

Press Release

Sri Balaji Paper Trading Co

September 16, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.7.00 crore bank facilities of SRI BALAJI PAPER TRADING CO (SBPT). The outlook is '**Stable**'.

Hyderabad-based, Sri Balaji Paper Trading Co. (SBPT) is a partnership firm established in the year 2007 by Mr. Prem Singh and his family. The firm 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.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SBPT to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The firm was established in 2007, and thus has an operational track record of over a decade in paper trading industry. The promoter of the firm, Mr. Prem Singh, possesses more than three decades of experience in the paper industry. Prior to 2007, Mr. Prem Singh was managing a firm 'Balaji Waste Paper Merchant', which was also into the paper trading business. The promoter's experience in the paper industry has benefitted the firm in maintaining long-standing relationship with the customers, reflected in the moderate revenue growth at a CAGR of 16 per cent over the past four years from Rs. 42.27 crore in FY2016 to Rs. 66.58 crore in FY2019 (Provisional) on account of repeat orders from existing as well as new clients.

- **Efficiently managed working capital operations**

SBPT's working capital is efficiently managed as reflected by its gross current asset (GCA) days of around 90 days estimated for FY2019 (Provisional) as against 100 days for FY2018. Debtor days stood at 73 days for FY2019 (Provisional) as against 75 days for FY2018. The firm generally keeps low inventory levels marked by 14 days of inventory for FY2019 (Provisional) as against 21 days for FY2018. Further, the bank limit utilization stood at 80.74 per cent for past six months ended June 2019. Acuité expects the working capital management to remain efficient over the medium term on account of the lean inventory levels maintained by the company/limited credit period extended to its customers.

Weaknesses

- **Average financial risk profile**

The firm's financial risk profile is average marked by average networth, low gearing and average debt protection metrics. SBPT's networth is average estimated at around Rs. 7.22 crore as on March 31, 2019 (Provisional) as against Rs. 5.70 crore as on March 31, 2018. The gearing (debt-equity) stood at 0.81 times as on 31 March, 2019 (Provisional) as against 0.35 times as on 31 March, 2018. The total debt outstanding of Rs. 5.88 crore as on 31 March, 2019 (Provisional) mainly comprises of working capital borrowings of Rs. 5.86 crore and Rs. 0.02 crore of unsecured loans. Further, the coverage indicators stood moderate marked by Interest Coverage Ratio (ICR), which stood at 1.37 times for FY2019 (Provisional) as against 1.27 times for FY2018. Debt to EBITDA stood high at 9.52

times in FY2019 (Provisional) as against 3.28 times in FY2018. This is mainly due to high utilisation of working capital borrowings in FY2019 as compared to previous year. Acuité believes that the financial risk profile of the firm is expected to remain average backed by adequate net cash accruals against no debt obligations and in the absence of any major debt funded capex in near to medium term.

• Competitive and fragmented industry

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

Liquidity Position

SBPT has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs. 0.17 crore for FY2019 (Provisional) against no maturing debt obligations for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs. 0.20 crore to Rs. 0.30 crore during 2020-22 against no debt obligation for the same period. The firm has efficiently managed working capital operations as marked by GCA days of 90 days for FY2019 (Provisional). The company maintains unencumbered cash and bank balances of Rs. 0.34 crore as on March 31, 2019 (Provisional). The current ratio stood at 1.58 times as on March 31, 2019 (Provisional). Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate cash accruals to its maturing debt obligation.

Outlook: Stable

Acuité believes that SBPT will maintain a 'Stable' outlook over the medium term due to its established market position and experienced management. The outlook may be revised to 'Positive', if the firm demonstrates substantial and sustained growth in its revenues and operating margins from the current levels. Conversely, the outlook may be revised to 'Negative', if the firm generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, or stretch in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	66.58	58.09	52.98
EBITDA	Rs. Cr.	0.62	0.61	0.50
PAT	Rs. Cr.	0.09	0.09	0.07
EBITDA Margin	(%)	0.93	1.05	0.94
PAT Margin	(%)	0.13	0.15	0.14
ROCE	(%)	5.17	5.83	4.06
Total Debt/Tangible Net Worth	Times	0.81	0.35	1.48
PBDIT/Interest	Times	1.37	1.27	1.32
Total Debt/PBDIT	Times	9.52	3.28	14.12
Gross Current Assets (Days)	Days	90	100	124

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
21-Aug-2018	Secured Overdraft	Long Term	7.00	ACUITE BB-/ 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
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB- /Stable (Reaffirmed)

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About Acuité Ratings & Research:

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