

## Press Release

Shri Hari Krishna Papers Private Limited

November 25, 2019

### Rating Reaffirmed and Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 57.00 Cr. (Enhanced from Rs. 24.00 crore)
<b>Long Term Rating</b>	ACUITE BBB+ / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A2

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 39.65 crore bank facilities of SHRI HARI KRISHNA PAPERS PRIVATE LIMITED (SHKPPL). The outlook is '**Stable**'.

Further, Acuite has assigned the long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs. 17.35 crore bank facilities of SHKPPL. The outlook is '**Stable**'.

Shri Hari Krishna Papers Private Limited (SHKPPL), incorporated in 1981, is a Tamil Nadu-based company promoted by Mr. M. Veluswamy, Mr. V. Vivek, Mr. M. Amarnath and others. The company commenced operations in 1991 to manufacture printing and writing paper, newsprint paper and MG Paper. The company has three manufacturing units located at Dindigul (Tamil Nadu) with installed capacity of 41,500 metric tonnes per annum (MTPA).

The company has recently added another manufacturing unit with installed capacity of 41500 MTPA to manufacture printing and writing papers. The production for the same started in Sept 2019.

The company sells its products to newspaper publishers and traders located in Karnataka, Maharashtra, Tamil Nadu, Kerala and Gujarat. SHKPPL procures raw material (waste paper) from traders located in Karnataka, Maharashtra and Tamil Nadu and imports ~25 percent of raw material.

### Analytical Approach

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

### Key Rating Drivers

#### Strengths

- Established track record of operations and experienced management**

The company is engaged in the manufacturing of printing and writing paper, news print paper among others from waste paper since 1991. The established operational track record has helped the company maintain long standing relations with customers and suppliers. The company benefits from its experienced promoters who collectively possess around four decades of experience in the paper manufacturing business. Further, SHKPPL is part of the GVG Group which is into paper manufacturing and textiles since 1985. Acuite believes that the company will sustain its existing business profile on the back of its established track record and experienced management.

- Healthy financial risk profile albeit capital expenditure**

The financial risk profile of the company stood healthy marked by healthy net worth, debt protection metrics and coverage indicators. The net worth of the company stood at Rs. 71.50 crore as on 31 March, 2019 as against Rs. 53.63 crore as on 31 March, 2018. The gearing (debt-equity) stood low at 0.41 times as on 31 March, 2019 as against 0.18 times as on 31 March, 2018. The total debt of Rs. 28.97 crore as on 31 March, 2019 mainly comprises Rs. 14.26 crore of working capital borrowings, Rs. 13.70 crore of long term debt and Rs. 1.01 crore of unsecured loans.

The increase in debt levels is mainly due to capital expenditure done by the company in FY2019 & FY2020, increasing the installed capacity of the unit by 83000 MT per annum from 41500 MT per annum. The company has installed a machinery for manufacturing of printing and writing paper and the production for the same started in Sept 2019.

The coverage indicators are healthy marked by Interest Coverage Ratio (ICR) which stood at 15.87 times for FY2019 as against 12.04 times for FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.75 times in FY2019 as against 1.44 times in FY2018. Further, the Total outside Liabilities to Tangible Net Worth (TOL/TNW) ratio stood low at 0.81 times as on 31 March 2019 as against 0.57 times as on 31 March, 2018. Debt to EBITDA stood at 0.97 times for FY2019 as against 0.49 times for FY2018.

Acuite believes the financial risk profile of the company will continue remain healthy in near to medium term on account of healthy accretion to reserves and in absence any major debt funded capex.

- **Improving scale of operations and profitability**

SHKPPL's revenue has grown at a CAGR of ~13 percent from FY2016 to FY2019. The company has achieved revenue of Rs. 200.98 crore in FY2019 as against Rs. 180.26 crore in the previous year. The company has registered revenues of ~ RS. 112.00 crore for the period April 2019-Oct 2019. Further, EBITDA margins stood healthy at 14.85 percent for FY2019 as against 10.89 percent for FY2018. Profit after Tax (PAT) margins stood healthy at 8.89 percent for FY2019 as against 5.90 percent for FY2018. Any sharp decline in operating revenues or profitability of the company will remain a key rating sensitivity factor.

- **Efficiently managed working capital operations**

The company's working capital operations are efficiently managed marked by Gross Current Assets (GCA) days of 107 days for FY2019 as against 77 days for FY2018. The increase is mainly due to increased inventory level on account of early expectation of commencement of capex by April 2019. However, the project started in Sept 2019. Inventory days increased to 81 for FY2019 as against 50 days for FY2018. The debtor days stood at 27 days for FY2019 as against 25 days for FY2018. Further, the average bank limit utilization stood at ~88 per cent over the last six months ended Sept 2019. Acuite believes that the company's ability to maintain its working capital efficiently will remain a key to maintain stable credit profile.

## **Weaknesses**

- **Susceptibility to volatility in raw material prices and foreign exchange rate**

The margins are susceptible to volatility in raw material prices during the period under study. Significant changes in raw material prices would have an impact on the margins of the company. Further, the company imports around 25 percent of total purchases from Dubai, Singapore and Switzerland among others. Hence, the profitability is exposed to fluctuations in forex rates in the absence of adequate hedging mechanism.

- **Highly fragmented and competitive industry**

The industry is highly fragmented with several organised and unorganised players, thereby impacting the company's profitability.

## **Rating Sensitivities**

- Significant improvement in scale of operations
- Significant Decline in profitability
- Deterioration in working capital cycle.

## **Any Material Covenants**

None

### Liquidity Position: Adequate

SHKPPL has adequate liquidity marked by healthy net cash accruals to maturing debt obligations. The company generated cash accruals of Rs. 21.61 crore for FY2019, while its maturing debt obligations were Rs. 0.29 crore for the same period. The cash accruals of SHKPPL are estimated to remain around Rs. 21 to 30 crores during 2019-21, while its repayment obligations are estimated to be around Rs. 5 to 5.5 crores during the same time. SHKPPL's working capital operations are efficiently managed marked by Gross Current Asset (GCA) Days of 107 days for FY2019. The average bank limit utilization stood at ~88 per cent during the last six months period ended Sept 2019. SHKPPL maintains unencumbered cash and bank balances of Rs.1.14 crore as on March 31, 2019. The current ratio of SHKPPL stood healthy at 1.48 times as on March 31, 2019. Acuite believes that the liquidity of SHKPPL is likely to remain adequate over the medium term on account of growth in net cash accruals (backed by increase in capacity) over the medium term.

### Outlook: Stable

Acuite believes that the company will maintain a 'Stable' outlook over the medium term on the back of its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

### About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	200.98	180.26	155.78
EBITDA	Rs. Cr.	29.84	19.62	14.58
PAT	Rs. Cr.	17.86	10.64	8.75
EBITDA Margin	(%)	14.85	10.89	9.36
PAT Margin	(%)	8.89	5.90	5.62
ROCE	(%)	29.71	25.54	36.32
Total Debt/Tangible Net Worth	Times	0.41	0.18	0.22
PBDIT/Interest	Times	15.87	12.04	6.63
Total Debt/PBDIT	Times	0.97	0.49	0.66
Gross Current Assets (Days)	Days	107	77	73

### 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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
19-Nov-2018	Cash Credit	Long Term	7.50	ACUITE BBB+ / Stable (Upgraded from ACUITE BBB/ Stable)
	Proposed Bank Facility	Long Term	3.00	ACUITE BBB+ / Stable (Upgraded from ACUITE BBB/ Stable)
	Cash Credit	Long Term	7.50	ACUITE BBB+ / Stable (Upgraded from ACUITE BBB/ Stable)
	Letter of Credit	Short Term	2.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Term Loan	Long Term	0.11	ACUITE BBB+ / Stable (Withdrawn)
	Bills Discounting	Short Term	1.00	ACUITE A2 (Assigned)
	Term Loan	Long Term	0.83	ACUITE BBB+ / Stable (Withdrawn)
	Letter of Credit	Short Term	3.00	ACUITE A2 (Upgraded from ACUITE A3+)
19-Sep-2017	Cash Credit	Long Term	7.50	ACUITE BBB / Stable (Assigned)
	Cash Credit	Long Term	7.50	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	0.83	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	0.11	ACUITE BBB / Stable (Assigned)
	Proposed Bank Facility	Long Term	2.06	ACUITE BBB / Stable (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A3+ (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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	24.00 (Enhanced from Rs 15.00 crore)	ACUITE BBB+ / Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	17.35	ACUITE BBB+ / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	7.65	ACUITE BBB+ / Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.00* (Enhanced from Rs. 5.00 crore)	ACUITE A2 (Reaffirmed)

\*Includes sublimit of IUBP/ Drawee Bill Discounting to the extent of Rs. 4.00 crore

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### About Acuite Ratings & Research:

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