Knack Packaging Private Limited

April 05, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	56.11	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	32.50	CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable/ A Two)	Reaffirmed
Short Term Bank Facilities	14.50	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**103.11 (Rs. One Hundred Three Crore and Eleven Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to KPPL continues to derive strength from the vast experience of its promoters in flexible packaging industry, established operations with continuous upgradation of its manufacturing facilities along with its diversified and reputed clientele. The ratings also factors in its growing scale of operations with healthy profitability. The ratings factors in growth in scale of operations in 10MFY22 (FY refers to the period from April 1 to March 31) albeit moderation in profitability.

The ratings, however, continue to remain constrained on account of its moderate capital structure and debt coverage indicators, susceptibility of its operating profitability to volatility in raw material prices and foreign exchange rates and its presence in a highly competitive and fragmented flexible packaging industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in scale of operation i.e. Total Operating income more than Rs.600 crore while maintaining healthy PBILDT margin of more than 14% on sustained basis.
- Improvement in its capital structure marked by overall gearing falling below 0.50 times and total debt to GCA below 2 times on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Significant decline in scale of operation with Total Operating income falling below Rs.250 crore and deterioration in PBILDT margin below 12% on sustained basis.
- Deterioration in capital structure marked by overall gearing of more than 1.5 times with deterioration in debt coverage indicators marked by Interest coverage below 2.50 times and TD/GCA of more than 6 times.
- Any large sized debt funded capex adversely affecting its leverage and debt coverage indicators.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoter group

KPPL's promoter group consists of family members of Mr. Alpesh Patel and Mr. Rashmin Patel, who have been engaged in flexible packaging industry since 1993 through partnership and proprietorship firms. Further, the promoter group is also engaged in other businesses including mining and construction industry through group entities. The key business functions are managed by the directors. The promoter group has demonstrated its resourcefulness through infusion of unsecured loans to support business operations. As on January 31, 2022, unsecured loans from promoters & relatives stood at Rs.22.70 crore.

Established operations

Started in 2013, KPPL is engaged in manufacturing of high density polyethylene (HDPE) / polypropylene (PP) woven fabrics & bags and multicolor printed biaxially-oriented polypropylene (BOPP) laminated woven bags. These products find application in packaging industry especially for food products (grains / pulses), fertilizers, chemicals and animal food.

KPPL has focused on delivering high quality printing to its customers in domestic and export market. To propel its growth, KPPL had expanded its capacity over the period with last project in FY21 of capacity addition of 6,000 Metric Tonne Per Annum (MTPA) which includes addition of Tape line, looms, printing line and lamination line to cater to increased orders. KPPL also has six side printing line for premium customers especially for export market. It has also set up solar power project of 2 MW. During FY21, the utilization of KPPL's manufacturing facilities remained moderate at 79% (71% during FY20).

Diversified and Reputed clientele

KPPL has established relationship with its clients in diverse industries including grains, pulses, fertilizers, cements and animal food. Over the years, KPPL has been to secure repeat orders from them. KPPL also exports its products to clients located in more

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

than 40 countries. In FY21, around 37% of KPPL's sales were exports (P.Y. 41%). Further, during FY21, KPPL's client concentration remained low with Top 10 customers forming 35% of TOI.

Growing scale of operations with healthy profitability

In FY21, KPPL reported 24.57% y-o-y growth in its Total Operating Income which stood at Rs. 367.62 crore with increased in demand from the industry. With increased utilization of capacity and better absorption of fixed costs, the profitability of KPPL had improved in FY21 marked by PBILDT margin of 13.15% in FY21 as compared to 12.51% in FY20. Consequently, PAT margin had also improved to 5.43% in FY21 as against 4.12% in FY20.

During 10MFY22, KPPL reported healthy growth marked by TOI of Rs. 389.91 crore (9MFY21: Rs. 257.41 crore) on back of increase in sales realization with increase in input cost as well as increased demand from export market. Growth is supported by increased utilization of its new plant. However, PBILTD margin in 10MFY22 had moderated but stood healthy at 11.02%. The moderation was due to increase in freight cost and increase in raw material prices by nearly 25% resulting in higher base effect.

Key Rating Weaknesses

Moderate albeit improving capital structure and debt coverage indicators

Capital structure of the company had improved but remained moderately leveraged as reflected by adjusted overall gearing of 1.67x as on March 31, 2021 as compared to 1.88x as on March 31, 2020 with healthy accretion of profit to networth. Same improved further to 1.44x as on January 31, 2022. However, as per the sanction letters in past banker had specified TNW including unsecured loan to be maintained during the tenure of facilities and same had increased over the period with latest in Nov 2020, wherein KPPL is required to maintain Rs.70.00 crore of promoters' funds in the company (including unsecured loans). Considering this, the amount of unsecured loans considered as quasi-equity has been applied in past. Considering the same, as on March 31, 2021, overall gearing stood at 1.39 times as compared to 1.44 times as on March 31, 2020.

Interest coverage (PBILDT/Interest) had improved and continued to remain moderate at 5.84x for FY21 (3.83x for FY20) on the back of higher operating profits during FY21. Also, KPPL's TD/GCA improved and stood at 2.91x as on March 31, 2021 (3.10x as on March 31, 2020) on the back of higher accretions to its net worth base during FY21. During 10MFY22, debt coverage indicators had moderated marginally and remained healthy.

Susceptibility of operating profitability to volatility in raw material prices and foreign exchange fluctuation risk

KPPL's key raw materials include HDPE / PP granules and plastic films which it procures from domestic markets. These key raw materials, being derivatives of crude oil, make KPPL's operating profitability susceptible to volatility in crude oil prices. Further, KPPL's exports constitute around 30-45% of its TOI and in absence of active hedging policy for its export receivables, its profitability is exposed to adverse movements in foreign exchange rates.

Competitive and fragmented industry with low entry barriers albeit favourable growth prospects

Poly woven sacks & fabric industry is highly fragmented with the presence of a large number of unorganized regional players and rising imports. Further, favourable government policies like interest rate subsidy under TUFS, concession in custom duty, etc. has led to the entry of many new players in this industry, which again intensifies the competition. The intense competition is also driven by low entry barriers in terms of capital and technology requirements and limited product differentiation.

The major factors that will drive growth in this industry are likely to be the cost effectiveness and durability of HDPE / PP products and consumers' awareness levels and emerging multiple applications of these products in various industries such as agriculture, automotive, healthcare, infrastructure, etc.

Liquidity - Adequate

KPPL has adequate liquidity marked by healthy cash accruals against moderate debt repayment, healthy cash flow from operation and moderate liquidity rations. It has sufficient cushion in its cash accruals (around Rs. 30-35 crore) vis-à-vis repayment obligations of Rs. 8-10 crore in next two years. Cash flow from operations stood at Rs. 20.30 crore in FY21 as compared to Rs. 11.49 crore in FY20. Its operating cycle also remained moderate at 60 days in FY21, as compared to 58 days in FY20. The current ratio and the quick ratio both remained moderate at 1.67 times and 1.17 times respectively as on March 31, 2021. KPPL had free cash and bank balance of Rs. 3.41 crore as on March 31, 2021.

However, its average fund based working capital utilization remained high at 88% for past 12 months ended January 31, 2022.

Analytical approach: Standalone

Applicable Criteria

Rating Outlook and Credit Watch
Policy on default recognition
Manufacturing Companies
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Short Term Instruments

About the Company

Incorporated in 2013, Ahmedabad based Knack Packaging Private Limited (KPPL; CIN :- U25200GJ2013PTC073847) is engaged in manufacturing of high density polyethylene (HDPE) / polypropylene (PP) woven fabrics & bags and multicolor printed biaxially-oriented polypropylene (BOPP) laminated woven bags. These products find application in packaging industry especially for food products (grains / pulses), fertilizers, chemicals and animal food. KPPL had an installed capacity of 26,640 metric tonnes per annum (MTPA) as on December 31, 2021 for manufacturing poly woven bags and fabrics at its two manufacturing facilities located at Mehsana and Indrad Gujarat.

(Rs. Crore)

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	10MFY22 (UA)
Total operating income	295.05	367.63	389.91
PBILDT	36.90	48.36	41.16
PAT	12.16	19.96	15.03
Overall gearing (times)	1.44	1.39	1.44
Interest coverage (times)	3.83	5.84	5.42

A: Audited; UA: unaudited

Status of non-cooperation with previous CRA: India Ratings and Research have reviewed the ratings assigned to the bank facilities of KPPL under Issuer Not Co-operating Category vide its press release dated July 16, 2021.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	December, 2027	56.11	CARE BBB+; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	29.00	CARE BBB+; Stable / CARE A2
Fund-based - ST-Bill Discounting/ Bills Purchasing	-	-	-	-	2.00	CARE A2
Fund-based - ST-EPC/PSC	-	-	-	-	7.50	CARE A2
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	3.50	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Credit Exposure Limit	-	-	-	-	5.00	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	56.11	CARE BBB+; Stable	-	1)CARE BBB+; Stable (31-Mar-21)	1)CARE BBB; Stable (18-Feb-20)	1)CARE BBB; Stable (27-Dec-18)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	29.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (31-Mar-21)	1)CARE BBB; Stable / CARE A3+ (18-Feb-20)	1)CARE BBB; Stable / CARE A3+ (27-Dec-18)
3	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	2.00	CARE A2	-	1)CARE A2 (31-Mar-21)	1)CARE A3+ (18-Feb-20)	1)CARE A3+ (27-Dec-18)
4	Fund-based - ST-EPC/PSC	ST	7.50	CARE A2	-	1)CARE A2 (31-Mar-21)	1)CARE A3+ (18-Feb-20)	1)CARE A3+ (27-Dec-18)
5	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	3.50	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (31-Mar-21)	1)CARE BBB; Stable / CARE A3+ (18-Feb-20)	1)CARE BBB; Stable / CARE A3+ (27-Dec-18)
6	Non-fund-based - ST-Credit Exposure Limit	ST	5.00	CARE A2	-	1)CARE A2 (31-Mar-21)	1)CARE A3+ (18-Feb-20)	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I – Tangible net worth	To maintain>Rs. 70.00 crore including unsecured loan from promoters.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
3	Fund-based - ST-EPC/PSC	Simple
4	Fund-based/Non-fund-based-LT/ST	Simple
5	Non-fund-based - LT/ ST-Bank Guarantee	Simple
6	Non-fund-based - ST-Credit Exposure Limit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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