

Continental Corrugators Private Limited

March 02, 2020

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long-term Bank Facilities	10.34	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)
Total facilities	10.34 (Rs. Ten crore and thirty four lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long term rating of Continental Corrugators Private Limited (CCPL) factors improvement in the financial risk profile as reflected by increase in operating income along with cash profit and improvement in capital structure and moderate operating cycle. Further, the rating continues to draw comfort from experienced promoters and increasing demand for the corrugated boxes.

The rating however continues to remain constrained by small scale of operations and competitive nature of industry along with susceptibility to volatility in prices of raw material.

Rating Sensitivities

Positive Factors

- Increase in scale of operations as marked by total operating income of above Rs. 80.00 crore on sustained basis.
- Improvement in capital structure as marked by overall gearing ratio of below unity.

Negative Factors

- Decline in profitability margins as marked by PBILDT below 4.50%.
- Elongation in operating cycle beyond 60 days.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

CCPL is currently being managed by Mr. Vinod Sachdeva, Mr. Nalin Sachdeva, Mrs. Neena Sachdeva and Mr. Shrey Sachdeva. Mr. Nalin Sachdeva and Mrs. Neena Sachdeva are graduate by qualification and have an experience of more than three decades in packaging industry through their association with CCPL and other family run businesses. Mr. Vinod Sachdeva is post graduate by qualification and has an experience of around four decades in packaging industry. Further, they are supported by Mr. Shrey Sachdeva who is post graduate by qualification. In addition, they are assisted by a team of managers who have requisite experience in their respective fields.

Improvement in financial risk profile

CCPL's total operating income is increasing, year on year basis from Rs. 39.85 crore in FY18 to Rs. 59.81 crore in FY19 as reflected from a growth of 50.09% over the previous year on account of higher quantity sold to the existing and new customers. The company has achieved a total operating income of Rs. 45.64 crore during 9MFY20 (based on provisional results, period starting from April 01 to December 31).

The profitability margin of the company continues to remain moderate in FY19 as marked by PBILDT margin of 6.54% as against 6.57% in FY18. Further high interest cost and depreciation charges continues to restrict the net profitability of the company below unity and stood at 0.14% in FY19 as against 0.49% in FY18.

Owing to moderate profitability, the coverage indicators of the company continues to remain moderate as marked by interest coverage ratio of 2.65x and total debt to GCA of 5.38x for FY19 as against 2.78x and 8.22x respectively in FY18.

The capital structure of the company improved though remained leveraged owing to higher dependence on external borrowings to meet its capex and working capital requirement as marked by overall gearing ratio of 1.68x as on balance sheet date for FY19 as against 2.45x as on balance sheet date for FY18. The improvement in the capital structure was on account of infusion of unsecured loans as quasi equity that resulted in a higher net worth base.

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

Moderate operating cycle

The operating cycle of the company continues to remain moderate at 10 days for FY19. The company is required to maintain adequate inventory of raw material for smooth running of its production process resulting into average inventory holding of around 49 days for FY19. The company normally offers credit period of around 45-60 days to its customers resulting in the average collection period of around 42 days. However, company receives a credit period of around 60 to 90 days owing to long standing relationship with the suppliers resulting in an average creditor period of 81 days for FY19. The working capital limits remained around 70% utilized for the past 12 months, period ended January 31, 2020.

Key Rating Weakness

Small scale of operations

The scale of operations of CCPL stood small as marked by a total operating income of Rs. 59.81 crore in FY19 (refers to period from April 01 to March 31) as against Rs. 39.85 crore during FY18. The company's net worth base also continues to remain relatively small at Rs. 7.68 crore as on March 31, 2019 as against Rs. 5.46 crores as on March 31, 2018. Further, the company has achieved a total operating income of Rs. 45.64 crore during 9MFY20 (based on provisional results, period starting from April 01 to December 31). The small scale limits the company's financial flexibility in times of stress and deprives it of scale benefits.

Competitive nature of industry along with susceptibility to volatility in prices of raw material

CCPL operates in competitive segments of the industry, which is fragmented due to low entry barriers. There are numerous players in the unorganized sector which increases the level of competition. Moreover, the primary raw material is waste paper, dyes, kraft paper which constitutes more than 70% of the total cost of production for the past three financial years i.e. FY17-FY19. Thus, margins are vulnerable to fluctuation in raw material cost. Hence the profitability of the company is based on the ability of the company to absorb the increase in raw material prices which will have an impact on the profitability margins and sales realization.

Liquidity: Adequate- The liquidity position of the company remained adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The company generates GCA of Rs. 2.40 crore and unencumbered cash & bank balances of Rs. 1.61 crore against repayment obligations of Rs. 1.44 crore in FY19. The working capital limits are utilized around 70% for the past 12 month's period ending January 31, 2020.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology – Manufacturing companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Faridabad (Haryana) based Continental Corrugators Private Limited (CCPL) was established in 1997 and is promoted by Mr. Vinod Sachdeva, Mrs. Neena Sachdeva, Mr. Nalin Sachdeva and Mr. Shrey Sachdeva. The company is engaged into manufacturing of different varieties of corrugated boxes. The company has its manufacturing unit at Faridabad, Haryana with the installed capacity of 3000 tonnes per month as on February 12, 2020. The products of CCPL find its application in the packaging industry and the company sells its products pan India. The raw material i.e. waste paper, dyes, kraft paper etc. is procured from companies located in Faridabad and nearby regions.

(Rs. In crores)

Brief Financials (Rs. crore)	FY18(A)	FY19 (A)
Total operating income	39.85	59.81
PBILD	2.62	3.91
PAT	0.19	0.08
Overall gearing (times)	2.45	1.68
Interest coverage (times)	2.78	2.65

A-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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-Cash Credit	-	-	-	4.00	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	July,2024	6.34	CARE BB; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	4.00	CARE BB; Stable	-	1)CARE BB-; Stable (07-Feb-19)	1)CARE B+; Stable (30-Jan-18)	-
2.	Fund-based - LT-Term Loan	LT	6.34	CARE BB; Stable	-	1)CARE BB-; Stable (07-Feb-19)	1)CARE B+; Stable (30-Jan-18)	-

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 clarifications.

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