

Press Release

Harishankar Paper Products Private Limited

September 03, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 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 plus**) to the Rs. 10.00 crore bank facilities of Harishankar Paper Products Private Limited (HSPP). The outlook is '**Stable**'.

Incorporated in 1996, HSPP is a Hyderabad based company, which is promoted by Mr. Shiv Shankar Taparia and Mr. Ram Kishore Taparia. HSPP is engaged in trading of Paper and Paper products. It is also authorised distributor of Seshasayee Paper and Boards Limited in the region of Telangana.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record and experienced management**

The promoters have experience of more than two decades in paper trading business. The promoters also have experience in paper manufacturing through other entities. Established track record of operations and experienced management has helped the company to build long standing relationships with the customers; this has supported HSSP in reporting revenues of Rs.209.15 crore in FY2018 (Provisional) as against Rs.153.63 crore in FY2015; witnessed a compound annual growth rate (CAGR) of 10.91 percent. The company supplies its products to various educational institutions, wholesalers and retailers in the region of Telangana. Acuité believes that HSSP will benefit from its longstanding relationship with its customers and suppliers in Telangana region.

Weaknesses

- **Weak financial risk profile**

The financial risk profile is marked by high gearing levels, high total outside liabilities to total net worth (TOL/TNW) and low debt protection metrics though underpinned by moderate net worth levels. The net worth stood at Rs.13.53 crore as on 31 March, 2018 (Provisional), improved by Rs.2.13 crore as on FY2017; it was mainly due to accretion of profit to internal accruals. The gearing is high at 4.24 times (Provisional) as on March 31, 2018 as compared to 3.12 times as on March 31, 2017. Gearing levels are high due intense working capital requirements and the company's working capital limits of Rs.46.6 crore are fully utilised as on June 30, 2018. TOL/TNW in FY2018 stood at 6.97 times, vis-a-vis 6.35 times in FY2017 due to high level of working capital requirements. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are low at 1.41 times and 0.04 times respectively in FY2018 (Provisional). Acuité believes that the financial risk profile is expected to be at similar levels over the medium term due to thin profitability margins at about 3 percent, being trading operations.

- **Intense working capital management**

The working capital management is marked by high Gross Current Asset (GCA) of 186 days as of March 31, 2018 (Provisional); comprise of inventory of 33 days, debtor collection period of 138 days and creditors of 67 days as against GCA of 173 days as on March 31, 2017. The company's working capital limits are fully utilised ending June 2018. As the demand for the paper products is generally increased in the months of March to June because of the procurement requirements from various educational institutions, the sales will be high during this period. This results in stretch in its creditors and

debtors. Payments from debtors are generally received within 60 days of sales and payments to creditors within 30-45 days of purchase of goods. Acuité believes that the operations continue to be working capital intensive the end user segment is diversified.

Outlook: Stable

Acuité believes that HSPP will maintain a 'Stable' outlook over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' in case of significant improvement in revenues, while maintaining its profitability and improving its capital structure by equity infusion. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management due to inordinate delay in receipt of payments from the customers.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	209.15	174.63	167.99
EBITDA	Rs. Cr.	7.82	5.06	4.74
PAT	Rs. Cr.	2.03	0.48	0.35
EBITDA Margin	(%)	3.74	2.90	2.82
PAT Margin	(%)	0.97	0.28	0.21
ROCE	(%)	12.86	11.45	11.32
Total Debt/Tangible Net Worth	Times	4.24	3.12	3.76
PBDIT/Interest	Times	1.41	1.16	1.13
Total Debt/PBDIT	Times	7.33	6.83	7.07
Gross Current Assets (Days)	Days	186	173	154

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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	10.00	ACUITE B+ / Stable

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About Acuité Ratings & Research:

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