Knack Packaging Private Limited

April 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	52.51 (Reduced from 56.11)	CARE BBB+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	67.50 (Enhanced from 32.50)	CARE BBB+; Stable / CARE A2	Reaffirmed
Short Term Bank Facilities	17.00 (Enhanced from 14.50)	CARE A2	Reaffirmed

Details of facilities in Annexure -1

Rationale and key rating drivers

The ratings assigned to Knack Packaging Private Limited (KPPL) continues to derive strength from the vast experience of its promoters in woven sacks industry, established operations with continuous upgradation of its manufacturing facilities along with its diversified and reputed clientele. The ratings factors in growth in scale of operations in with healthy 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 woven sacks industry.

Rating Sensitivities: Factors likely to lead to rating actions

Positive Factors

- 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

- Significant decline in scale of operation with Total Operating income falling below Rs.350 crore and deterioration in PBILDT margin below 9% 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.

Analytical Approach: Standalone

Outlook: Stable

The outlook on the long-term rating of KPPL is "Stable" considering stable demand of packaging material with established customer base alongwith continuous upgradation of capacity that would enable the company to sustain its operational performance over the medium term.

Key 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 woven sacks 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 December 31, 2022 unsecured loans from promoters & relatives stood at Rs.8.77 crore which reduced from Rs.15.08 crore as on March 31, 2022.

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

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

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 current installed capacity of 26,640 Metric Tonne Per Annum (MTPA) as on December 31, 2022. KPPL also has one six side printing line for premium customers especially for export market and added another on in FY23. Also, it has plans to add lamination and printing line while fabric is planned to be purchased from third parties with total project cost of around Rs.23 crore to be funded from term loan of Rs.15 crore as balance from internal accruals. It has also set up solar power project of 2 MW. During FY22, the utilization of KPPL's manufacturing facilities has improved and remained healthy at 88% (79% during FY21).

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 than 40 countries. In FY22, around 44% of KPPL's sales were exports (PY: 37%). Further, during FY22, KPPL's client concentration remained low with Top 10 customers forming 31% of TOI (PY: 45%).

Growth in scale of operations with healthy profitability

In FY22, KPPL reported 32.35% y-o-y growth in its Total Operating Income which stood at Rs. 476.08 crore. Also, during 9MFY23, KPPL reported net sales of Rs. 383.11 crore (9MFY22: Rs. 366.83 crore). The growth was mainly on account of increase in sales realization (with increased export sales) coupled with better utilization of its new plant. However, the profitability of KPPL has moderated in FY22 due to higher freight costs and volatility in raw material prices, however it continued to remain healthy as marked by PBILDT margin of 10.80% in FY22 as compared to 13.47% in FY21. Consequently, PAT margin had also moderated to 4.21% in FY22 as against 5.82% in FY21. Profitability has improved in 9MFY23 (UA) with normalization of freight costs marked by PBILDT margins and PAT margin of 11.51% and 5.33% respectively. Going forward, CARE expects KPPL to sustain 5-10% growth while maintaining its PBILDT margin around 11%-12%.

Key Rating Weaknesses

Moderate capital structure and debt coverage indicators

Capital structure of the company had improved but remained moderate as reflected by overall gearing of 1.25x as on March 31, 2022, as compared to 1.39x as on March 31, 2021, with healthy accretion of profit to net worth, which led to further improvement in overall gearing to 1.05x as on December 31, 2023.

KPPL has extended corporate guarantee of Rs. 14.60 crore to subsidiary company i.e. Knack Energy Private Limited (KEPL) which is engaged in manufacturing of Ethylene Vinyl Acetate sheets for use in solar panels at sole manufacturing plant at Indrad, Gujarat. Adjusted overall gearing including corporate guarantee given to KEPL stood at 1.43x as on March 31, 2022.

Debt coverage indicators of the company remained stable over the previous year at moderate level as marked by interest coverage ratio of 5.91x for FY22 (PY: 6.00x) and total debt to GCA of 2.84x (PY: 2.79x) in the year ended on March 31, 2022. Debt coverage indicators further remained moderate and stable with interest coverage ratio of 6.89 times and total debt to GCA of 3.33 times in the nine months ended on December 31, 2022 (UA). Going forward, CARE expects overall gearing to improve and remain around near unity levels.

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 40-45% of its TOI. The company partially hedges its foreign exchange exposure, though it remains exposed to adverse movements in foreign exchange rates for unhedged portion of its foreign exchange exposure.

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 capital 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 ratios. It has sufficient cushion in its cash accruals (around Rs. 35-45 crore) vis-à-vis bank repayment obligations of Rs.10-22 crore in FY23-FY25 period and planned repayment of unsecured loans from promoters to the tune of Rs.10.07 crore in FY23. CFO of the company continued to stand healthy at Rs.20.19 crore in FY22 as compared to Rs.21.62 crore in FY21. Operating cycle of the company remained stable at moderate level of 67 days in FY22 [PY: 60 days]. The current ratio and the quick ratio both remained moderate at 1.45 times and 0.99 times respectively as on March 31, 2022. KPPL had free cash and bank balance of Rs. 3.03 crore as on March 31, 2022. However, average fund based working capital utilization remained high at ~86% p.a. for past 12 months ended in January, 2023.

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

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Plastic Products - Industrial

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, 2022 for manufacturing poly woven bags and fabrics at its two manufacturing facilities located at Mehsana and Indrad Gujarat.

Brief Financials (Rs. crore)	FY21 (A)	FY22 (A)	9MFY23 (UA)
Total operating income	368.95	478.61	383.11
PBILDT	49.68	51.69	44.09
PAT	21.46	20.15	20.41
Overall gearing (times)	1.39	1.25	1.05
Adjusted overall gearing (times)^	1.39	1.43	1.25
Interest coverage (times)	6.00	5.91	6.89

A: Audited; UA: Unaudited; NA: Not Available; ^ Adjusted for Rs.14.60 crore of corporate guarantee extended by KPPL to its subsidiary KEPL; Note: 'the above results are latest financial results available'

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 28, 2022.

Any other information: Not Applicable
Rating History (Last three years): Please refer Annexure-2
Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3
Complexity level of various instruments rated for this company: Annexure-4
Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	31-12-2027	52.51	CARE BBB+; Stable
Fund-based - ST-Bill Discounting/ Bills Purchasing	-	-	-	-	2.00	CARE A2
Fund-based - ST-EPC/PSC	-	-	-	-	7.50	CARE A2
Fund-based/Non-fund-based-LT/ST	-	-	-	-	64.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	3.50	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Credit Exposure Limit	-	-	-	-	7.50	CARE A2

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	52.51	CARE BBB+; Stable	1)CARE BBB+; Stable (05-Apr-22)	-	1)CARE BBB+; Stable (31-Mar-21)	1)CARE BBB; Stable (18-Feb-20)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	64.00	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (05-Apr-22)	-	1)CARE BBB+; Stable / CARE A2 (31-Mar-21)	1)CARE BBB; Stable / CARE A3+ (18-Feb-20)
3	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	2.00	CARE A2	1)CARE A2 (05-Apr-22)	-	1)CARE A2 (31-Mar-21)	1)CARE A3+ (18-Feb-20)
4	Fund-based - ST-EPC/PSC	ST	7.50	CARE A2	1)CARE A2 (05-Apr-22)	-	1)CARE A2 (31-Mar-21)	1)CARE A3+ (18-Feb-20)
5	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	3.50	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (05-Apr-22)	-	1)CARE BBB+; Stable / CARE A2 (31-Mar-21)	1)CARE BBB; Stable / CARE A3+ (18-Feb-20)
6	Non-fund-based - ST-Credit Exposure Limit	ST	7.50	CARE A2	1)CARE A2 (05-Apr-22)	-	1)CARE A2 (31-Mar-21)	1)CARE A3+ (18-Feb-20)

*Long term/Short term; Note: The above dates exhibit rating history as per press releases.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

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

Note on complexity levels of the rated instruments: CARE Ratings Limited has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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