

## Shree Pawan Kraft Paper Mills LLP

January 08, 2025

| Facilities/Instruments     | Amount (₹ crore)              | Rating <sup>1</sup> | Rating Action |
|----------------------------|-------------------------------|---------------------|---------------|
| Long Term Bank Facilities  | 94.13<br>(Reduced from 99.00) | CARE BB; Stable     | Reaffirmed    |
| Short Term Bank Facilities | 2.08                          | CARE A4             | Reaffirmed    |

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The reaffirmation of ratings assigned to bank facilities of Shree Pawan Kraft Paper Mills LLP (SPKPM) continues to remain constrained by moderate capital structure due to initial stage of operation, profit margins being susceptible to volatility in raw material and finished goods prices, constitution as a limited liability partnership firm and risk of client concentration.

However, the weaknesses get partially offset by the successful stabilisation of operation post completion of project, experience of partners in various businesses and firm's eligibility to various subsidies available in the state of Assam.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Income from operations above Rs.200 crore with operating profit margins above 12% on sustained basis.
- Improvement in total debt /GCA below 5x on sustained basis.

#### Negative factors

- Lower than envisaged scale of operations on a sustained basis.
- Any further increase in debt level, leading to deterioration in capital structure with gearing above 2.5x on a sustained basis.

**Analytical approach:** Standalone.

**Outlook:** Stable.

The stable outlook assigned to SPKPM, factors in Care Rating's expectations that SPKPM will benefit from the experience of its partners which will help it in achieving the envisaged scale of operation and profitability margin in medium term.

### Detailed description of key rating drivers:

#### Key weaknesses

##### Profitability susceptible to volatility in prices of raw materials and finished goods

Wastepaper is the main raw material for kraft paper, constituting around 80-90% of cost of sales, followed by power & fuel cost. Wastepaper is procured through both indigenous and imported. SPKPM procures around 95-97% of waste paper domestically through local suppliers and around 3-5% of its waste-paper requirements by way of imports. The price of wastepaper varies as per the demand supply scenario affecting the margins of the firms. Further, the kraft paper manufacturing industry also requires high voltage power supply. SPKPM currently procures power supply from Assam Power Distribution Company Limited (APDCL) at a rate of around Rs 9.80/ unit.

##### Risk of client concentration during initial stage of production

SPKPM is expanding its market with major focus in the northeast. Due to initial phase of operation, the risk of client concentration remains for the firm. As per sales data of H1FY25, the firm has achieved overall sales of Rs 61 crore, out of which, top three customers contributed in 61% of the total sales. Going forward, the company is expected to enhance its distribution channels and moderate the risk of client concentration.

##### Constitution as a Limited Liability Partnership (LLP) firm

SPKPM's legal status as a partnership firm exposes it to the risk of withdrawal of capital by the partners. The firm does not have any articulated policy for capital withdrawal. In future also, capital withdrawal will depend upon availability of surplus fund with firm.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

### Moderate Capital Structure

The capital structure of the firm continue to remain moderate with overall gearing of Rs 1.62x (PY: 1.84x). The gearing level improved owing to capital infusion by the partners during FY24. The firm has an adequate network base of Rs 50.40 crore as on March 31, 2024.

The debt structure of the firm includes term loan of Rs 69.00 crores taken for project and rest as working capital borrowing. With the repayment of term loan started from April'2024 and expected prepayment of term loan to the extent of Rs 5.00 crores from capital subsidy received during December'24, the capital structure is projected to improve going ahead.

### Key strengths

#### Experience of the promoters in various businesses

SPKPM is limited liability partnership firm with shareholding of four related families. The four families, namely Jindal, Mittal, Agarwal and Singhal, have been associated with various businesses including cement, iron, dealership, corrugated boxes, transport business etc, across northeast region for several decades. The day to day of the firm is managed by promoter-director Mr. Surendra Kumar Mittal. He has more than two decades of experience in various businesses with major involvement in steel manufacturing business. He is well supported by other partners and a team of professionals.

#### Stabilisation of operation

SPKPM had completed its project of setting up kraft paper manufacturing unit of 250 MT per day capacity and the operation started from July 08, 2023. During FY24, the company generated sales of Rs 70.91 crore and 30280 MT in terms of volumes. The capacity utilisation for the year was around 52%. FY24 being the initial year of operation the company had to provide discounts for acquiring new customers, which resulted in negative EBITDA for the year. However, during H1FY25, the company has recorded EBITDA of Rs 5.20 crore against sale of Rs 60.59 crore.

#### Availability of various subsidies and fiscal incentives

SPKPM is eligible for various incentives and subsidies under North East Industrial Development Scheme, 2017 and Industrial & Investment Promotion Policy of Assam 2018. Going forward, such incentives will help to improve the profitability of the firm and provide it a competitive edge over players operating in other parts of India. Some of this benefits include incentives for capital investment, reimbursement on GST, income tax subsidies and interest rate subsidies on working capital during the initial year of productions. The company has already received Rs 5 crore capital subsidy during December'24, which will be used for prepayment of term loan.

#### Liquidity: Adequate

The GCA of the firm remained negative in FY24, attributable to loss for the fiscal. However, the partners have infused funds in terms of capital and unsecured loan. The repayment of term loans sanctioned for projects has started from April, 2024 onwards. The repayment obligation for current fiscal is Rs 7.10 crore against which the company is projected to generate sufficient cash accruals. Further, the company has received Rs 5 crores as capital subsidy, which is being used for repayment of term loans. The utilisation of fund based limit remained high with average utilisation of 98% for six months ending September'24.

### Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Paper & Paper Products](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

### About the company and industry

#### Industry classification

| Macroeconomic indicator | Sector           | Industry                      | Basic industry         |
|-------------------------|------------------|-------------------------------|------------------------|
| Commodities             | Forest Materials | Paper, Forest & Jute Products | Paper & Paper Products |

SPKPM is a limited liability partnership firm under the ownership of four families, namely Jindal, Mittal, Agarwal and Singhal. The firm was incorporated in December, 2019 with its registered office in Guwahati, Assam. The firm is involved in manufacturing of kraft papers and started its operation from July, 2023. The firm has its manufacturing unit located in Kamalpur, Assam with installed capacity of 250 metric ton per day. The operation of the unit started from July, 2024 onwards. The total cost of the

project was around Rs 118 crore, out of which around Rs 70 crore is financed from the bank and the rest has been brought by the promoters in terms of equity and unsecured loan.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | H1FY25 (UA) |
|----------------------------|--------------------|--------------------|-------------|
| Total operating income     | 0.00               | 70.95              | 60.59       |
| PBILDT                     | 0.00               | -2.76              | 5.20        |
| PAT                        | 0.00               | -9.85              | -           |
| Overall gearing (times)    | 1.84               | 1.62               | -           |
| Interest coverage (times)  | 0.00               | -0.68              | -           |

A: Audited UA: Unaudited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not Applicable.

**Any other information:** Not Applicable.

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5.

#### Annexure-1: Details of instruments/facilities

| Name of the Instrument             | ISIN | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned and Rating Outlook |
|------------------------------------|------|------------------|-----------------|---------------|-----------------------------|------------------------------------|
| Fund-based - LT-Cash Credit        |      | -                | -               | -             | 30.00                       | CARE BB; Stable                    |
| Fund-based - LT-Term Loan          |      | -                | -               | Sep 2031      | 64.13                       | CARE BB; Stable                    |
| Non-fund-based - ST-Bank Guarantee |      | -                | -               | -             | 2.08                        | CARE A4                            |

**Annexure-2: Rating history for last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings |                              |                 | Rating History                              |   |   |   |
|---------|--|-----------------|------------------------------|-----------------|---|---|---|---|
|         |  | Type            | Amount Outstanding (₹ crore) | Rating          | Date(s) and Rating(s) assigned in 2024-2025 | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 |
| 1       | Non-fund-based - ST-Bank Guarantee     | ST              | 2.08                         | CARE A4         | -   | 1)CARE A4 (01-Feb-24)                       | -   | -   |
| 2       | Fund-based - LT-Cash Credit            | LT              | 30.00                        | CARE BB; Stable | -   | 1)CARE BB; Stable (01-Feb-24)               | -   | -   |
| 3       | Fund-based - LT-Term Loan              | LT              | 64.13                        | CARE BB; Stable | -   | 1)CARE BB; Stable (01-Feb-24)               | -   | -   |

LT: Long term; ST: Short term.

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities : Not Applicable.****Annexure-4: Complexity level of instruments rated**

| Sr. No. | Name of the Instrument             | Complexity Level |
|---------|------------------------------------|------------------|
| 1       | Fund-based - LT-Cash Credit        | Simple           |
| 2       | Fund-based - LT-Term Loan          | Simple           |
| 3       | Non-fund-based - ST-Bank Guarantee | Simple           |

**Annexure-5: Lender details**To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

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