Shree Karthik Papers Limited
September 25, 2017

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	12.75	**CARE BB+; Stable (Double B Plus; Outlook Stable)**	**Revised from CARE BB (Double BB)**
Total	**12.75 (Rupees twelve crore and seventy five lakhs only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Shree Karthik Papers Limited takes into account increase in total operating income along with improvement in capital structure, debt coverage indicators and working capital cycle during FY17 (refers to period April 01 to March 31). The rating continues to be tempered by the small scale of operations, working capital intensive nature of operations and fragmented and seasonal nature of industry. The rating, however, derives its strengths from experienced and resourceful promoters, long track record of operations, established relationships with customers and moderate profitability margins.

Going forward, the ability of SKPL to effectively utilize the installed capacity and increase the scale of operations, further improve the profit margins amidst volatility in the raw material prices, and improve the capital structure and debt protection metrics will be the key rating sensitivities.

Detailed description of the key rating drivers
Key Rating Weaknesses
Small scale of operation despite long track record
SKPL's small scale of operations prevails, despite long track record of business. However, the company witnessed a steady growth in total operating income y-o-y at a CAGR of 9.16% from FY15-FY17.
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.
Increasing total operating income albeit decline in profitability margins
The total operating income earned in FY17 was Rs. 47.61 crore against Rs. 35.29 crore in FY16 (annualised) on account of increased orders from existing and new clients.
However, the PBILDT margin declined from 12.88% in FY16 to 9.02% in FY17 due to increase in cost of raw material (waste paper) procurement along with seasonality involved in paper industry. Furthermore, the PAT margin though stood satisfactory at 4.65% in FY17, decreased from 7.00% in FY16, due to decline in operating margins and increase in depreciation provision.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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 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*:* 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.

SKPL operates all over South India and also have dealers in Maharashtra, Gujarat and Orissa. The client base of SKPL consist both direct users (accounted for 11% of total sales in FY17) and dealers (accounted for 89% of total sales in FY17). The direct customer base includes educational institutions like Don Bosco group, publishers like Sura Book Publication, Vikram publishers etc.

In 1995, with the imposing of import policy of newsprint under Open General License (OGL) with nil rate of duty, the paper industry slowed down. This resulted in virtual dumping of W&P papers as glazed newsprint by foreign manufacturers which impacted the demand to a great extent in Indian market. This led to decline in capacity utilization resulting in financial losses. SKPL was referred to Board of Industrial and Financial Reconstruction (BIFR) as sick industry. Subsequent to rehabilitation scheme and infusion of fresh capital, SKPL started making profit from FY04 and was discharged from the purview of BIFR in FY09.

Brief Financials (Rs. crore)	FY16 9M (A)	FY17 (A)
Total operating income	26.46	47.61
PBILDT	3.41	4.29
PAT	1.85	2.21
Overall gearing (times)	2.49	2.21
Interest coverage (times)	3.81	6.01

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating History for 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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

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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	-	-	-	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	7.50	CARE BB+; Stable	-	1)CARE BB (06-Jul-16)	-	-
2.	Fund-based - LT-Term Loan	LT	5.25	CARE BB+; Stable	-	1)CARE BB (06-Jul-16)	-	-

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