

Press Release

Shri Hari Krishna Papers Private Limited

May 18, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	49.00	ACUITE BBB+ Stable Reaffirmed	-
Bank Loan Ratings	8.00	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	57.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its 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. 57.00 crore bank facilities of Shri Hari Krishna Papers Private Limited (SHKP). The outlook is '**Stable**'.

The rating reaffirmed continue to be supported by its experienced management, above-average financial risk profile and efficient working capital management. The rating however is constrained by decline in profitability margins and scarcity of raw materials.

About the Company

SHKP, 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 an installed capacity of 41,500 metric tonnes per annum (MTPA). The company has expanded its capacity by another 41,500 MTPA in the year 2019. However, currently, the operational capacity stands at 70,600 MTPA.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and established track record of operations

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. Currently SHKPPL is having capacity to produce 210 tonnes of paper per day. SHKPPL has well established client base across the major cities in India and has the benefits of long standing relation with their customers. The top 10 customers contribute to almost 35% of the company's revenue. This mitigates the customer concentration risk. Acuite believes that the company will benefit from its established track record and experienced management

Above average financial risk profile

Financial risk profile of SHKPPL is above-average marked by its moderate net worth, Low gearing and moderate debt protection metrics. Net worth stood at Rs.76.98 Cr as on March 31, 2021 as against Rs.75.47Cr on March 31, 2020. Debt-equity of the company stood at 0.37 times as on March 31, 2021 as against 0.60 times on 31 March 2020. Interest coverage ratio (ICR) improved to 2.25 times for 31 March 2021 from 5.46 times for 31 March 2020. The net worth levels have seen significant improvement over the last three years. Debt – EBITDA stood at 2.66 times as on March 31, 2021 against 2.14times on March 31 2020. As per the FY22 annual provisional financials, the company is estimated to report Rs.292.64 Cr of revenue and EBITDA margin of 6.44 percent. The company has managed to overcome shortage of raw material during post pandemic restrictions in FY22 with their extensive relations with the domestic suppliers and not relying more on import of raw materials (as the contribution to total purchase from imports is reduced to ~4% in FY22 against ~8.5% in FY21). The company has reported improved sales in FY22; however, the increase in raw material prices made the EBITDA margins remain low but, increased when compared to FY21. Acuite believes that financial profile of SHKPPL will remain stable over the medium term.

Efficient working capital management

SHKPPL working capital cycle is efficiently managed marked by Gross Current Assets (GCA) days of 97 days as on March 31, 2021 and 106 days as on March 31, 2020. The inventory holding period stood at 51 days as on March 31, 2021 against 64 days as on March 31, 2020, volatile behavior in raw material prices is the main reason to maintain low inventory levels of raw materials. Debtor days reduced and stood comfortable at 39 days as on March 31, 2021 against 44 days as on March 31, 2020. The creditor days remains same at 40 days as on March 31, 2021 as well. Further, the bank limit utilization has remained low at ~59 % for 12-month period ended March 2022.

Weaknesses

Decline in Profitability margins

SHKP has reported revenue of Rs. 178.73 Cr in FY21 against Rs.224.55 Cr in FY20. The Company has operated at 60% production capacity for FY21 due to raw material scarcity and post pandemic restrictions on transportation. Due to the volatility in prices and limited ability of the company to pass it on to its customers its operating profitability has been affected. Its operating margin declined to 5.82 percent in FY21 against 9.46 percent in FY20. Net profit margin reduced drastically to 0.84 percent in FY2020 against 2.74 percent in FY20. During FY21, there has been a significant rise in the global raw material prices. The company imports around 25 percent of total purchases from Dubai, Singapore and Switzerland, among others. This has shown impact on inventory holding period as well. As per the annual provisional statements as on March 31, 2022 the company has managed to generate Rs.292.64Cr of revenue. Despite of covid-19 restrictions, the company has managed their working capital and the raw material in efficient way. Reopening of educational institutions and offices is an important factor for the recovery of operations of SHKPPL. Acuite believes that operations of SHKPPL will improve over medium term on account of its ability to sustain the volatility in the global raw material prices and improving operations.

Scarcity of raw materials

The main raw material for SHKPPL is the waste papers collected from schools, colleges and offices. Due to the Covid-19 restrictions closure of the educational institutions and offices had impacted the overall waste paper collection in India. The company has operated at 60% of its production capacity during FY21 and reported Rs.178.72 Cr. As per the provisional figures, the company has reported Rs292.64 Cr in FY22 as the company gradually started increasing their production level and operating at full capacity from December 2021

ESG Factors Relevant for Rating

None

Rating Sensitivities

- Improvement in profitability and operations.
- Any elongation in working capital cycle will be key a monitorable

Material covenants

None

Liquidity: Adequate

SHKPPL has adequate liquidity marked by its moderate net cash accruals to its maturing debt obligations. The company maintains unencumbered cash and bank balances of Rs.1.67 Cr as on March 31, 2021. The current ratio of the company stands at 1.93 times as on March 31 2021. SHKPPL has sufficient net cash accruals to pay their maturing debt. The fund based and non-fund based bank limits utilization of SHKPPL is 59% and 36.4% respectively for the past 12 months ending March 2022. Acuite believes that Liquidity position will remain stable over 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 of further deterioration in operating risk profile or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	178.73	224.55
PAT	Rs. Cr.	1.51	6.15
PAT Margin	(%)	0.84	2.74
Total Debt/Tangible Net Worth	Times	0.37	0.60
PBDIT/Interest	Times	2.25	5.46

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Feb 2021	Term Loan	Long Term	15.37	ACUITE BBB+ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	9.63	ACUITE BBB+ Stable (Reaffirmed)
	Letter of Credit	Short Term	8.00	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	24.00	ACUITE BBB+ Stable (Reaffirmed)
25 Nov 2019	Cash Credit	Long Term	24.00	ACUITE BBB+ Stable (Reaffirmed)
	Letter of Credit	Short Term	8.00	ACUITE A2 (Reaffirmed)
	Term Loan	Long Term	17.35	ACUITE BBB+ Stable (Assigned)
	Proposed Bank Facility	Long Term	7.65	ACUITE BBB+ Stable (Reaffirmed)
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+ (Withdrawn)
	Bills Discounting	Short Term	1.00	ACUITE A2 (Assigned)
	Term Loan	Long Term	0.83	ACUITE BBB+ (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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE BBB+ Stable Reaffirmed
Karur Vysya Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A2 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.25	ACUITE BBB+ Stable Reaffirmed
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	14.75	ACUITE BBB+ Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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