

September 30, 2024

Wadpack Pvt Ltd: Long-term rating reaffirmed; short-term rating downgraded to [ICRA]A4

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; Long-term rating reaffirmed; Short term rating downgraded to [ICRA]A4 from [ICRA]A4+
Long Term – Fund Based Term Loan	11.59	11.59	[ICRA]BB(Stable); Reaffirmed
Total	26.59	26.59	

*Instrument details are provided in Annexure-I

Rationale

The ratings action for Wadpack Pvt Ltd (WPL) factors in the weakening of its debt protection metrics, owing to lower accrual generation in FY2024, and its stretched liquidity position. Continued volatility in raw material prices and increased fixed overheads from the recently commissioned facility in Andhra Pradesh resulted in a decline in the company's operating margins and net loss in FY2024. This translated into high reliance on external debt with almost full utilisation of the sanctioned working capital bank limits, and pressure on the coverage metrics. The ratings also continue to factor in the company's limited pricing flexibility owing to the modest scale of operations, intense competition and fragmented nature of the packaging industry.

However, the ratings favourably factor in the established track record and extensive experience of the promoters in the domestic corrugated box packaging industry. Established relationships with its key customers across the end-user industries led to repeat orders, driving revenue growth in the recent years. WPL's operating income grew by 18% on a YoY basis to Rs. 165 crore in FY2024, supported by steady offtake from the existing customers, and incremental sales from new customers from its new manufacturing facility in Andhra Pradesh.

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 a 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 – The promoters have more than four decades of experience in the packaging industry. Benefits from the promoters' experience in the packaging industry, and their strong relationships with customers continue to support business profile of the company. The promoter's experience has helped in adding new customers from diverse industries over the years.

Established relationships with reputed clientele – The company caters to a wide range of industries such as tobacco, apparels, FMCG, food, automobiles, sports, etc. Over the years, the company has developed established relationships with its customers, which ensure repeat orders. Some of its top clients include ITC Limited, Ficus Pax Private Limited, TVS Motor Company and Godfrey Philips India Limited.

Credit challenges

Modest scale of operations, fragmented industry structure and stiff competition – WPL’s modest scale of operations restricts its operational and financial flexibility to an extent. Despite a steady growth in the recent years, the company reported a modest operating income of Rs. 165 crore in FY2024. This restricts its pricing flexibility as the corrugated box manufacturing industry is highly fragmented with stiff competition from numerous organised as well as unorganised players.

Low profitability and high reliance on external debt led to average coverage metrics and stretched liquidity position – The company’s operating margins remain vulnerable to competitive pressure and volatility in raw material prices. This coupled with increased fixed overheads at the recently commissioned Guntur facility led to a further decline in the operating margins and a net loss for the company in FY2024. Pressure on the earnings continued to result in high reliance on external debt, translating into average coverage metrics, with Total Debt/OPBDITA of 6.5 times in FY2024. Moreover, the company’s liquidity position remained stretched as the working capital limits availed from the bank have almost been fully utilised. While there has been some recovery in the operating margin in Q1 FY2025, aided by higher growth, WPL’s ability to sustain the same remains to be seen.

Vulnerability of profitability to volatility in kraft paper prices – The main raw material for WPL is kraft paper, which accounts for 85-90% of the total raw material cost. The company has limited control over raw material prices and its ability to pass on the entire price hike to its customers on an immediate basis is also low, exposing its profitability to adverse fluctuations in kraft paper prices.

Liquidity position: Stretched

The company’s liquidity position remains stretched with minimal free cash balance of Rs. 0.68 crore as of June 2024, and almost full utilisation of the working capital limits availed from the bank. Thus, timely enhancement in working capital limits with growing scale of operations and ability to garner healthy cash accruals will be monitored. The company also has debt repayment liabilities of Rs. 1-2 crore p.a. in FY2025 and FY2026, which are expected to be met through internal accruals.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates a healthy growth in revenue and internal accrual generation, leading to an improvement in its debt protection metrics and liquidity position on a sustained basis.

Negative factors – The ratings could be downgraded if there is a considerable decline in revenue and internal accrual generation, or a stretch in the working capital cycle continues to exert pressure on the company’s liquidity position. Specific credit metrics that could lead to ratings downgrade include an interest coverage of less than 2.0 times on a sustained basis

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1976, WPL is a manufacturer and dealer of containers, boxes, packaging wrappings, wrappers of all kinds made from paper and board. Its manufacturing plants are in Doddaballapur, Bangalore and Guntur, Andhra Pradesh, having capacity of 24,000 MT per annum each. As of March 2024, the company derived around 18% of its total revenues from the board industry, 43% from the tobacco industry, 11% from the apparels industry and the remaining from other industries.

Key financial indicators (audited)

WPL - Standalone	FY2023	FY2024
Operating income	139.5	164.5
PAT	1.2	-0.9
OPBDIT/OI	3.8%	3.0%
PAT/OI	0.9%	-0.6%
Total outside liabilities/Tangible net worth (times)	2.4	2.3
Total debt/OPBDIT (times)	6.9	6.5
Interest coverage (times)	2.3	1.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore;

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	Sep 30, 2024	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long Term/ Short Term	15.00	[ICRA]BB (Stable)/ [ICRA]A4	Mar 19, 2024	[ICRA]BB (Stable)/ [ICRA]A4+	Jul 28, 2022	[ICRA]BB(Stable)/ [ICRA]A4+	May 12, 2021	[ICRA]BB (Stable)/ [ICRA]A4+
				Mar 7, 2024	[ICRA]BB(Stable)/ [ICRA]A4+; ISSUER NOT COOPERATING	-	-	-	-
				Aug 7, 2023	[ICRA]BB(Stable)/ [ICRA]A4+	-	-	-	-
Term Loan	Long Term	11.59	[ICRA]BB (Stable)	Mar 19, 2024	[ICRA]BB (Stable)	Jul 28, 2022	[ICRA]BB(Stable)	May 12, 2021	[ICRA]BB (Stable)
				Mar 7, 2024	[ICRA]BB(Stable); ISSUER NOT COOPERATING	-	-	-	-
				Aug 7, 2023	[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	Cash credit	-	-	-	15.00	[ICRA]BB(Stable)/ [ICRA]A4
NA	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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Deepak Jotwani
+91 124 4545 870
deepak.jotwani@icraindia.com

Charvi Sagar
+91 124 4545 373
charvi.sagar@icraindia.com

Shubham Gupta
+91 124 4545 399
shubham.gupta2@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.