

Press Release

Velan Kraft House Private Limited

June 28, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 35.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (**read as SMERA BBB minus**) on the Rs. 35.00 crore bank facilities of Velan Kraft House Private Limited. The outlook is '**Stable**'.

Velan Kraft House Private Limited (VKHPL), established in 1972 is engaged in waste paper recycling. The company has four processing units at Chennai with total installed capacity of 630 metric tonnes per day.

Key Rating Drivers

Strengths

- **Established track record of operations**

The promoter, Mr. Santana Krishnan possesses experience of over four decades in the said line of business. The day-to-day operations are led by Mr. Santhana Krishnan and his son, Mr. Anantha Ganesh (Director).

- **Reputed clientele**

The company has long track record of operations and has over the years developed healthy relations with customers and suppliers in the industry. It's clientele includes ITC Paperboards and Specialty Papers Division, Tamilnadu Newsprint and Papers Limited (TNPL), Paper Packaging Private Limited among others.

- **Healthy revenue growth with sustainable profitability**

VKHPL has reported operating income of Rs. 101.01 crore for FY2015-16 as against Rs.89.57 crore for FY2014-15 thereby registering growth of around 12.78 percent in FY2015-16. The growth in operating income is driven by increase in capacity utilisation (from 215 metric tonnes per day for FY2015-16 to 250 metric tonnes per day for FY2016-17). Operations in November 2016 and December 2016 were impacted on account of demonetisation. However, for FY2016-17 (Provisional), the company booked revenue of ~Rs.110.00 crore with Compound Annual Growth Rate (CAGR) of 25 per cent on revenues over the last four years. VKHPL has been maintaining operating margins of around 6 percent due to the sorting/packing capabilities resulting in higher realisation.

Weaknesses

- **Moderate financial risk profile**

VKHPL has moderate financial risk profile marked by gearing of 2.13 times as on 31 March, 2016 as against 2.07 times in the previous year. Going forward, the gearing is expected to improve on account of retention of profits. Any future capital expansion plans undertaken by the company will be funded through internal accruals and promoter's funds. The Interest Coverage Ratio (ICR) stood moderate at 1.85 times as on 31 March, 2016 as against 1.68 times in the previous year. Further, Debt Service Coverage Ratio (DSCR) stood at 1.41 times for FY2015-16 as against 1.23 times in the previous year. Going forward, the coverage indicators are expected to further improve on account of improvement

in operating margins. The net worth stood at Rs.13.65 crore as on 31 March, 2016 as against Rs. 12.24 crore in the previous year. For FY2016-17, the net worth stood at Rs.16.00 crore. Going forward, the net worth is expected to be marked at a comfortable level due to retention of profits.

• Working capital intensive operations

VKHPL has working capital intensive operations reflected in the relatively high gross current assets (GCA) of 120 days in FY2016 as against 121 days in FY2015. The high GCA emanates from the inventory of 92 days in FY2016 as against 84 days in FY2015. The company receives stringent credit terms from its suppliers thereby creditors stood at 2 days in FY2016 as against 6 days in FY2015. The average working capital limit utilisation stood at ~97 per cent in the last six months ended March, 2017.

• Highly fragmented and competitive industry

The recycling industry is highly fragmented with several organised and unorganised players.

Analytical Approach

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

Outlook: Stable

SMERA believes that VKHPL will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected revenues while improving profitability capital structure and coverage indicators. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues, profits or if the company registers deterioration in the financial risk profile owing to higher than expected debt funded capex or working capital requirements.

About the Rated Entity - Key Financials

For FY2015-16 VKHPL reported net profit of Rs. 1.41 crore on operating income of Rs. 101.01 crore compared to net profit of Rs. 1.18 crore on operating income of Rs. 89.57 crore in the previous year. The net worth stood at Rs. 13.65 crore as on 31 March, 2016 compared to Rs. 12.24 crore a year earlier.

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

None

Any other information

None

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>

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
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Overdraft	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA BBB- / Stable

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