

Garg Polypacks Private Limited

December 11, 2020

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	7.00	CARE B+; Stable; ISSUER NOT COOPERATING* (Single B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE BB-; Stable; (Double B Minus; Outlook: Stable)
Total Bank Facilities	7.00 (Rs. Seven Core Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated December 18, 2019, placed the rating(s) of Garg Polypacks Private Limited (GPPL) under the 'issuer non-cooperating' category as GPPL had failed to provide information for monitoring of the rating. GPPL continues to be non-cooperative despite repeated requests for submission of information through phone calls and emails dated December 2, 2020 and December 1, 2020. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The rating has been revised on account of non-availability of information and no due diligence conducted due to non-cooperation by Garg Polypacks Private Limited with CARE'S efforts to undertake a review of the rating outstanding. CARE views information non-availability risk as a key factor in its assessment of credit risk. The ratings take into account small scale of operations, leveraged capital structure, working capital intensive operations and competitive nature of the industry along with susceptibility to volatility in prices of raw material. The rating, however, draws comfort from experienced management and long track record of operations, moderate profitability margins and coverage indicators.

Detailed description of the key rating drivers

At the time of last rating on December 18, 2019, the following were the rating weaknesses and strengths (Updated for the information available from the Registrar of Companies):

Key Rating Weaknesses

Small scale of operations

The scale of operations of GPPL continues to remain small as marked by a total operating income and gross cash accruals of Rs.39.19 crore and Rs.1.40 crore respectively in FY20 (refers to period from April 01 to March 31) as against Rs.33.39 crore and Rs.1.02 crore respectively in FY19. The company's net worth base also continues to remain relatively small at Rs. 6.10 crore as on March 31, 2020. The small scale limits the company's financial flexibility in times of stress and deprives it of scale benefits.

Leveraged capital structure

The capital structure of the company continues to remain leveraged as marked by overall gearing of 0.96x as on March 31, 2020 as against 1.29x as on March 31, 2019 owing to higher dependence on external borrowings.

Working capital intensive operations

The operations of the company continue to remain working capital intensive in nature marked by an operating cycle of 80 days in FY20. Being a competitive business, the company offers credit period of around 2-3 months to its customers. Further, the company usually pays its suppliers within a month resulting in average payable period of 21 days in FY20. The company is maintaining an adequate inventory in the form of raw material for smooth running of its production processes and finished goods to meet the immediate demand of the customers resulting in inventory holding of 60 days during FY20.

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

The primary raw material required for manufacturing of woven sack bags is polypropylene (PP) granules, which is a crude oil derivative. Over the years, prices of crude oil have been volatile and so are the prices of polymers. Considering the volatility associated with raw material prices and timing difference arising in procurement of raw material and realization

of sales, thereby exposing the company's operating margins to fluctuations. Further, the packaging industry is dominated by players operating in the small and medium-scale sector, resulting in fragmentation and competition. These players mainly cater to regional demand and enjoy the benefits of lower cost in terms of proximity to customers and raw material suppliers. Further, due to low product differentiation and value addition, the industry is highly competitive with price being the key differentiating factor.

Key Rating Strengths

Experienced management and long track record of operations

GPPL is currently being managed by Mr. Ajay Garg, Mr. Prateek Garg and Mr. Ankit Garg. Mr. Ajay Garg is graduate by qualification and has more than three decades of experience in the industry. He looks after the overall operations of the company. Mr. Prateek Garg is graduate by qualification and Mr. Ankit Garg is postgraduate by qualification. Both of them have more than half decade of experience in the industry and looks after production and marketing function respectively in the company. GPPL was established in 1983, therefore, has long track record of operation in the woven sack industry. Being present in the industry since a long period of time, the management of the company has established relations with the customers and suppliers.

Moderate profitability margins and coverage indicators

The profitability margin continues to be moderate as marked by PBILDT and PAT margins of 6.09% and 2.11% respectively in FY20 as against 6.12% and 1.82% respectively in FY19. Owing to moderate profitability, the coverage indicators of the company continues to remain moderate as marked by interest coverage and total debt to GCA of 3.29x and 4.18x respectively for FY20 as against 2.53x and 6.64x respectively for FY19.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Financial ratios – Non-Financial Sector](#)
[Rating Methodology - Manufacturing Companies](#)
[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

Uttar Pradesh based, Garg Polypacks Private Limited (GPPL) was formed in the year 1984 as a partnership firm. Subsequently in 1993, it was converted into private limited company by Mr. Ajay Kumar Garg, Mr. Ankit Garg and Mr. Prateek Garg. The company is engaged in the business of manufacturing of High-Density Polyethylene (HDPE) and Polypropylene (PP) laminated woven sacks bags and fabrics which find its application in packaging across various industries viz. cattle feed, sugar, fertilizers etc. The manufacturing plant of the company is located at Visyapur, Kanpur with installed capacity of 1,50,000 HDPE/PP woven sack bags as on January 07, 2019. The company sells its product mainly to farmers and manufacturers based in Uttar Pradesh and nearby regions

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	33.39	39.19
PBILDT	2.04	2.39
PAT	0.61	0.83
Overall gearing (times)	1.29	0.96
Interest coverage (times)	2.53	3.29

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for 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	-	-	-	6.00	CARE B+; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Stand by Limits	-	-	-	1.00	CARE B+; Stable; ISSUER NOT COOPERATING*

*Issuer not cooperating; Based on best available information

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	-	-	-	-	1)Withdrawn (04-Feb-19)	1)CARE BB-; Stable (30-Oct-17)
2.	Fund-based - LT-Cash Credit	LT	6.00	CARE B+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (18-Dec-19)	1)CARE BB-; Stable (04-Feb-19)	1)CARE BB-; Stable (30-Oct-17)
3.	Fund-based - LT-Stand by Limits	LT	1.00	CARE B+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (18-Dec-19)	1)CARE BB-; Stable (04-Feb-19)	-

*Issuer not cooperating; Based on best available information

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Stand by Limits	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 clarifications.

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About CARE Ratings:

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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