

## Shree Karthik Papers Limited

August 14, 2018

### Rating

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long -term Bank Facilities	12.75	<b>CARE BB; Stable (Double B; Outlook : Stable)</b>	Revised from CARE BB+; Stable (Double B Plus; Outlook:Stable)
<b>Total Facilities</b>	<b>12.75 (Rupees twelve crore and seventy five lakhs only)</b>		

*Details of instruments/facilities in Annexure*

### Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Shree Karthik Papers Limited takes into account decline in total operating income in Q1FY19 Vs Q1FY18.

The rating continues to be tempered by small scale of operation despite long track record and working capital intensive nature of operations.

The rating continues derive strength from experienced and resourceful promoters, long track record of operations and established relationship with customers, moderate capital structure and debt protection metrics and improvement in working capital cycle.

**Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.**

### Detailed description of the key rating drivers

#### Key Rating Weakness

#### ***Decline in total operating income***

The total operating income of the company declined by 6.14% from Rs.16.29 crore in Q1FY18 to Rs.15.29 crore in Q1FY19

#### ***Small scale of operation despite long track record***

SKPL's small scale of operations prevails, despite long track record of business.

#### ***Working Capital intensive nature of operations***

The working capital intensive nature is Inherent to businesses in paper manufacturing. Writing and printing paper being a seasonal item with high demand during start of academic sessions in educational institutes and relatively low demand during balance months. During the months of lesser demand, the paper is manufactured and the production is held in stock. The same is dispatched as the demand rises. The average inventory period was marked at 163 days in FY17. The company has a comfortable average collection period of 40 days. However, the average creditors' period stands low at 25 days due to low bargaining power with suppliers. 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 August 31st 2017 was around 70-75%.

#### 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, P.M Agencies for more than a decade. Key customers like Don Bosco group also have good relationship with SKPL.

#### ***Moderate capital structure and debt protection metrics***

The company's capital structure marked by the debt-equity ratio and overall gearing ratio improved from 1.19x and 2.49x, respectively as on March 31, 2016 to 0.95x and 2.21x respectively as on March 31, 2017 at the back of accretion of profits leading to y-o-y increase in net worth. The total debt/GCA improved from 9.88x in FY16 to 8.96x in FY17 due to an

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

increase in gross cash accruals. The interest coverage ratio too improved from 3.81x in FY16 to 6.01x in FY17 at the back of decrease in financial expenses and increase in absolute PBILDT

#### ***Improvement in working capital cycle***

The working capital intensive nature is Inherent to businesses in paper manufacturing. Writing and printing paper being a seasonal item with high demand during start of academic sessions in educational institutes and relatively low demand during balance months. During the months of lesser demand, the paper is manufactured and the production is held in stock. The same is dispatched as the demand rises. The average inventory period was marked at 163 days in FY17. The company has a comfortable average collection period of 40 days. However, the average creditors' period stands low at 25 days due to low bargaining power with suppliers. 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 August 31st 2017 was around 70-75%.

**Analytical Approach:** Standalone

#### **Applicable Criteria**

[Policy in respect of Non-cooperation by issuer](#)

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

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

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

#### **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.

**Status of non-cooperation with previous CRA:** Nil

**Non-cooperation by the issuer/borrower:** Nil

**Any other information:** Not Applicable

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

**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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#### **About CARE Ratings:**

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo 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.

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

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	7.50	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	November 2023	5.25	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	7.50	CARE BB; Stable	-	1)CARE BB+; Stable (25-Sep-17)	1)CARE BB (06-Jul-16)	-
2.	Fund-based - LT-Term Loan	LT	5.25	CARE BB; Stable	-	1)CARE BB+; Stable (25-Sep-17)	1)CARE BB (06-Jul-16)	-

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