

RAC Papers Limited

Brickwork Ratings revises the ratings for the Bank Loan Facilities of ₹ 20 Crores of RAC Papers Limited. ('RPL' or 'the company')

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (July, 2020)	Present
Fund based	13	20	Long Term	BWR BB- (Stable) Downgrade Issuer Not Cooperating	BWR BB (Stable) Upgrade
Total	13	20	INR Twenty Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

BWR has upgraded the ratings of **RAC Papers Limited** to BWR BB (Stable). The rating reflects the extensive experience of the promoters/management in the paper industry and a successful track record of the company for over four decades. The rating is further strengthened by a moderate networth and a low gearing level. The rating is however weakened by the moderate scale of operations of the company, low operating & net margins and an intensely competitive and fragmented paper industry. The rating has also factored the negative impact of Covid-19 pandemic on the company's operations and on the overall industry in the current fiscal.

BWR believes that the business risk profile of "RAC Papers Limited" will be maintained over the medium term. The 'stable' outlook indicates a low likelihood of a rating change in the medium term. The Rating outlook may be revised to "Positive" in case there is significant improvement in revenues, profit margins of the company going forward. The rating outlook may be revised to "Negative" if there is any deterioration in the financial risk profile including liquidity of the company.

KEY RATING DRIVERS

Credit Strengths:

- **Experienced Promoters:** All the directors / promoters in the company have decades of experience in the paper industry which has helped the company scale up its operations in recent years and also maintain a long term relationship with suppliers and customers.
- **Moderate Networth and gearing level:** The company had a networth (TNW) of Rs.14.20 Crs. as on 31 Mar 2020 and a gearing (Total debt/TNW) of 1.37 times and overall gearing (TOL/TNW) of 2.14 times in FY20.

- **Revival in demand and correction in prices in the paper industry in the recent months:** The Indian paper industry, which was one of the worst hit in the wake of the Covid-19 pandemic, has been witnessing signs of revival on a month-on-month basis. Apart from a recovery in demand the industry is also likely to see some price correction happening moving forward.

Credit risks:

- **Low profitability:** The company's profitability margins are thin as reflected in Operating profit Margin of 4.25% and Net margin of 0.20% in FY20. The profit margins are low mainly due to high operating costs and finance costs.
- **Moderate Scale of operations:** The company's top line is quite moderate considering it has been into existence for over 35 years and operates in a highly competitive and fragmented industry.
- **Susceptible to volatility in raw material prices due to global cues:** Indian paper recycling industry is largely dependent on imported waste paper from various countries. The price of waste paper mainly determines the price of finished paper. In 2019 alone, there was a 30% downward trend in imported waste paper prices, and Indian Kraft paper mills had to reduce prices of finished paper by around 30% even after having export orders in hand. This implies that the paper mills had an excess supply even after fulfilling domestic demand.
- **Covid-19 impact on the paper industry:** Paper was one of those industries which had been adversely affected by the Covid-19 pandemic as the demand for paper had slipped substantially in the year 2020.
- **Highly competitive and fragmented industry:** The paper industry is highly fragmented with small units accounting for 60% of industry size. There are approximately 750 paper mills in India.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

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

RATING SENSITIVITIES

Upward: Ability of the company to achieve the projected topline with an improved profitability in the coming fiscal and a prudent working capital management.

Downward: Any substantial decline in the sales and profit margins and deterioration in the financial risk profile and the liquidity profile of the company.

LIQUIDITY POSITION : Stretched

Net Cash Accruals for FY20 was Rs. 1.99 Crores as compared to Rs. 2.70 Crores in FY19. The debt repayment during FY20 was Rs. 0.51 Crore. The DSCR for FY20 was 1.71 times as



compared to 1.33 times in FY19. The ISCR for FY20 was 2.21 times as compared to 2.37 times in FY19. The current ratio of the company in FY20 improved to 1.09 times as compared to 0.95 times in FY19. The average utilization of the cash credit limit was 96% in the last 6 months. Overall the company's liquidity is a bit stretched considering almost full utilization of the working capital limit and a higher debt repayment obligation in the upcoming fiscal.

COMPANY PROFILE

RAC papers Limited is a company limited by shares which was incorporated in the year 1985 in Meerut, Uttar Pradesh. The company is into manufacturing of kraft paper and newsprint at its factory in Hapur, Uttar Pradesh. The company is promoted by Mr. Ajay Mittal, Mr. Sanjay Mittal, Mr. Kailash Chand Gupta and Mr. Manoj Gupta.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY20	FY19
Result Type		Audited	Audited
Operating Income	₹ Crores	84.33	90.07
EBITDA	₹ Crores	3.59	4.45
PAT	₹ Crores	0.17	0.90
Tangible Net worth	₹ Crores	14.20	14.37
Total Debt / Tangible Net worth	Times	1.37	1.05
Current Ratio	Times	1.09	0.95

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY :

CARE Ratings in their press release dated 13th October 2020 has continued to classify the case under Issuer Not Cooperating status on account of non submission of papers.

CRISIL Ratings in their press release dated 4th November 2019 has migrated the ratings of the company to Issuer Not Cooperating status for not submitting the required information for rating.

RATING HISTORY FOR THE LAST 3 YEARS (Including suspended and withdrawn)

Instrument / Facilities	Current Rating (March 2021)			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	6 Jul 2020	2019	2018
Fund Based	Long Term	20	BWR BB (Stable) Upgrade	BWR BB- (Stable) Downgrade Issuer Not Cooperating	BWR BB (Stable) Assigned	-
Total		20	INR Twenty Crores 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](#)
- [Rating Criteria for Manufacturing Companies](#)

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RAC Papers Limited

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	OCC	13	-	13
2	Term Loan	7	-	7
TOTAL		20	-	20

Total Rupees Twenty Crores only.

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