

RATING RATIONALE

27 May 2021

Shrenik Limited

Brickwork Ratings revises the long term rating and reaffirms the short term rating for the Bank Loan Facilities aggregating to Rs. 95.75 Crs of Shrenik Limited ('SL' or 'the Company')

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Nov, 2020)	Present
Fund based	95.75	95.75	Long Term	BWR B Stable	BWR C Downgraded
Non-Fund Based	(41.59)	(41.59)	Short Term	BWR A4	BWR A4 Reaffirmed
Total	95.75	95.75	₹ Ninety-Five Crores and Seventy-Five Lakhs Only		

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

** Details of Bank facilities are provided in Annexure-I.

Rating:

Long term Rating Downgraded & Short term Rating Reaffirmed

RATING ACTION / OUTLOOK

Brickwork Ratings has downgraded the long term rating and reaffirmed the short term rating for the bank facilities of Shrenik Limited (SL). The rating action reflects continuation of delays by the entity in repaying the debt obligations on the Purchase Invoice Financing Facility availed from Manappuram Finance Limited (MFL) (Not rated by BWR) as per the interaction with the lender-MFL and reported irregularities in the BWR rated facilities as informed by the banker. BWR takes note of the impact of the COVID-19 pandemic on the business and financial risk profiles of the Company for the financial year 2020-21 thereby creating near to medium term liquidity issues. BWR is of the view that there will be substantial pressure on the revenue, profitability and debt servicing ability of the Company in the near to medium term.

The ratings continue to factor in the experience of the promoter with the established track record of the Company and the long-standing relationship with customers and suppliers. The Ratings are however, constrained by the working capital-intensive nature of operations, impact of Covid 19 pandemic on the business and on the financial risk profile of the company and intensely competitive nature of the industry.

KEY RATING DRIVERS

Credit Strengths:

- **Established presence of the Company and management's experience resulting in strong customer relationships and market linkages:** SL is promoted by Mr. Shrenik Vimawala and his family, who has an extensive experience of more than three decades in the paper industry, along with the second generation of the family participating in the company's operations. The extensive experience of the promoter has facilitated SL to establish strong relationships with various players in the market.

Credit Risks:

- **Impact of Covid 19 pandemic on the business and financial risk profiles of the company:** The Company witnessed a significant increase in revenue on a YOY basis till FY19 reflected by Y-o-Y growth of around 41% in FY19. However, due to demand contraction, the Company's revenue fell by ~4.9% in FY20 and further declined substantially by ~ 54% in FY21. The closure of most educational institutions since the beginning of March 2020 and a gradual adoption of work from home led to severe demand compression for paper products, particularly for the Writing and printing paper (WPP) segment. The Company's offices and warehouses were shut down during the initial lockdown. As a result, the sales volume was impacted. The projections and assumptions made earlier did not fully come through. Even after the lifting of the lockdown, the situation has not improved much during the fiscal 2020-21 reflected by a Revenue from Operation of Rs. 363.67 Crs and net loss of Rs. 1.48 Crs reported by the company for FY21.
- **Working capital intensive nature of operations:** Operations are working capital intensive as reflected by working capital cycle of 250 days in FY21 (increased from 110 days in FY20) with receivables and inventory of 137 and 196 days, respectively. This has led to high reliance on working capital borrowings.
- **Intense competition & fragmented industry:** The Company operates in a competitive and fragmented environment and is exposed to increasing competition from both the organized as well as unorganized players. The Company has low profit margins due to the trading nature of the business. Intense competition in the paper trading industry and high reliance on working capital borrowings would likely create pressure on its already tight liquidity.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

While assigning the ratings, BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale). The Company does not have any subsidiaries.

RATING SENSITIVITIES

A longer than expected coronavirus crisis that weakens demand dynamics further there by impacting operational efficiency of the Company. BWR expects this to remain a key monitorable in the near term as it will address the near-term liquidity issues.

Positive: SL's rating could be upgraded if

- Improvement in scale and healthy accrual due to improved operating efficiency.
- Improvement of working capital cycle & capital structure.
- Repayment of current overdue debt obligations and maintenance of the accounts as regular.

Negative: Pressure on SL's rating could arise if

- Any further decline in the financial risk profile, particularly in liquidity.
- Event of default in the BWR rated facilities.

LIQUIDITY POSITION: Poor

Working capital intensive nature of operations leading to high reliance on working capital borrowings and relatively low cash accrual are creating pressure on liquidity profile. Cash and cash equivalents stood at Rs 1.57 Crs as on 31st March 2021. The Company has been sanctioned emergency lines of credit. The Company has availed loan moratorium as announced by RBI under COVID 19 regulatory package from PNB & SBI.

COMPANY PROFILE

The Company was originally formed as a proprietary firm- Shree Shyam Corporation by Mr. Shrenik Vimawala in the year 1985 and was thereafter converted to a Private Limited Company with the name of Shrenik Tradelink Private Limited on December 20, 2012. Further, the name of the company was changed to Shrenik Private Limited on December 19, 2016. Consequently, it was converted into a public limited company and the name of the company was changed to Shrenik Limited on April 03, 2017.

Shrenik Limited is a Paper-Trading Company (Wholesale Distributor) having its operations spread across Gujarat, Rajasthan and Maharashtra. The company sells products like Writing and Printing Paper, Coated Paper, Hi bright Paper, Copier Paper, Folding Box Board and Duplex Board. The company is wholesale distributor of Ballarpur Industries Limited, Tamilnadu Newsprint and Papers Limited, Asia Pulp and Paper (Indonesia and China), Shah Pulp and Paper Mills Limited, NR Agarwal Industries Limited, April Fine Paper Trading Pte Ltd (Singapore) and Naini Group. Apart from being the wholesale distributors the Company has its own brand named Shrenik.

KEY FINANCIAL INDICATORS

Key Parameters	Units	FY20	FY21
Result Type		Audited	Audited
Total Operating Income	Rs in Crs	795.56	363.67
EBITDA	Rs in Crs	32.23	13.18
PAT	Rs in Crs	11.60	-1.48
Tangible Net worth	Rs in Crs	74.55	71.41

Total Debt/TNW	Times	2.34	2.44
Current Ratio	Times	1.48	1.38

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The terms of sanction for the bank loan facilities include standard covenants normally stipulated for such facilities. Further, as per the sanction letter, unsecured loans from promoters or relatives have been subordinated with the bank till the tenure of the bank facilities.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawal and suspended)

Instrument / Facilities	Current Rating			Rating History		
	Tenure	Amount (₹ Cr)	Rating	13-Nov-2020	23-Dec-2019	07-Sep-2018
Fund Based	Long Term	95.75	BWR C	BWR B Stable	BWR BBB+ Stable	BWR BBB Stable
Non-Fund Based	Short Term	(41.59)	BWR A4	BWR A4	BWR A3+	BWR A3+
Total		95.75	INR Ninety-Five Crores and Seventy-Five 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](#)
- <https://www.brickworkratings.com/download/Criteria-TradingEntities.pdf>
- [Criteria- Default Recognition Default Curing Period](#)
- [BWR Policy for Default Recognition and post default Curing Period](#)

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Shrenik Limited

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Lender	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1.	Lender-I	Cash Credit	60.00	0.00	60.00
		Foreign Letter of Credit	0.00	(20.00)	(20.00)
2.	Lender-II	Cash Credit	35.75	0.00	35.75
		CEL	0.00	(1.59)	(1.59)
		Letter of Credit	0.00	(20.00)	(20.00)
TOTAL					95.75

Total Rupees Ninety-Five Crores and Seventy-Five Lakhs only.



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