

Press Release

NIKITA PAPERS LIMITED

November 16, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 35.00 Cr.
Long Term Rating	SMERA BB+ / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB+**' (**read as SMERA BB plus**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 35.00 crore bank facilities of NIKITA PAPERS LIMITED. The outlook is '**Stable**'.

Nikita Papers Limited (NPL), incorporated in 1989 is an Uttar Pradesh-based company promoted by Mr. Ashok Bansal and Mr. Sudhir Bansal. The company is engaged in the manufacturing of kraft paper at Shamli, Uttar Pradesh and has installed capacity of 42,000 metric tonnes per annum (MTPA). The product finds application in the manufacturing of corrugated boxes. The company procures raw material (waste paper) from traders in Haryana, Punjab, New Delhi, Uttar Pradesh and Madhya Pradesh and sells the finished product to traders and manufacturers of corrugated boxes in New Delhi, Uttarakhand, Uttar Pradesh, Punjab and Himachal Pradesh. The company also imports around 30 per cent of its total purchases from UK, USA and the Middle East.

Key Rating Drivers

Strengths

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

NPL has long track record of operations of more than two decades which has helped establish and maintain long standing relations with customers and suppliers. The company also benefits from its experienced promoters - Mr. Ashok Bansal and Mr. Sudhir Bansal who collectively possess more than four decades of experience in the paper manufacturing business.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by adjusted tangible networth of Rs. 26.98 crore as on 31 March, 2017 as against Rs.25.53 crore in the previous year. The adjusted gearing stood at 1.00 times as on 31 March, 2017 as against 0.95 times in the previous year. For arriving at the adjusted tangible networth and gearing, SMERA has considered the unsecured loan from related parties of Rs. 14.76 crore as part of equity as the same is subordinated to bank debt. The interest coverage ratio (ICR) stood at 2.14 times for FY2017 as against 1.98 times in FY2016. The debt service coverage ratio (DSCR) stood at 1.87 times for FY2017 as against 1.84 times in the previous year. The total liabilities to tangible networth (TOL/TNW) stood at 1.28 times as on 31 March, 2017 as against 1.16 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.13 times in FY2017 as against 0.09 times in the previous year. Going forward, SMERA expects the company to maintain its financial risk profile and improve its networth in the absence of major debt funded capex plan.

Weaknesses

- **Working capital intensive operations, stretched liquidity**

The operations are working capital intensive marked by gross current asset days (GCA Days) of 150 for FY2017 as against 131 days as on 31st March, 2016. The high GCA days are on account of high debtor days of 116 in FY2017 as against 90 days in FY2016. Further, the average cash credit utilisation for last six

months ended 31 October, 2017 is 96.32 per cent.

• Susceptibility of profitability to volatility in raw material prices, forex fluctuation risk

The main raw material purchased by the company is waste paper which constitutes around 59 percent of total sales in FY2017 as against 54 percent in the previous year. Adverse movements in raw material prices can impact profitability. Further, NPL imports around 30 percent of its total purchases from suppliers in United Kingdom, USA and Middle East Asia. While the company has covered its foreign exchange exposure to the extent of Rs. 9.00 crore, the profit margins are susceptible to fluctuations on the unhedged portion.

• Highly fragmented and competitive industry

NPL is exposed to intense competition from organised and unorganised players in the industry.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

SMERA believes that NPL will maintain a 'Stable' outlook over the medium term owing to its established presence and extensive experience of the promoters in the paper industry. The outlook may be revised to 'Positive' in case the company registers significant growth in revenue and profitability while maintaining a comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of steep decline in profitability, deterioration in the capital structure and liquidity position due to higher than expected working capital requirements or major debt funded capex undertaken by the company.

About the Rated Entity - Key Financials

For FY2016-17, NPL reported profit after tax (PAT) of Rs. 0.70 crore on operating income of Rs. 91.94 crore as against PAT of Rs. 0.34 crore on operating income of Rs.81.16 crore in the previous year. The adjusted tangible networth stood at Rs. 26.98 crore as on 31 March, 2017 compared to Rs. 25.53 crore as on 31 March, 2016.

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA BB+ / Stable
Term loans	Not Applicable	Not	31-Mar-2019	0.36	SMERA BB+ / Stable

		Applicable			
Term loans	Not Applicable	Not Applicable	31-Mar-2019	0.79	SMERA BB+ / Stable
Term loans	Not Applicable	Not Applicable	31-Mar-2021	4.00	SMERA BB+ / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.85	SMERA BB+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	9.00	SMERA A4+

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ABOUT SMERA

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