

Sparsh Packagings Private Limited

October 04, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits	7.00	7.00	[ICRA]BB- (Stable); Reaffirmed
Non-Fund based limits	0.38	0.38	[ICRA]A4; Reaffirmed
Total	7.38	7.38	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB- (pronounced ICRA double B minus) assigned to the Rs. 7.00-crore¹ fund-based facility. It has also reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) assigned to the Rs. 0.38-crore non-fund based facility of Sparsh Packagings Private Limited (SPPL or the company)². The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of ratings takes into account the extensive experience of SPPL's promoters in flexible packaging business and the strengths that accrue from being a part of an established group in terms of repeat orders from its sister concern and other group companies and access to a wide distributor network and marketing arrangements. The ratings also draw comfort from SPPL's favourable capital structure and adequate debt coverage indicators as on March 31, 2018. Moreover, despite the near term debt-funded capex, ICRA expects the company's capital structure to remain comfortable, given its moderate net worth base.

The ratings, however, remain constrained by the company's exposure to high customer concentration risk, with more than 50% of its total sales driven by its sister concern, Trimurti Fragrances Private Limited. As a result, with subdued order inflow from its sister concern during FY2017, the company's operation too witnessed downturns. Furthermore, the company's operation remains vulnerable to any adverse regulatory directives issued to chewing tobacco manufacturers as a major portion of its revenue are derived from supply of packaging materials to the chewing tobacco industry. The ratings also remain constrained by the vulnerability of the company's profitability to raw material price fluctuation risks and the high competitive intensity in the flexible packaging industry, which limits pricing flexibility.

Outlook: Stable

ICRA expects Sparsh Packagings Private Limited to benefit from the extensive experience of its promoters in the flexible packaging industry. The outlook may be revised to Positive if commissioning of the expansion project and the stabilisation of operations are as per expected parameters, substantial growth in revenue and profitability, and better working capital management, strengthen the financial risk profile. The outlook may be revised to Negative if delayed project implementation, and/or slower ramp-up in sales and accruals, or sizeable working capital requirement, weakens its financial risk profile, especially its liquidity position.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Extensive experience of the management and presence of group companies in the flexible packaging business – Mr. Vijay Agarwal, Chairman and MD of SPPL, has experience of more than two decades in the flexible packaging industry. In 1996, he had set up a printing and lamination unit under Acchyut Packaging at Kanpur (Uttar Pradesh). The Sparsh group further expanded its operations in the flexible packaging business by setting up new companies under its aegis, providing operational synergies to SPPL. The extensive experience of Mr. Agarwal has facilitated the company to establish strong relationships with its customers as well as its suppliers.

Comfortable capital structure and adequate debt coverage indicators – SPPL's external borrowings have remained low and have largely been undertaken to fund working capital requirements aided by moderate cash flow generation and modest capital expenditure plans, which have been limited to maintenance of the existing manufacturing plant. As a result, the company's capital structure has remained comfortable as witnessed from a gearing of 0.6 time as on March 31, 2018 (provisional). The coverage indicators of the company continue to remain moderate. Further, SPPL is in the process of setting up a 9-colour printing line. The proposed project cost is for Rs. 12.00 crore, to be funded by a term loan of Rs. 8.00 crore and the balance through promoter's contribution / internal accruals. Despite the debt-funded capital expenditure, the capital structure in the near term is likely to be comfortable, given its moderate net worth base.

Credit challenges

Regulatory risk associated with majority sales driven by sister concern engaged in *pan masala* / flavoured chewing tobacco business – In FY2018, SPPL derived more than 50% of its revenues from sales to its sister concern, Trimurti Fragrances Private Limited (TFPL). TFPL is engaged in the production of *pan masala* / flavoured chewing tobacco under its brand, "Shikhar". Any regulatory change by the Government of India on the production / sale of *pan masala* is likely to adversely affect SPPL's business.

Moderate scale of operation with fluctuating operating income – The company's operating income has remained moderate and depicted a fluctuating trend in the past five fiscals (FY2014-FY2018) due to volatile demand of the packing sachets manufactured for its sister concern, TFPL. As a result, in FY2017, the operating income (OI) declined by 42% to Rs. 64.5 crore due to regulatory changes pertaining to tax structure in the *pan masala* industry, which impacted the order inflow from TFPL. However, in FY2018, the OI increased significantly to Rs. 130.3 crore, given increased demands from TFPL.

High customer concentration risk – The firm's client concentration risk remains high, with its top three clients accounting for the more than 94% of its sales in FY2018. In terms of geographical presence, SPPL remains a regional player with majority of its revenues generated by the northern region, especially Uttar Pradesh and Delhi, which exposes it to high geographical concentration risks as well.

Vulnerability of profitability to raw material price fluctuation risks – The major raw material used in the manufacturing of flexible packing sachets are paper, aluminium foil, adhesives, printing ink and chemical products. Given the high share of raw material costs in its cost structure, SPPL's operations and profitability are vulnerable to any steep fluctuation in raw material prices. SPPL's ability to pass on any fluctuations in raw material prices to its customers will be critical in maintaining its profitability at steady levels.

High competition from unorganised players; partly offset by internal consumption by sister concern and other group companies – The company faces intense competition in the highly fragmented packaging industry, characterised by many players in the organised as well as unorganised segments. However, the risk is partly offset by internal consumption by sister concern and its group companies.

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:

SPPL manufactures flexible packaging material from plain films (poly ethylene or PE, poly ethylene terephthalate or PET, and poly propylene or PP films) as well as paper-based packaging material. SPPL was incorporated in 2007 and started commercial production in October 2008 from its Kanpur-based plant, with an initial capacity of 1,500 metric tonnes per annum (MTPA) of 2-3 layer films. During FY2010, the company installed its plants with a manufacturing capacity of 4,500 MTPA of multilayer films and 5,400 MTPA of metalised film.

SPPL derives operational synergies from being a part of Sparsh group of companies in the Northern states of India. The other major companies of the Group include Sparsh Industries Pvt. Ltd., Sparsh Laminators Pvt. Ltd., Sarvesh Polychem Pvt. Ltd., Anchal Polypack Pvt. Ltd, Acchyut Packagings Pvt. Ltd., and Colour Techniques. The group is engaged in manufacturing PET films, flexible packaging material, woven sacks, adhesives and other allied products.

In FY2018, on a provisional basis, the company reported a net profit of Rs. 3.63 crore on an operating income (OI) of Rs. 130.33 crore, as compared to a net profit of Rs. 0.05 crore on an OI of Rs. 64.24 crore in the previous year.

Key financial indicators

	FY2016 Audited	FY2017 Audited	FY2018 Provisional
Operating Income (Rs. crore)	110.2	64.2	130.3
PAT (Rs. crore)	1.9	0.0	3.6
OPBDIT/OI (%)	5.0%	4.2%	6.7%
RoCE (%)	24.1%	8.3%	35.8%
Total Debt/TNW (times)	0.8	0.8	0.6
Total Debt/OPBDIT (times)	1.5	3.2	1.0
Interest Coverage (times)	4.2	2.0	4.2

Status of non-cooperation with previous CRA: Not applicable
Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years					
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017			Date & Rating in FY2016	
				Oct 2018	May 2017	Oct 2016	Sep 2016	May 2016	-	
1	Cash Credit	7.00	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-
2	Bank Guarantee	0.38	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	-
3	Term Loan	-	-	-	-	-	Withdrawn	[ICRA]BB-(Stable)	-	-
4	FDBP	-	-	-	-	Withdrawn	Put on notice of withdrawal	[ICRA]BB-(Stable)	-	-

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

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	7.00	[ICRA]BB- (Stable)
NA	Bank Guarantee	NA	NA	NA	0.38	[ICRA]A4

Source: Sparsh Packagings Private Limited

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Srinivas Menon
+91 22 6169 3354
srinivas.menon@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Sonam Kumari Agarwal
+91 22 6169 3357
sonam.agarwal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

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

Helpline for business queries:

+91-124-2866928 (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

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 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