio and healthy profitability. However, the ratings are constrained by the company's limited track record of operations in the intensely competitive and fragmented packaging industry. The ratings also factor the company's working capital intensive nature of operations.

Update

In FY2014-15, Canpac reported profit after tax (PAT) of Rs.5.11 crore on gross sales of Rs. 84.10 crore thereby registering a ~19 per cent revenue growth over the previous year. The company has registered healthy revenue growth in FY2015 because of addition in customers and higher capacity

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utilisation. Further, Canpac has reported profit before tax (PBT) of Rs.3.86 crore (provisional) on operating income of Rs.50.57 crore (provisional) for the period April, 2015 to September, 2015. Further, according to the management, the commercial operations of the enhanced capacity started in April, 2015.

Canpac's operating margin has improved to 19.67 per cent in FY2014-15 vis-à-vis 17.77 per cent in the previous year on account of increase in proportion of sales from higher margin products. Further, the net profit margin has improved to 6.63 per cent in FY2014-15 vis-à-vis 5.32 per cent in the previous year.

Canpac's net worth stood at Rs.24.07 crore and adjusted gearing stood at 1.75 times as on March 31, 2015. The adjusted gearing takes into account the unsecured loan of Rs.4.50 crore from promoters as part of equity as the same is subordinate to bank debt. The interest coverage ratio stood at 3.33 times and ROCE at 14.37 per cent in FY2014-15. The company's working capital cycle stood at 84 days for FY2014-15 and is expected to remain at ~90-95 days over the medium term.

Outlook: Positive

SMERA believes that Canpac's business risk profile is likely to improve over the medium term driven by steady revenue growth and improvement in profitability margins on the back of foray into higher margin products. The company is also expected to maintain its financial risk profile over the medium term. The ratings may be upgraded if the company achieves anticipated revenues and profitability without corresponding deterioration in its liquidity profile. Conversely, the outlook may undergo a change in case of a lower-than-expected revenues and profitability margins, or deterioration in its capital structure and liquidity position.

Rating Sensitivity Factors

- Scaling up of operations while maintaining stable profit margins
- Working capital management

About the Company

Canpac (the erstwhile Cerium Marketing Private Limited) is an Ahmedabad-based company engaged in the manufacture of printed folded and micro flute cartons used for packaging. The company was incorporated as Venture Insurance Service Private Limited in 2004 and subsequently acquired by the current management in 2009. Canpac commenced commercial production in October, 2011. The company has a reputed and diversified customer portfolio. The overall operations are managed by Mr. Nilesh N. Todi and Mrs. Preeti N. Todi.

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