

October 06, 2023

Sripathi Paper and Boards Private Limited: Ratings reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---------------------------------------------|--------------------------------------|-------------------------------------|--------------------------------|
| Long-term – Fund-based – Cash Credit | 180.00 | 250.00 | [ICRA]BBB- (Stable) reaffirmed |
| Long-term – Term loans | 54.44 | 54.44 | [ICRA]BBB- (Stable) reaffirmed |
| Long-term – Proposed fund-based limits | 120.00 | 50.00 | [ICRA]BBB- (Stable) reaffirmed |
| Short-term – Non-fund based – LC | 66.50 | 98.00 | [ICRA]A3 reaffirmed |
| Short-term – Non-fund based – BG | 1.00 | 1.00 | [ICRA]A3 reaffirmed |
| Short-term – Proposed Non-fund-based limits | 78.06 | 46.56 | [ICRA]A3 reaffirmed |
| Total | 500.00 | 500.00 | |

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation on the bank lines of Sripathi Paper and Boards Private Limited (SPBPL) considers ICRA's expectation that the company's credit profile will improve, supported by a stable business profile given its long operational track record, the vast experience of its promoters in the paper industry, and the financial support from Srinidhi Investment Advisors Private Limited (SIAPL), fund managers of Srinidhi Alternative Investment Fund (SAIF), which holds 76% stake¹ in the company. SIAPL had infused funds into SPBPL to the extent of Rs. 277.0 crore in the form of equity as well as unsecured loans through its NBFC arm and has given a commitment towards SPBPL's funding requirements, if any. ICRA notes that the interest and principal on such loans shall be serviced after repayments of bank loans. The ratings also favourably consider the company's diversified product mix with capability to produce kraft paper, duplex boards, writing and printing papers and newsprint, and stable demand outlook for the duplex segment, which contributes ~70% to SPBPL's sales.

The ratings are, however, constrained by the company's moderate scale of operations, average capitalisation and coverage metrics, vulnerability of profitability to adverse fluctuations in prices of wastepaper prices as well as pricing trends of the final products, and forex movements. Moreover, intense competition in the duplex/ kraft paper segment owing to many unorganised players in the field results in pricing pressures. Further, the company has high working capital intensity owing to its predominantly high inventory requirements.

SPBPL's performance was affected in recent years due to past events like delayed ramp-up of operations following a large capex, a fire incident at its Sivakasi (Tamil Nadu) plant and Covid-led disruptions. Following SIAPL's take-over of majority stake and operations of SPBPL, there has been a turnaround in the business as evident from the ~45% revenue growth in FY2022. In FY2023 the revenues grew by ~3% while the operating margins expanded to 12.4% in FY2023 on the back of improved Net Sales Realisation (NSR) and cost efficiency measures. However, the operating margin contracted by 80 bps in Q1 FY2024 on account of fall in NSR and lower scale, the margins are expected to be ~11-12% in FY2024.

The Stable outlook reflects ICRA's expectation that the company will continue to benefit from the extensive experience of its promoters and newly hired industry experts, its diversified end-user industries and stable demand outlook.

¹ Stake held through Srinidhi Category II Alternative Investment Fund

Key rating drivers and their description

Credit strengths

Established track record of the company in the paper industry – Incorporated in 2002 by Mr. R. Krishnaswamy and Mr. K. Ravichandran, SPBPL has been manufacturing paper products and has developed an established presence and distribution network in the market over the past two decades. Its day-to-day operations are managed by Mr. Bharat Agarwal, COO, who has an extensive experience of more than three decades in the paper industry.

Diversified product profile and stable demand prospects – SPBPL has four manufacturing units at Sivakasi and one in Sathyamangalam (Tamil Nadu) with a total production capacity of 276,500 MT. Its product portfolio is well diversified with capacities to manufacture duplex board, kraft paper, newsprint and writing and printing paper (WPP). It produces categories of coated duplex board, which is extensively used in the printing, match box, fireworks, textiles and packaging industries. SPBPL is also involved in manufacturing kraft paper and WPP, although ~70% of its total sales came from duplex board in FY2023, a value-added product that generates relatively better margins than other products. Over 85% of its revenues are from the domestic market with Tamil Nadu and Karnataka being the major end-markets. The company operates at a capacity utilisation level of ~56% in Q1 FY2024, which is expected to improve further, thus supporting the overall scale with associated benefits. Its customer base is moderately diversified with its top five customers generating ~35% of its total sales over the last two years.

Support from SIAPL – SIAPL has infused funds to the extent of Rs. 277.0 crore (till FY2023) in the form of equity and unsecured loans through its NBFC arm and has given a notable commitment towards SPBPL's funding requirements, if any. SIAPL is actively involved in the day-to-day operations of the company and has placed industry experts in critical functions. ICRA notes that the interest and principal on the loans extended shall be serviced following repayments of the bank loans.

Credit challenges

Vulnerability of profitability to adverse fluctuations in prices of raw material and forex movements – SPBPL's profitability is exposed to any sharp fluctuations in raw material prices—primarily wastepaper. A large portion of the wastepaper is imported, and the prices remain exposed to global demand-supply dynamics. The company's ability to fully pass on the price risk remains limited by competition in the market, which can impact its profitability metrics. Further, the company imports 50-55% of its raw material requirement, making it vulnerable to movement in forex rates, adopting currency hedging in a limited way.

Highly competitive nature of the industry – SBPL operates in a highly fragmented industry and faces intense competition, which limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins. Nonetheless, presence in the multiple segments (kraft, duplex, newsprint and WPP) and its established relationships with major players in the fireworks, matchsticks, printing and FMCG sectors are key mitigating factors for the company.

Modest capitalisation and coverage metrics – SPBPL had modest debt protection coverage metrics with TOL/TNW of 2.7 times along with an interest coverage ratio of 1.7 times and DSCR of 1.0 time in FY2023. The coverage metrics are expected to improve, going forward, and shall be supported by higher accruals, driven by improved profitability margins and reduction in long-term loans. ICRA notes that the company has capex plans towards strengthening its business offerings and improve efficiency metrics, and the same is expected to be funded from SIAPL.

Liquidity position: Adequate

SPBPL's liquidity is **adequate** with cash balances of Rs. 0.66 crore as of March 31, 2023, and undrawn working capital lines of Rs. 48.20 crore as on July 31, 2023, against annual repayment obligation of Rs. 24.2 crore for FY2024. ICRA also considers SIAPL's infusion of Rs. 277.0 crore till date into the and has given commitment towards SPBPL's funding requirements, if any.

Rating sensitivities

Positive factors – The ratings could be upgraded with the company registering sustained growth in revenues and profitability along with sharp improvement in debt metrics and liquidity position.

Negative factors – The rating could witness a downward revision in case of any adverse impact on the revenue/ profitability of the company leading to deterioration in debt protection metrics and liquidity. Specific credit metric impacting the rating include adjusted debt/ OPBITDA more than 3.0 times on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|-----------------------------------------------------|
| Applicable rating methodologies | Corporate Credit Rating Methodology |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | Standalone |

About the company

Sripathi Paper and Boards Private Limited was set up in 2002 with a capacity of 30MT per day for kraft paper. Over the years, SPBPL has expanded its production capacity to 790 TPD with machineries to manufacture products such as kraft paper, duplex board, writing and printing paper, and newsprint. In FY2022, Srinidhi Investment Advisors Private Limited acquired 76% stake in the company.

SPBPL uses recycled fibre, i.e., wastepaper as raw material for paper manufacturing. Headquartered in Coimbatore, SPBPL operates out of its five plants across Sivakasi (four) and Sathyamangalam (one) in Tamil Nadu. The plants are spread over 77 acres of land at Sivakasi and 20 acres at Sathyamangalam. To ensure continuous power supply, SPBPL has a 6-MW co-generation power plant and a windmill of 1.45-MW capacity.

Key financial indicators (audited)

| Sripathi Paper and Boards Private Limited | FY2022 | FY2023 |
|------------------------------------------------------|--------|--------|
| Operating income | 745.3 | 768.2 |
| PAT | 10.2 | 10.3 |
| OPBDIT/OI | 11.0% | 12.4% |
| PAT/OI | 1.4% | 1.3% |
| Total outside liabilities/Tangible net worth (times) | 2.5 | 2.7 |
| Total debt/OPBDIT (times) | 5.0 | 4.0 |
| Interest coverage (times) | 1.4 | 1.7 |

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| | Instrument | Current Rating (FY2024) | | | | Chronology of Rating History for the past 3 years | | | |
|---|---------------------------------------------|-------------------------|--------------------------|---------------------------------------------------|-------------------------|---------------------------------------------------|-------------------------|-------------------------|--|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Mar 31, 2023 (Rs. crore) | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 | |
| | | | | | Oct 06, 2023 | Feb 21, 2023 | - | - | |
| 1 | Long Term - Fund Based – Cash Credit | Long-term | 250.00 | 179.30 | [ICRA]BBB-(Stable) | [ICRA]BBB-(Stable) | - | - | |
| 2 | Long-term – Term loans | Long-term | 54.44 | 47.80 | [ICRA]BBB-(Stable) | [ICRA]BBB-(Stable) | - | - | |
| 3 | Long-term – Proposed fund-based limits | Long-term | 50.00 | - | [ICRA]BBB-(Stable) | [ICRA]BBB-(Stable) | - | - | |
| 4 | Short Term – Non-Fund Based – LC | Short-term | 98.00 | 58.68 | [ICRA]A3 | [ICRA]A3 | - | - | |
| 5 | Short-term – Non-fund based – BG | Short-term | 1.00 | - | [ICRA]A3 | [ICRA]A3 | - | - | |
| 6 | Short-term – Proposed Non-fund based limits | Short-term | 46.56 | - | [ICRA]A3 | [ICRA]A3 | - | - | |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|--------------------------------------|----------------------|
| Long Term - fund based - cash credit | Simple |
| Long Term - term loan | Simple |
| Long Term - proposed fund based | Simple |
| Short Term - non-fund based - LC | Very Simple |
| Short Term - non-fund based - BG | Very Simple |
| Short Term - proposed non-fund based | Very Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|-----------------------------------|------------------|-------------|----------|--------------------------|----------------------------|
| NA | Cash Credit | - | - | - | 250.00 | [ICRA]BBB- (Stable) |
| NA | Term Loan - 1 | Nov 2017 | 11.00% | Dec 2023 | 4.23 | [ICRA]BBB- (Stable) |
| NA | Term Loan - 2 | Nov 2016 | 12.90% | Aug 2023 | 2.18 | [ICRA]BBB- (Stable) |
| NA | Term Loan - 3 | Mar 2017 | 11.50% | May 2025 | 11.93 | [ICRA]BBB- (Stable) |
| NA | Term Loan - 4 | Oct 2017 | 10.50% | May 2025 | 18.73 | [ICRA]BBB- (Stable) |
| NA | Term Loan - 5 | Jan 2018 | 11.15% | Aug 2025 | 8.74 | [ICRA]BBB- (Stable) |
| NA | Term Loan - 6 | Feb 2019 | 11.60% | Nov 2025 | 8.63 | [ICRA]BBB- (Stable) |
| NA | Long term - Proposed | NA | NA | NA | 50.00 | [ICRA]BBB- (Stable) |
| NA | Letter of Credit / Buyer's Credit | - | - | - | 98.00 | [ICRA]A3 |
| NA | Bank Guarantee | - | - | - | 1.00 | [ICRA]A3 |
| NA | Short term - Proposed | NA | NA | NA | 46.56 | [ICRA]A3 |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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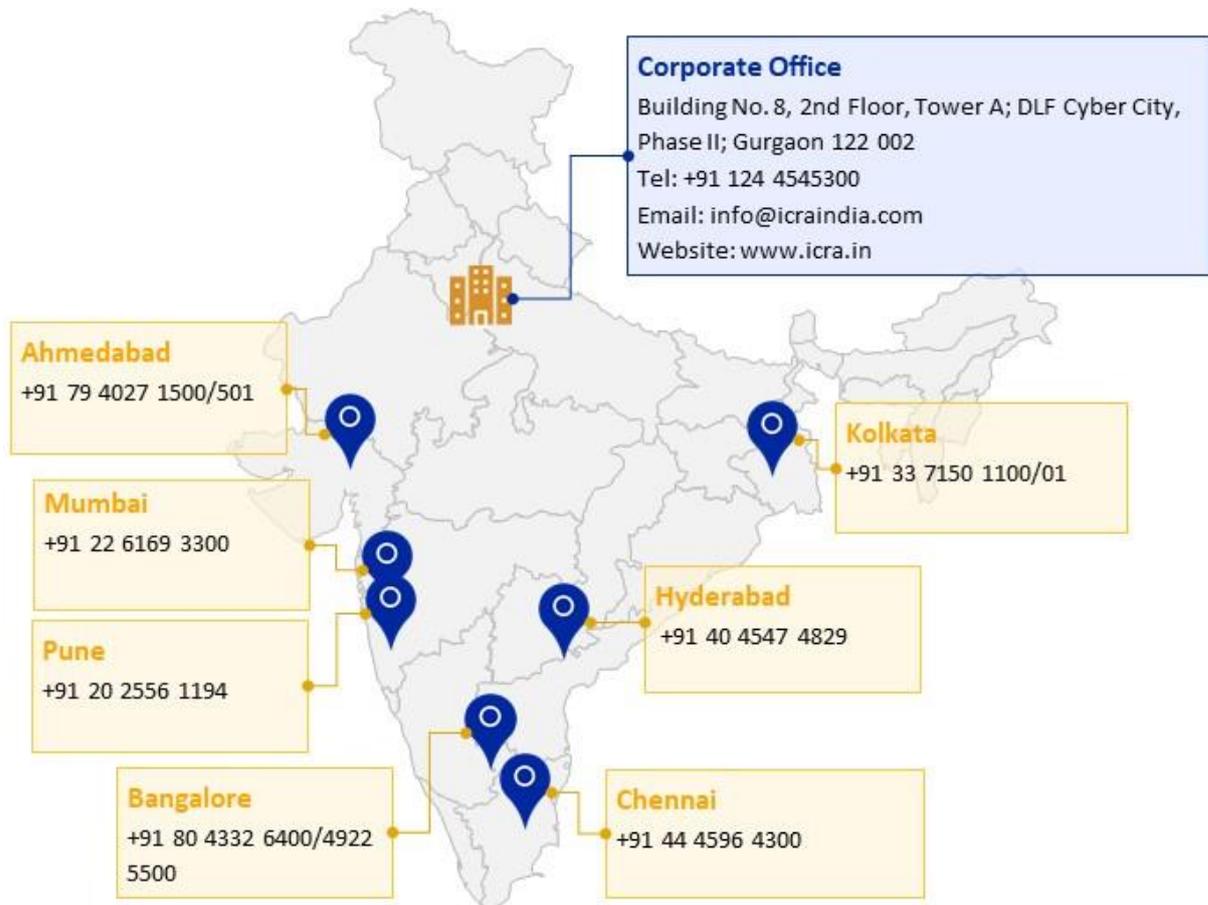
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