

## Press Release

### Saffron Specialty Papers Private Limited

April 16, 2021



#### Rating Upgraded & Reaffirmed

Total Bank Facilities Rated*	Rs. 14.00 crore*
Long Term Rating	ACUITE BB-/ Outlook: Stable (Upgraded)
Short Term Rating	ACUITE A4 (Reaffirmed)

\* Refer Annexure for details

#### Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB-' (read as ACUITE double B minus)** from '**ACUITE B' (read as ACUITE B)** and reaffirmed the short-term rating of '**ACUITE A4' (read as ACUITE A four)** on the Rs. 14.00 crore bank facilities of Saffron Specialty Papers Private Limited (SSPPL). The outlook is '**Stable**'.

#### Rationale for rating

The ratings upgrade takes into account comfortable scale of operations, experienced management, established track record of operations and improvement in financial risk profile of SSPPL along with consistent support demonstrated by way of infusion by promoters. These rating strengths are partially offset by lean profitability margins and working capital intensive nature of operations.

#### Analytical Approach

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

#### About the Company

Maharashtra based, Saffron Specialty Papers Private Limited (SSPPL) was incorporated in the year 2008. It is engaged in the manufacturing of paper and paper products in India and abroad. The company is also engaged in the trading of pulses and other agro-based commodities. The company is promoted by Mr. Vikash Agarwal and Mr. Rajesh Agarwal.

#### Key Rating Drivers

##### Strengths

##### • Established track record of operations and experienced management

SSPPL is promoted by Mr. Vikash Agarwal and Mr. Rajesh Agarwal who have an experience of more than two decades in the aforementioned industry. With extensive experience, active participation and their in-depth understanding of the industry has helped the group in developing long-term relationships with its customers and suppliers.

Owing to subdued demand in the last quarter from export market, SSPPL has recorded a decline in revenue to Rs. 91.00 crores in FY2020 as against Rs. 122.23 crore in FY2019. However, the company has managed to recover the operations to a substantial extent and in 11MFY2021, the SSPPL has already reported a revenue more than revenue of FY2020.

Acuite believes that SSPPL will continue to benefit from its established track record of operations and extensive experience of the promoters in the industry.

**• Moderate financial risk profile**

The financial risk profile of the group is moderate marked by average net worth, healthy leverage levels, and moderate debt protection metrics.

The net worth of SSPPL is average at around Rs. 16.58 crore as on March 31, 2020. The net worth levels have seen significant improvement over the last three years through FY2020 primarily on account of infusion of funds by promoters in the form of unsecured loans.

SSPPL has followed a moderately aggressive financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 2.56 times and 2.03 times as on March 31, 2018, over the past three years. The leverage levels have improved to remain moderate at 0.97 times as on March 31, 2020. The total debt of Rs. 16.10 crore as on 31 March 2020 comprised of long-term borrowings of Rs. 3.37 crores, unsecured loans of Rs. 4.82 crore and working capital borrowings of Rs. 7.94 crores. Unsecured loans from related parties of Rs. 4.79 crore are classified as quasi equity as the amount would remain invested in the business in the long-run.

Lean profitability has led to moderate debt coverage indicators of the SSPPL marked by debt-service-coverage-ratio of 1.31 times as on 31st March, 2020 as against 1.36 times as on 31st March, 2019 and interest coverage ratio of 1.51 times as on 31st March, 2020 as against 1.58 times as on 31st March, 2019. Debt-coverage indicators are moderated against the last year, due to the decline in profitability in absolute terms. Acuite believes that the financial risk profile of SSPPL group will continue to remain moderate on account of lean profitability and moderate debt coverage indicators.

**Weaknesses****• Working capital intensive nature of operations**

SSPPL has working capital intensive nature of operations, further deteriorated to gross current assets (GCA) of 154 days for FY2020 from 110 days for FY2019 and 136 days in FY2018. The deterioration is on majorly on account of high year-end inventory as well as debtors' balances owing to covid-19 induced lockdown. Creditors' payment period increased to 71 days as on 31 March 2020. Further, current ratio of SSPPL stood at 1.34 times for FY2020.

Acuite believes that the working capital operations of SSPPL are expected to improve yet intensive over the medium term.

**• Competitive and fragmented nature of industry**

SSPPL operates in intensively competitive industry where there is huge number of organized and unorganized players compete. The entry barriers are very low and any fluctuation in raw material price would limit the ability to pass on the price increase due to intense competition.

**Rating Sensitivity**

- Significant decline in scale of operations
- Improvement in profitability margins, thereby improving debt-coverage indicators
- Substantial improvement in working capital operations

**Material Covenants**

None

**Liquidity: Adequate**

The company has adequate liquidity profile marked by healthy net cash accruals to its maturing debt obligations. SSPPL has generated cash accruals of Rs. 0.83 crore for FY2020, while its maturing debt obligations were Rs. 0.37 crore during the same period. SSPPL's working capital operations are intensive marked by Gross Current Asset (GCA) of 154 days for FY2020. The fund-based working

capital limits of the company remains ~50 per cent during 11MFY2021. The current ratio of the group stood at 1.69 times as on March 31, 2020. Acuite believes that the liquidity of SSPPL is likely to remain adequate over the medium term on account of moderate cash accruals to maturing debt obligations.

#### Outlook: Stable

Acuite believes that SSPPL will maintain a 'Stable' outlook and will continue to derive benefits over the medium term due to extensive experience and moderate financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher-than-expected improvement in its business risk profile and financial risk profile. Conversely, the outlook may be revised to 'Negative' registers lower-than-expected improvement in its business risk profile and deterioration in the company's financial risk profile.

#### About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	91.00	122.23
PAT	Rs. Cr.	0.51	0.67
PAT Margin	(%)	0.56	0.54
Total Debt/Tangible Net Worth	Times	0.97	1.40
PBDIT/Interest	Times	1.51	1.58

#### Status of non-cooperation with other CRA

Not Applicable

#### Any other information

Not Applicable

#### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

#### Note on complexity levels of the rated instrument

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

#### Rating History (Up to previous three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-January-2021	Cash Credit	Long-term	6.50	ACUITE B Issuer not co-operating*
	Letter of Credit	Short-term	6.00	ACUITE A4 Issuer not co-operating*
	PC/ PCFC	Short-term	1.50	ACUITE A4 Issuer not co-operating*
15-November-2019	Cash Credit	Long-term	6.50	ACUITE B Issuer not co-operating*

	Letter of Credit	Short-term	6.00	ACUITE A4 Issuer not co-operating*
	PC/ PCFC	Short-term	1.50	ACUITE A4 Issuer not co-operating*
25-September-2018	Cash Credit	Long-term	6.50	ACUITE B/ Stable (Assigned)
	Letter of Credit	Short-term	6.00	ACUITE A4 (Assigned)
	PC/ PCFC	Short-term	1.50	ACUITE A4 (Assigned)

**\*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	6.50	ACUITE BB-/ Stable (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4 (Reaffirmed)
PC/ PCFC	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4 (Reaffirmed)

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**About Acuite Ratings & Research:**

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