Press Release

Nextgen Printers Private Limited

December 24, 2019

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities - Cash Credit	15.20	IVR BB+ / Stable Outlook (IVR Double B plus with Stable Outlook)	Downgraded from IVR BBB-/Stable Outlook (IVR Triple B minus with Stable Outlook)
Long Term Bank Facilities - Term Loan	26.36* (Reduced from Rs. 33.30 crore)	IVR BB+ / Stable Outlook (IVR Double B plus with Stable Outlook)	Downgraded from IVR BBB-/Stable Outlook (IVR Triple B minus with Stable Outlook)
Short Term Bank Facilities – Bank Guarantee	6.50	IVR A4 + (IVR A Four Plus)	Downgraded from IVR A3 (IVR A Three)
Short Term Bank Facilities – Letter of credit	0.08	IVR A4 + (IVR A Four Plus)	Downgraded from IVR A3 (IVR A Three)
Total	**48.14**		

**outstanding as on September 30, 2019*

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the aforesaid ratings assigned to the bank facilities of Nextgen Printers Private Limited (NPPL) takes into account moderation in its profitability in FY19 and in H1FY20 along coupled with working capital-intensive nature of operation. The rating revision also takes into account deterioration in capital structure and moderation in debt protection metrics. However, the aforesaid ratings continue to derive comfort from the experienced promoters, locational advantage, state of art printing facilities and its established clientele. The rating strengths are partially tempered by its modest scale of operations, susceptibility of margins to adverse fluctuations in raw material prices and its working capital-intensive nature of business.

Key Rating Sensitivities:

Upward Factor:

- Growth in scale of operations with improvement in profitability on a sustained basis
- Improvement in the capital structure
- Improvement in liquidity profile

Downward Factor:

- Further elongation of operating cycle
- Moderation in the capital structure with deterioration in overall gearing to more than 1.50x
- Withdrawal of subordinated unsecured loans from the business

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The promoters are well experienced in the field of printing with a track record of about a decade. The company is actively managed by the promoters. Mr. Mahesh Khandelwal, Mr. Suresh Kumar Agarwal and Mr. Bijay Agarwal are the main promoters of the company. Khandelwal family has prior experience in printing industry for more than three decades.

Locational advantage

The Sikkim unit of NPPL is in proximity to the local units of various large pharmaceutical companies which ensures logistical advantage for the company. Further, the Howrah unit is also well connected through rail/road to the other parts of the district and Kolkata.

State of art printing facilities

The company has state of art printing facilities in its both printing locations with modern machines and infrastructures.

Established clientele albeit customer concentration risk

Over the years of its operation, NPPL has created an established clientele base which includes many reputed pharmaceutical and FMCG companies. However, top ten customers contribute ~48% of its sales in FY19 indicating a moderate customer concentration risk.

Key Rating Weaknesses

Decline in profitability

Notwithstanding that the company registered a y-o-y growth of ~15% in its total operating income in FY19 over FY18, the EBITDA margin moderated from 19.05% in FY18 to 17.85% in FY19 due to increase in raw material and other operational cost. The PAT margin also moderated from 4.25% in FY18 to 2.62% in FY19 due to rise in interest cost attributable increase in dependence on working capital borrowings.

Moderate scale of operations

Even though the operating income grew at a Compounded Annual Growth Rate (CAGR) of around 43% over the FY2017–FY2019 period, the company's operating income was modest at Rs.71.45 crore in FY19, indicating limited economies of scale. During H1FY20, the company reported a total operating income of Rs.48.09 crore.

Deterioration in capital structure and debt protection metrics

The overall gearing and long-term debt equity ratio deteriorated from 1.31x and 1.07x respectively as on March 31, 2018 to 1.50x and 1.10x respectively as on March 31, 2019 (Treating the unsecured loan of Rs.4.70 crore as neither debt nor equity). The interest coverage ratio also reduced from 2.16x in FY18 to 1.88x in FY19 due to increase in interest cost attributable to increase in working capital borrowings from bank in FY19 as compared to FY18. Further, the company has witnessed moderation in its cash accruals during FY19 from Rs.6.03 crore in FY18 to Rs.4.82 crore in FY19. Moderation in cash accruals coupled with increase in debt level resulted in deterioration in overall credit metrics. Total debt to GCA also deteriorated from 8.88 years in FY18 to 13.18 years in FY19.

Margins remains susceptible to adverse fluctuations in raw material prices

The major raw materials for NPPL are paper and paper boards, which account for about half of the total raw material cost. The price of paper and paper boards are fluctuating in nature and any adverse fluctuations in prices may impact the profitability of the company.

Working capital intensive nature of business

The operation of the company is working capital intensive as NPPL needs to hold a sizable inventory of raw materials (Mainly paper/paper boards) to respond to customer demand effectively. Further, the company holds finished stock inventory or WIP inventory mainly to complete the orders at once to avoid damages and wastages. Moreover, final processing of orders took some time to be completed. On the other hand, the company has to extend high credit period to its customers (in the range of 60-90 days) in view of high competition in the operating spectrum and its low bargaining power against its customers. Due to elongation in its average collection period attributable to subdued economic scenarios, dependence on working capital borrowings has increased during FY19 and in H1FY20 which adversely affected the overall credit profile of the company. However, in order to manage its working capital requirements, the company ensures high credit period from its creditors. The operating cycle of the company remained high at around 135 days in FY19 (100 days in FY18). The average working capital limit utilisation remained high at about ~98% during the past 12 months ended in November, 2019.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Stretched

NPPL has stretched liquidity marked by its tightly matched cash accruals vis-à-vis its high debt repayment obligations. Further, the company has a limited liquidity buffer owing to high utilisations of its fund based working capital limits.

About the Company

Nextgen Printers Pvt Ltd. (NPPL) was incorporated in 2007 by Kolkata based two business families Agrawal and Khandelwal family. The company started its commercial operation since 2010 and is involved in printing of paperboard packaging. NPPL carries out printing and post printing activities and manufactures printed cartons (Mono cartons, Fluted Cartons, Fluted Cartons etc.), Window Patched Boxes, Blister Cards, Hard Boxes, Inserts and Labels, etc. The printing and packaging are mainly done for the pharmaceutical industry. Apart from these, the company also caters to other industries like fast moving consumer goods (FMCG), hosiery, tea, cosmetic industries etc. The company has its printing facilities located in Majhitar, near Rangpo in East Sikkim and Howrah District of West Bengal.

Financials:

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	**Audited**
Total Operating Income	62.09	71.45
EBITDA	11.83	12.75
PAT	2.64	1.87
Total Debt #	53.60	63.56
Tangible Net worth	40.86	42.43
EBITDA Margin (%)	19.05	17.85
PAT Margin (%)	4.25	2.62
Overall Gearing Ratio (x) #	1.31	1.50

Note: Classification as per Infomerics' standards

#Subordinated Unsecured loan from the promoters and family members of Rs.4.70 crores are treated as neither debt nor equity

Status of non-cooperation with previous CRA:

Brickwork Ratings has moved the rating of NPPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated March 30, 2019.

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Cash Credit	Long Term	15.20	IVR BB+ / Stable Outlook	IVR BBB- / Stable Outlook (September 27, 2018)	-	-
2.	Long Term Fund Based Facilities - Term Loan	Long Term	26.36*	IVR BB+ / Stable Outlook	IVR BBB- / Stable Outlook (September 27, 2018)	-	-
3.	Short Term Non-Fund Based Facilities – Bank Guarantee	Short Term	6.50	IVR A4+	IVR A3 (September 27, 2018)	-	-
4.	Short Term Non-Fund Based Facilities – Letter of Credit	Short Term	0.08	IVR A4+	IVR A3 (September 27, 2018)	-	-

**Outstanding as on September 30, 2019*

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	15.20	IVR BB+ / Stable Outlook
Long Term Bank Facilities – Term Loan	-	-	March, 2024	26.36*	IVR BB+ / Stable Outlook
Short Term Bank Facilities – Bank Guarantee	-	-	-	6.50	IVR A4+
Short Term Bank Facilities – Letter of Credit	-	-	-	0.08	IVR A4+

**outstanding as on September 30, 2019*