

Press Release

Sree Nandini Kraft Boards Private Limited

August 17, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B** (read as ACUITE B)' on the Rs. 8.00 crore bank facilities of Sree Nandini Kraft Boards Private Limited. The outlook is '**Stable**'.

Sree Nandini Kraft Boards Private Limited (Nandhini) is a Eluru based company incorporated in the year 2005. It is engaged in the manufacturing of kraft papers used to manufacture packaging boxes, covers etc. The company's plant is located in Andhra Pradesh and has an installed capacity to manufacture 30 tonnes of kraft papers per day.

Key Rating Drivers

Strengths

- **Experienced management in the paper industry**

The managing director of the company Mr. Trinadharaju is engaged in kraft paper trading in the name of 'Sri Vinayaka Traders' for over three decades. His long-standing presence in the industry has helped to form established relations with the customers and suppliers. Aided by his son Mr Abhilash Verma and the business vintage, the management has invested and took over a loss-making unit standing under 'Sree Nandini Kraft Boards Private Limited' in the year 2016. Post-acquisition, the management has invested nearly Rs.2.0 crores for revival and refurbishment of the unit; which has yielded result in terms of improvement in revenues from Rs.6.05 crores in FY2016 to Rs.19.63 crores in FY2018 (Provisional). Further, the management turned the unit into profitability in a year span. Acuité believes that Nandini is expected to benefit from the promoter's presence, and the positive trend that is going in the paper industry over the medium term.

Weaknesses

- **Modest scale of operations**

Despite growth in revenues to Rs19.63 crore in FY2018 from Rs.6.05 crore in FY2016, it remained modest. Ability of the management to scale up the operations to a sustainable level amid weak financial risk profile, would be the key rating sensitivity factor in the medium term.

- **Weak financial risk profile**

Financial risk profile of the company is weak marked by high gearing (Debt to Equity ratio), weak debt protection metrics, high total outside liabilities to total networth (TOLTNW). Gearing is high at 13.9 times as on 31 March, 2018 as against 10.75 times on account of low networth of 0.79 (Provisional) as against 0.62 times as on 31 March, 2017. Net worth is low due to accumulated losses. Debt protection metrics of interest coverage ratio (ICR) is average at 1.53 times in FY2018 as against 1.56 times in FY2017. Debt service coverage ratio is weak at below one from the last three years through FY2018. However, the company has funded the debt obligations through unsecured loans from the directors. TOLTNW is high at 16.35 times as on 31 March 2017 and around 21 times as on 31 March, 2018. Acuité believe that financial risk profile is expected to remain weak on moderate accretions to reserves.

- **Working capital intensive operations**

Operations of the company are working capital intensive marked by high gross current assets (GCA) of 258 days in FY2018 (Provisional) as against 184 days in FY2017. High GCA days is on account of high inventory holding period and high debtor days. The company maintains inventory of around 3-4 months for regular supply of materials to its customers. Further, debtor days stood at 156 days on

account extended credit of around 90-120 days to its customers. This lead to full utilization of its working capital limits for the last six months through May 2018. Acuité believes that, operations continue to be working capital intensive on account of inventory maintenance policy and extended credit terms with its customers.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the Nandini to arrive at this rating.

Outlook: Stable

Acuité believes that Nandini will maintain a stable outlook over the medium term owing to its experienced management in the paper industry. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its revenues while maintaining stable profitability and improving its capital structure by capital infusion. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management leading to deterioration of its liquidity and financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	14.75	6.05	1.05
EBITDA	Rs. Cr.	1.13	0.62	0.03
PAT	Rs. Cr.	0.03	-0.29	-0.81
EBITDA Margin	(%)	7.69	10.26	3.20
PAT Margin	(%)	0.23	-4.72	-77.50
ROCE	(%)	12.79	7.34	-14.54
Total Debt/Tangible Net Worth	Times	10.75	45.70	10.41
PBDIT/Interest	Times	1.56	1.21	0.07
Total Debt/PBDIT	Times	5.86	6.57	118.21
Gross Current Assets (Days)	Days	184	256	966

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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)

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	6.00	ACUITE B / Stable
Term loans	Not	Not	Not	2.00	ACUITE B / Stable

	Applicable	Applicable	Applicable	
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About Acuité Ratings & Research:

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