Knack Packaging Private Limited

March 22, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	72.88 (Enhanced from 52.51)	CARE BBB+; Positive	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	87.50 (Enhanced from 67.50)	CARE BBB+; Positive / CARE A2	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	22.00 (Enhanced from 17.00)	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to Knack Packaging Private Limited (KPPL) derives strength from growth in its scale of operations and profitability during FY23 (Audited, refers to period April 2022 to March 2023) and 10MFY24 (Provisional, refers to period April 2023 to January 2024). The ratings further, continue to derive strength from the vast experience and resourcefulness of its promoters, established operations with continuous upgradation of its manufacturing facilities along with its diversified and reputed clientele.

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 marked by Total Operating income (TOI) at more than Rs.650 crore while maintaining healthy PBILDT margin of more than 14% on sustained basis
- Improvement in its capital structure marked by overall gearing below unity or Total debt to PBILDT below 2x

Negative factors

- Significant decline in scale of operation with TOI 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

Analytical approach: Standalone

Outlook: Positive

The outlook on the long-term rating of KPPL has been revised from 'Stable' to 'Positive' on CARE Ratings expectation of growth in cash accruals owing to improvement in profitability along with sustaining scaled-up operations. Furthermore, the capital structure is also expected to improve despite envisaged capex in the medium term. The outlook may be revised to 'stable' in case of non-sustenance of scaled-up operations and profitability or on moderation in its leverage.

Detailed description of the key rating drivers:

Key strengths

Growth in scale of operations and profitability:

In FY23, KPPL reported 7.13% y-o-y growth in its TOI which remained at Rs. 512.72 crore. Also, during 10MFY24, KPPL reported TOI of Rs. 539.31 crore (9MFY24: Rs. 383.11 crore). The growth is mainly on account of increase in sales volume with increase in demand along with enhancement in installed manufacturing capacity. The already healthy profitability of KPPL further improved in FY23 and 10MFY24 due to lower cost of raw materials, higher export sales, and increased sales volume of value-added products like pinch bottom bags. PBILDT margin remained at 11.04% during FY23 (PY:10.80%), and at 16.21% for 10MFY24. Consequently, PAT margin had also improved to 4.44% in FY23 (PY:4.21%), and 8.02% for 10MFY24. Going forward, CARE expects KPPL to sustain its increase in scale of operations while maintaining its PBILDT margin owing to increase in installed capacity of high margin products along with inclusion of reputed customers in its portfolio.

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

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. Unsecured loans from promoters & relatives remained at Rs.7.37 crore and Rs.8.77 crore as on March 31, 2023 and March 31, 2022 respectively.

Established operations with continuous upgradation of its manufacturing facilities:
Started in 2013, KPPL is engaged in manufacturing of high-density polyethylene (HDPE) / polypropylene (PP) woven fabrics & bags and multicolour printed biaxially oriented polypropylene (BOPP) laminated woven bags, pinch bottom bags. These products find application in packaging industry especially for animal food, food products (grains / pulses), fertilizers, chemicals etc. KPPL has focused on delivering high quality printing to its customers in domestic and export market. To propel its growth, KPPL undertook capex of Rs.65.79 crore during 10MFY24 of which Rs.49.53 crore was towards capacity expansion to 36,000 MTPA from 26,640 MTPA by adding one, six side printing line for premium customers especially for export market, along with the factory building construction. The Rs.49.52 crore expansion was financed via term loan of Rs.8.92 crore and balance ~Rs.40.6 crore from internal accruals reflecting lower dependence on bank debt. During FY23, the utilization of KPPL's manufacturing facilities has remained healthy at 88% during 8MFY24 (FY23: 96%). Further, KPPL has set up a 2.1 MW windmill plant at cost of Rs.16.26 crore which was financed via term loan of Rs.13.9 crore and balance from internal accruals. The said windmill commenced its operations from January 2024 onwards. Further, KPPL is planning for setting up 10.80 MW solar plant at a cost of Rs.35 crore, which is expected to be funded from term loan of Rs.30 crore and balance from internal accruals, which would help KPPL reduce its power costs going forward.

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 FY23, around 42% of KPPL's sales were exports (PY: 44%), which increased to 56% during 8MFY24. Further, during FY23, KPPL's client concentration remained moderate with top 10 customers forming 42% of TOI (PY: 32%)

Key weaknesses

Moderate capital structure and debt coverage indicators:
Capital structure of the company had improved however continued to remain moderate as reflected by overall gearing of 1.16x as on March 31, 2023, as compared to 1.25x as on March 31, 2022, with healthy accretion of profit to net worth. 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 1.30x as on March 31, 2023 (PY:1.43x). Debt coverage indicators of the company remained stable over the previous year at moderate level as marked by interest coverage ratio of 6.17x for FY23 (PY: 5.91x) and total debt to GCA of 3.13x (PY: 2.84x) in the year ended on March 31, 2023. Debt coverage indicators further improved and remained stable with interest coverage ratio of 9.48 times and total debt to GCA of 2.34 times in the ten months ended on January 31, 2023 (UA). Going forward despite capex plans, CARE Ratings expects overall gearing to improve owing to healthy profitability.

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 45-55% 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:
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 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 (CFO) and moderate liquidity ratios. It has sufficient cushion in its cash accruals (around Rs. 65-75 crore) vis-à-vis bank repayment obligations of Rs.16-22 crore in FY24-FY26 period. CFO of the company continued to stand healthy at Rs.27.15 crore in FY23 (PY: Rs.20.19 crore). Operating cycle of the company remained stable at moderate level of 74 days in FY23 [PY: 67 days]. The current ratio and the quick ratio both remained moderate at 1.54 times and 1.09 times respectively as on March 31, 2022. KPPL had free cash and bank balance of Rs. 4.73 crore as on March 31, 2023. However, average fund based working capital utilization remained moderate at ~71% p.a. for past 12 months ended in November 2023.

Applicable criteria

- Definition of Default
- Liquidity Analysis of Non-financial sector entities
- Rating Outlook and Rating Watch
- Manufacturing Companies
- Financial Ratios – Non financial Sector
- Short Term Instruments

About the company and industry

Industry classification

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

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 multicolour 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 36,000 metric tonnes per annum (MTPA) as on December 31, 2023, for manufacturing poly woven bags and fabrics at its two manufacturing facilities located at Mehsana and Indrad Gujarat.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	10MFY24 (UA)
Total operating income	478.61	512.72	539.31
PBILDT	51.69	56.61	87.42
PAT	20.15	22.75	43.26
Overall gearing (times)	1.25	1.16	1.10
Adjusted overall gearing (times)^	1.43	1.30	1.20
Interest coverage (times)	5.91	6.17	9.48

A: Audited UA: Unaudited; ^ 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: Not applicable
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: 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	72.88	CARE BBB+; Positive
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	2.00	CARE A2
Fund-based - ST-EPC/PSC		-	-	-	15.00	CARE A2
Fund-based/Non-fund-based-LT/ST		-	-	-	84.00	CARE BBB+; Positive / CARE A2
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	3.50	CARE BBB+; Positive / CARE A2
Non-fund-based - ST-Credit Exposure Limit		-	-	-	5.00	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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	72.88	CARE BBB+; Positive	1)CARE BBB+; Stable (05-Apr-23)	1)CARE BBB+; Stable (05-Apr-22)	-	1)CARE BBB+; Stable (31-Mar-21)
2	Fund-based/Non-fund-based-LT/ST	LT/ST	84.00	CARE BBB+; Positive / CARE A2	1)CARE BBB+; Stable / CARE A2 (05-Apr-23)	1)CARE BBB+; Stable / CARE A2 (05-Apr-22)	-	1)CARE BBB+; Stable / CARE A2 (31-Mar-21)
3	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	2.00	CARE A2	1)CARE A2 (05-Apr-23)	1)CARE A2 (05-Apr-22)	-	1)CARE A2 (31-Mar-21)
4	Fund-based - ST-EPC/PSC	ST	15.00	CARE A2	1)CARE A2 (05-Apr-23)	1)CARE A2 (05-Apr-22)	-	1)CARE A2 (31-Mar-21)
5	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	3.50	CARE BBB+; Positive / CARE A2	1)CARE BBB+; Stable / CARE A2 (05-Apr-23)	1)CARE BBB+; Stable / CARE A2 (05-Apr-22)	-	1)CARE BBB+; Stable / CARE A2 (31-Mar-21)
6	Non-fund-based - ST-Credit Exposure Limit	ST	5.00	CARE A2	1)CARE A2 (05-Apr-23)	1)CARE A2 (05-Apr-22)	-	1)CARE A2 (31-Mar-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of 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 the complexity levels of the rated instruments: CARE Ratings 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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About us:

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