

## Aryan Packaging Products Pvt. Ltd.

July 31, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit	3.00	5.00	[ICRA]B+ (Stable); reaffirmed
Fund-based Term Loans	9.25	6.52	[ICRA]B+ (Stable); reaffirmed
Non-fund based Letter of Credit	1.00	1.00	[ICRA]A4; Reaffirmed
Long-term/short-term unallocated	4.00	4.73	[ICRA]B+ (Stable) / [ICRA]A4; Reaffirmed
Medium Term – Fixed Deposit Programme	2.50	2.50	MB (Stable);Reaffirmed
<b>Total</b>	<b>19.75</b>	<b>19.75</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B+ (pronounced ICRA B plus) to the Rs. 5.00-crore<sup>1</sup> cash credit facility and the Rs. 6.52-crore term loans facility of Aryan Packaging Products Private Limited (APPPL)<sup>2</sup>. ICRA has also assigned the short-term rating of [ICRA]A4 (pronounced ICRA A four) on the Rs. 1.00-crore non-fund based letter of credit facility of APPPL. The outlook on the long-term rating is Stable. ICRA has also reaffirmed the ratings of [ICRA]B+(Stable)/A4 on the Rs. 4.73-crore unallocated limits of APPPL. ICRA has reaffirmed the medium-term rating of MB (pronounced M B), assigned to the Rs 2.50-crore fixed deposit programme. The outlook on the medium term rating is 'Stable'.

### Rationale

The ratings reaffirmation continues to remain constrained by APPL's suboptimal capacity utilisation, which impedes the expansion in scale of operations and results in weak financial risk profile. The company's financials are characterised by thin profit margins, high gearing levels and inadequate debt protection metrics. The company, hence, continues to depend on timely funding support from the promoters and the associate concerns to meet its debt obligations. The ratings further factor in the vulnerability of profit margins to adverse movements in kraft paper prices and the pricing pressure caused by the highly fragmented and competitive industry structure.

The ratings, however, continue to favourably factor in the extensive experience of the promoters in the paper and packaging industry; the benefits arising from backward integrated operations with associate concerns (Aryan Paper Mills Private Limited and Shah Paper Mills Limited); and the proximity of the plant to suppliers and customers of corrugated boxes.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Outlook: Stable

ICRA expects APPPL to continue to benefit from its promoter's experience in the paper and packaging industry and the synergies from associate concerns. The outlook may be revised to Positive if sustained growth in operating income and margin leads to adequate cash flows for debt repayments and strengthens the overall financial risk profile. The outlook may be revised to Negative if decline in operating income or profitability or any large debt-funded capex or increase in working capital requirement puts pressure on the liquidity. Further, any restriction or withdrawal of support from promoter or associate concern may also lead to Negative revision in outlook.

## Key rating drivers

### Credit strengths

**Extensive experience of promoters and established presence in paper and packaging industry** – APPPL is promoted and managed by promoters of the Aryan Group and the Shah Group, which are reputed and experienced players in the kraft paper and corrugated box manufacturing industry.

**Backward linkages with associate concerns provide operational synergies in terms of raw material availability and marketing network** - The company benefits from the established clientele and dealership network of Group concerns along with the backward integration. Kraft paper (which forms a major part of the raw material cost) is procured from Group companies at competitive rates. Almost 79% of the kraft paper in FY2017 and 57% in 9MFY2018 were procured from associate concerns, namely Aryan Paper Mills Pvt Ltd and Shah Paper Mills Limited. Further, these Group companies provide extended credit period to APPL in order to support liquidity and debt repayment obligations.

**Location of plant in vicinity of suppliers and customers** - The company's manufacturing plant is located in the Vapi region of Gujarat, which is a paper manufacturing hub. The company benefits from its close proximity to suppliers, i.e. kraft paper manufacturers, as well as to customers based in major cities of Gujarat and Maharashtra. The company also enjoys logistical advantages in terms of lower transportation costs for raw materials and sales of finished goods.

### Credit weaknesses

**Weak financial risk profile** – The operating income (OI) remained low at Rs. 14.46 crore in FY2017, because of lower capacity utilisation (13%), as FY2017 was the first full year of operations. Subsequently, with stabilisation of operations, addition of new customers and increased demand from existing customers, the OI increased to Rs. 39.52 crore in FY2017 and the capacity utilisation improved to 29%, though both to remain low. The net margin, though improved, was thin at 0.76% in FY2018 (compared to net loss of Rs. 1.6 crore in FY2017) because of high interest and depreciation charges. Consequently, the return indicators remained weak, with ROCE of 8.3% in FY2018. The gearing increased to 2.34 times as on FY2018-end from 2.25 times as on FY2017-end owing to increase in unsecured debt taken to repay term loans and support growth in scale. The coverage indicators continue to remain weak with interest coverage of 2.33 times, NCA/TD of 11%, TD/OPBDITA of 5.25 times in FY2018. The overall liquidity position of the company remained stretched because of slower ramp up in operations and lower-than-anticipated cash generation. Funding support from the associate concern, in terms of extended credit period for raw material supplied, and from promoters in the medium term remains crucial to meet the company's debt obligations.

**Vulnerability of profitability to volatility in kraft paper prices** – The main raw material for APPPL is kraft paper, which forms about 70-80% of the total raw material cost. The company has limited control over the raw material prices and its ability to pass on the price fluctuation to end customers remains limited as well. These shortcomings expose the profit margins to adverse fluctuations in kraft paper prices.

**Fragmented industry structure with competition primarily from regional players** – The corrugated box manufacturing industry remains highly fragmented with stiff competitive pressures from numerous organised as well as unorganised players. This limits the pricing ability of the company.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies, as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

### About the company:

Vapi-based Aryan Packaging Products Private Limited (APPPL) manufactures printed corrugated boxes. It has an installed capacity of 36,000 MTPA and the manufacturing unit became operational in March 2016. The company is promoted and managed by promoters of the Aryan Group and the Shah Group, which are reputed players in the paper manufacturing industry with longstanding experience and established clientele and dealership networks.

The company recorded a net profit of Rs. 0.3 crore on an operating income of Rs. 39.5 crore in FY2018 as against a net loss of Rs. 1.6 crore on an operating income of Rs. 14.5 crore in FY2017.

### Key Financial Indicators (audited)

	<b>FY2017</b>	<b>FY2018</b>
Operating Income (Rs. crore)	14.5	39.5
PAT (Rs. crore)	-1.6	0.3
OPBDIT/ OI (%)	-1.26%	7.04%
RoCE (%)	-6.00%	8.31%
Total Debt/ TNW (times)	2.25	2.34
Total Debt/ OPBDIT (times)	-72.59	5.22
Interest coverage (times)	-0.16	2.30

**Status of non-cooperation with previous CRA: Not Applicable**

**Any other information: None**

### Rating history for last three years:

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2018	Date & Rating in FY2018 April 2017	Date & Rating in FY2017 May 2016	Date & Rating in FY2015 March 2015
1 Cash Credit	Long Term	5.00	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)
2 Term Loan	Long Term	6.52	6.47*	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA] BB- (Stable)	[ICRA] BB- (Stable)
3 LC	Short term	1.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
4 Long term/ short term unallocated	Long Term/ Short term	4.73	-	[ICRA]B+ (Stable)/ [ICRA]A4	[ICRA]B+ (Stable)/ [ICRA]A4	[ICRA] BB- (Stable)/ [ICRA]A4	
5 Medium term- Fixed Deposit Programme	Medium term	2.50		MB(Stable)	MB(Stable)	MB+(Stable)	MB+(Stable)

\* As on March 31, 2018

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	5.00	[ICRA]B+ (Stable)
NA	Term Loan	FY2016	NA	FY2021	6.52	[ICRA]B+ (Stable)
NA	LC	NA	NA	NA	1.00	[ICRA]A4
NA	Long term/ short term unallocated	NA	NA	NA	4.73	[ICRA]B+ (Stable)/[ICRA]A4
NA	Medium term-Fixed Deposit Programme	NA	NA	NA	2.50	MB(Stable)

Source: Aryan Packaging Products Pvt. Ltd.

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