

ICRA Lanka assigns [SL]BB Issuer rating to Quikpak (Pvt) Ltd

November 09, 2016

Instrument	Amount (in LKR Mn)	Rating Action
Issuer Rating	N/A	[SL]BB (Stable) Assigned

ICRA Lanka Limited, Subsidiary of ICRA Limited, group company of Moody's Investors Service has assigned an Issuer rating of [SL] BB (pronounced S L Double B¹) with stable outlook for Quikpak (Pvt) Ltd ("the company").

The assigned rating primarily factors in the Rainco group's strong brand name and the strong capitalization metrics with a relatively low gearing level of 0.2(x); and, Quikpak's operational & business linkages with the Group. ICRA Lanka views favourably Quikpak's leading role in the bulk tea packaging segment; the hands on experience of the promoters, the company's strong track record and reputation in the industry which have enabled the company to enjoy steady access to funding from financial institutions. Quikpak's innovation focus and the technical expertise to develop new machineries locally to satisfy new regulatory as well as customer requirements have enabled the company to continuously improve its efficiencies at a relatively low cost than the industry competitors. The company has introduced new packaging product categories such as brown paper bags, grocery bags, and several other FMCG related packaging product categories. These products have shown a noticeable growth in revenue over the past few years. ICRA Lanka also takes into account the recent formation of an industry association, which has not only helped the packaging companies to collectively revise the local prices but also to widely promote ethical business practices. These apart, the rating also factors in the company's positive cash accruals, albeit relatively low profit margins. Moreover, ICRA Lanka views the company's growing export markets such as India, Bangladesh, Indonesia, Nepal and USA on a positive note.

The above rating strengths are partly constrained by the high sector concentration (tea packaging products constituted ~90% revenues in FYE March 2016), notwithstanding the recently introduced other packaging product categories; the reduction in local tea production due to labor issues and adverse weather conditions. Moreover, given the limited growth prospects in the local tea export market, the ability of the company to explore new export markets while corporatizing their business operation through new professional skills, will be critical. The Company's operations are exposed to regulatory risks, including changes in interest rates and duties imposed to curb imports. Quikpak's profits are also exposed to currency risks, with net imports forming a large portion of cost of production. Additionally, ICRA Lanka views the ability of the company to increase its lower profit margins and further moderate its working capital intensity, going forward, as a key rating sensitivity factor.

The company, has recorded a CAGR growth in revenue in excess of 16% to LKR 544.02 Mn in FYE March 2016 from LKR 346.30 Mn in FYE March 2013 due to growing export segment. During FYE March 2016, the company has recorded a total revenue of LKR 544.02 Mn, an increase of YOY 13% mainly owing to the above average growth of YOY 58% in the export segment albeit a marginal decline in revenue under the local operation during the period under review. Moreover, ICRA Lanka views positively the company's largest ten customers' revenue exposure, which has been brought down to below 10% of the total sales in FYE March 2016. The company's OPBDITA Margins have gradually increased from 6.5% in FYE March 2014 to 8.4% FYE March 2016. This is mainly attributable to the lower global raw material prices (including price of Kraft Papers) along with industry led upward price revisions in FYE March

¹ For complete rating scale and definitions please refer to ICRA Lanka's Website www.icralanka.com or other ICRA Rating Publications

2016. However, PAT Margins have moderated during this period amidst the increasing overhead & finance costs; PAT Margins of 3.8% in FYE March 2013, 1.8% in FYE March 2014, 4.7% in FYE March 2015 and 3.0% in FYE March 2016).

The company's working capital requirements have remained relatively moderate over the years, owing to the controlled debtors and inventory levels. The reduction in debtor levels is partly attributable to the regulatory environment (through the Colombo tea auction) under which the company's key customers operate, notwithstanding the currently prevailing unfavorable outlook of the tea industry. The Company's debt profile in the past was largely skewed towards working capital loans to fund the inventories and the working capital requirements, which were refinanced on a regular basis. Further, ICRA Lanka does not foresee any significant capital expenditure in the medium term given the current moderate capacity utilization and the expectation that no major technological advancements are expected in the medium term.

The company has limited its reliance on external debt, mainly due to availability of short term working capital facilities and sustained cash accruals from the operations. Further, net accruals in the recent past have bolstered the net worth position of the company (Net worth of LKR 64.10 Mn in FYE March 2016 Vis a Vis LKR 57.60 Mn in FYE March 2015). As a consequence, the Company's capital structure has remained relatively stable with gearing of 1.6(x) in FYE March 2016 (FYE March 2015 - 1.6x). The company's coverage and key debt metrics have also gradually improved given the relatively lower debt levels.

Group Profile;

Rainco is a relatively large-scale manufacturing, marketing and distribution company with a growing global presence in the protection, care and lifestyle product industries. Rainco is a household name in the Sri Lankan Umbrella market and the group's business portfolio has expanded to include mosquito nets, raincoats, and outdoor solutions. Currently, the company runs a streamlined and backward-integrated operation from its headquarters in Colombo with 18 subsidiary companies, a workforce of over 1200, a dealer network of over 12,000, and exporting to countries such as Maldives, Sweden, France and Africa.

The group has diversified their business into new business segments, which are not directly related to the weather protection product categories while strategically positioning the company within their realm of expertise. The new businesses that the group has launched over the past few years include environmental consulting, new kitchen accessories, outdoor paintings, watches & accessories (including the exclusive rights for Casio Watch), interior designs for homes, corporates and other related businesses.

Quikpak (Pvt) Ltd;

The company commenced its business activities in 1990 as a family run business and was initially involved in assembling of tea chests. The original name was Crescent Enterprises with the legal form of Partnership. During 1993, the company ventured into the business of manufacturing paper sack bags with the change of regulations for the tea industry to shift from tea chests to paper sack bags. Quikpak (Pvt) Ltd was formed in 1999 with the partnership of Rainco (Pvt) Ltd where 60% of the company is currently represented by two members of Rainco group and the balance 40% is held by the founding shareholder Mr. Mohamed Ajmal.

Quikpak is also manufacturing other packaging product categories catering to flour, desiccated coconuts, spices, minerals and other related product segments. Throughout this period, Quikpak has developed own machineries to satisfy the customers' varying requirements in terms of designing, printing and combined its competencies in flexibility, on-time delivery and quality. This has helped the company to penetrate into the international as well as the local market.

The company's factories have become ISO certified (ISO 22000) in 2009 and the SLS certification was obtained in 2011. The company also received Food Safety System Certification (FSSC) in 2016. The company's Muruthaghamulla factory was awarded "5S Three Star" by the Central Province Ministry of Industry.

On a standalone basis, for the FYE Mar 2016, Quikpak reported a net profit of LKR 16.11 Mn on a total income of LKR 544.02 Mn in FYE March 2016, compared to a net profit of LKR 22.53 Mn reported on a total income of LKR 481.46 Mn in FYE March 2015.

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