Knack Packaging Private Limited

February 18, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	27.77 (enhanced from Rs. 18.30 crore)	**CARE BBB; Stable [Triple B; Outlook: Stable]**	**Reaffirmed**
Short-term Bank Facilities	10.00 (enhanced from Rs. 5.00 crore)	**CARE A3+ [A Three Plus]**	**Reaffirmed**
Long-term/ Short-term Bank Facilities	28.50 (enhanced from Rs. 25.50 crore)	**CARE BBB; Stable / CARE A3+ [Triple B; Outlook: Stable / A Three Plus]**	**Reaffirmed**
Total Facilities	**66.27 (Rupees Sixty Six crore and Twenty Seven lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Knack Packaging Private Limited (KPPL) 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 also continue to derive strength from its growing scale of operations with steady operating profitability (PBILDT) margin and moderate debt coverage indicators. The ratings also factor conclusion of its expansion project during H2FY19 *(FY refers to period of April 1 to March 31)* leading to expansion in its product offerings.

The ratings, however, continue to remain constrained on account of its high leverage, 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.

Rating Sensitivities

Positive Factors

- Increase in scale of operation i.e. Total Operating income more than Rs.300 crore and achieving healthy PBILDT margin of more than 14% on sustained basis
- Improvement in its capital structure marked by overall gearing falling below unity.

Negative Factors

- Significant decline in scale of operation with Total Operating income falling below Rs.150 crore and deterioration in PBILDT margin below 10% on sustained basis.
- Deterioration in capital structure marked by overall gearing of more than 3 times along with deterioration in debt coverage indicators marked by Interest coverage below 2.50 times and TD/GCA of more than 7 times
- Any large sized debt funded capex adversely affecting its leverage and debt coverage indicators

Detailed description of the key rating drivers

Key Rating 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 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 September 30, 2019, unsecured loans from promoters & relatives stood at Rs.28.14 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. Further, in order to support its growth, KPPL doubled its production capacity during FY17 by

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

setting up a new unit at Mehsana, Gujarat. Also, during FY19, KPPL set up a new lamination and printing line to cater to its domestic and overseas client, which has a capacity of around 7640 MTPA. This capex enabled KPPL to manufacture six side printing line for premium customers especially for the export market. The utilization of KPPL's manufacturing facilities remained healthy at 98% during FY19 and 78% *(annualized)* during H1FY20 with increased capacity.

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 low with Top 10 customers forming 26% of TOI which increased from 21% in FY18. Also, KPPL was able to acquire new clients in the export market leading to which, KPPL's export sales increased from around 32% during FY18 to around 34% during FY19 and to 47% in H1FY20.

Growing scale of operations along with stable operating profitability margin and moderate debt coverage indicators

In FY19, KPPL reported 15.05% y-o-y growth in its Total Operating Income which stood at Rs. 236.45 crore led by 24.53% y-o-y growth in sales realization of its products with change in product mix. Sales volume for its products improved marginally by 2.45% in FY19 over FY18. During FY19, KPPL's PBILDT margin continued to remain stable at 11.01% (P.Y.: 11.14%). KPPL's PAT margin improved marginally and stood at 3.53% during FY19 (3.30% during FY18), primarily due to higher operating profits and lower depreciation charged. As per provisional results for H1FY20, KPPL reported TOI of Rs.153.67 crore (Rs. 104.81 crore during H1FY19) along with improved PBILDT margin of 14.04% (P.Y.: 12.43%) & PAT margin of 5.46% (P.Y.: 4.30%) on account of increase in exports of KPPL mainly to the USA market.

KPPL's debt coverage indicators continued to remain moderate and improved marginally marked by a TD/GCA of 4.88x as on March 31, 2019 and Interest coverage ratio of 3.26x in FY19.

Key Rating Weaknesses

High leverage

KPPL's capital structure continued to remain highly leveraged marked by an overall gearing of 2.55x as on March 31, 2019 (3.03x as on March 31, 2018) despite some improvement on the back of higher accretions to its net worth base during FY19. KPPL's total debt increased to Rs. 75.55 crore (as on March 31, 2019) as compared to Rs. 68.37 crore (as on March 31, 2018), which includes Unsecured Loans from promoters of Rs. 26.20 crore (as on March 31, 2019) as compared to Rs. 21.92 crore (as on March 31, 2018).

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 30-35% 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

Liquidity profile of KPPL is characterized by sufficient cushion in its cash accruals (around Rs. 20.43 crore) vis-à-vis repayment obligations of Rs. 6.78 crore in FY20, moderate cash flow from operations and operating cycle. Cash flow from operations stood at Rs. 19.83 crore in FY19 as compared to Rs. 9.50 crore in FY18. Its operating cycle also remained moderate at 65 days in FY19. However, its average fund based working capital utilization remained high at 85% for past 12 months ended November 30, 2019. The current ratio and the quick ratio both remained modest at 1.15 times and 0.79 times respectively as on March 31, 2019. KPPL had cash and bank balance of Rs.1.30 crore (including lien marked FD of Rs. 0.09 crore) as on March 31, 2019.

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]

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 September 30, 2019, 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)	FY18 (A)	FY19 (A)
Total operating income	205.52	236.45
PBILDT	22.89	26.03
PAT	6.78	8.35
Overall gearing (times)*	3.03	2.55
Interest coverage (times)	3.34	3.26

A: Audited; *As per the latest sanction letter of lender, KPPL is required to maintain Rs.45.00 crore of tangible net worth in the company. However, no specific amount of unsecured loan required to be maintained is mentioned. *Hence, entire unsecured loan has been treated as debt in current year as well as in the past as per CARE's criteria.*

As per provisional results, during H1FY20 *(refers to April 01, 2019 to September 30, 2019)*, KPPL registered net sales of Rs.153.67 crore with PAT of Rs. 8.39 crore as against a TOI of Rs.104.81 crore with PAT of Rs.4.50 crore during H1FY19.

Status of non-cooperation with previous CRA: India Ratings and Research has migrated the ratings of KPPL to non-cooperating category and has classified KPPL as "Issuer not cooperating" vide its press release dated October 08, 2018.

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-Term Loan	-	-	December-2025	27.77	CARE BBB; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	28.00	CARE BBB; Stable / CARE A3+
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	2.00	CARE A3+
Fund-based - ST-EPC/PSC	-	-	-	3.00	CARE A3+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	0.50	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Credit Exposure Limit	-	-	-	5.00	CARE A3+

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-Term Loan	LT	27.77	CARE BBB; Stable	-	1)CARE BBB; Stable (27-Dec-18)	1)CARE BBB; Stable (18-Oct-17)	1)CARE BBB- (08-Jul-16)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	28.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (27-Dec-18)	1)CARE BBB; Stable / CARE A3+ (18-Oct-17)	1)CARE BBB- / CARE A3 (08-Jul-16)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	2.00	CARE A3+	-	1)CARE A3+ (27-Dec-18)	1)CARE A3+ (18-Oct-17)	-
4.	Fund-based - ST-EPC/PSC	ST	3.00	CARE A3+	-	1)CARE A3+ (27-Dec-18)	1)CARE A3+ (18-Oct-17)	-
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	0.50	CARE BBB; Stable / CARE A3+	-	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 A3+	-	-	-	-

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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