

18TH JULY, 2013

RATING RATIONALE

Facilities	Amount (Rs. Crores)	Rating
Cash Credit	8.00	SMERA B/ Stable/ Assigned
Letter of Credit	0.70	SMERA A4/ Assigned

SMERA has assigned a rating of '**SMERA B**' (read as **SMERA B**) to the Rs.8.00 crores long term facility and '**SMERA A4**' (read as **SMERA A four**) to the Rs.0.70 crores short term facility of Quick Sale. The outlook is 'Stable'. The ratings are primarily constrained by the firm's small scale of operations, weak financial risk profile marked by low networth base and high leverage. The rating is further constrained by the highly unorganized and fragmented nature of the paper industry and susceptibility of the firm's profit margins to increase in paper prices. The rating however derives support from the firm's experienced management, recent revenue growth, improved profitability and diversified customer base.

Quick Sale, established in 1990, is engaged in trading of printing paper and duplex boards. Although the firm has a long track record spanning more than 23 years, its scale of operations is considered modest in a highly unorganized and fragmented paper industry. Quick Sale registered revenues of Rs.33.92 crores in FY 2012. Although the firm has achieved revenue CAGR of ~35.73 per cent during FY2008-12, the surge in revenues has been very recent and is attributable to the firm's diversified customer base. Quick Sale's revenues are highly dependent on sales made to one of its customers that accounts for ~47 per cent of the firm's total revenues in FY2012. However, Quick Sales is planning start trading of craft paper to mitigate the customer concentration risk.

Quick Sale has a weak financial profile marked by a low networth base, high leverage, negative cash flow from operations, stretched working capital cycle and low interest coverage. The firm's networth increased from Rs.0.91 crores as on March 31, 2008 to Rs.1.69 crores as on March 31, 2012 on account of retention of profits. The firm's total debt-to-equity ratio stands at 5.97 times as on March 31, 2012; Quick Sale has a stretched working capital cycle due to increasing account receivables and high inventory levels. The firm's working capital limit utilization stood at ~ 86 per cent during January to May 2013. Despite the increase in net profit, the firm has registered negative cash flows from operations in FY2012 on account of high inventory, high debtors and prompt payments made to creditors for availing cash discount. The firm's finance and interest cost have increased significantly during FY2012 and the interest coverage ratio has declined to 1.46 times in FY 2012 from 3.90 times in FY2010.

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The rating however drives support from the extensive experience of the promoter and the firm's long standing relationships with the existing customers (which has helped in securing repeat orders). Further, Quick Sale has achieved better operating margins (over FY 2011) on the back of fixed cost optimization. Quick Sale is planning to reduce its finance cost through effective working capital management. For FY2013, Quick Sale has achieved revenues of Rs.32.88 crores (As per provisional financials).

Outlook: Stable

SMERA believes that Quick Sale will continue to benefit from the promoter's vast experience and the firm's strong customer base. However, the firm's ability to scale up the level of operations while improving the financial risk profile through achieving better working capital management remains the key rating sensitivity.

About the firm

Quick Sale was established in 1990 as proprietorship concern by Mr. Santosh V. Acharya. The firm is engaged in trading of printing paper and duplex boards, which are mainly used in printing and packaging. Quick Sale mainly caters to customers engaged in paper packaging, publication of newspapers and periodicals, manufacturing of corrugated boxes and retailing of paper.

Quick Sale reported net profit of Rs.0.43 crores on total income of Rs.33.92 crores for FY 2012 as compared with net profit of Rs.0.28 crores on total income of Rs.26.57 crores for FY 2011.

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