

Press Release

Neeraj Paper Agencies Limited

September 11, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 6.50 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 6.50 crore bank facilities of Neeraj Paper Agencies Limited (NPAL). The outlook is '**Stable**'.

The rating continues to draw comfort from long operational track record, experienced management and comfortable working capital cycle. The rating also factors the diversified customer base and group/parent company support. However, the aforementioned strengths are partially offset by the average financial risk profile, low profitability and presence in the highly fragmented and competitive industry.

NPAL incorporated in 1997 by Mr. Deepak Agrawal, Mr. Mukesh Goel and Mr. Pankaj Goel is an authorised dealer of Bindals Papers Limited and the company primarily trades in wide range of paper that includes kraft paper, duplex board, poster paper, writing and printing paper, waste paper. Pulp manufacturing companies are the end users for the waste paper traded whereas kraft papers are sold to manufacturers located in Mumbai, Lucknow and Silvasa.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Neeraj Paper Agencies Limited for arriving at the rating.

Key Rating Drivers:

Strengths

- Established track record of operation and experienced promoters**

The company has presence in the paper trading business for more than two decades. NPAL has long standing relations with its customers and suppliers. Further, the company also benefits from the extensive experience of its promoters i.e. Mr. Mukesh Goel and Mr. Pankaj Goel who possess more than two decades of experience in the paper trading business.

- Moderate working capital requirements**

NPAL has moderate working capital requirements aided by favourable working capital cycle which stood at 32 days in FY2018 (Provisional) as against 21 days in FY2017. Further, the average cash credit facility utilisation stood at at ~19 percent during the last six months ended 30 June, 2017.

Weaknesses

- Uneven revenue trend alongwith low profitability**

The company has reported uneven revenue as the operating income stood at Rs.38.79 crore for FY2018 (Provisional) and Rs.42.18 crore for FY2017 as against Rs.38.31 crore in FY2016. The majority of the paper industry comprises of unorganised players and the operations of these players were affected after GST implementation. This resulted in decline in operating income of NPAL during FY2017-18.

Further, the profit margins continue to be on the lower side on account of high competition in the trading business. The operating profit margin stood at 2.07 percent in FY2018 (Provisional) as against 1.96 percent in FY2017. Further, the net profit margin stood at 0.60 percent in FY2018 (Provisional) compared to 0.63 percent in FY2017. The PAT for FY2017 is mainly supported by non-operating income of Rs.0.20 crore as against Rs.0.11 crore in FY2018 (Provisional).

• Average financial risk profile

The financial risk profile continues to remain average marked by low tangible net worth of Rs.2.01 crore as on 31 March, 2018 (Provisional) as against Rs.1.48 crore in the previous year. The company's debt to equity ratio stood at 1.64 times as on March 31, 2018 (Provisional) as against 1.49 times as on March 31, 2017. Interest Coverage Ratio stood at 1.68 times in FY2018 (Provisional) as against 1.64 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 3.75 times as on March 31, 2018 (Provisional) as against 4.17 times as on March 31, 2017. The net cash accruals to total debt (NCA/TD) stood at 0.06 times in FY2018 (Provisional) as against 0.10 times in the previous year.

• Highly fragmented and competitive industry

NPAL operates in a highly fragmented industry wherein the presence of a large number of players in the unorganised sector limits the bargaining power with customers.

Outlook: Stable

Acuite believes that NPAL will maintain a 'Stable' outlook over the medium term from the extensive experience of promoters and established track record of operations in the paper industry. 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.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	38.79	42.18	38.31
EBITDA	Rs. Cr.	0.80	0.82	0.87
PAT	Rs. Cr.	0.23	0.26	0.20
EBITDA Margin	(%)	2.07	1.96	2.26
PAT Margin	(%)	0.60	0.63	0.53
ROCE	(%)	18.61	25.48	30.25
Total Debt/Tangible Net Worth	Times	1.64	1.49	1.40
PBDIT/Interest	Times	1.68	1.64	1.39
Total Debt/PBDIT	Times	3.60	2.48	1.93
Gross Current Assets (Days)	Days	76	64	85

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-Jun-2018	Cash Credit	Long Term	1.00	ACUITE B+ (Indicative)
	Letter of Credit	Short Term	5.50	ACUITE A4 (Indicative)
21-Apr-2017	Cash Credit	Long Term	1.00	ACUITE B+/Stable (Reaffirmed)
	Letter of Credit	Short Term	5.50	ACUITE A4 (Reaffirmed)
17-Feb-2017	Cash Credit	Long Term	1.00	ACUITE B+ (Indicative)
	Letter of Credit	Short Term	5.50	ACUITE A4 (Indicative)
21-Nov-2015	Cash Credit	Long Term	1.00	ACUITE B+/Stable (Upgraded from ACUITE B/Stable)
	Letter of Credit	Short Term	5.50	ACUITE A4 (Reaffirmed)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE B+/ Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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