

March 21, 2024

Subam Papers Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|------------------------------------|--------------------------------------|-------------------------------------|---|
| Long-term Fund based – Cash Credit | 50.00 | 102.00 | [ICRA]A- (Stable); reaffirmed/ assigned for enhanced amount |
| Long-term Fund based – Term Loan | 33.23 | 72.37 | [ICRA]A- (Stable); reaffirmed/ assigned for enhanced amount |
| Long-term – Unallocated | 0.27 | 3.53 | [ICRA]A- (Stable); reaffirmed/ assigned for enhanced amount |
| Total | 83.50 | 177.90 | |

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of rating outstanding on the bank facilities of Subam Paper Private Limited (SPPL/the company) factors in ICRA's expectation of a stable financial performance in the near to medium term, supported by its established market presence in the paper industry in Tamil Nadu, favourable demand outlook, integrated production facility and access to diversified raw material (RM) suppliers. The company currently has over 1,000 customers and caters to several end-user industries including breweries and distilleries, e-commerce, fast-moving consumer goods (FMCG), healthcare, textiles and pharmaceuticals to name a few. It has had history of low churn rates and added multiple new customers as well in the last few years, although its geographic concentration within Tamil Nadu remains. The growing demand for packaging augurs well for the company and along with the recent entry into duplex paper manufacturing and expansion of kraft paper capacity is expected to drive revenue growth and margin expansion in the near to medium term.

The company has an integrated manufacturing setup with adequate captive renewable power capacity (10 MW of solar power and 1.7 MW of wind power), ensuring availability of power and provides cost advantages. The company procures wastepaper from multiple suppliers in both domestic and overseas markets, mitigating risks arising from supply-chain challenges and unfavourable forex movements to an extent. It also benefits on the logistics front by virtue of its proximity to the Tuticorin port. For 9M FY2024, the company reported healthy operating margins of 14.3%. However, the company's debt metrics remain moderate with Net Debt / OPBITDA of 2.0 times as on December 31, 2023, and interest coverage of 4.9 times for 9M FY2024. ICRA expects the debt metrics to improve gradually going forward, with anticipated sustenance of cash accruals and absence of significant debt-funded capex plans going forward. The margins would remain susceptible to fluctuations in input costs and competitive risks.

The stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile and debt metrics, supported by its healthy demand outlook, adequate liquidity position and minimal capex.

Key rating drivers and their description

Credit strengths

Established presence with a strong customer base in the packaging industry; caters to a variety of end-user segments – With almost two decades of presence, SPPL is an established player in kraft paper manufacturing in Tamil Nadu. The company currently has over 1,000 direct customers and caters to several end-user industries including automobile, breweries / distilleries, e-commerce, Fast Moving Consumer Goods (FMCG), healthcare, textiles, and pharmaceuticals to name a few. The company has had history of low churn rates and has added multiple new customers as well in the last few years.

Favourable demand outlook – The growing demand for packaging from e-commerce, food and food products, FMCG, textiles and pharmaceutical sectors, augurs well for the company in the near to medium term. Further, the long-term demand outlook for the domestic market remains favourable given the low per-capita usage, increasing usage of packaging products and anticipated reduction in single-use plastic.

Healthy operating margins in the business; access to diversified raw material suppliers and integrated production facility to support margins going forward as well – The company's operating income increased marginally in 9M FY2024 to Rs. 401.3 crore compared to Rs. 518.9 crore in FY2023 aided by healthy volume growth and addition of new customers. SPPL's operating margins remained north of 14% in the last few years (barring FY2023) supported by its access to diversified raw material suppliers and integrated production facility. The company procures wastepaper from multiple suppliers in both domestic and overseas markets, mitigating risks arising from supply-chain challenges and unfavourable forex movements to an extent. It benefits on the logistics front by virtue of its proximity to the Tuticorin port. Further, SPPL has an integrated manufacturing setup with adequate captive renewable power capacity 11.7 MW (10 MW of solar power and 1.7 MW of wind power), ensuring availability of power and provides cost advantages. All of these are likely to benefit the company's margins going forward.

Credit challenges

Sizeable debt-funded capex has moderated coverage indicators – The company undertook a debt-funded capex of ~Rs. 220.0 crore during FY2021-FY2023, for expansion of kraft and duplex paper capacities and captive solar power plant. As a result of increase in debt levels, the company's coverage metrics moderated from previous levels. SPPL's Net Debt/OPBITDA was moderate at 2.0 times as on December 31, 2023, while its interest coverage and DSCR stood at 4.9 times and 2.3 times respectively for 9M FY2024. ICRA expects the debt metrics to improve gradually going forward, with anticipated sustenance of cash accruals and absence of significant debt-funded capex plans going forward.

Susceptibility of profit margins to input costs – The company's profit margins remain vulnerable to volatility in raw material costs, fuel prices, and exchange rates among others. However, the company margins are expected to benefit from the usage of low-cost captive renewable power, diversified RM suppliers, favourable location and favourable product mix to an extent.

High geographic concentration; fragmented industry structure – The company has moderate scale of operations with relatively high geographical concentration in Tamil Nadu. Further, the company faces competition from both organised and unorganised players in the paper industry, which limits its pricing flexibility and bargaining power with customers to an extent. The former risk, however, is partially mitigated by SPPL's established customer base, history of low churn rates and periodic addition of customers. The company's measures for improving its cost structure are likely to mitigate pressure on profits because of competition to an extent.

Liquidity position: Adequate

SPPL's liquidity position is adequate supported by anticipated healthy cash flow from operations. The company had undrawn working capital lines of Rs. 42.2 crore as on December 31, 2023, and its working capital utilisation was 51% of drawing power for the 12 month period ended in December 2023. In relation to these sources of cash, SPPL has principal repayment obligations of Rs. 4.8 crore in Q4 FY2024, Rs. 21.5 crore in FY2025 and 21.8 crore in FY2026 on its existing loans. The company does not have significant capex plans and the same is expected to be funded primarily through internal accruals.

Rating sensitivities

Positive factors – SPPL's ratings could be upgraded if the company is able to significantly scale up its operations leading to improvement in accruals and debt coverage metrics. Specific credit metrics include net debt/OPBDITA less than 1.8 times on a sustained basis.

Negative factors – Negative pressure on SPPL's rating could emerge with sharp deterioration in the earnings or significant rise in net debt, due to working capital intensity, higher capex or increase in advances to Group entities. Specific credit metrics that may lead to a rating downgrade include DSCR less than 2.0 times on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Corporate Credit Rating Methodology |
| Parent/Group support | Not applicable |
| Consolidation/Standalone | For arriving at the ratings, ICRA has considered the consolidated financials of Subam Papers Private Limited. Details are provided in Annexure-II. |

About the company

Subam Papers Private Limited (SPPL) has been manufacturing kraft and duplex papers, with presence of almost two decades. While the company was engaged only in kraft paper manufacturing earlier, it expanded its capacities to duplex paper manufacturing from FY2022. SPPL has a cumulative production capacity of 1.93 MTPA (kraft paper capacity of 1.40 MTPA and duplex capacity of 0.53 MTPA), at its plants located in Tirunelveli, at the consolidated level. The company has over 1,000 customers currently and caters to multiple end-user industries including breweries and distilleries, e-commerce, FMCG, healthcare, textiles and pharmaceuticals to name a few.

The company has two subsidiaries – namely Subam Paper and Boards Private Limited (SPBPL) and Subam Agro Ventures Private Limited (SAVPL). SPBPL, formed in FY2021, houses 0.4 lakh MTPA of kraft paper capacity and is currently undergoing kraft paper expansion. SAVPL holds the land parcel where solar power plant is installed. This apart, SPPL has two associates – B.M.M Paper Board Private Limited and Saradhambika Paper and Board Mills Private Limited – who also manufacture paper based products. SPPL is managed by Mr. T. Balakumar, who is a first-generation entrepreneur with close to three decades of experience in the industrial paper industry.

Key financial indicators (audited)

| Consolidated | FY2022 | FY2023 |
|--|--------|--------|
| Operating income | 328.2 | 518.9 |
| PAT | 28.7 | 1.0 |
| OPBDIT/OI | 13.8% | 6.8% |
| PAT/OI | 8.7% | 0.2% |
| Total outside liabilities/Tangible net worth (times) | 1.3 | 1.5 |
| Total debt/OPBDIT (times) | 3.4 | 4.6 |
| Interest coverage (times) | 14.1 | 2.7 |

Source: Company, ICRA Research; Amount in Rs crore; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

Status of non-cooperation with previous CRA:

| CRA | Status | Date of release |
|--------|---|-----------------|
| CRISIL | CRISIL B /Stable (ISSUER NOT COOPERATING) | March 22, 2023 |

Any other information: None

Rating history for past three years

| Instrument | Type | Current rating (FY2024) | | Chronology of rating history for the past 3 years | | | |
|---------------|-----------|--------------------------|---|---|-------------------------|-------------------------|-------------------------|
| | | Amount rated (Rs. crore) | Amount outstanding as of Dec 31, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2021 | Date & rating in FY2021 |
| | | | | March 21, 2024 | Dec 29, 2022 | Sep 06, 2021 | July 15, 2020 |
| 1 Cash Credit | Long term | 102.00 | - | [ICRA]A-(Stable) | [ICRA]A-(Stable) | [ICRA]A-(Stable) | [ICRA]A-(Stable) |
| 2 Term Loan | Long term | 72.37 | 55.87 | [ICRA]A-(Stable) | [ICRA]A-(Stable) | [ICRA]A-(Stable) | [ICRA]A-(Stable) |
| 3 Unallocated | Long term | 3.53 | - | [ICRA]A-(Stable) | [ICRA]A-(Stable) | [ICRA]A-(Stable) | - |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|------------------------------------|----------------------|
| Long-term Fund based – Cash Credit | Simple |
| Long-term Fund based – Term Loan | Simple |
| Long-term – Unallocated | Not Applicable |

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 | NA | NA | NA | 102.00 | [ICRA]A- (Stable) |
| NA | Term Loans | FY2022-FY2024 | NA | FY2028-FY2031 | 72.37 | [ICRA]A- (Stable) |
| NA | Unallocated | NA | NA | NA | 3.53 | [ICRA]A- (Stable) |

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

| Company Name | SPPL Ownership | Consolidation Approach |
|--|----------------|------------------------|
| Subam Agro Ventures Private Limited | 100.00% | Full Consolidation |
| Subam Paper and Boards Private Limited | 99.88% | Full Consolidation |
| B.M.M Paper Board Private Limited | 28.57% | Equity Method |
| Saradhambika Paper and Board Mills Private Limited | 28.13% | Equity Method |

Source: Company

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