

Nilkanth Kraft Paper Mill

April 05, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	2.36 (Reduced from 4.17)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	5.00 (Reduced from 9.00)	CARE B+; Stable / CARE A4 (Single B Plus; Outlook: Stable/ A Four)	Reaffirmed
Short Term Bank Facilities	0.33	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	7.69 (Rs. Seven Crore and Sixty-Nine Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Nilkanth Kraft Paper Mill (NKPM) continue to remain constrained on account of decline in scale of operations with moderate profitability and stretched liquidity in FY21 (Audited, FY; refers to the period April 1 to March 31). The ratings, further, continue to remain constrained due to leverage capital structure and weak debt coverage indicators along with susceptibility to the raw material price fluctuation, presence into competitive paper industry and partnership nature of constitution

The ratings, however continue to derive strength from NKPM's experienced partners.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Reporting scale of operations above Rs.60 crore with sustaining PBILDT Margin above 8%
- Improvement of capital structure marked by below 1.50 times gearing ratio and improvement in debt protection metrics marked by below 5 times total debt to GCA ratio
- Improvement in overall liquidity marked by an increase in Gross cash accruals and an improvement in operating cycle by 50 days or more

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Further decline in total operating income with a subsequent dip in profitability Margins
- Deterioration in overall gearing ratio to higher than 3 times
- Deterioration in liquidity indicators with a further elongation in operating cycle

Detailed description of the key rating drivers

Key Rating Weakness

Decline in scale of operations with moderate profitability

Total operating Income (TOI) of NKPM deteriorated substantially by 28.18% and remained moderate at Rs.29.70 crore during FY21 as against Rs.57.80 crore during FY20 mainly on account of decrease in production led by repairing work of machineries. Also, the demand was impacted due to COVID-19 for FY21. However, the operating profit margins of NKPM improved substantially from 3.46 % during FY20 to 10.53% during FY21 mainly on account of decrease in power and fuel and freight expense. Consequently, with improved operating profit, it reported PAT RS.0.74 crore (2.51%) during FY21 as against net loss of Rs.1.20 crore reported during FY20.

Leveraged capital structure and weak debt coverage indicators

NKPM's capital structure improved however remained leveraged marked by an overall gearing of 2.85 times as on March 31, 2021, as against 3.59 times as on March 31, 2020, owing to increase in net worth with accretions of profits to reserves and marginal decrease in total debt level. Debt coverage indicators as marked by total debt to GCA improved substantially and remained moderate at 7.86 times as on March 31, 2021, as against 52.92 times as on March 31, 2020, with improved operating profits. Further, the interest coverage ratio also improved with increase in operating profitability and remained at 2.74 times during FY21 as against 1.14 times during FY20.

Susceptibility to the raw material price fluctuation

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

NKPM is engaged in the business of manufacturing of Kraft & Absorbent Paper used in the manufacturing for making paper grocery bags, wrapping paper, envelopes and various types of corrugated boxes. Waste paper is the raw material which is driven by demand and supply scenario led to volatility in the prices. Hence any adverse movement in prices of the raw material would impact profitability of the firm.

Presence into competitive paper industry

The entry barrier for new manufacturing unit of Kraft & Absorbent Paper is low. As a result, the manufacturing of Kraft & Absorbent Paper business has healthy competition in the region. Also, the presence of existing players with established marketing & distribution network results into intense competition in the industry.

Partnership nature of constitution

NKPM is a partnership firm hence, constitution as partnership firm restricts its overall financial flexibility in terms of limited access to external funds for any future expansion plans. Being a partnership firm is exposed to inherent risk of partners' capital being withdrawn in case of personal contingency and firm being dissolved upon the death/retirement/insolvency of key partners. Partners have infused Rs.0.22 crore in FY21 as against withdrawal of Rs.1.97 crore in FY20

Key Rating Strength

Experienced partners

NKPM was initially established by 11 experienced partners in July 2016. However, currently it is managed by six partners. Mr. Sitarambhai Patel, contains total experience of more than seven years in the same line of business and he looks after the business planning, technical development and quality control aspects of the firm. Mr. Jayantibhai Patel holds healthy experience of more than two and half decades in the same line of business and he looks after the overall operations of the firm. Mr. Rameshbhai Patel also holds healthy experience of more than three decades and looks after the overall operations of the firm. Mr. Mukeshbhai Patel, Mr. Rameshbhai Patel and Mr. Sanjaybhai Patel hold experience in diversified industries.

Liquidity analysis: Stretched

Liquidity position remained stretched during FY21. Gross cash accruals remained insufficient at Rs.2.05 crore during FY21 as against its total debt repayment obligations of Rs.2.62 crore during FY22. Cash and bank balance remained low at Rs.0.19 crore as on March 31, 2021, as against Rs.0.15 crore as on March 31, 2020. NKPM working capital utilization also remained high at around 90% for the past twelve months ended February 28, 2022. While its cash flow from operation remained moderate at Rs.1.57 crore during FY21 as against Rs.3.94 crore during FY20. The operating cycle further elongated to 113 days during FY21 as against 59 days during FY20. NKPM has availed GECLS of Rs.2.82 crore as on June 19, 2020 with moratorium of 12 months which will be paid by November 2024.

Analytical Approach: Standalone

Applicable Criteria

- [Criteria on assigning outlook to credit rating](#)
- [Rating Methodology - Manufacturing Companies](#)
- [Short Term Instruments](#)
- [Policy on Default Recognition](#)
- [Financial Ratios - Non Financial Sector](#)
- [Liquidity Analysis of Non-Financial Sector entities](#)

About the Firm

Mehsana-based (Gujarat), NKPM was established in July 2015 by total 11 partners. Further, the partnership deed has been revised in December 2020 and at present it is managed by 6 partners. The firm is engaged into business of manufacturing Kraft & Absorbent Paper and operating from its unit located at Mehsana having installed capacity of 36,000 Metric Ton Per Annum as on March 31, 2021.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	11MFY22*
Total operating income	57.80	29.70	90
PBILDT	2.00	3.13	NA
PAT	(1.20)	0.74	NA
Overall gearing (times)	3.59	2.85	NA
Interest coverage (times)	1.14	2.74	NA

A-Audited; NA- Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Please refer Annexure-3

Complexity level of various instruments rated for this Firm: Please refer Annexure-4

Banker/Lender Details: Please refer Annexure -5

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	February, 2025	2.36	CARE B+; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	5.00	CARE B+; Stable / CARE A4
Non-fund-based - ST-Bank Guarantee		-	-	-	0.33	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	2.36	CARE B+; Stable	-	1)CARE B+; Stable (23-Mar-21) 2)CARE BB-; Stable (01-Apr-20)	-	1)CARE B+; Stable (07-Mar-19) 2)CARE B+; Stable (04-Apr-18)
2	Fund-based - LT/ ST-Cash Credit	LT/ST*	5.00	CARE B+; Stable / CARE A4	-	1)CARE B+; Stable / CARE A4 (23-Mar-21) 2)CARE BB-; Stable / CARE A4 (01-Apr-20)	-	1)CARE B+; Stable / CARE A4 (07-Mar-19) 2)CARE B+; Stable / CARE A4 (04-Apr-18)
3	Non-fund-based - ST-Bank Guarantee	ST	0.33	CARE A4	-	1)CARE A4 (23-Mar-21) 2)CARE A4 (01-Apr-20)	-	1)CARE A4 (07-Mar-19) 2)CARE A4 (04-Apr-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Applicable

Annexure 4: Complexity level of various instruments rated for this Firm

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact

Name – Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careedge.in

Analyst Contact

Name - Ms. Sajni Shah
Contact no. – +91-079-40265636
Email ID- sajni.shah@careedge.in

Relationship Contact

Name - Mr. Deepak Prajapati
Contact no. – +91-079-40265656
Email ID: deepak.prajapati@careedge.in

About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**