RATING RATIONALE

24 Oct 2019

K.M. Papers

Brickwork Ratings upgrades the ratings for the Bank Loan Facilities of ₹ 20.79 Crores of K.M. Papers (KMP or 'The Firm')

Particulars:

Facility	Amount (₹ Crs)		Tenure	Previous Rating (July 2018)	Rating Present*
	Previous	Present			
Fund based	23.00	20.79	Long Term	BWR B+ (Stable)	BWR BB (Stable) (Upgrade)
Total	23.00	20.79	Rs. Twenty Crore and Seventy Nine Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
**Annexure-I provides details of bank wise facilities

RATING ACTION / OUTLOOK

BWR has upgraded the rating of K.M. Papers to BWR BB with a stable outlook driving strength from moderate scale of operations and moderate net worth and gearing

The Rating has been assigned a stable outlook as the business risk profile of the company is stable and the growth in the business and profitability is expected to be maintained in the medium term.

KEY RATING DRIVERS

Credit Strengths:

- **Moderate Scale of Operations:** The scale of operations is moderate as marked by the net sales of Rs. 72.45 Crs for FY19. The moderate scale enhances the company's financial flexibility in times of stress and provides scale benefits.

- **Moderate Net Worth and Gearing:** Share Capital has improved from Rs. 10.79 Crs for FY18 to Rs. 19.66 Crs for FY19 majorily due to additional capital infusion by the partners. Also, due to moderate capital support from the partners, the gearing of the firm was low at 0.94 times for FY19.

Credit risks:

- **Low Profit Margins:** Profit Margins are low as marked by the low NPM of 0.57% for FY19.

- **Partnership Constitution:** K.M. Papers being a partnership firm is exposed to inherent risk associated with capital being withdrawn at a time of personal exigencies and the risk of dissolution.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward the ability of the Firm to improve its profit margins, improve its overall credit and financial risk profile and efficiently manage its working capital would remain the key rating sensitivities.

Positive: Rating may be upgraded in case of substantial improvement in the profit margins while maintaining the scale of operations.

Negative: Rating may be downgraded in case revenues of the company substantially deteriorates from current level. Rating may also be adversely affected in case the company is not able to maintain the funds in the business.

LIQUIDITY POSITION *(Adequate)*

The liquidity profile of the firm is adequate. The Net Cash accruals earned by the company are moderate at Rs. 2.94 Crs for FY19. The cash and cash equivalents are at Rs. 0.54 Crs for FY19. CPLTD for FY19 is Rs. 2.32 Crs. The Conversion cycle is moderate at 107 days for FY19. The CC limit utilization is moderate (around 70%-75%) which provides liquidity comfort. Overall liquidity in the system is adequate.

COMPANY PROFILE

K.M. Papers is a partnership firm established in the year 2012 in Pantnagar, Uttarakhand. All the initial promoters of the firm have quit and new partnership constitution is in place since 2016. It is engaged in paper manufacturing. Its manufacturing process consists of converting waste paper to pulp and pulp to krafts paper which is in turn used to make corrugated boxes or ‘carton’ boxes. The firm started its commercial production in June 2015.

KEY FINANCIAL INDICATORS (in INR Crs)

Key Parameters	**Units**	**2018**	**2019**
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	40.49	72.45
EBITDA	₹ Cr	6.10	6.70
PAT	₹ Cr	0.23	0.41
Tangible Net worth	₹ Cr	10.79	19.66
Total Debt/Tangible Net worth	Times	2.58	0.94
Current Ratio	Times	1.36	1.74

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: None
NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : NA

RATING HISTORY

S.No	**Instrument /Facility**	**Current Rating**			**Rating History**		
		Type	Amount (₹ Crs)	Rating	2018	2017	2016
1	**Fund Based**	Long Term	20.79	**BWR BB** (Stable)	**BWR B+** (Stable)	-	**BWR B** (Stable)
	Total		**20.79**	**Rs. Twenty Crore and Seventy Nine Lakhs Only**			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria]
- [Approach to Financial Ratios]
- [Manufacturing Companies]

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K.M. Papers
ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1.	Nainital Bank	Cash Credit	15.00	-	15.00
2.		Term Loan	5.79	-	5.79
TOTAL					20.79

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