

Press Release

Shri Pariyur Amman Kraft Papers Private Limited

May 08, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs. 7.90 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Upgraded from ACUITE B+/Stable)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE B+**' (read as **ACUITE B Plus**) to the Rs.7.90 crore bank facilities of Shri Pariyur Amman Kraft Papers Private Limited (SPPL). The outlook is '**Stable**'.

Rating upgrade reflects improvement in operating income and moderate financial risk profile. However, rating is constrained due to high working capital cycle, modest scale of operations and decline in profitability margins.

The Tamil Nadu-based, SPPL was incorporated in 2007 by Mr. Shanmuga Perumal (Managing Director). The company is engaged in manufacturing of Kraft paper and boards, with manufacturing capacity of 1800 tons per month and has warehouse capacity of 700 metric tons. The company sells its products under the brand name 'SPAK'.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SPPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

The company is in the said line of business since 2007. The company is promoted by Mr. K.M.Shanmuga Perumal, the Managing Director, who possesses more than a decade experience in the industry. The same has helped the company in maintaining healthy relationships with customers, which reflected in improvement of revenues from Rs.17.11 crore in FY2017 to Rs.33.50 crore in FY2018 and Rs.50.3 crore in FY2019 (Provisional). Acuite believes that SPPL continues to enjoy the benefit from the capex it has done and on-going capex, to enhance the capacity and improve the yield.

• Moderate financial risk profile

Financial risk profile of the company is moderate marked by moderate gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. Gearing is moderate at 1.49 times as on 31 March, 2018 as against 1.09 times as on 31 March, 2017. TOL/TNW is high at 2.30 times as on 31 March, 2018 as against 2.19 times as on 31 March, 2017. Net worth is modest at Rs.7.78 crore as on 31 March, 2018 as against Rs.7.44 crore as on 31 March, 2017. Of the total debt of Rs.11.62 crore as on 31 March, 2018, long term debt constitutes Rs.4.07 crore, unsecured loan of Rs.0.92 crore and short term debt of Rs.6.63 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 2.38 times and 0.13 times respectively in FY2018. The company reported cash accruals of Rs.1.52 crore for FY2018. The company is undertaking Rs.5 crore of capital expenditure for capacity expansion in FY2019-20. The same is expected to be funded through term loan of Rs.4.5 crore and remaining through promoters/internal accruals. Repayment obligations are expected to be in the range of Rs.1.30 -1.5 crore against annual cash accruals of about Rs.1.9-3.0 crore. Acuite believes that with moderate accruals to repayment obligations and debt-funded capex, the financial risk profile is expected to be at similar levels over the medium term.

Weaknesses

• Working capital intensive operations

Operations of the company are working capital intensive marked by high gross current assets (GCA) at 164 days in FY2018 though improved from 335 days in FY2017. High GCA days is on account of moderately high debtors which stood at 98 days in FY2018 as against 115 days in FY2017. Inventory days improved and stood at 59 days in FY2018 as against 211 days in FY2017 due to improved quality in the products. Bank limit utilization stood is about 87 percent for the last six months through March 2019. Acuite believes that the operations continue to be at similar levels over the medium term.

• Modest scale of operations

Though the revenues of the company improved, it remained modest. The company reported revenues of Rs.17.11 crore in FY2017 to Rs.33.50 crore in FY2018 and Rs.50.35 crore in FY2019 (Provisional). However, the revenues are expected to improve over the medium term supported by regular capex and improving yield and quality. Operating margins of the company declined from 9.67 percent in FY2017 to 6.54 percent in FY2018 due to stiff competition in the industry and is expected to be in the similar range over the medium term.

• Highly fragmented and competitive industry

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

Liquidity Position:

Liquidity of the company is moderate marked by moderate cash accruals to repayment obligations. The company reported net cash accruals of Rs.1.52 crore for FY2018. Further, cash accruals are expected to be in the range of Rs.1.9 crore to Rs.3.3 crore against its expected repayment obligations of Rs.1.30-1.50 crore over the medium term. Operations are working capital intensive due to stretch in debtors for 3 months period, which resulted in high utilisation of its bank lines at 87 per cent for the last six months through March 2019. The current ratio is weak at 1.03 times in FY2018. Acuite believes that moderate accruals to repayment obligations and working capital intensive operations are expected to keep the liquidity at moderate levels over the medium term.

Outlook: Stable

Acuite believes that SPPL will maintain a 'Stable' outlook over the medium term owing to its experienced management in the paper industry. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its revenues while maintaining stable profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or larger than expected capital expenditure leading to deterioration of its liquidity and financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	33.50	17.11	17.29
EBITDA	Rs. Cr.	2.19	1.66	1.91
PAT	Rs. Cr.	0.51	0.00	0.08
EBITDA Margin	(%)	6.54	9.67	11.04
PAT Margin	(%)	1.53	0.03	0.45
ROCE	(%)	9.87	5.78	14.59
Total Debt/Tangible Net Worth	Times	1.49	1.15	1.12
PBDIT/Interest	Times	2.38	1.92	1.93
Total Debt/PBDIT	Times	4.25	5.00	4.13
Gross Current Assets (Days)	Days	155	319	231

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
26-Feb-2018	Cash Credit	Long Term	7.00	ACUITE B+ / Stable (Upgraded)
	Term Loan	Long Term	0.90	ACUITE B+ / Stable (Upgraded)
09-Dec-2016	Cash Credit	Long Term	7.00	ACUITE B / Stable (Reaffirmed)
	Term Loan	Long Term	0.90	ACUITE B / Stable (Reaffirmed)
28-Oct-2015	Cash Credit	Long Term	7.00	ACUITE B / Stable (Assigned)
	Term Loan	Long Term	0.90	ACUITE B / Stable (Assigned)

***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	7.00	ACUITE BB- / Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.90	ACUITE BB- / Stable (Upgraded)

Contacts

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About Acuité Ratings & Research:

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