Knack Packaging Private Limited

October 18, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	22.86	**CARE BBB; Stable [Triple B; Outlook: Stable]**	Revised from CARE BBB- (Triple B Minus)
Short-term Bank Facilities	5.00	**CARE A3+ [A Three Plus]**	Assigned
Long-term / Short-term Bank Facilities	20.50	**CARE BBB; Stable / CARE A3+ [Triple B; Outlook: Stable / A Three Plus]**	Revised from CARE BBB-/CARE A3 (Triple B Minus/A Three)
Total Facilities	**48.36 (Rupees Fourty Eight crore and Thirty Six lakh 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 the volume backed growth in its Total Operating Income (TOI; during FY17, refers to period April 01 to March 31) with consistent demand from its domestic customers and robust growth reported in its export sales, expansion in its operating profit margin on back of decline in its material cost that was not entirely passed on to its customers and improved economies of scale with higher sales volume. The expansion in operating profit margin also translated into improved cash accruals and interest coverage for FY17. The revision in the rating also factors in the successful completion of capacity enhancement product undertaken during the year and healthy capacity utilization levels there.

The ratings continue to derive strength from vast experience of the promoters in the flexible packaging industry, its diversified & reputed clientele base and moderate leverage as on March 31, 2017.

The ratings, however, continue to be constrained due to susceptibility of KPPL's profit margins to raw material price volatility, its exposure to forex fluctuation, working capital intensive nature of its operations and its presence in a highly competitive and fragmented flexible packaging industry.

The ability of KPPL to further expand its operating profit margin by venturing into various value added products and improvement in its leverage would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Despite the decline in its average sales realizations, KPPL reported volume backed growth in its Total Operating Income (TOI) on back of consistent order flow

During FY17, owing to steady order flow, KPPL had to double its production level by setting up a new unit at Mehsana. Further, owing to steady demand for its products, KPPL reported Y-o-Y growth of 30% in its Sales Volume of HDPE/PP woven bags which translated into Y-o-Y growth of 26% in its TOI during FY17.

Healthy cash accruals as a consequence to expansion in operating profit margin

During FY17, KPPL reported marginal improvement in its PBILDT margin during FY17 on account of decline in its raw material cost that was not totally passed on to its customers, coupled with improved economies of scale on back of higher capacity utilization and production. It also reported improvement in its interest cover for FY17 on back of improved cash accruals.

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

Successful completion of expansion project; eligibility for capital subsidy under Technology Up-gradation Fund Scheme (TUFS)

During FY17, KPPL executed a CapEx project of adding 6500 MTPA of incremental capacity for HDPE/ PP woven bags/ Fabric manufacturing which was completed within its respective time and cost parameters. The expansion of the company would lead to value addition (metalize lamination), technology upgradation and backward integration. Further, the project is eligible for 10% capital subsidy on plant and machinery under the TUFS of Government of India.

Experienced and resourceful promoter group having longstanding relationship with reputed clientele

The promoters are resourceful; same is indicated from the fact that during last three years, the unsecured loans from promoters have increased from Rs.12.12 crore in FY15 to Rs.13.22 crore in FY16 which further increased to Rs.18.19 crore during FY17.

KPPL's products are majorly used in packaging of rice, grains, pulses, fertilizers, cements, animal food, etc. KPPL shares long standing relationship with its customers and has been consistently generating the incremental orders from its regular customers and new ones.

Key Rating Weaknesses

Susceptibility of operating profit margin 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 as well as international markets. The key raw material, being derivative of crude oil, makes KPPL's profitability susceptible to volatility in crude oil prices. During FY17, there was a fall in average price of Brent Crude resulting in decline in price for most of its derivative products which led to decline in raw material cost and improved operating profit margin for KPPL.

Competitive and fragmented industry with low entry barriers

Poly woven sacks & fabric industry is highly fragmented with presence of a large number of unorganized regional manufacturers 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, intensifying the competition. The intense competition is also driven by low entry barriers in terms of capital and technology requirements and limited product differentiation.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Financial ratios - Non- Financial Sector
Criteria for Short Term Instruments

About the Company

Ahmedabad-based 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. KPPL was initially incorporated in March 2013, however, its commercial production commenced from November 2013. The promoter group consists of family members of Mr Alpesh and Mr Rashmin Patel.

KPPL operates with an installed capacity of 13,000 metric tonnes per annum (MTPA) from its manufacturing facilities located at Mehsana, Gujarat.

(Rs. Crore)

Brief Financials	FY15 (A)	FY16 (A)	FY17 (A)
Total operating income	100.51	135.02	171.67
PBILDT	9.95	14.91	19.44
PAT	0.55	4.48	5.46
Overall gearing (times)	0.91	1.10	1.31
Interest coverage (times)	1.92	2.98	3.05

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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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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	-	-	Dec, 2023	22.86	CARE BBB; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	20.00	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+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	22.86	CARE BBB; Stable	-	1)CARE BBB- (08-Jul-16)	1)CARE BB+ (08-Jul-15) 2)CARE BB+ (30-Jun-15)	-
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	20.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB- / CARE A3 (08-Jul-16)	1)CARE BB+ / CARE A4+ (08-Jul-15) 2)CARE BB+ / CARE A4+ (30-Jun-15)	-
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	2.00	CARE A3+	-	-	-	-
4.	Fund-based - ST-EPC/PSC	ST	3.00	CARE A3+	-	-	-	-
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	0.50	CARE BBB; Stable / CARE A3+	-	-	-	-

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