Rating Rationale

Aristocraft Papers Pvt Ltd

10 Sep 2019

Brickwork Ratings revises/reaffirms the ratings for the Bank Loan Facilities of ₹. 8.66 Crores of Aristocraft Papers Pvt Ltd.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (March, 2018)	Present
Fund based	9.41	8.66	Long Term	BWR B+ (Pronounced BWR Single B Plus) Outlook: Stable	BWR BB- (Pronounced BWR Double B Minus) Outlook: Stable (Upgraded)
Non Fund Based	(1.00)	(1.00)	Short Term	BWR A4 (Pronounced A Four)	BWR A4 (Pronounced A Four) (Reaffirmed)
Total	9.41	8.66	INR Eight Crores and Sixty Six Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of the Company upto FY18, provisional financials of FY19 and projected financials for FY20, FY21 and select financial data for current financial year, publicly available information and information/clarifications provided by the management.

The rating draws strength from the strong growth in revenues in the last and current financial year wherein the revenue grew from Rs.21.17 Cr. in FY18 to Rs.52.86 Cr. in FY19 (Prov.) and expected to achieve Rs.55.00 Cr. in FY20. It also factors extensive experience of the Directors of more than a decade and expansion in the plant made by the company. The rating is further supported by above average debt protection metrics.
The rating, however, is constrained by high gearing, weak liquidity and intense competition and susceptibility to volatility in the prices of raw materials

Going forward the company's ability to improve profitability and managing working capital efficiently will be the key rating sensitivities.

Description of Key Rating Drivers

Credit Strengths:

- **Experience of the Promoters :** Promoters have been in the same line of business of manufacturing of Kraft Paper for more than a decade which has enabled them to establish relations with customers & suppliers and to understand the intricacies of the business.
- **Expansion of the Plant :** The company has expanded its manufacturing capacity from 15000 MTPA to 45000 MTPA putting additional machinery costing Rs.1.50 Cr. With the installation of the machinery, the Installed capacity of the Plant has increased to 150 Ton/Day which was earlier at 50 Ton/Day. And the production has increased to 80-90 Ton/Day from 10-15 Ton/Day.
- **Growth in Turnover :** According to the management certified provisional financials as well as the GST returns, the company has achieved net sales of Rs.52.86 Cr. in FY19 registering a growth of 150% in FY19. The significant improvement owes to increased installed capacity and its optimal utilization. The management has also informed that the company has clocked a revenue of Rs.16.96 Cr. in Q1 of FY20. The same has been verified from the GST returns.
- **Debt Protection Metrics** i.e. ISCR and DSCR at 2.71X and 2.73X. in FY19 (Prov.) are above average. The same owes to healthy operating profitability in FY19.

Credit Risks:

- **Weak Financial Risk Profile** - Gearing at 2.67X in FY19 (Prov.) is considered high. The same has increased from the moderate level of 1.19X in FY18, owing to enhancement of CC Limit and increased term loan exposure from Banks and NBFCs. Weak Liquidity marked by low current ratio at 0.84X and 1.01X in FY18 and FY19 (Prov) respectively. Though, the other liquidity indicators stood moderate as marked by comfortable Conversion Cycle of 15 and 18 Days in FY18 and FY19 (Prov.) respectively. The same owes to better credit terms enjoyed by the company.
- **Intense Competition and Susceptibility to volatility in the prices of raw materials** - Industry is characterized by intense competition from players in the unorganized as well as organized sectors. The company’s margins are primarily affected by price fluctuation of raw materials.

Analytical Approach

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 Outlook: Stable

BWR believes the **Aristocraft Papers Pvt Ltd** business risk profile will be maintained over the medium term. The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Aristocraft Papers Pvt. Ltd. (APPL), incorporated on 12 May 2008, has its registered office located at Muzaffarnagar, Uttar Pradesh. The directors of APPL are Mr. Rajesh Kumar Jain and Rajendra Kumar Jain with around four decades of work experience. Company is involved in manufacturing of Kraft Paper which are being used to make corrugated boxes. Company commenced its production of Kraft paper in the year 2013 with a production capacity of 15000 MTPA (Metric Tonnes Per Annum). The unit is located in Muzaffarnagar, Uttar Pradesh. The major raw material required by company for manufacturing of Kraft Paper is waste corrugated boxes being procured from suppliers located in Uttar Pradesh, Haryana and Delhi. Company sells its product to kraft paper dealers and manufacturers of corrugated cartons. It has tied-up with a chain of dealers at major locations in Faridabad, Noida, Delhi etc.

Liquidity Position : The Company has low current ratio at 0.84X and 1.01X in FY18 and FY19 (Prov) respectively. Though, the other liquidity indicators stood moderate as marked by comfortable Conversion Cycle of 15 and 18 Days in FY18 and FY19 (Prov.) respectively. The same owes to better credit terms enjoyed by the company. Debt Protection Metrics i.e. ISCR and DSCR at 2.71X and 2.73X. in FY19 (Prov.) are good owing to healthy operating profitability in FY19. The cash generation is expected to be sufficient for the payment of principal and interest on the borrowings. The customer has been paying in excess of the EMI's for the Term Loan to reduce the interest burden. Overall liquidity position of the company is adequate.

Company Financial Performance

As per the management certified Provisional Financials, the company has achieved a turnover of Rs.52.86Cr. and profit of Rs. 0.55 Cr in FY19 (Prov.). The company has expanded the manufacturing capacity of the Company from 15000 MTPA to 45000 MTPA by installing additional machinery costing Rs.1.50 Cr. With the installation of the machinery, the installed capacity of the Plant has increased to 150 Ton/Day which was earlier at 50 Ton/Day. And the production has increased to 80-90 Ton/Day from 10-15.

Key Financial Indicators

Key Parameters	**Units**	**2018**	**2019 (Prov.)**
Result Type			
Operating Revenue	₹ Cr	21.17	52.86
EBITDA	₹ Cr	1.60	2.03
PAT	₹ Cr	0.37	0.55
Tangible Net worth	₹ Cr	3.99	4.53
Total Debt/Tangible Net worth	Times	1.19	2.67
Current Ratio	Times	0.84	1.01

Rating History for the last three years

S.No	Instrument /Facility	Current Rating (August, 2019)			Rating History	
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	March, 2018	FY16
	Fund Based **Cash Credit** **Term Loan**	Long Term	7.50 1.16	**BWR BB- (Pronounced BWR Double B Minus) Outlook: Stable (Upgraded)**	**BWR B+ (Pronounced BWR Single B Plus) Outlook: Stable**	**NA**
	Non Fund Based	Short Term	(1.00)	**BWR A4 (Pronounced A Four) (Reaffirmed)**	**BWR A4 (Pronounced A Four)**	
	Total		**8.66**	**₹ Eight Crores and Sixty Six Lakhs Only**		

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Infrastructure Sector
- Short Term Debt

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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