Knack Packaging Private Limited

March 31, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	56.11 (Enhanced from 27.77)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Long Term / Short Term Bank Facilities	32.50 (Enhanced from 28.50)	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two)	Revised from CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable / A Three Plus)
Short Term Bank Facilities	14.50 (Enhanced from 10.00)	CARE A2 (A Two)	Revised from CARE A3+ (A Three Plus)
Total 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 revision in the ratings assigned to the bank facilities of Knack Packaging Private Limited (KPPL) factors in volume backed growth in scale of operations and improvement in profitability during FY20 and 9MFY21 (FY refers to the period from April 1 to March 31). The rating revision also factors in improvement in its capital structure and debt coverage indicators which remained at moderate level.

The ratings continue 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, however, continue to remain constrained on account of 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. CARE also factors in company availing moratorium for the period of March-May 2020 on the interest and principal repayment obligations of two of its term loan accounts granted by its lenders as a Covid relief measure, as permitted by the Reserve Bank of India.

Rating Sensitivities

Positive Factors

- Increase in scale of operation marked by total operating income of 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.250 crore and deterioration in PBILDT margin below 12% on sustained basis.
- Deterioration in capital structure marked by overall gearing of more than 1.50 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

Detailed description of the key rating drivers

Key Rating Strengths

Significant growth in scale of operations along with improving profitability margin and debt coverage indicators

In FY20, KPPL reported healthy growth of around 25% in its Total Operating Income which stood at Rs. 295.05 crore. The growth was volume backed (15% volume growth) and was attributed to the increase in the exports of the company to the developed countries. Also, during 9MFY21, KPPL reported net sales of Rs. 257.41 crore on the back of increase in the exports as well as domestic market sales. The increased portion of export sales along with benefits derived from increasing scale of operations, the profitability of KPPL had improved in FY20. PBILDT margin had improved to 12.51% in FY20 as compared to 11.01% in FY19. Consequently, PAT margin had also improved and stood at 4.12% during FY20 as compared to 3.53% during FY19.

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[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Furthermore, during 9MFY21 (Prov.), the PBILDT margin improved further to 15.72% as compared to 14.04% during H1FY20 (Prov.), due to the raw material (polymer) prices being on the lower side and higher operational efficiency from increasing scale of operations.
KPPL's debt coverage indicators had also improved and remain at a moderate level marked by Interest coverage (PBILDT/Interest) of 3.83x for FY20 (3.26x for FY19) and Total Debt/GCA of 3.10x as on March 31, 2020 (3.56x as on March 31, 2019).
Impact of Covid-19 on KPPL
The plant of KPPL remained closed for around 20-25 days starting from March 23, 2020. Also, the company had faced some logistical and operational issues after resumption of operations from mid-April 2020. However, the company had achieved pre Covid manufacturing levels from May-2020 onwards as products manufactured by KPPL is used in packaging of essential goods.
KPPL had availed the moratorium granted by its lenders as a Covid relief measure, as permitted by the Reserve Bank of India, for the period of March-May 2020 on the EMI repayment obligation of two of its term loan accounts. The tenure of those two term loans had been extended by the banker by 3 months further. However, with opening up of economy and increased demand from the industry, operations were ramped up. As per provisional results for 9MFY21, KPPL reported net sales of Rs. 257.41 crore (Rs. 153.67 crore during H1FY20 (Prov.)) with PBILDT of Rs. 40.46 crore (Rs. 21.57 crore during H1FY20 (Prov.)).

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. The key business functions are managed by the directors. The promoter group has demonstrated its resourcefulness through infusion of need-based unsecured loans to support business operations. As on December 31, 2020, Unsecured Loans (USL) from promoters & relatives stood at Rs.24.60 crore.

Established operations with continuous upgradation of its manufacturing facilities along with healthy capacity utilization levels
Post commencement of its commercial operations in 2013, KPPL has consistently reported growth in sales volumes with addition of new customer and expansion in newer geographies, leading to healthy capacity utilization of its manufacturing facilities. In export market, it started with African countries and then expanded its geographical presence. In last two years it had increased its share in USA and European countries. To propel its growth, KPPL had expanded its capacity over the period with last project in FY20 with project cost of Rs.34 crore which was funded through a term debt of Rs. 16 crore, and the balance was funded from unsecured loans from promoters and internal accruals of the company. This capex enabled KPPL to stay ahead of competition with addition of six side printing line with major target to export market. This capex also helped KPPL to secure new clients in the developed countries, primarily in USA and Europe. KPPL's export sales proportion increased from around 34% during FY19 to around 41% during FY20 and to 43% in 9MFY21.
In FY21, KPPL had started operations in its new rented premises (land and building) at Indrad, Gujarat with manufacturing capacity of 6,000 MTPA for fabric manufacturing as with increasing scale it had to outsource certain portion of fabric manufacturing which now would be inhouse. The total cost of the project was around Rs.15 crore, which was funded by a rupee term loan of Rs. 12.75 crore and the balance by internal accruals of the company.
During FY20, the utilization of KPPL's manufacturing facilities remained moderate at 71% (98% during FY19). The same reduced y-o-y as FY20 was the first full year of operations for the new lamination and printing which got operationalized in March 2019.

Diversified and reputed clientele
KPPL has established relationship with its clients in diverse industries including grains, pulses, fertilizers, detergents, 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. KPPL core strength lies in providing quality products and large product offerings. Further, KPPL's client concentration remained moderate with Top 10 customers forming 40% of TOI, though increased from 26% in FY19.

Key Rating Weaknesses
Moderate, albeit improving, capital structure
Capital structure of the company had improved significantly as reflected by adjusted overall gearing (considering all USL as debt) of 1.88x as on March 31, 2020 as compared to 2.55x as on March 31, 2019 with healthy accretion of profit to net worth. Same improved further to 1.36x as on December 31, 2020.
As per the sanction letters in past banker had specified total net worth 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 and projections in base case. Considering the same, as on December 31, 2020, gearing stood at 1.06 times.

Susceptibility of operating profitability to volatility in raw material prices and foreign exchange fluctuation risk
KPPL's key raw material includes HDPE / PP granules and plastic films which it procures from domestic suppliers. These key raw materials, being derivatives of crude oil, make KPPL's operating profitability susceptible to volatility in crude oil prices. KPPL's exports constitute around 30-45% of its TOI, while it does not have any natural hedge by way of imports. Further, it does not have any active hedging policy in place, which exposes its profitability to adverse movements in foreign exchange rates.

Presence in a highly 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 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.

Liquidity: Adequate
KPPL has adequate liquidity marked by sufficient cushion in its cash accruals (around Rs. 25-30 crore) vis-à-vis repayment obligations of Rs. 6-8 crore in FY21, moderate cash flow from operations and operating cycle. Its operating cycle also improved and remained moderate at 58 days in FY20 (65 days in FY19). Moreover, its average fund based working capital utilization remained low at 56% for past 12 months ended January 31, 2021. The current ratio and the quick ratio both remained moderate at 1.39 times and 1.00 times respectively as on March 31, 2020. Cash flow from operations stood at Rs. 11.49 crore in FY20 as compared to Rs. 36.82 crore in FY19. KPPL had free cash and bank balance of Rs.0.30 crore as on March 31, 2020.

Analytical approach: Standalone

Applicable Criteria:
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Incorporated in 2013, Ahmedabad based Knack Packaging Pvt. Ltd. (CIN: U25200GJ2013PTC073847) is promoted by Mr. Alpesh Patel and Mr. Ramesh Patel, who possess experience of over two decades in the packaging business through their past ventures. 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 cement. As on December 31, 2020, KPPL had an installed capacity of 20,640 metric tonnes per annum (MTPA) for manufacturing poly woven bags & fabrics at its sole manufacturing facility located at Mehsana in Gujarat.

Brief financials of KPPL are tabulated below:

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total operating income	236.45	295.05
PBILDT	26.03	36.90
PAT	8.35	12.16
Overall gearing (times)^	1.10	1.44
*Adj. overall gearing**	*2.55*	*1.88*
Interest coverage (times)	3.26	3.83

A: Audited
^As per the sanction letter dated July 02, 2018 and November 23, 2020, KPPL has to maintain tangible net worth (incl. unsecured loans) at Rs.50.00 crore and Rs.70.00 crore respectively. Consequently, unsecured loans amounting to Rs.20.35 crore, Rs.7.68 crore and Rs.8.99 crore has been considered as quasi-equity as on March 31, 2019, March 31, 2020 and December 31, 2020 respectively.

**by treating 100% of the unsecured loans as debt*

As per provisional results for 9MFY21, KPPL registered net sales of Rs.257.41 crore with PAT of Rs.18.69 crore.

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 10, 2020.*

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	January-2028	56.11	CARE BBB+; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	29.00	CARE BBB+; Stable / CARE A2
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	2.00	CARE A2
Fund-based - ST-EPC/PSC	-	-	-	7.50	CARE A2
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	56.11	CARE BBB+; Stable	-	1)CARE BBB; Stable (18-Feb-20)	1)CARE BBB; Stable (27-Dec-18)	1)CARE BBB; Stable (18-Oct-17)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	29.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (18-Feb-20)	1)CARE BBB; Stable / CARE A3+ (27-Dec-18)	1)CARE BBB; Stable / CARE A3+ (18-Oct-17)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	2.00	CARE A2	-	1)CARE A3+ (18-Feb-20)	1)CARE A3+ (27-Dec-18)	1)CARE A3+ (18-Oct-17)
4.	Fund-based - ST-EPC/PSC	ST	7.50	CARE A2	-	1)CARE A3+ (18-Feb-20)	1)CARE A3+ (27-Dec-18)	1)CARE A3+ (18-Oct-17)
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	3.50	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (18-Feb-20)	1)CARE BBB; Stable / CARE A3+ (27-Dec-18)	1)CARE BBB; Stable / CARE A3+ (18-Oct-17)
6.	Non-fund-based - ST-Credit Exposure Limit	ST	5.00	CARE A2	-	1)CARE A3+ (18-Feb-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:
HDFC Bank (As per sanction letter dated November 23, 2020):
The company to improve and maintain tangible net worth (including unsecured loans from their promoters and their family members less investments less loans and advances for non-business related/ group concerns) at Rs. 7000 lacs during the currency of availment of different credit facilities from HDFC bank.

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - ST-Bills 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 Guarantees	Simple
6.	Non-fund-based - ST-Credit Exposure Limit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarification.*

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