Shree Karthik Papers Limited

November 27, 2018

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long-term Bank Facilities	11.90	CARE BB+; Stable (Double B Plus; Outlook : Stable)	Revised from CARE BB; Stable(Double B; Outlook : Stable)
Total Facilities	**11.90 (Rupees Eleven crore Ninty lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of Shree Karthik Papers Limited takes into account increase in total operating income and PBILDT margins along with improvement in capital structure during 6MFY19 (refers to period April 01 to September 30). The rating continues to be tempered by the moderate scale of operation and working capital intensive nature of operations and satisfactory debt-coverage indicators. 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, maintain the profit margins amidst volatility in the raw material prices, and improve the capital structure and debt coverage indicators 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 FY18 marked by total operating income of Rs. 57.24 crore and net worth of Rs. 15.82 crore as of March 31, 2018. Scale of operation improved on account of expansion of clientele base along with continuous accretion of profits.

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 this 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 August 2018 was around 90%.

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.

Increasing total operating

There was increase in total operating income by about 20% to Rs. 57.24 crore in FY18 as against Rs. 47.62 crore in FY17. The company witnessed a steady growth in total operating income y-o-y at a CAGR of 47% from FY16 to FY18 on account of regular addition in the customer base coupled with increase in the volume of production due to increasing demand from its existing customers. Further, the total operating income achieved in H1FY19 was Rs.33.61 crore as against Rs. 28.65 crore in H1FY18.

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

Satisfactory Profitability margins

The PBILDT margin improved by 113 bps and stood satisfactory at 10.15% in FY18 from 9.02% in FY17. The decline in the price of the waste paper and captive power source resulted in improved operating margins of the company. The captive power results in low power cost in comparison to grid power as the company meets approximately 65% of its power needs through captive source from its associates. Furthermore, the PAT margin also increased by 179 bps and stood comfortable at 6.44% in FY18, improving from 4.65% in FY17 on account of increase in operating profits resulting in absorption of financial expenses and depreciation provisions. Likewise, the PBILDT and PAT margin for H1FY19 also stood satisfactory at 11.51% and 4.85 % respectively as against 11.31% and 5.75% in H1FY18.

Satisfactory capital structure and debt coverage indicators

The company's capital structure marked by the overall gearing ratio improved from 2.23x as on March 31, 2017 yet stood high at 1.95x, as on March 31, 2018 and furthermore it improved to 1.67x as on September 30, 2018 at the back of accretion of profits leading to year-on-year increase in net worth. A major portion of the debt level of the company comprises of loans from directors and relatives (interest free) apart from term loans and working capital facility. The debt equity ratio deteriorated yet stood comfortable at 0.40x as of March 31, 2018 compared to 0.14x in the prior year on account of increase in the term debt. The total debt/GCA improved significantly from 9.08x in FY17 to 5.52x in FY18 due to healthy cash accruals. However, in H1FY19 the annualized TD/GCA stood at 6.52x as against 7.68 in H1FY18. The interest coverage ratio stood comfortable at 5.48x in FY18 as against 6.01x in FY17 at the back of increase in absolute operating profit resulting in absorption of increase in financial expenses in line with increase in debt levels. For H1FY19, interest coverage stood at 5.95x as against 11.57x in H1FY18.

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.

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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	47.62	57.24
PBILDT	4.27	5.81
PAT	2.18	3.69
Overall gearing (times)	2.23	1.95
Interest coverage (times)	5.93	5.48

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.*

Analyst Contact:

Name: Mr Manish Kumar
Tel: 040-67937415
Cell: + 91 99495 47551
Email: manish.kumar@careratings.com

For detailed Rationale Report and subscription information, please contact us at www.careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	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 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 (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 (14-Aug-18)	1)CARE BB+; Stable (25-Sep-17)	1)CARE BB (06-Jul-16)	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691