

Press Release

Maruti Papers Limited (MPL)

16 August, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs.30.00Cr
Long Term Rating	SMERA BBB-/Stable (Assigned)
Short Term Rating	SMERA A3 (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (**read as SMERA triple B minus**) and short term rating of **SMERA A3** (**read as SMERA A three**) on the Rs.30.00 crore bank facility of Maruti Papers Limited (MPL). The outlook is '**Stable**'.

Maruti Papers Limited (MPL) was incorporated in 1988 by Mr. Rajeshwar Kumar Bansal, Mr. Atul Bansal, Mrs. Anjana Bansal and Mrs. Shipra Bansal. The Uttar Pradesh-based company is engaged in the manufacturing of eco-friendly recycled multilayer Kraft Paper with installed capacity of 85000 MTPA. The key raw materials are waste material, pet coke and starch sourced from Indian Oil Corporation Limited, Kumar Trading Company and Vasundhra Enterprises to name a few. The company caters to dealers and distributors of corrugated boxes including Shitla Papers Private Limited, OJI J. K. Packaging Private Limited, A. P. Enterprises Private Limited to name a few.

List of key rating drivers and their detailed description:

Strengths:

Experienced management: The Directors, Mr. Rajeshwar Bansal, Mr. Atul Bansal, Mrs. Anjana Bansal have experience of over three decades in the aforementioned line of business.

Moderate financial risk profile: The financial risk profile is moderate marked by healthy networth, high gearing and comfortable coverage indicators. The networth stood at Rs.21.10 crore (includes unsecured loan from Directors of Rs.2.02 crore) as on 31 March, 2017 as against Rs.18.12 crore (includes unsecured loan from Directors of Rs.0.89 crore) as on 31 March, 2016. SMERA has treated the unsecured loan as quasi equity as the amount is subordinated to bank debt. The company reported high gearing of 2.11 times as on 31 March, 2017 against 2.18 times in the previous year. The gearing of 2.11 times is due to networth of Rs.21.10 crore against the total debt of Rs.44.44 crore (includes long term loan of Rs.9.79 crore, short term working capital of Rs.22.14 crore and unsecured loans from NBFCs and corporates of Rs.12.52 crore) as on 31 March, 2017. Moreover, the interest coverage ratio stood moderate at 2.60 times and net cash accrual to total debt (NCA/TD) at 0.14 times in FY2016-17. The debt service coverage ratio (DSCR) stood at 1.46 times in FY2016-17. SMERA believes that any decline or non-improvement in debt protection metrics or/and further increase in debt to equity ratio on account of large debt funded capex would be the key credit monitoring factor.

Efficient working capital management: The working capital cycle is efficiently managed marked by gross current asset (GCA) of 101 days in FY2016-17 compared to 117 days in FY2015-16. The GCA days are on account of low inventory days of 17 in FY2016-17 as against 24 in FY2015-16. Further, the debtor days stood at 74 days in FY2016-17 as against 78 days in FY2015-

16. The improvement in GCA days is on account of better inventory management and faster realisation of debtors.

Increase in scale of operations: MPL has reported operating income of Rs. 188.49 crore in FY2016-17 compared to Rs. 139.36 crore in the previous year thereby registering a y-o-y growth of 35.25 percent and CAGR of around 41 percent for the period FY2014 to FY2017. The growth in revenue is on account of increase in installed capacity to 85000 MTPA from 36000 MTPA. Going forward, SMERA expects MPL to sustain revenue growth by continuous addition in installed capacity and repeat orders from existing customers. Further, the company reported operating income of Rs. 61.77 crore during April, 2017 to June, 2017 (Provisional).

Weaknesses:

Competitive and fragmented industry: MPL operates in a highly competitive and fragmented industry and is exposed to increasing competition from both - the organised as well as unorganised players.

Susceptibility of profitability to fluctuations in raw material prices: MPL is exposed to risks emanating from adverse movements in waste paper prices in the domestic and international markets. SMERA believes that MPL's ability to pass on increase in waste paper prices to the end customer shall be critical towards maintaining its credit risk profile. Adverse movements in waste paper prices on account of global demand-supply mismatches may result in downward pressure on MPL's profitability margins over the near to medium term.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that MPL will maintain a stable outlook over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case of higher than expected improvement in profitability margins coupled with sustained increase in market share over the medium term. Conversely, the outlook may be revised to 'Negative' in case of substantial deterioration in profitability margins and/or higher than expected increase in gearing over the medium term.

Analytical approach: SMERA has considered the standalone business and financial risk profile of MPL.

About the Rated Entity

In FY2016-17, the company registered operating income of Rs.188.49 crore with Profit After Tax (PAT) of 1.84 crore compared to operating income of Rs. 139.36 crore with PAT of 1.074 crore a year earlier. The networth stood at Rs.21.10 crore as on 31 March, 2017 as against Rs.18.12 crore a year earlier. The company registered operating income of Rs. 61.77 crore (Provisional) from April, 2017 to June, 2017.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the 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*	N.A	N.A	N.A	10.00	SMERA BBB-/Stable (Assigned)
Bank Guarantee	N.A	N.A	N.A	0.50	SMERA A3 (Assigned)
Term Loan	N.A	N.A	N.A	9.50	SMERA BBB-/Stable
Letter of Credit	N.A	N.A	N.A	10.00	SMERA A3 (Assigned)

*Letter of credit is fully interchangeable with cash credit

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head - Ratings Operations, Tel: 022-67141190 Email: vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in
Shashank Shukla, Analyst- Rating Operations Tel: 011-49731302 Email: shashank.shukla@smera.in	

ABOUT SMERA

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