

**Sundaram Multi Pap Limited**  
 November 22, 2018

**Rating**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	35.03	CARE BB-; Stable (Double B Minus; Outlook: Stable)	<b>Revised from CARE B+; Stable (Single B Plus; Outlook: Stable)</b>
<b>Total Facilities</b>	<b>35.03</b> <b>(Rs. Thirty five crore three lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

*The revision in the rating assigned to Sundaram Multi Pap Limited (SMPL) factors in the increase in cash accruals, improvement in profit margins, capital structure and debt coverage indicators.*

*However, the rating continues to be constrained by moderate and fluctuating scale of operation, moderate profit margin and debt coverage indicators, highly working capital intensive nature of operations, susceptibility of profit margins due to volatile material prices and presence in competitive and fragmented industry.*

*The rating however, continues to derive strength from established regional brand presence, strong distribution network with experienced management and, comfortable capital structure.*

*Ability of SMPL to increase its scale of operations while improving its profitability amidst intense competition while maintaining its capital structure along with efficient management of its working capital requirement remain the key rating sensitivity.*

**Detailed description of Key rating drivers****Key Rating Weaknesses**

**Moderate and fluctuating scale of operations:** The scale of operations of the company remained moderate and fluctuating over the period. Further, SMPL had posted total income of Rs.17.36 crore in Q2Y19 and Rs. 51.94 crore in H1FY19 (entirely from manufacturing activity) with profits at net level.

**Moderate profit margin:** SMPL's PBILDT margin has declined to 14.69% in Q2FY19 vis-à-vis 49.92% in Q2Y18 and improved as compared to 14.55% in Q1FY19. Further company reported net profit of Rs. 0.45 crore in Q2FY19 and Rs. 3.29 crore in H1FY19 vis-à-vis net loss of Rs. 16.89 crore in Q2FY18 and Rs. 14.14 crore in H1FY18.

**Moderate debt coverage indicators:** Debt coverage indicators of the company remained moderate and improved with interest coverage ratio slightly improved to 2.17x in H1FY19 from 1.94x in H1FY18 and 1.64x in FY18 owing to decline in debt level, positive GCA and lower interest cost the debt coverage indicators

**Highly working capital intensive nature of operations:** Operations of SMPL are highly working capital intensive mainly on account of funds being blocked in inventory as company has to maintain raw material inventory to execute the orders in timely manner and receivables as company offers credit period of around two to three months. Further on the other hand it company receives moderate credit period from its suppliers which has further resulted in maximum utilization of working capital limits.

**Susceptibility of profit margins due to volatile material prices:** The raw material is the major cost driver and the prices of the same are volatile in nature therefore cost base remains exposed to any adverse price fluctuations in the prices of the paper and duplex board being major cost components amongst all raw materials are volatile in nature. Accordingly, the profitability margin of the firm is susceptible to fluctuation in raw material prices. With limited ability to pass on the increase in raw material costs in a competitive operating spectrum, any substantial increase in raw material costs would affect the company's profitability.

**Presence in competitive and fragmented industry:** SMPL operates in a highly competitive and fragmented stationary industry. The company witnesses intense competition from both the other organized and unorganized players domestically. This fragmented and highly competitive industry results into price competition thereby posing a threat to the profit margins of the companies operating in the industry.

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

### Key rating Strengths

**Established regional brand presence, strong distribution network:** SMPL has long standing track record of operations with more than two decades of existence in the market in which the company has established market position and developed its brand presence. 'Sundaram' is one of the leading brands in education stationery market in western India for the past two decades. SMPL has a strong distribution network with over 42 stockiest put together across Maharashtra, Gujarat and Goa.

**Experienced management:** SMPL is promoted by Shah brothers viz; Mr. Amrut Shah and Mr. Shantilal Shah, having more than 30 years of experience in education stationery industry of which majority has been gained through its association with company since 1996.

**Comfortable capital structure:** Capital structure of SMPL remained comfortable and improved with overall gearing of 0.44x as on September 30, 2018 from 0.96x as on March 31, 2018 owing to repayment of term loan, unsecured loan from related parties and accretion of profit to the net worth as on September 30, 2018. In the past company's debt servicing is done through promoter's funds through infusion of unsecured loan and debtor's collection.

**Analytical approach:** Standalone

### Applicable Criteria:

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

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

[Rating Methodology-Manufacturing Companies](#)

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

### About the Company

Sundaram Multi Pap Limited (SMPL), incorporated in 1996, is promoted by Shah brothers viz; Mr. Amrut Shah and Mr. Shantilal Shah. SMPL is engaged in the manufacturing of exercise books, other paper stationery products and trading of craft papers and sketch books. Its manufacturing facility is located at Palghar with an installed capacity of 15 crore pieces per annum. It sells its products in Maharashtra, Goa and Gujarat and has a strong distribution network with over 42 stockiest in the said region. The major raw material required is paper and duplex board and are procured primarily from West Coast Paper Mills Limited and Tamil Nadu Newsprint and Papers Limited.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	96.00	108.66
PBILDT	17.12	14.08
PAT	-4.31	-14.86
Overall gearing (times)	1.03	0.96
Interest coverage (times)	1.58	1.64

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

**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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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/outlook 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-Term Loan	-	-	December 2019	11.25	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	20.20	CARE BB-; Stable
Fund-based - LT-Funded Interest term Loan	-	-	March 2020	3.58	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-Term Loan	LT	-	-	-	-	-	1)Withdrawn (31-Mar-16)
2.	Fund-based - LT-Working Capital Limits	LT	-	-	-	-	-	1)Withdrawn (31-Mar-16)
3.	Fund-based - LT-Term Loan	LT	11.25	CARE BB-; Stable	1)CARE B+; Stable (04-Jul-18)	-	-	-
4.	Fund-based - LT-Cash Credit	LT	20.20	CARE BB-; Stable	1)CARE B+; Stable (04-Jul-18)	-	-	-
5.	Fund-based - LT-Funded Interest term Loan	LT	3.58	CARE BB-; Stable	1)CARE B+; Stable (04-Jul-18)	-	-	-

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