



SMERA RATINGS LIMITED

Neeraj Paper Agencies Limited (NPAL)

Rating
RationaleNovember 21, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	1.00	SMERA B+/Stable (Upgraded from SMERA B/Stable)
Letter of Credit	5.50	SMERA A4 (Reaffirmed)

SMERA has upgraded the long-term rating on the Rs.1.00 crore bank facility to '**SMERA B+**' (read as **SMERA B plus**) from 'SMERA B' (read as SMERA B) and reaffirmed the short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs.5.50 crore bank facility of Neeraj Paper Agencies Limited (NPAL). The outlook is '**Stable**'.

The rating upgrade is in view of the comfortable liquidity position and healthy revenue growth of the company during the current financial year. Further, SMERA expects a healthy growth in its operating income over the medium term.

The ratings continue to draw comfort from the company's established track record of operations, experienced management and efficient working capital management. However, the ratings are constrained by the thin profitability, moderate financial risk profile and exposure to supplier concentration risk.

Update

In FY2014-15, NPAL reported profit after tax (PAT) of Rs.0.16 crore on operating income of Rs. 8.51 crore, as compared to PAT of Rs.0.18 crore on operating income of Rs.27.96 crore in the previous year. Further, NPAL has reported operating income of Rs.14.57 crore (provisional) for the period April, 2015 to August, 2015.

NPAL operates on thin profit margins on account of the trading nature of its business. However, the operating margin has improved to 2.90 per cent in FY2014-15 vis-à-vis 2.55 per cent in the previous year.

NPAL's net worth stood at Rs.1.32 crore and gearing at 1.54 times as on March 31, 2015. The interest coverage ratio stood at 1.37 times and ROCE (Return on Capital Employed) at 29.39 per cent in FY2014-15. The company's working capital cycle stood comfortable at 21 days for FY2014-15 and is expected to remain at ~20-21 days over the medium term. Further, the average cash credit limit utilisation was 55 per cent during the period April, 2015 to September, 2015.

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Outlook: Stable

SMERA believes that the company will continue to benefit over the medium term from the promoter's experience and established track record. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenue and profitability while maintaining a healthy financial risk profile and comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of a decline in profit margins or significant deterioration in the financial risk profile and liquidity position.

Rating Sensitivity Factors

- Maintaining profit margins while scaling up operations
- Working capital management

About the Company

NPAL, incorporated in 1997, is a Mumbai-based company promoted by Mr. Deepak Agarwal, Mr. Mukesh Goel and Mr. Pankaj Goel. The company trades in a wide range of paper products including kraft paper, duplex boards, poster paper among others.

Contact List:

Media/Business Development	Analytical Contact	Rating Desk
Antony Jose Vice President – Business Development, Mid Corporate Tel: +91-22-6714 1191 Cell: +91 98208 02479 Email: antony.jose@smera.in	Vinay Chhawchharia Associate Vice President – Corporate Ratings Tel: +91-22-6714 1156 Email: vinay.chhawchharia@smera.in	Tel: +91-22-6714 1184 Email: ratingdesk@smera.in

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