Knack Packaging Private Limited

December 27, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	18.30 (reduced from Rs.22.86 crore)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	5.00	**CARE A3+ (A Three Plus)**	Reaffirmed
Long-term / Short-term Bank Facilities	25.50 (enhanced from Rs.20.50 crore)	**CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable / A Three Plus)**	Reaffirmed
Total Facilities	**48.80 (Rupees Forty Eight Crore and Eighty 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 the flexible packaging industry, its diversified & reputed clientele, volume backed growth in its Total Operating Income during FY18 (FY refers to period April 1 to March 31) on the back of steady demand for its products along with stable operating profitability and moderate leverage.

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, 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 increase its scale of operations and expand its operating profitability while efficiently managing its working capital requirements and improving its leverage would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established relationship with reputed clientele: KPPL's promoters have been engaged in the business for flexible packaging products since 1993 through various partnership and proprietorship firms. Further, the promoters have continued to support KPPL's operations with infusion of funds in the form of unsecured loans. Further, KPPL has established relationship with its clients in diverse industries including grains, pulses, fertilizers, 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. In FY18, around 32% of KPPL's sales were to overseas clients, which increased marginally from 30% in the previous year.

Volume backed growth in its scale of operations and stable operating profitability: During FY18, owing to the steady demand for its products from various end use industries, KPPL reported 20% y-o-y growth in its scale of operations backed by a y-o-y volume growth of 18%. KPPL's operating profitability remained stable, as it was able to pass on increase in raw material costs, primarily crude oil derivatives, to its customers.

Moderate leverage: KPPL's had a moderate leverage as on March 31, 2018 marked by an overall gearing of 1.60x as on March 31, 2018. The marginal deterioration in the leverage parameter was largely on account of increased working capital borrowings following growth in scale of operations and infusion of unsecured loans by the promoters to support KPPL's operations. KPPL's debt coverage indicators, however, remained largely stable with comfortable interest coverage during FY18 and TD/GCA as on March 31, 2018.

Key Rating Weaknesses

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. These key raw materials, being derivatives of crude oil, makes KPPL's operating profitability susceptible to volatility in crude oil prices. KPPL's exports constitute around 25-30% of its TOI, while it does not have any natural hedge by way of imports. Further, it does not have any active hedging policy for its export receivables, which exposes its profitability to adverse movements in foreign exchange rates.

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

Working capital intensive nature of operations: KPPL's operations are working capital intensive in nature, with investment requirement in both receivables as well as inventory. KPPL's operating cycle remained largely stable at 68 days in FY18, despite increase in scale of operations. The utilization of its fund based working capital limits remained moderate at 80-85% for the trailing twelve months ended October 2018.

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: KPPL's liquidity remained moderate during FY18 with largely stable receivables and inventory holding as on March 31, 2018 compared with that as on end FY17. Further, KPPL avails limited fund based working capital limits of Rs.25.00 crore, compared with its scale of operations as a sizeable part of its requirements are funded through its internal accruals as well as additional unsecured loans infused by the promoters. Term loan repayment requirements are in the range of around Rs.4.50-6.20 crore p.a. over the next three years (FY19-FY21), which are expected to be met through internal accruals, given KPPL's largely stable profitability and cash accrual generation. The funds infused by the promoters have supported various business requirements of KPPL and the same are expected to remain available for these purposes in the medium term.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook 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. (KPPL) 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 March 31, 2018, KPPL had an installed capacity of 13,000 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)	FY17 (A)	FY18 (A)
Total operating income	171.67	205.52
PBILDT	19.44	22.89
PAT	5.46	6.78
Overall gearing (times)	1.31	1.60
Interest coverage (times)	3.05	3.34

A – Audited;

Further, as per the provisional results for H1FY19, KPPL reported a total operating income of Rs.104.81 crore.

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 8, 2018.

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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 2023	18.30	CARE BBB; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	25.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	18.30	CARE BBB; Stable	-	1) CARE BBB; Stable (18-Oct-17)	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	25.00	CARE BBB; Stable / CARE A3+	-	1) CARE BBB; Stable / CARE A3+ (18-Oct-17)	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+	-	1) CARE A3+ (18-Oct-17)	-	-
4.	Fund-based - ST-EPC/PSC	ST	3.00	CARE A3+	-	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+ (18-Oct-17)	-	-

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