

## Shree Karthik Papers Limited

June 07, 2019

### Ratings

Facilities	Amount (Rs. Crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	11.90	CARE BB; Stable (Double B; Outlook : Stable)	Revised from CARE BB+; Stable(Double B Plus; Outlook : Stable)
<b>Total Facilities</b>	<b>11.90</b> <b>(Rupees Eleven crore</b> <b>Ninety lakh only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Shree Karthik Papers Limited (SKPL) takes into account significant operating as well as net loss incurred in Q4FY19 resulting in deterioration in the capital structure and debt-coverage indicators in FY19 (refers to the period April 01- March 31). The rating continues to be tempered by the moderate scale of operation and working capital intensive nature of operations.

The rating, however, derives its strengths from experienced and resourceful promoters, long track record of operations, established relationships with customers.

Going forward, the ability of SKPL to further improve the scale of operations, start generating profits as envisaged and improve the capital structure and debt coverage indicators, while managing its working capital requirements efficiently will be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### ***Moderate scale of operations***

SKPL's operation was moderate during FY19 marked by total operating income of Rs. 62.59 crore as compared to Rs 57.24 crore in FY18 and net worth of Rs. 3.47 crore as of March 31, 2019 as against Rs. 15.94 crore as of March 31, 2018. Although the company registered improvement in total operating income due to continued demand of paper products from the existing customers, the erosion in the capital base was mainly on account of significant net loss reported for FY19.

##### ***Net loss in Q4FY19 and 12MFY19***

The company reported net loss of Rs. 12.34 crore in FY19 as against the net profit of Rs. 3.69 crore in FY18. Despite continued production and supply of final products, the loss was mainly on account of the management decision to identify and write off inventory which became unusable/ obsolete over the period of time in Q4FY19. Since the entire inventory loss of Rs. 16.46 crore was charged at once to profit and loss statement, the company also reported operating loss of Rs. 9.55 crore in FY19 as against the operating profits of Rs 5.81 crore in FY18.

##### ***Leveraged capital structure and weak-debt coverage indicators***

The capital structure of the company marked by overall gearing deteriorated from 1.91x as on March 31, 2018 to 8.53x as on March 31, 2019 due to significant decline in tangible networth as a result of net loss in FY19. Interest coverage ratio deteriorated from 5.48x FY18 and stood negative at 7.12x in FY19 due to operating loss. However, the adjustment for inventory which resulted in loss had not affected the cash flow for Q4FY19 and the debt obligations are being met in full and on time from the internal accruals.

##### ***Working capital intensive nature of operations***

The average inventory period continues to remain elongated at 154 days in FY18. The inventory consisted of stock of raw material with 60% share which mainly includes waste paper. The company maintains large inventory of waste paper for smooth running of production process. Besides, the company offers a credit period of 45 days to its dealers and customers. However, the average creditors' period stands low at 32 days due to low bargaining power with suppliers. Overall, the working capital cycle improved from 177 days in FY17 to 165 days in FY18. The company managed its working capital requirements with a cash credit facility of Rs.7.50 crore.

The average working capital utilization for the last 12 months ended April 2019 was around 85%.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

### **Key Rating Strengths**

#### ***Experienced and resourceful promoters***

Mr. M. S. Velu, the key promoter, incorporated SKPL in 1994 and holds a long track record of operations in this industry. Mr. M. S. Velu holds degree in Electrical Engineering and possesses work experience of around 7 years (6 years in Ordnance Factory, Kanpur and 1 years in TATA Motors as production manager) after which the promoter established SGGPL. The promoters support the operation of SKPL time to time by way of infusion of unsecured loans.

#### ***Long track record of operations and established relationship with customers***

With the long presence this industry, SKPL has established relationship with the customers like Sura Book Publication, Vijay Paper Mart, Ashwin Paper Products, and P.M Agencies for more than a decade. Key customers like Don Bosco group also have good relationship with SKPL.

#### ***Liquidity analysis***

The liquidity position of the company marked by current ratio improved and stood moderate at 0.94x as of March 31, 2018 as against 0.86x as of March 31, 2017.

As a result of working capital intensive nature of business, the average unutilized portion of fund-based working capital facility was around 15% which amounted to Rs. 1.10 crore (approx.) during 12 months ended April 2019.

#### **Analytical approach: Standalone**

#### **Applicable criteria:**

[Criteria on assigning Outlook to Credit ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology-Manufacturing Companies](#)

#### **About the company**

Shree Karthik Papers Limited (SKPL), based at Coimbatore, is a public limited company (listed in BSE) promoted by Mr. M. S. Velu in 1994. SKPL is engaged in manufacturing of writing and printing papers (W&P papers) from waste papers. The manufacturing facility of SKPL is situated in Pollachi, Tamil Nadu and its present installed capacity is 16,000 MT per annum. The grams per square metre (GSM) of the manufactured paper range between 44 – 90.

<b>Brief Financials (Rs. crore)</b>	<b>FY18 (A)</b>	<b>FY19 (A)</b>
Total operating income	57.24	62.59
PBILDT	5.81	(9.55)
PAT	3.69	(12.34)
Overall gearing (times)	1.93	8.53
Interest coverage (times)	5.48	(7.12)

A: Audited

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

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

#### **Annexure-1: Details of Instruments/Facilities**

<b>Name of the Instrument</b>	<b>Date of Issuance</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Size of the Issue (Rs. crore)</b>	<b>Rating assigned along with Rating Outlook</b>
Fund-based - LT-Cash Credit	-	-	-	7.50	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	May 2024	4.40	CARE BB; Stable

**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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	7.50	CARE BB; Stable	-	1)CARE BB+; Stable (27-Nov-18) 2)CARE BB; Stable (14-Aug-18)	1)CARE BB+; Stable (25-Sep-17)	1)CARE BB (06-Jul-16)
2.	Fund-based - LT-Term Loan	LT	4.40	CARE BB; Stable	-	1)CARE BB+; Stable (27-Nov-18) 2)CARE BB; Stable (14-Aug-18)	1)CARE BB+; Stable (25-Sep-17)	1)CARE BB (06-Jul-16)

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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