

**CARE/HO/RR/2019-20/1105**

**Mr. Ramswaroop Thard**

**Managing Director**

**Rajshree Polypack Limited**

3-C, Jai Hind Building, 2<sup>nd</sup> Floor,

Room No. 4, Dr. Atmaram Merchant Road,

Bhuleshwar, Mumbai – 400 002

April 12, 2019

**CONFIDENTIAL**

Dear Sir,

**Credit rating for Bank Facilities aggregating to Rs.24.49 crore**

Please refer to our letter dated March 28, 2019, on the above subject.

2. The rationale for the ratings is attached as an **Annexure - I**.
3. We request you to peruse the annexed documents and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by April 15, 2019, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

*Ruchi*

**[Ruchi Shroff]**  
**Manager**

Encl: as above

**Annexure - I**  
**Rating Rationale**  
**Rajshree Polypack Limited**

**Ratings**

| Facilities                 | Amount<br>(Rs. crore)   | Ratings <sup>1</sup>                                    | Remarks    |
|----------------------------|---|---|------------|
| Long-term Bank Facilities  | 20.59   | CARE BBB+;Stable<br>(Triple B Plus; outlook:<br>Stable) | Reaffirmed |
| Short-term Bank Facilities | 3.90  | CARE A3+<br>(A Three Plus)                              | Reaffirmed |
| <b>Total facilities</b>    | <b>24.49</b><br><b>(Rs. Twenty Four Crore and<br/>Forty Nine Lakh Only)</b> |   |            |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

*The ratings assigned to the bank facilities of Rajshree Polypack Limited (RPL), continue to derive strength from healthy profit margins, comfortable capital structure and debt coverage indicators. CARE has also factored further improvement in the capital structure with the funds raised through IPO and private equity during FY19.*

*The ratings also continue to derive strength from the significant experience of the promoters and management in the industry, operating synergies with the Wifag Polytype group and established market position of RPL marked by long association with reputed clientele.*

*The ratings continue to be constrained by relatively modest scale of operations, susceptibility of profit margins to volatile raw material prices and operations in a highly fragmented and competitive packaging industry.*

*RPL's ability to increase the scale of operations and maintain profitability amidst the growing competition with efficient capacity utilization and manage its working capital requirements remain the key rating sensitivity.*

**Detailed description of the key rating drivers**

**Long track record of operation and experienced promoters**

The promoters of RPL are vastly experienced with Mr. Ramswaroop Thard (Managing director, an engineer) having more than two decades of experience in the industry and looks after

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

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production & marketing operations of the company. Further, Mr. Naresh Thard (Director) also has two decades of experience in the field of thermoforming & looks after administration. The promoters are supported by qualified & experienced nominee directors & management team.

***Established relations with reputed customers***

RPL continues to receive repeat orders from reputed FMCG and packaging customer base as reflected from RPL's growing scale of operation and healthy order book position.

***Relatively modest scale of operation***

RPL's total income grew by 17.28% from Rs.96.31 crore in FY17 to Rs.112.95 crore in FY18 on account of increase in the volume of goods sold (sale of 7006 lakhs pcs in FY18 vis-à-vis 6190 lakhs pcs in FY17) due to increased demand. Further, during 10MFY19, it has already sold 5474 lakhs pcs with total income of Rs.100.16 crore. Moreover, apart from steady growth, RPL also has an order book position of Rs.12.36 crore as on March 06, 2019 to be executed by March 31, 2019. However given the high volume, low value added product, RPL's scale of operations continues to be relatively modest.

***Healthy profit margin***

With reduction in realization its margins have deteriorated with decline in PBILDT margin from 22.27% in FY17 to 18.73% in FY18 primarily on account of increase in raw material prices (constituted 70% of total cost in FY18 vis-à-vis 67% in FY17) and employee cost.

Furthermore, due to increase in depreciation cost (due to addition of machineries, molds, dies and equipment, vehicles, computer and furniture amounting to Rs.3.17 crore in FY18) and decline in PBILDT margin, net profit of company also declined to 8.46% in FY18 vis-a-vis 9.17% in FY17. Nevertheless despite the decline profitability continues to remain healthy.

***Comfortable capital structure and debt coverage indicators***

RPL's capital structure stood comfortable in past (FY16-17) on account of lower debt availed to fund its business operations. Further, the overall gearing has further improved and stood comfortable at 0.44x as on March 31, 2018 and vis-à-vis 0.64x as on March 31, 2017 on account of lower utilization of working capital limit at the year-end coupled with scheduled repayment of term debt along with accretion of profits to reserves. Furthermore, due to reduction in debt

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level on account of repayment of term loan, total debt /GCA has improved and stood comfortable at 1.43 x in FY18 (vis-a-vis 1.70x in FY17).

***Funds raised through IPO and private equity during FY19 for the capacity expansion project however project execution risk exists***

RPL has raised total funds amounting to Rs. 39.10 crore in FY19 through Initial public offerings (IPO) by issuing 29,60,000 shares of Rs. 120/- each amounting to Rs. 35.52 crore and through private Equity by issuing 2,97,393 shares of Rs. 120/- each amounting to Rs. 3.58 crore with a view to expanding its manufacturing capacity to 15200 MT extrusion sheets per annum (from 10200 MT extrusion sheets per annum) at Factory Unit IV at Daman, India. Further, Company has entered into a Lease Deed with Gagan Packaging Private Limited for 16 years 9 months for constructing and setting up Factory Unit IV. Total cost of the project is Rs.36.24 crore which will be funded through funds raised from IPO. As on March 23, 2019; company has incurred expenses of Rs. 5.10 crore (14% of the total project cost) through proceedings from IPO. Construction work has started in January 2019 and unit IV is expected to be operational by January 2020. Thus going forward RPL's ability to complete the project in timely manner without any cost and time overrun shall be critical from credit perspective.

***Working capital intensive nature of operations***

RPL's working capital cycle stood stable at 69 days in FY18 vis-à-vis 65 days in FY17 primarily due to collection and inventory period remaining at same level in FY18. Nevertheless RPL's business operations continue to be comfortable with average working capital utilization of 25% and average maximum utilization at 50% for twelve months ended January 2019.

***Comfortable liquidity position***

RPL has comfortable liquidity position marked by moderate current ratio of 1.68 times as on March 31, 2018. Further its cash and bank balance remained low at Rs. 0.66 crore as on March 31, 2018 vis-à-vis Rs. 1.03 crore as on March 31, 2017.

***Profitability margins exposed to volatility in raw material prices***

The primary raw materials used by RPL for manufacturing of plastic containers are polypropylene and polystyrene (forms around 57% of the total cost). The prices of these raw materials are linked to crude oil prices & have therefore been volatile in past.

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Furthermore, RPL has practice of maintaining inventory of around one and half month which exposed its profitability margins to volatile raw material prices. Also given the relatively modest scale of operations, RPL has limited bargaining power with suppliers. However, this risk is partially mitigated as RPL has an understanding with some of its customer as per which the finished product prices are linked with fluctuation in raw material prices. This fact is also supported by the healthy profitability margins exhibited by RPL over the years.

### ***Highly fragmented & competitive nature of industry***

The flexible packaging industry is highly fragmented in nature on the account of low entry barrier both in terms of low initial capital investment and easy access to technology. The players with the established track record, reasonable size and with the focus on the improvement in the quality of packaging are able to re-negotiate the prices with the customers and would be able to cater to the rising demand for the consumption based sectors with the protection of margin.

**Analytical approach:** Standalone

### **Applicable Criteria**

**Criteria on assigning Outlook to Credit Ratings**

**CARE's Policy on Default Recognition**

**Criteria for Short Term Instruments**

**Rating Methodology-Manufacturing Companies**

**Financial ratios – Non-Financial Sector**

### **About the Company**

Established in 2003 as a partnership firm and later reconstituted into a private limited company in 2011, Rajshree Polypack Private Limited (RPPL) and then is converted into public limited company in August, 2017. RPL has raised total funds of Rs. 39.10 crore in FY19 through Initial public offerings (IPO) to fund the capex undertaken. The company is engaged in the manufacturing of thermoformed plastic containers for food products [viz. cups, plates, trays, containers, ice cream cups and others ranging from a capacity of 50 Millilitres (ml) to 1,000 Milliliters (ml)] under the brand name 'Natraj', 'Samrat', 'Satyam' for reputed FMCG and packaging clients. RPL has its manufacturing facility located at Daman with installed capacity of 4320 MTPA in thermoforming division and 10200 MTPA capacities in extrusion division as on March 31, 2018.

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## Financial Performance

|  | (Rs. crore) |          |          |
|--|-------------|----------|----------|
| For the period ended / as at March 31,     | 2016        | 2017     | 2018     |
|  | (12m, A)    | (12m, A) | (12m, A) |
| <b>Working Results</b>                     |             |          |          |
| Net Sales                                  | 94.62       | 94.26    | 110.66   |
| Total Operating income                     | 95.65       | 96.31    | 112.95   |
| PBILDT                                     | 19.95       | 21.45    | 21.16    |
| Interest                                   | 3.97        | 2.92     | 2.40     |
| Depreciation                               | 4.16        | 4.86     | 5.24     |
| PBT  | 11.96       | 13.69    | 13.50    |
| PAT (after deferred tax)                   | 7.94        | 8.83     | 9.56     |
| Gross Cash Accruals                        | 15.06       | 14.75    | 14.39    |
| <b>Financial Position</b>                  |             |          |          |
| Equity share capital                       | 2.66        | 7.98     | 7.98     |
| T Net Worth                                | 30.76       | 38.96    | 46.95    |
| Total capital employed                     | 64.08       | 68.96    | 71.91    |
| <b>Key Ratios</b>                          |             |          |          |
| <i>Growth (%)</i>                          |             |          |          |
| Growth in Total Operating Income           | 46.25       | 0.91     | 17.85    |
| Growth in APAT                             | 1075.13     | 11.18    | 8.25     |
| <i>Profitability</i>                       |             |          |          |
| PBILDT/Total Op. income (%)                | 20.86       | 22.27    | 18.73    |
| PAT (after deferred tax)/ Total income (%) | 8.30        | 9.17     | 8.46     |
| ROCE (%)                                   | 26.61       | 24.95    | 22.65    |
| RONW (%)                                   | 29.18       | 25.32    | 22.25    |
| <i>Solvency</i>                            |             |          |          |
| Long Term Debt Equity ratio (times)        | 0.71        | 0.50     | 0.42     |
| Overall gearing ratio(times)               | 0.95        | 0.64     | 0.44     |
| Interest coverage(times)                   | 5.03        | 7.36     | 8.81     |
| Term Debt/ Gross cash accruals             | 1.45        | 1.33     | 1.36     |
| Total debt/Gross cash accruals             | 1.95        | 1.70     | 1.43     |
| <i>Liquidity</i>                           |             |          |          |
| Current ratio(times)                       | 1.36        | 1.43     | 1.68     |
| Quick ratio(times)                         | 1.03        | 0.84     | 1.14     |
| <i>Turnover</i>                            |             |          |          |
| Average collection period (days)           | 40          | 45       | 51       |
| Average creditors (days)                   | 33          | 35       | 34       |
| Average inventory (days)                   | 38          | 55       | 52       |
| Operating cycle (days)                     | 45          | 65       | 69       |

A: Audited

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**Annexure 1**  
**Details of Rated Facilities**

**1. Long-term facilities**

**1. A. Secured rupee term loans**

| Sr. No. | Lender                | Rated Amount<br>(Rs. Crore) |
|---------|-----------------------|-----------------------------|
| 1.      | IndusInd Bank         | 9.12*                       |
| 2       | HDFC Bank             | 1.76*                       |
| 3       | HDFC Bank             | 1.21*                       |
|         | <b>Total Facility</b> | <b>12.09</b>                |

\* Outstanding as on December 31, 2018.

**1. B. Fund Based limits**

(Rs. crore)

| Name of Bank  | Fund Based Limits |                         |
|---------------|-------------------|-------------------------|
|               | Cash Credit       | Total fund-based limits |
| IndusInd Bank | 2.00              | 2.00                    |
| HDFC Bank     | 6.50              | 6.50                    |
| <b>Total</b>  | <b>8.50</b>       | <b>8.50</b>             |

**Total long-term facilities (1A.+1.B.) Rs.20.59 crore**

**2. Short-term facilities**

**2. A. Non fund based limits**

(Rs. crore)

| Name of Bank | Non fund-based limits |             |                             |
|--------------|-----------------------|-------------|-----------------------------|
|              | LC*                   | BG*         | Total Non fund-based limits |
| HDFC Bank    | 2.00                  | 0.40        | 2.40                        |
| <b>Total</b> | <b>2.00</b>           | <b>0.40</b> | <b>2.40</b>                 |

\* LC=Letter of credit, BG: Bank Guarantee

**2. B. Fund based limits**

(Rs. crore)

| Name of Bank | Fund-based limits |                        |
|--------------|-------------------|------------------------|
|              | Bill discounting  | Total fund based limit |
| HDFC Bank    | 1.50              | 1.50                   |
| <b>Total</b> | <b>1.50</b>       | <b>1.50</b>            |

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**Total short-term facilities (2.A.+2.B.)Rs.3.90 crore**  
**Total facilities Rs. 24.49 crore**

**Disclaimer**

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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                           | -                | -           | (April 2021)    | 9.12                          | CARE BBB+; Stable                         |
| Fund-based - LT-Cash Credit                         | -                | -           | -               | 6.50                          | CARE BBB+; Stable                         |
| Non-fund-based - ST-Letter of credit                | -                | -           | -               | 2.00                          | CARE A3+                                  |
| Non-fund-based - ST-Bank Guarantees                 | -                | -           | -               | 0.40                          | CARE A3+                                  |
| Fund-based - ST-Bills discounting/ Bills purchasing | -                | -           | -               | 1.50                          | CARE A3+                                  |
| Fund-based - LT-Term Loan                           | -                | -           | (February 2022) | 1.76                          | CARE BBB+; Stable                         |
| Fund-based - LT-Term Loan                           | -                | -           | (January 2022)  | 1.21                          | CARE BBB+; Stable                         |
| Fund-based - LT-Cash Credit                         | -                | -           | -               | 2.00                          | CARE BBB+; 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 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              | 9.12                           | CARE BBB+; Stable | 1)CARE BBB+; Stable (19-Jul-18)<br>2)CARE BBB+ (Under Credit watch with Developing Implications) (04-Apr-18) | 1)CARE BBB+; Stable (12-Apr-17)           | -   | 1)CARE BBB (03-Dec-15)                    |
| 2.      | Fund-based - LT-Cash Credit            | LT              | 6.50                           | CARE BBB+; Stable | 1)CARE BBB+; Stable (19-Jul-18)<br>2)CARE BBB+ (Under Credit watch with Developing Implications)             | 1)CARE BBB+; Stable (12-Apr-17)           | -   | 1)CARE BBB (03-Dec-15)                    |

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|    |   |    |      |                   |  |                        |   |                       |
|----|---|----|------|-------------------|--|------------------------|---|-----------------------|
|    |   |    |      |                   | (04-Apr-18)  |                        |   |                       |
| 3. | Non-fund-based - ST-Letter of credit                | ST | 2.00 | CARE A3+          | 1)CARE A3+; Stable (19-Jul-18)<br>2)CARE A3+ (Under Credit watch with Developing Implications) (04-Apr-18) | 1)CARE A3+ (12-Apr-17) | - | 1)CARE A3 (03-Dec-15) |
| 4. | Non-fund-based - ST-Bank Guarantees                 | ST | 0.40 | CARE A3+          | 1)CARE A3+; Stable (19-Jul-18)<br>2)CARE A3+ (Under Credit watch with Developing Implications) (04-Apr-18) | 1)CARE A3+ (12-Apr-17) | - | 1)CARE A3 (03-Dec-15) |
| 5. | Fund-based - ST-Bills discounting/ Bills purchasing | ST | 1.50 | CARE A3+          | 1)CARE A3+; Stable (19-Jul-18)<br>2)CARE A3+ (Under Credit watch with Developing Implications) (04-Apr-18) | 1)CARE A3+ (12-Apr-17) | - | -                     |
| 6. | Fund-based - LT-Term Loan                           | LT | 1.76 | CARE BBB+; Stable | -  | -                      | - | -                     |
| 7. | Fund-based - LT-Term Loan                           | LT | 1.21 | CARE BBB+; Stable | -  | -                      | - | -                     |
| 8. | Fund-based - LT-Cash Credit                         | LT | 2.00 | CARE BBB+; Stable | -  | -                      | - | -                     |

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