

## Press Release

### Sabarmati Papers Private Limited

17 July, 2017

**Rating Assigned**



<b>Total Instruments Rated*</b>	Rs.14.00 Cr
<b>Long Term Rating</b>	SMERA BB- / Outlook: Stable

# Refer Annexure for details

### Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as SMERA double B minus) on the Rs. 14.00 crore bank facilities of Sabarmati Papers Private Limited. The outlook is 'Stable'.

Sabarmati Papers Private Limited (SPPL), a Gujarat-based company was incorporated in 1969 by Mr. Mahendrabhai Patel and Mr. Chinmay Patel. The company manufactures paper boards of 250-600 Grams per Square Meter (GSM), used mainly in the packaging industry. The company plans to expand capacity to 3500 M. T (Metric tonnes) per month from the existing 2100 M. T to be funded through a term loan and unsecured loan from promoters.

### Key Rating Drivers

#### Strengths

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

SPPL has an established track record since 1969. The promoters Mr. Mahendrabhai Patel and Chinmay Patel have around four decades of experience in the packaging industry. The extensive experience of the promoters has helped build strong relations with suppliers and customers.

- **Modest scale of operations**

The scale of operations is modest with operating income of Rs.34.10 crore for FY2016 as against Rs.32.62 crore for FY2015 and Rs.33.83 crore for FY2014. The company achieved revenue of Rs.39.30 crore for FY2017 (Provisional).

- **Average financial risk profile**

SPPL has an average financial risk profile marked by gearing (debt-to equity) of 0.83 times as on 31 March, 2017 (Provisional) as against 0.67 times as on 31 March, 2016. The ICR (Interest coverage ratio) stood at 2.23 times for FY2017 (Provisional) against 2.27 times for FY2016. Further, the aforementioned expansion plan is expected to deteriorate the gearing going forward. The tangible net worth stood at Rs.14.80 crore as on 31 March, 2017 (Provisional) (Tangible networth includes subordinated quasi equity of Rs.3.74 cr).

#### Weaknesses

- **Low profitability**

SPPL has operating margin of 6.91 percent and net loss of Rs.0.51 percent in FY2016 as against operating margin of 6.66 percent in and net loss of Rs.0.60 crore in FY2015. Further, the profitability remains susceptible to fluctuations in raw material prices. The company achieved

operating margin of 7.28 percent in FY2017 (Provisional).

**• Working capital intensive operations**

SPPL has working capital intensive operations marked by GCA of 121 days for FY2017 as against 167 days for FY2016. This is mainly on account of inventory days of 109 and debtor days of 12 days for FY2017. The WCC (working capital cycle) days stood at 69 days for FY2017 and 97 days for FY2016. Further, the average utilisation of working capital borrowing stood at ~90.00 percent for the last six months from January 2017 to June 2017.

**• Competitive and fragmented industry**

The company is engaged in the manufacture of packaging cartons and is exposed to intense competition in the packaging industry.

**Analytical Approach**

Standalone business and financial risk profile

**Outlook: Stable**

SMERA believes that the outlook of SPPL will remain stable in the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the company achieves sustained growth in revenues and profit margins with substantial improvement in the working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues and profit margins or deterioration in the capital structure.

**About the Rated Entity - Key Financials**

For FY2015-16, the company reported net loss of Rs.0.51 crore on operating income of Rs.34.10 crore, compared with net loss of Rs.0.60 crore on operating income of Rs.32.62 crore in FY2014-15. The net worth stood at Rs.12.49 crore as on 31 March, 2016 as against Rs.9.29 crore a year earlier. (Networth includes subordinated quasi equity of Rs.3.74 cr)

**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>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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. Crore.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.34	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	4.66	SMERA BB- / Stable

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