



SMERA RATINGS LIMITED

Shree Rajeshwaranand Paper Mills Limited (SRPML)

Rating Rationale

October 08, 2013

Instrument	Amount (Rs. Crores)	Ratings
Cash Credit	19.00	SMERA BB+/Stable/ Assigned
Term Loans	4.00	SMERA BB+/Stable/ Assigned
Corporate Loans	7.75	SMERA BB+/Stable/ Assigned
Bank Guarantee	1.30	SMERA A4+/Assigned
Inland/Foreign Letter of Credit	4.00	SMERA A4+/Assigned
Credit exposure on Forward Contract	0.50	SMERA A4+/Assigned

SMERA has assigned ratings of '**SMERA BB+**' (read as **SMERA Double B plus**) to the Rs.30.75 crores long term facilities (fund based) and '**SMERA A4+**' (read as **SMERA A four plus**) to the Rs.5.80 crores short term facilities (non-fund based) of Shree Rajeshwaranand Paper Mills Limited (SRPML). The outlook is '**Stable**'. The ratings are supported by the company's long track record of operations, experienced management and long-standing association with reputed customers. The ratings are further supported by the company's strategic location, which is in close proximity to ports and raw material sourcing centers. However, the ratings are constrained by the company's working capital-intensive operations and slight reduction in Profit after Tax for FY 2013 over FY 2012. The ratings are also constrained by the operational risks associated with the company's recently implemented expansion project.

SRPML has a long-standing track record spanning more than two decades in the newsprint business. The company's revenues have increased consistently over last five years at a CAGR of around 13 per cent. SRPML has recently modernized its existing plant and increased the installed capacity from 30,000 MTPA to 33,000 MTPA (operational in July 2013) by availing a term loan of Rs.6.00 crore. SRPML's management plans to reduce the company's dependence on the newsprint segment by increasing focus on the writing and printing segment. SRPML plans to avail technical know-how from VOITH Technologies Germany, to manufacture better quality paper.

SRPML's operations are working capital-intensive as the company maintains a high level of raw material inventory of about 50 days to 60 days. The company has negligible finished goods stock as

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the production is backed by firm orders. SRPML receives supplier credit of around 30 days to 55 days whereas the company's collection period is stretched at about 100 days to 155 days. SRPML's average working capital limit utilization is at ~96 per cent over the past six months ending June 2013.

SRPML is also exposed to raw material (waste paper) price volatility; however, this risk is mitigated by open orders from customers and low-cost foreign borrowings (backed by forward contracts) availed by the company. Further, SRPML is a member of the Power Trading Exchange (since October 2012), which enables the company to bid for competitive energy rates.

Rating Sensitivity Factors

- Efficient utilization of incremental production capacity
- Stabilization of operations post modernization

Outlook: Stable

SRPML has a 'Stable' outlook. SMERA believes that the company will maintain its scale of operation on the back of its established presence in the newsprint segment. . The outlook may be revised to 'Positive' in case the company achieves a healthy revenue growth with sustained improvement in profit margins and working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile on account of high level of debt-funded capital expenditure or significant decline in profitability.

About the company

SRPML is a Gujarat-based company engaged in the production of newsprint, writing and printing paper (in the range of 45 gsm to 47 gsm). SRPML was founded in 1991 by Mr. Shantilal Bhikalal Dave, Mr. Devshankar Amrutlal Dave and Mr. Yashwant Chhogalal Oza. In 2006, Mr. Prakash Vora acquired controlling stake in the company. SRPML's overall operations are headed by Mr. Prakash Vora, Mr. Udayan Velvan (directors) and Mr. Ashok Shah, Independent Professional Director. SRPML has a qualified and experienced second line of management. The company has undertaken

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systematic capacity expansion over the years and has recently upgraded the installed capacity from 30,000 MTPA to 33,000 MTPA.

SRPML's factory and registered office is located in Bharuch, Gujarat. SRPML is listed on the Bombay Stock Exchange.

In FY2012-13 (refers to financial year, April 01 to March 31) SRPML reported net profit of Rs.1.44 crores on total income of Rs.66.16 crores as compared with net profit of Rs.1.55 crores on total income of Rs.64.87 crores in FY2011-12.

Contact List:

Media/Business Development	Analytical Contacts	Rating Desk
Sanjay Kher Head Sales – Corporate Ratings Tel : +91 22 6714 1193 Cell : +91 98191 36541 Email : sanjay.kher@smera.in Web: www.smera.in	Umesh Nihalani Head - Corporate Ratings, Tel: +91-22-6714 1106 Email: umesh.nihalani@smera.in	Tel: +91-22-6714 1170 Email: ratingdesk@smera.in

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