



Rating Rationale

Sangal Papers Ltd.

19-Mar-2019

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 22.20 Crores of Sangal Papers Ltd..

Particulars

Issue	Previous Amount (₹ Crs)	Present Amount Rated (₹ Crs)	Tenure	Previous Rating (22 Feb 2018)	Present Rating*
Fund Based Cash Credit	16	16	Long Term	BWR BBB- (Pronounced as Triple B Minus) Outlook: Stable Upgraded	BWR BBB- (Pronounced as Triple B Minus) Outlook: Stable Reaffirm
Term Loan	2.40	4.5			
Non-fund Based ILC/FLC	1.50	1.50	Short Term	BWR A3 (Pronounced as BWR A three) Upgraded	BWR A3 (Pronounced as BWR A three) Reaffirm
BG	0.20	0.20			
Total	20.10	22.20	INR Twenty Two Crores Twenty 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

Ratings: Reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities: BWR has essentially relied upon the audited financial results of the Firm upto FY18, nine months provisional financials of FY19, projected financials for FY19, FY20 and FY21, publicly available information and information/clarifications provided by the management.

The rating draws strength from the extensive experience of management, improvement in scale of operations, improvement in conversion cycle and improvement in financial risk profile. The rating, however, is constrained by the dominance of international market and publishers in setting the prices.



Description of Key Rating Drivers

Credit Strengths:

- **Extensive experience of management:** The management of the company includes six directors namely, Mr. Himanshu Sangal - Chairman & Managing Director, Amit Sangal - Director - Finance & CFO, Tanmay Sangal - Director, Vinayak Sangal - Director, Prem Sethi - Director, Geeta Gupta - Director. With their extensive experience and knowledge of the industry, they are able to maintain long term relationship with their clients and suppliers.
- **Improvement in scale of operations:** The total operating income of the company has increased from Rs. 107.28 Cr in FY17 to Rs. 120.68 Cr. in FY18. Till 31-Dec-2019, the total revenue of the company was Rs. 112.45 Cr and company may achieve the projected revenue of Rs. 135.46 crs for the current FY19..
- **Improvement in conversion cycle:** The conversion cycle of the company has reduced from 77 days in FY17 to 70 days in FY18 as a result of reduction in receivable days from 65 days in FY17 to 61 days in FY18 and reduction in inventory holding period from 44 days in FY17 to 40 days in FY18.
- **Improvement in financial risk profile:** The financial risk profile of the company has improved over the years as evidenced by decrease in gearing ratio from 0.83 times in FY17 to 0.80 times in FY18. The tangible net worth stood at Rs. 24.74 Cr. in FY18. The debt protection metrics has also improved with an ISCR of 3.57 times in FY18 as against an ISCR of 2.61 in FY17 and DSCR of 1.91 times in FY18 as against 1.65 times in FY17.

Credit Risks:

- **Company is price taker not setter:** The company is manufacturer of newsprint and writing printing paper, the prices of news print are decided by international market and publishers of newsprint (buyers). Large manufactures play the role of price setters, they decide the prices quarterly on the basis of availability of indigenous as well as imported newsprint paper in the market. Other companies have to follow the price set by the large manufacturers.

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 **Sangal Papers 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

Sangal Papers Ltd ('SPL' or 'the Company'), incorporated in 1980, is a family concern having six Directors. The company is situated at 22 KM, Meerut-Mawana Road, Mawana - 250401, Dist. Meerut, U.P. Sangal Papers Ltd. is engaged in the manufacturing of Newsprint, Writing & Printing Papers with installed capacity of 33000 MT. The Capacity Utilization in FY18 was around 96.98% i.e 32003 M.T.

Company's Financial Performance

The total operating income of the company has increased from Rs. 107.28 Cr in FY17 to Rs. 120.68 Cr. in FY18. Till 31-Dec-2019, the total revenue of the company was Rs. 112.45 Cr and the company may achieve the projected turnover of Rs. 135.46 Cr. by the end of FY19.. The EBITDA and PAT has increased from increased from Rs. 5.58 Cr. in FY17 to Rs. 5.83 Cr. in FY18 and from Rs. 1.71 Cr. in FY17 to Rs. 2.60 Cr. in FY18 respectively. The company has above average debt protection metrics with an ISCR of 3.57 times and DSCR of 1.91 times in FY18 as against an ISCR of 2.61 times and DSCR of 1.65 times in FY17. The operating profit margin has decreased from 5.20% in FY17 to 4.83% in FY18. However, the Net Profit Margin has increased from 1.59% in FY17 to 2.16% in FY18.

Liquidity Position

The company has a comfortable liquidity position which is evidenced by the current ratio of 1.45 times in FY18. The net cash accruals to total debt ratio has also improved from 0.15 times in FY17 to 0.19 times in FY18.

Rating History for the last three years

S.No	Instrument /Facility	Current Rating (Mar 2019)			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	Feb 2018	Mar 2017	Mar 2016
	Fund Based	Long Term	20.50	BWR BBB- (Pronounced as Triple B Minus) Outlook : Stable	BWR BBB- (Pronounced as Triple B Minus) Outlook : Stable	BWR BB+ (Pronounced as Double B Plus) Outlook : Stable	BWR BB (Pronounced as Double B) Outlook : Stable

				Reaffirm	Upgrade	Upgrade	
	Non Fund Based	Short Term	1.70	BWR A3 (Pronounced as BWR A three) Reaffirm	BWR A3 (Pronounced as BWR A three) Upgrade	BWR A4+ (Pronounced as BWR A Four Plus) Upgrade	BWR A4(Prono unced as A Four)
	Total		22.20	₹ Twenty Two Crores Twenty Lakhs Only			

Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		Audited	Audited
Operating Revenue	In Rs. Cr.	120.68	107.28
EBITDA	In Rs. Cr.	5.83	5.58
PAT	In Rs. Cr.	2.60	1.71
Tangible Net worth	In Rs. Cr.	24.74	22.13
Total Debt/Tangible Net worth	Times	0.80	0.83
Current Ratio	Times	1.45	1.53

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)

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For print and digital media

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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, has also been 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 Nationalized 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, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

DISCLAIMER

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