

Topsack Packaging Private Limited

March 13, 2019

Summary of rating action

Instrument	Current Rated Amount (Rs. Crore)	Rating Action
Long Term- Fund Based- Cash Credit	3.0	[ICRA]BB+ (Stable); assigned
Long Term- Fund Based- Term Loan	1.0	[ICRA]BB+ (Stable); assigned
Short Term- Fund Based	24.0	[ICRA]A4+; assigned
Total	28.0	

Rationale

The assigned ratings take into account the extensive experience of the promoters of more than two decades in the flexible packaging industry. The ratings factor in the company's long-term associations with reputable and diversified customers translating into repeat orders and providing revenue visibility in the medium term. The ratings also consider the steady revenue growth in the last few fiscals which is expected to continue in the near term due to healthy demand from the export market. ICRA also takes note of the of the favourable long-term demand prospects for the flexible packaging industry which is driven by growing population, consumerism and retail penetration.

The ratings are, however, constrained by the company's modest scale of operations, despite steady growth in revenues, thereby, limiting its operational and financial flexibility. Moreover, the company's margins remain vulnerable to fluctuations in raw material prices that are pegged to crude oil prices. The ratings are also constrained due to exposure to foreign currency fluctuation risk in the absence of a fixed hedging mechanism as the company derives majority of its revenues from exports. Besides, the company's capital structure is leveraged with gearing of 2.2 times as on March 31, 2018. Going forward, the company's ability to improve its scale of operations, while managing its working capital effectively will be the key rating sensitivities.

Outlook: Stable

ICRA believes Topsack Packaging Private Limited (TPPL) will continue to benefit from the extensive experience of the promoters in the flexible packaging industry and the favourable demand prospects for the sector. The outlook may be revised to 'Positive' if the company is able to achieve substantial improvement in the scale of operations while sustaining its profit margins and efficiently managing its working capital requirements. Conversely, the outlook may be revised to 'Negative' if cash accruals are lower than expected, or if any deterioration in the working capital cycle or higher than anticipated capital expenditure, weakens the liquidity position of the company.

Key rating drivers

Credit strengths

Extensive experience of the promoters in the packaging industry– TPPL and its group company, Big Bags International Private Limited, which is one of the larger exporter of FIBC bags, have been promoted by Mrs. Rekha Ravish Kamath and Mr. Ravish Kamath who have extensive experience of more than two decades in the packaging industry.

Established customer base in the domestic market – The company has long-term association with its customers which results in repeat orders and provides revenue visibility. In FY2018, TPPL added new customers in the overseas market as well which has contributed to the healthy growth in revenues.

Favourable demand prospects of flexible intermediate bulk container (FIBC) bags – The demand outlook for FIBC remains favourable on the back of growing demand for the product from the end user segments and higher acceptance of FIBC over other forms of packaging, primarily in the export market.

Credit challenges

Moderate scale of operations despite healthy growth achieved in the last two fiscals – The company’s scale of operations has been moderate with an operating income of Rs 65.7 crore in FY2018, thereby restricting its operational and financial flexibility. The company has already clocked Rs 81.4 crores in 10MFY2019 and is likely to achieve healthy growth with a revenue expectation of over Rs. 90 crore for the full year.

Profitability remains vulnerable to adverse movement in prices of raw materials and foreign exchange risk – The key raw material used for manufacturing is Polypropylene (PP) granule, which is a crude oil derivative. This exposes the company’s profitability to fluctuations in oil prices and PP granules constitute ~60% of the total costs. Moreover, the company’s profitability is also susceptible to foreign exchange risk in the absence of a fixed hedging mechanism as majority of the revenues are derived from exports.

Intense competition in the industry, characterised by the presence of large number of organised and unorganised players – The company operates in a fragmented industry which is characterised by the presence of a large number of participants, both organised as well unorganised in nature, on account of low entry barriers. However, the long-term association of the company with its customers ensures repeat orders.

Liquidity Position:

The company’s total debt consists of term loans of Rs 1.8 crore (including vehicle loans), Rs 1.6 crore of unsecured loans from its promoter, Rs 3.8 crore unsecured loans from KF Investments (100% held by the promoters) and Rs. 14.5 crore of working capital borrowings as on March 31, 2018.

The company’s cash flow from operations declined in FY2018 due to increased working capital requirements with higher receivables period for export sales. Consequently, the free cash flows also declined despite marginal improvement in non-operating income in the form of foreign exchange gains. The financing requirement was met through increased utilization of its working capital limits. The liquidity position remains moderate given the high working capital requirements as evidenced by the high utilisation of its working capital limits.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation / Standalone	The ratings are based on the standalone financials of the issuer.

About the company:

Topsack Packaging Private Limited (TPPL) (formerly known as Big Bags (Bangalore) Pvt. Ltd.) is an ISO 9001:2008 certified by the Plastic Export Promotion Council (Government of India) and is a registered manufacturer based at Dabaspet, Bangalore, India. The company started its operations from 2010. TPPL is a producer and global supplier of FIBC/jumbo bags, container liners, printed small sacks, ground covers and pipeline jackets.

TPPL, currently houses the capacity to produce about 350,000 kgs of packaging material per month which equates to 4200 metric tons per year. TPPL exports to USA, Europe, Africa, South America and Middle East. TPPL sources its raw materials largely from the domestic market but also procures it from Vietnam, Saudi Arabia and Thailand.

In FY2018, the company reported a net profit of Rs. 2.9-crore on an operating income of Rs. 65.7-crore, as compared to a net profit of Rs. 0.8-crore on an operating income of Rs. 54.8-crore in the previous year.

Key Financial Indicators

	FY2017	FY2018
Operating Income (Rs. crore)	54.8	65.7
PAT (Rs. crore)	0.8	2.9
OPBDIT/ OI (%)	9.0%	10.4%
RoCE (%)	16.4%	22.5%
Total Debt/ TNW (times)	2.3	2.2
Total Debt/ OPBDIT (times)	3.2	3.2
Interest coverage (times)	2.1	3.2

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 as of November 2018 (Rs Crore)	Date & Rating March 2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					-	-	-
1 Fund Based- Cash Credit	Long Term	3.00	-	[ICRA]BB+ (Stable)	-	-	-
2 Fund Based-Term Loan	Long Term	1.00	0.92	[ICRA]BB+ (Stable)	-	-	-
3 Fund Based-Short Term	Short Term	24.00	-	[ICRA]A4+	-	-	-

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	Fund Based- Term Loan	June 2018	-	December 2019	1.00	[ICRA]BB+ (Stable)
NA	Fund Based- Cash Credit	-	-	-	3.00	[ICRA]BB+ (Stable)
NA	Fund Based- Short Term	-	-	-	24.00	[ICRA]A4+

Source: TPPL

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