

Press Release

Sri Balaji Paper Trading Co

August 21, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 7.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE BB minus**) on the Rs. 7.00 crore bank facilities of Sri Balaji Paper Trading Co. The outlook is '**Stable**'.

Sri Balaji Paper Trading Co. (Balaji) is a Hyderabad based partnership firm started in the year 2007 by Mr. Prem Singh and his family. It is engaged in the trading of waste paper. The firm procures waste paper from local dealers and sells them to some of the reputed clients such as ITC Limited, Emami Paper Mills Limited among others.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

Since the establishment of the firm in 2007, it is engaged in waste paper trading. The promoters of the firm Mr. Prem Singh possess more than a three decades of experience in the paper industry. Prior to 2007, the promoter was managing a firm 'Balaji Waste Paper Merchant' which is also into paper trading business. Promoter experience in the paper industry has benefitted the firm in maintaining long standing relationship with the customers, reflected in the moderate revenue growth from Rs.42.27 crore in FY2016 to Rs.58.05 crore in FY2018 (Provisional) on account of repeat orders from the vintage clients.

- **Moderate financial risk profile**

Financial risk profile of the firm is moderate with comfortable gearing (debt/Equity ratio), moderate debt protection metrics, and total outside liabilities to total network (TOL/TNW). Gearing is comfortable at 0.26 times as on March 31, 2018 on account of moderate utilization of working capital borrowings and moderate net worth of Rs.6.03 crore as on 31 March, 2018. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are average at 1.50 times and 0.14 times respectively in FY2018. TOL/TNW is moderate at 1.93 times as on 31 March, 2018 significant improvement from 2.99 times as on March 31, 2017. Acuite believes that financial risk profile is expected to be in similar levels in the absence of major debt funded capital expenditure programme over the medium term and conservative leverage policy.

- **Efficient working capital cycle**

Working capital cycle of the firm is efficiently managed marked by moderate gross current assets of 104 days in FY2018 against 124 days in FY2017. It offers credit period of about 60-70 days with receivable days of about 75 days in FY2018 as against 68 days in FY2017. The firm maintains an inventory of around a month which is reflected in the financials at 20-31 days over the last three years through FY2018; the same is partly supported by credit from suppliers of about 45-65 days over the last three years through FY2018. The same led to moderate utilization of bank limits at 70 percent from the last six months through June 2018. Acuite believes that, the firm's working capital cycle is expected to be at similar levels over the medium term supported by healthy clientele and established presence in the industry.

Weaknesses

- **Modest scale of operations and fluctuation in operating margins**

Despite being in operations since 2007, revenues of the firm remained modest in the range of Rs.42-58

crore from the last three year through FY2018. Further EBITDA margins were low on account of trading nature of the business. Further, margins were volatile in the range of 0.94 to 1.94 percent during FY2016-FY2018. This is mainly on account of raw material price fluctuation and overhead costs. Further, the firm made net margin of around 0.14-0.25 percent for the last three years through FY2018. Ability of the firm in maintaining stable operating margins would be the key rating sensitivity factor over the medium term.

• Competitive and fragmented industry

Balaji operates in a highly competitive and fragmented industry and is exposed to increasing competition from both - the organised as well as unorganised players, thus limiting the pricing flexibility and the margins.

Analytical Approach

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

Outlook: Stable

Acuite believes that Balaji will maintain a stable outlook over the medium term on account of its experienced management in the paper industry and established relationship with the customers. The outlook may be revised to 'Positive' in case of higher than expected increase in revenues while maintaining stable operating margins. Conversely, the outlook may be revised to 'Negative' in case if the company fails to achieve expected revenues or any stretch in its liquidity on account of increase in its working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	58.05	52.98	42.27
EBITDA	Rs. Cr.	0.68	0.50	0.82
PAT	Rs. Cr.	0.14	0.07	0.07
EBITDA Margin	(%)	1.17	0.94	1.94
PAT Margin	(%)	0.25	0.14	0.17
ROCE	(%)	6.29	4.06	14.51
Total Debt/Tangible Net Worth	Times	0.26	1.48	1.42
PBDIT/Interest	Times	1.50	1.40	1.21
Total Debt/PBDIT	Times	2.29	13.30	7.40
Gross Current Assets (Days)	Days	104	124	122

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB- / Stable

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About Acuité Ratings & Research:

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