

Press Release

Navdurga Pulp And Paper Mill India Private Limited

May 04, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.68 Cr.
Long Term Rating	SMERA BB/Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned the long term rating of '**SMERA BB**' (read as **SMERA double B**) on the Rs.10.68 crore bank facilities of Navdurga Pulp And Paper Mill India Private Limited (NPPM). The outlook is '**Stable**'.

Navdurga Pulp and Paper Mill India Private Limited (NPPM) was incorporated in 2006 by Mr. Mangtu Ram Agrawal and Mr. Rajesh Kumar Agrawal. The commercial operations started in 2014 and is engaged in manufacturing of kraft paper. The manufacturing facility is located at Raipur with total installed capacity of 18000 MT per annum.

Key rating drivers

Strengths

Experienced management

The Promoters, Mr. Rajesh Agrawal and Mr. Mangtu Agrawal have an industry experience of over a decade. Mr. Rajesh Agrawal is involved in the day to day activities of managing purchase, finance & administration. Mr. Mangtu Agrawal looks after the production activity. The promoters backed by their experience have been able to generate healthy relations with various customers and suppliers.

Moderate financial risk profile

NPPM has moderate financial risk profile marked by tangible net worth of Rs. 6.71 crore as on 31 March, 2017 as against Rs.6.04 crore as on 31 March, 2016. It includes unsecured loan of Rs.2.26 crore as on 31 March, 2017 which is considered as quasi equity. The adjusted gearing stood at 1.06 times as on 31 March, 2017 as against 1.05 times as on 31 March, 2016. The debt of Rs.7.10 crore mainly consists of term loan of Rs.3.56 crore and working capital borrowings of Rs.3.54 crore as on 31 March 2017. Interest Coverage Ratio (ICR) stood at 2.19 times for FY2017 as against 2.35 times in FY2016. Debt Service Coverage Ratio (DSCR) stood at 1.13 times for FY2017 as against 1.42 times in FY2016. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.26 times as on 31 March, 2017 as against 1.13 times as on 31 March, 2016. Going forward, SMERA expects the gearing to deteriorate marginally in near term on account of capex plans.

Weaknesses

Working capital intensive operations

The operations are working capital intensive marked by high Gross Current Asset (GCA) of 183 days in FY2017 compared to 135 days in FY2016. The GCA days are mainly dominated by inventory of 99 days in FY2017 compared to 91 days in FY2016. The working capital limits were fully utilised for the past six months. SMERA believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Declining profitability margins

Although the company has registered growth in the operating income from FY2015 to FY2017, the operating margins have shown declining trend. The operating margins declined to 13 percent in FY2017 from 15.49 percent in FY2016. The decrease in margins was mainly on account of decreasing demand for the papers with lesser burst factor. Going forward SMERA expects the margins to improve in the medium term on account of the capex plans which will enhance its existing facility.

Debt funded capital expenditure (capex) plans

NPPM is revamping its existing facility to enhance the existing capacity to 22500 MT per annum. The total cost of project is Rs.6.20 crore which will be funded by bank loan of Rs.4.00 crore, equity capital of Rs.1.50 crore and unsecured loans from promoters of Rs.0.70 crore. Notwithstanding the benefits of the debt funded capex, timely completion and stabilisation will remain key rating sensitivity.

Competitive and fragmented industry

NPPM operates in a highly competitive and fragmented industry characterised by large number of unorganised players affecting margins.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of NPPM to arrive at the rating.

Outlook – Stable

SMERA believes NPPM will maintain a 'Stable' outlook over the medium term benefiting from its experienced management. The outlook may be revised to 'Positive' in case of healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues or profit margins, or in case of deterioration in financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	13.65	11.99	7.28
EBITDA	Rs. Cr.	1.77	1.86	1.30
PAT	Rs. Cr.	0.15	0.12	0.01
EBITDA Margin	(%)	13.00	15.49	17.85
PAT Margin	(%)	1.09	1.01	0.19
ROCE	(%)	7.44	6.99	10.72

Total Debt/Tangible Net Worth	Times	2.10	1.87	2.47
PBDIT/Interest	Times	2.19	2.35	1.88
Total Debt/PBDIT	Times	5.24	4.30	7.23
Gross Current Assets (Days)	Days	183	135	224

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

India Ratings and Research in its press release dated August 24, 2017 had inter-alia mentioned the following: 'India Ratings and Research (Ind-Ra) has migrated Navdurga Pulp and Paper Mills (I) Pvt Ltd's (NPPM) Long-Term Issuer Rating to the non-cooperating category. The issuer did not participate in the rating exercise despite continuous requests and follow-ups by the agency. Therefore, investors and other users are advised to take appropriate caution while using the rating. The rating will now appear as 'IND BB-(ISSUER NOT COOPERATING)' on the agency's website.'

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.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	3.50	SMERA BB/ Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.18	SMERA BB/ Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA BB/ Stable

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ABOUT SMERA

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