

Shree Krishna Paper Mills & Industries Limited

January 15, 2019

Summary of rated action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based	25.00	25.00	[ICRA]BB (Stable); upgraded from [ICRA]BB- (Stable)
Short Term – Non-fund Based	12.00	12.00	[ICRA]A4+; upgraded from [ICRA]A4
Total	37.00	37.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA's rating action favourably factors in the significant improvement in Shree Krishna Paper Mills & Industries Limited's (SKPMIL) operating profitability in 6M FY2019, primarily led by an increase in the average realisation of newsprint, which is the main product of the company. The ratings upgrade positively factors in strong year-on-year growth in operating income (OI) in 6M FY2019. The robust increase in OI and improvement in its operating profitability have led to strong cash flow generation. ICRA also takes note of the improvement in the company's capital structure and coverage indicators in 6M FY2019. The ratings further take into account the high capacity utilisation of its newsprint plant at Kotputli in Rajasthan. Further, the ratings continue to derive comfort from the extensive experience of the promoters in the paper industry. The ratings also derive comfort from the favourable long-term demand prospects for newsprint/writing paper from the domestic print media.

The ratings, however, remain constrained by the industry-wide challenges including increasing input costs, cheaper imports, and the highly fragmented and competitive nature of the industry. ICRA also takes note of the ongoing shift of manufacturing capacity for coated paper and thermal sensitive paper (TSP) from the Bahadurgarh unit in Haryana to the Kotputli unit, which are likely to be beneficial over the medium term by way of cheaper grid power and operational synergies. However, the same exposes the company to plant stabilisation risks.

Outlook: Stable

ICRA believes that SKPMIL will continue to benefit from the extensive experience of its promoters in the paper manufacturing business. The outlook may be revised to Positive if substantial growth in revenues and profitability, and better working capital management strengthens the financial risk profile. The outlook may be revised to Negative if the cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Strong OI growth and significant improvement in operating profitability in 6M FY2019: ICRA's rating action favourably factors in the significant improvement in SKPMIL's operating profitability in 6M FY2019, primarily led by the substantial increase in the realisations of newsprint (chiefly led by reduced production of newsprint in China, one of the major exporters of newsprint to India, which resulted in significant increase in realisations of the product in the domestic market), which is the main product of the company. The ratings upgrade positively factors in the strong year-on-year growth in OI

in 6M FY2019. The robust increase in OI and significant improvement in its operating profitability have led to strong cash flow generation.

Improvement in capital structure and coverage indicators in 6M FY2019: Healthy cash accruals, coupled with reduction in working capital debt, have resulted in improvement in gearing and coverage indicators in 6M FY2019.

Established track record of promoters in paper manufacturing industry: The company's promoters have experience of more than 40 years in the paper industry, which has enabled them to carve a niche in the domestic newsprint industry.

Long-term association with reputed customers: The company's customer profile consists of some big industry players such as Jagran Prakashan Limited (flagship brand - Dainik Jagran), Amar Ujala Publications Limited (flagship brand - Amar Ujala) etc. from which it has been able to get repeated orders.

Favourable demand prospects for newsprint: The ratings derive comfort from the favourable long-term demand prospects of newsprint/writing paper in the domestic print media.

Credit challenges

Highly fragmented industry characterised by intense competition from large number of organised and unorganised players: The company faces stiff competition from both organised and unorganised players in the paper industry, which limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins.

Vulnerability of profitability to any adverse fluctuation in raw material prices: The company's margins are affected by the raw material price fluctuation. Any adverse movement in the price of raw materials could have an adverse impact on the company's margins, considering its limited ability to pass on the price hike owing to intense competition.

Shifting of machinery from Bahadurgarh unit to Kotputli unit exposes SKPMIL to plant stabilisation risks: ICRA also takes note of the ongoing shift of manufacturing capacity for coated paper and TSP from Bahadurgarh, Haryana, to Kotputli, which, while likely to be beneficial over the medium term by way of cheaper grid power and operational synergies, does expose the company to stabilization risks.

Liquidity position

Given the strong growth in OI and improvement in the profitability and working capital requirements, SKPMIL's cash flows have improved in 6M FY2019. The company reported free cash flows of Rs. 10.1 crore as on September 30, 2018. Further, SKPMIL has cash balances to the tune of Rs. 2.29 crore as on September 30, 2018, highlighting the adequate liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company

Shree Krishna Paper Mills & Industries Limited (SKPMIL) was incorporated by the Pasari Group in 1972. The company manufactures newsprint, and printing and writing paper (PWP) at its Kotputli (Rajasthan) unit, which has an installed capacity of 38,000 MTPA. SKPMIL, however, is shifting its 14,000-MTPA manufacturing capacity for coated paper and TSP from the Bahadurgarh (Haryana) unit to the Kotputli unit. The erstwhile coated paper manufacturing unit at Bahadurgarh was acquired from Bansal Paper Mills in 1974, while the PWP unit at Kotputli was commissioned in FY2006.

Key financial indicators (Audited)

	FY2018 (Audited)	6MFY2019 (Provisional)
Operating Income (Rs. crore)	136.36	74.01
PAT (Rs. crore)	0.62	4.19
OPBDIT/ OI (%)	1.44%	10.77%
RoCE (%)	11.27%	35.65%
Total Debt/ TNW (times)	0.83	0.38
Total Debt/ OPBDIT (times)	10.55	1.42
Interest Coverage (times)	0.64	5.89
NWC/ OI (%)	11%	5%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2019)								Chronology of Rating History for the past 3 years	
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating January 2019	Date & Rating in FY2019 April 2018	Date & Rating in FY2018 September 2017	Date & Rating in FY2017 March 2017 September 2016	
1	Fund Based-Cash Credit	Long Term	25.00	15.72*	[ICRA]BB (Stable)	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)
2	Non-Fund Based-Letter of Credit	Short Term	9.00	NA	[ICRA]A4+	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
3	Non-Fund Based-Bank Guarantee	Short Term	3.00	NA	[ICRA]A4+	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4

Total 37.00

* As on March 31, 2018

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	25.00	[ICRA]BB (Stable)
NA	Letter of Credit	NA	NA	NA	9.00	[ICRA]A4+
NA	Bank Guarantee	NA	NA	NA	3.00	[ICRA]A4+

Source: Shree Krishna Paper Mills & Industries Limited

ANALYST CONTACTS

K Ravichandran

+91 44 45964301

ravichandran@icraindia.com

Manish Ballabh

+91 124 4545 812

manish.ballabh@icraindia.com

Vipin Jindal

+91 124 4545 355

vipin.jindal@icraindia.com

Hemant Dahiya

+91 124 4545 365

hemant.dahiya@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-3341580 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2552 0194/95/96

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents