

August 07, 2023

## Wadpack Pvt Ltd: [ICRA]BB (Stable)/[ICRA]A4+ reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term – Fund-based, Cash Credit	15.00	15.00	[ICRA]BB(Stable)/[ICRA]A4+; reaffirmed
Long-term – Fund-based, Term Loan	11.59	11.59	[ICRA]BB(Stable); reaffirmed
<b>Total</b>	<b>26.59</b>	<b>26.59</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation of Wadpack Pvt. Ltd. (WPL) factors in its established track record and extensive experience of its promoters in the domestic corrugated box packaging industry. Established relationships with its key customers across end-user industries resulted in repeat orders, driving revenue growth in recent years. WPL's operating income grew by 21% YoY in FY2023, at Rs. 140 crore, supported by steady offtake levels from existing customers, and incremental sales from new customers from its recently commenced manufacturing facility in Andhra Pradesh. The growth momentum is expected to sustain in FY2024 aided by gradual scale up of production at its Guntur (Andhra Pradesh) facility.

The ratings, however, remains constrained by WPL's average financial profile marked by its modest scale of operations, low operating margins, leveraged capital structure, moderate coverage indicators and stretched liquidity position. Moreover, limited pricing flexibility owing to high competitive intensity and fragmented nature of the packaging industry and vulnerability to volatility in raw material prices (kraft paper) have continued to result in low operating margins and modest cash accrual generation. Coupled with WPL's recent debt-funded capex for its new facility and elevated utilisation levels of external funding for working capital requirements due to high inventory levels, this exerts pressure on its return indicators.

The Stable outlook on the long-term rating reflects ICRA's opinion that WPL's credit profile will be supported by its established relationships with key customers translating into increased offtake and steady increase in accrual generation.

### Key rating drivers and their description

#### Credit strengths

**Significant experience of promoters with presence in packaging industry for over four decades** – WPL is promoted by the Wadhwa family, who have an experience of more than four decades in the domestic packaging industry. Benefits from the promoters' experience in the industry have helped the company to maintain strong relationships with customers over the years, along with supporting its business profile.

**Established relationships with reputed clientele** – The company caters to a wide range of business segments such as tobacco, apparels, FMCG, food, automobiles, sports, etc. Over the years, the company has developed established relationship with its customers in the domestic market, garnering repeat orders from them. Some of its top clients include ITC Limited, Ficus Pax Private Limited, VST Industries Limited, Godfrey Phillips India Limited and Toyota Kirloskar Motor Private Limited.

## Credit challenges

**Modest scale of operations, fragmented industry structure and stiff competition** – Despite healthy revenue growth in recent years, WPL's modest scale of operations remained modest at Rs. 140 crore in FY2023. This restricts its operational and financial flexibility to an extent. Further, its pricing ability is limited as the corrugated box manufacturing industry is highly fragmented with stiff competitive pressures from numerous organised as well as unorganised players. However, the company is expected to maintain its growth momentum in the current fiscal, supported by ramp up of production in its recently commissioned facility in Guntur, Andhra Pradesh.

**Low profitability and high reliance on external debt has led to average coverage metrics** – WPL's profitability continues to remain low, characterised by volatile operating margins of ~4.0% in the last two fiscals. Also, its high dependence on external funding for working capital usage reflected by high utilisation of working capital lines (averaging at 85% during last 12-month period ending in March 2023), coupled with its recent debt-funded capex, has led to an overall average coverage position for the company. WPL reported a gearing and interest coverage of 1.3 times and 2.8 times in FY2023, respectively (0.9 time and 2.6 times in FY2022, respectively).

**Vulnerability of profitability to volatility in kraft paper prices** – WPL's key raw material is kraft paper, which forms about 85-90% of its total raw material cost. The company's operating margins are primarily impacted by its raw material price fluctuations, with limited ability to pass on the same to its customers.

## Liquidity position: Stretched

The company's liquidity position remains stretched with free cash balances of Rs. 0.2 crore as of June 2023, and limited cushion in working capital levels. Its average utilisation remained at ~85% of its drawing power for the 12-month period ending March 2023. Thus, timely enhancement in working capital limits with growing scale up of operations and ability to garner healthy cash accruals will remain key monitorables. The company also has debt repayment liabilities of Rs. 2.0–3.0 crore p.a. in FY2024-FY2025, which are expected to be met adequately through internal accruals.

## Rating sensitivities

**Positive factors** – The ratings could be upgraded if the company demonstrates a significant improvement in sales, which results in improvement in its profitability metrics, net cash accruals and Total debt/OPBITDA on a sustained basis, along with sustained improvement in liquidity position. Specific credit metrics for the same include Total debt/OPBITDA of < 3.5 times.

**Negative factors** – The ratings could be downgraded if there is decline in operating revenues, increase in overhead expense, higher than expected dividend payout and increase in working capital borrowings or stretch in the working capital cycle, leading to further pressure on its liquidity position. Specific credit metrics for the same include Total debt/OPBITDA of > 4.5 times.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

Incorporated in 1976, WPL is a manufacturer and dealer in containers, boxes, packaging wrappings, and wrappers of all kinds made from paper and board. Its manufacturing plants are at Doddaballapur (Bangalore) and Guntur (Andhra Pradesh), with a manufacturing capacity of 24,000 MT each. As of FY2023, the company derived 34% of its total revenues from the tobacco segment, 26% from the board segment, 13% from apparels and 27% from other segments.

### Key financial indicators (audited)

WPL – Standalone	FY2022	FY2023*
Operating income (Rs. crore)	115.8	140.3
PAT	1.7	1.2
OPBDIT/OI	4.1%	4.0%
PAT/OI	1.5%	0.9%
Total outside liabilities/Tangible net worth (times)	1.5	2.4
Total debt/OPBDIT (times)	4.6	6.5
Interest coverage (times)	2.6	2.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore \*Provisional

### Status of non-cooperation with previous CRA:

Rating Agency Name	Rating	PR Date
CRISIL	CRISIL BB/Stable/A4+; ISSUER NOT COOPERATING; Withdrawn	March 16, 2022

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Aug 7, 2023	Jul 28, 2022	May 12, 2021	-
1 Fund-based, Cash Credit	Long-term/ Short-term	15.00	-	[ICRA]BB(Stable)/ [ICRA]A4+	[ICRA]BB(Stable)/ [ICRA]A4+	[ICRA]BB(Stable)/ [ICRA]A4+	-
2 Fund-based, Term Loan	Long-term	11.59	2.00	[ICRA]BB(Stable)	[ICRA]BB(Stable)	[ICRA]BB(Stable)	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short-term – Fund-based, Cash Credit	Simple
Long-term – Fund-based, Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term/ Short-term – Fund-based, Cash Credit	-	-	-	15.00	[ICRA]BB(Stable)/ [ICRA]A4+
NA	Long-term – Fund-based, Term Loan	June 2020	9.95%	FY2030	11.59	[ICRA]BB(Stable)

Source: Company

#### Annexure II: List of entities considered for consolidated analysis – Not Applicable

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