



Press Release

Shree Krishna Paper Mill & Industries Limited

September 14, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action
1.	Long Term Bank Facilities	25.00	IVR BB/ Negativeoutlook (IVR Double B with Negative outlook)	IVR BB/ Stable (IVR Double B with Stable outlook)	Reaffirm with change in outlook
2.	Short Term Bank Facilities	12.00	IVR A4 (IVR A Four)	IVR A4 (IVR A Four)	Reaffirm
3.	Long Term/Short Term Bank Facilities (Proposed)	3.00	IVR BB/ Negative (IVR Double B with Negative outlook)/ IVR A4 (IVR A Four)	IVR BB/ Stable (IVR Double B with Stable outlook)/ IVR A4 (IVR A Four)	Reaffirm with change in outlook
	Total	40.00			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Shree Krishna Paper Mill & Industries Limited derives comfort from extensive experience of the promoters, reputed clientele and moderate financial risk profile. These factors are offset by decline in total operating income and losses from last two years, susceptibility of the profitability to volatility in the raw material and power tariffs, intense competition in the industry and weak debt protection metrics. The ratings assigned to the bank facilities of **Shree Krishna Paper Mill & Industries Limited** have been reaffirmed and outlook has been revised from Stable to Negative on account of uncertainty in the operating scenario amidst covid 19 pandemic which impacts the debt protection metrics.

Key Rating Sensitivities:

Upward Factors



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- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis.
- An improvement in overall credit metrics marked by improvement in liquidity position.

Downward Factors

- Substantial decline in operating income and cash accrual, a stretch in the working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure weakens the financial risk profile, particularly liquidity.
- Significant deterioration in debt metrics.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced and resourceful promoters and long track of record

Shree Krishna Paper Mills & Ind. Ltd. (SKPM) was incorporated in 1972 and has been promoted by Pasari family who has more than 4 decades of experience in the paper industry. The promoter is supported by a highly qualified and trained team to run day to day operations. Long-standing presence of the promoters in the industry has helped the company to establish healthy relationship with its customers and suppliers.

Reputed customer profile albeit

Company has built robust relationship with customers. Some of the customers are associated with the company for a long time, reflecting good product quality and strong management credibility. SKPL customer profile consists of some of very well-known clients such as Daily Ajit, Amar Ujala Publications Limited, Hindustan Media Ventures Limited etc. The four-decade-long experience of the promoters, their healthy relationship with customers and suppliers, and the diversified end-user profile will continue to support the business risk profile in medium term.

Moderate financial risk profile



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The group has moderate financial risk profile, as reflected in moderate long-term debt to equity ratio of 0.36x in FY21. Because of net losses from last two years, the adjusted networth is expected to moderate at around Rs. 18.52 Cr. as on March 31, 2021, from Rs 21.95 crore as on March 31, 2020. The long-term debt of the company includes only CESS loan apart from unsecured loans which shows low reliance on external long term debt.

Key Rating Weaknesses

Decline in total operating income and incurring losses from last two years

The total operating income of the company has shown a declining trend in last two years. SKPMIL total operating income declined from Rs 142.16 crore in FY19 to Rs 101.28 crore in FY20 due to cheap availability of substitute of imported paper and reduced emphasis on newsprint paper and concentrating on more on other paper products. During the year under review, the TOI further declined to Rs. 69.41 Cr. in FY21 against Rs. 101.28 Cr. in FY20. The outbreak of Covid-19 pandemic has caused significant disturbance and slowdown of business operations of the Company in terms of sales and production. Although the losses have reduced to Rs. 3.27 Cr, however, the company have incurred loss for another consecutive year in FY21. In FY20, the loss was Rs. 5.37 Cr.

Susceptibility of the profitability to volatility in the raw material and power tariffs

Raw material and power consumption constitutes a major portion of the total operating cost in FY21. The profitability margins of the company remain susceptible to volatility in the raw material prices and power tariff. Any adverse fluctuation in raw material price could impact the profitability of the company. Paper industry is a power intensive industry, and it is one of the major cost components after raw material. SKMIL is entirely dependent on State Electricity Board for supply of power.

Intense competition in the industry

Paper industry is highly fragmented with the presence of many organised and unorganised players due to low entry barriers leading to stiff competition and pricing pressure among players in the industry.

Weak debt protection metrics



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The debt protection metrics of the company stood weak with an Interest coverage ratio of 0.79x, Total debt / GCA of -68.61 years and DSCR of 0.88x in FY21. The proceeds received from sale of land were utilized to repay the interest and repayment obligations in past years. As discussed with management, the promoters will bring in funds in the form of unsecured loans in case of any shortfall in interest and debt repayment obligations in future.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

The liquidity position is considered adequate. The average utilisation of fund-based limits of the company remained moderate at ~71% through the last 12 months. Working capital cycle is comfortable at 25 days in FY21. The gross cash accruals were negative Rs. 0.32 Cr. in FY21. However, the gross cash accruals are projected to improve to Rs. 8.62 Cr. during 2021-22 against minimal debt repayment obligations in the same period. The firm has also availed CESS amounting to Rs. 1.25 Cr from bank which helped in providing cushion to their liquidity position. The company maintains free cash and bank balances of Rs. 0.67 crore as on March 31, 2021. The current ratio stood below average at 0.67 times as on March 31, 2021. Infomerics believes that the liquidity of the company is likely to improve over the medium term on account of improvement in cash accruals.

About the Company

Shree Krishna Paper Mill and Industries Limited was incorporated on 14th September 1972, as a private limited company in the name of Shree Krishna Paper Products Private Limited and was converted into a public limited company on 2nd July 1986. The name was changed to Shree Krishna Paper Mills & Industries Ltd. effective 22nd October 1986. The company manufactures 15 different varieties of paper, which are used by numerous industries, consumers across the country and long-term business partners. The company has its



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coating division in Haryana and Paper Division in Rajasthan with a sales and distribution network across India and exports to some countries in Southeast Asia.

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	101.28	69.41
EBITDA	-3.84	2.81
PAT	-5.37	-3.27
Total Debt	20.58	21.80
Tangible Net worth	18.41	14.59
EBITDA Margin (%)	-3.79	4.05
PAT Margin (%)	-5.18	-4.69
Overall Gearing Ratio (x)	1.12	1.49

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: Nil

Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2021-2022)			Rating History for the past 3 years		
		Type	Amount (Rs. Crore)	Rating (September 14, 2021)	Date(s) & Rating(s) assigned in 2020-21 (September 22, 2020)	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Fund Based Bank Facilities- Cash Credit	Long Term	25.00	IVR BB/Negative	IVR BB/Stable	-	-
2.	Non Fund Based Bank Facilities- Bank	Short Term	3.00	IVR A4	IVR A4	-	-



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	Guarantee						
3.	Non Fund Based Bank Facilities- Letter of credit	Short Term	9.00	IVR A4	IVR A4	-	-
4.	Bank Facilities- Proposed	Long/Short Term	3.00	IVR BB (Negative) IVR A4	IVR BB (Stable) IVR A4	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it based on complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities-Cash Credit	-	-	-	25.00	IVR BB/Negative
Short Term Non-Fund- Bank Guarantee	-	-	-	3.00	IVR A4
Short Term Non-Fund- Letter of Credit	-	-	-	9.00	IVR BB/IVR A4
Long/ Short term Bank Facilities-Proposed				3.00	IVR BB (Negative) IVR A4

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Lender-SKPMIL-14-09-21.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Cash Credit	Simple
2.	Bank Guarantee	Simple
3.	Letter of Credit	Simple

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.