

Press Release

Shri Pariyur Amman Kraft Papers Private Limited (SPAK)

26 February, 2018

Rating Upgraded



Total Bank Facilities Rated*	Rs. 7.90 Cr.
Long Term Rating	SMERA B+/ Outlook:Stable

** Refer Annexure for details*

Rating Rationale

SMERA has upgraded the long term rating on the Rs. 7.90 crore bank facilities of SHRI PARIYUR AMMAN KRAFT PAPERS PRIVATE LIMITED (SPAK) to **'SMERA B+' (read as SMERA B plus)** from **'SMERA B' (read as SMERA B)**. The outlook is **'Stable'**.

The Tamil Nadu-based SPAK was incorporated in 2007 by Mr. Shanmuga Permual (Managing Director). The company is engaged in the manufacturing of Kraft paper and boards and has manufacturing capacity of 800 tons per month.

Key rating drivers

Strengths

Experienced management

Mr. Shanmuga Perumal and Mr. Viswanathan (Director) possess more than 10 years of experience in the paper industry. SMERA believes that the company will benefit from the experienced management.

Strong revenue growth in FY2018

The company reported strong growth in revenues during 10MFY2018. As on 31 January, 2018, revenues stood at Rs. 30.11 crore owing to modernisation of machines and improvement in the product quality.

Moderate financial risk profile

The financial risk profile is moderate marked by net worth of Rs.7.44 crore as on 31 March, 2017 as against Rs. 7.26 crore as on 31 March, 2016. The gearing level is moderate and stood at 1.09 times as on 31 March, 2017 as against 1.12 times as on 31 March, 2016. Of the total debt of Rs. 8.14 crore on 31 March, 2017, long term debt constitutes Rs. 3.02 crore, unsecured loans of Rs. 1.17 crore and short term debt of Rs. 3.95 crore. The Interest Coverage Ratio (ICR) and Debt Service coverage ratio (DSCR) stood moderate at 1.92 times and 1.44 times respectively in FY2017.

Weaknesses

Susceptibility of profitability to fluctuations in raw material prices

SPAK is exposed to risks emanating from adverse movements in waste paper prices in the domestic and international markets. The raw material price constitutes around 64.42 percent of total sales in FY2017 as against 63.57 percent in FY2016. Further, the company is exposed to forex fluctuation risk as it imports 20 percent of its total raw materials from USA and Sri Lanka. SMERA believes that SPAK's ability to pass on increase in waste paper prices to the end customer shall be critical towards maintaining its credit risk profile.

Working capital intensive operations

The operations are working capital intensive evident from the high Gross Current Asset (GCA) of 335 days in FY2017 on account of high inventory days of 211 and debtor days of 115 respectively in FY2017. The same was due to increase in raw material prices and slow movement of stock. Further, the company has fully utilised its working capital limits.

Highly fragmented and competitive industry

SPAK operates in a highly competitive and fragmented industry and is exposed to increasing competition from the organised as well as unorganised players.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of SPAK to arrive at the rating.

Outlook – Stable

SMERA believes that SPAK will maintain a Stable outlook and continue to benefit over the medium term from the promoters' extensive experience in the paper industry. The outlook may be revised to 'Positive', if the company achieves the expected revenue growth while maintaining stable profit margins and effective working capital management. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenue and profit margins. The outlook may also be affected by deterioration in the financial risk profile on account of higher-than-expected working capital requirements.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	17.11	17.29	25.57
EBITDA	Rs. Cr.	1.66	1.91	2.24
PAT	Rs. Cr.	0.00	0.08	0.34
EBITDA Margin	(%)	9.67	11.04	8.72
PAT Margin	(%)	0.03	0.45	1.32
ROCE	(%)	5.78	6.97	9.08
Total Debt/Tangible Net Worth	Times	1.09	1.12	1.35
PBDIT/Interest	Times	1.92	1.93	2.01
Total Debt/PBDIT	Times	4.89	4.13	3.74

Gross Current Assets (Days)	Days	335	245	183
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Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable): None

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
09-Dec, 2016	Cash Credit	Long Term	7.00	SMERA B/Stable (Reaffirmed)
	Term Loans	Long Term	0.90	SMERA B/Stable (Reaffirmed)
28-Oct, 2015	Cash Credit	Long Term	7.00	SMERA B/Stable (Assigned)
	Term Loans	Long Term	0.90	SMERA B/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA B+/Stable (Upgraded)
Term Loans	Not Applicable	Not Applicable	Not Applicable	0.90	SMERA B+/Stable (Upgraded)

Contacts:

Analytical	Rating Desk
<p>Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 Email: suman.chowdhury@smera.in</p> <p>Naveen Papisetty Analyst – Rating operations Tel: +91-22-6714 1148 Email: naveen.papisetty@smera.in</p>	<p>Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in</p>

ABOUT SMERA

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