December 04, 2024

Suvarna Durga Paper Boards Private Limited: [ICRA]BB+(Stable)/[ICRA]A4+; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Term Loan	49.65	[ICRA]BB+(Stable); assigned
Long Term – Fund Based – Cash Credit	132.50	[ICRA]BB+(Stable); assigned
Long Term / Short Term – Unallocated Limits	17.85	[ICRA]BB+(Stable)/[ICRA]A4+; assigned
Total	**200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings assigned to the bank lines of Suvarna Durga Paper Boards Private Limited (SDPBPL) factor in the vast experience of SDPBPL's promoters in the kraft paper industry, which has helped the company in establishing healthy relationships with its customers, leading to repeat orders since the inception of its business in FY2022. After operating from a leased plant in FY2022 and FY2023, the company's manufacturing plant commenced operations in late FY2023, which coupled with healthy demand led to a revenue growth of ~360% in FY2024. The company's capacity utilisation improved to 80% in H1 FY2025 from ~65% in FY2024. Continued healthy demand is expected to result in a healthy double-digit growth in FY2025. The company's margins moderated to 9.6% from 12.6% in FY2023 owing to lower realisations and increased power and fuel expenses and are expected to remain at similar levels in the near term.

The ratings, however, are constrained by SDPBPL's leveraged capital structure and moderate coverage indicators, as indicated by an interest coverage of 2.3 times and total debt/OPBITDA of 7.4 times in FY2024, owing to the debt-funded capex undertaken in the recent past. Nevertheless, ICRA notes that a part of the debt includes interest-free unsecured loans from the promoters, which are unlikely to be repaid in the medium term. The ratings also consider the susceptibility of SDPBPL's profitability to volatile raw material prices and intense competition in the highly fragmented industry, which limits its pricing flexibility. The ratings are also constrained by its high customer concentration risk with its top-10 customers driving ~80% of its total sales and a single customer generating 20-25% of its total sales. However, the company has been reducing this concentration risk by adding new customers.

The Stable outlook on the long-term rating indicates ICRA's expectation that SDPBPL's revenues and earnings will improve, going forward, which will result in improved coverage metrics and net worth.

Key rating drivers and their description

Credit strengths

Healthy capacity utilisation and volume growth since inception of business – Given the healthy demand from the packaging industry driven by demand from end-user industries, such as e-commerce and FMCG, the company's sales volumes witnessed a healthy growth in the past three years. SDPBPL operated from a leased kraft manufacturing plant in FY2022 and FY2023, however, it commenced its own 450-MTPD manufacturing plant in Narsapur, Telangana, which, along with healthy demand, led to a healthy volume growth in FY2024. Its capacity utilisation improved to ~80% in H1 FY2025 from 65% in FY2024, with repeat orders from customers. The company is expected to record a healthy double-digit growth in FY2025 on the back of a significant growth in sales volumes and improved realisations.

Extensive experience of promoters in the paper industry — The promoters have significant experience in the paper industry, which helped them in acquiring and retaining key customers that resulted in repeat orders over the past couple of years.

Credit challenges

Moderate financial risk profile – SDPBPL's financial profile is moderate, characterised by leveraged capital structure with a modest net worth and moderate coverage indicators. Debt-funded capex incurred towards setting up of kraft paper manufacturing plant and working capital intensive operations led to high debt levels. However, the company's debt also includes sizeable (Rs. 50.9 crore against total debt of Rs. 217.9 crore as on March 31, 2024) interest-free unsecured loans from promoters, which are unlikely to be repaid in the medium term. Going forward, the company's coverage indicators and capital structure are expected to improve with increased earnings and steady accruals to the net worth.

High customer concentration risk – The customer concentration has remained high with its top 10 customers driving more than 75% of its total sales in the past two years, while a single customer accounted for 20-25% of its total sales. However, the company has also been adding new customers.

Profitability exposed to volatility in raw material prices – Raw material (wastepaper) accounts for more than 70% of the company's total costs, followed by power and fuel. The company's ability to fully pass on the price rise remains limited because of competition in the market, which can impact its profitability metrics. Further, the company imported ~10% of its raw material requirement in FY2024, exposing the company to forex fluctuations.

Highly fragmented industry with intense competition – The kraft paper industry in India has many unorganised players and is, hence, characterised by intense competition. This results in pricing pressure and limits the company's ability to pass on the raw material price fluctuations in a timely manner. Nonetheless, presence of SDPBPL in the moderate-to-high grade kraft paper segment (14 to 32 burst factor) and its established relationships with clients are the key mitigating factors for the company.

Liquidity position: Adequate

The company's liquidity is adequate and will be supported by expected infusion of ~Rs. 20 crore equity / unsecured loans from the promoters in H2 FY2024. It had cash balance of ~Rs. 18.1 crore as on March 31, 2024 while buffer in the working capital limits remained low. It has annual repayment obligation of Rs. 9-10 crore and a capex requirement of Rs. 2-4 crore in FY2025. ICRA also notes that the promoters will continue to support the business with additional funds, if required.

Rating sensitivities

Positive factors – ICRA could upgrade SDPBPL's ratings if the company can sustain its revenue growth while improving its liquidity, profitability as well as capital structure and coverage metrics. Specific credit metric that could lead to ratings upgrade includes an interest coverage above 3.0 times on a sustained basis.

Negative factors – Negative pressure on SDPBPL's ratings could arise if there is a substantial decline in revenue or profitability, or any major debt-funded capex, impacting its liquidity position.

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 standalone financials of SDPBPL.

About the company

Incorporated in 2021, Suvarna Durga Paper Boards Private Limited (SDPBPL) primarily manufactures kraft paper. The company is based out of Hyderabad and is promoted by Mr. Jakkireddy Subbareddy and his family. SDPBPL is a part of the Suvarna Durga Group of Companies, which has business interests in paper, bottle manufacturing, agro products, and construction industries. SDPBPL manufactures kraft paper in varying burst factor (18-32) specifications, which are used in corrugated boxes. The company currently has a manufacturing capacity of 450 MTPD and to ensure continuous power supply, it has a 5-MW turbine.

Key financial indicators (audited)

SDPBPL Standalone	FY2023	FY2024
Operating income	66.9	308.0
PAT	0.8	3.5
OPBDIT/OI	12.6%	9.6%
PAT/OI	1.3%	1.2%
Total outside liabilities/Tangible net worth (times)	12.0	8.7
Total debt/OPBDIT (times)	15.8	7.4
Interest coverage (times)	1.7	2.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Dec 04, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long Term	132.50	[ICRA]BB+(Stable)	-	-	-	-	-	-
Term Loan	Long Term	49.65	[ICRA]BB+(Stable)	-	-	-	-	-	-
Unallocated	Long Term/ Short Term	17.85	[ICRA]BB+(Stable)/ [ICRA]A4+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Term Loan	Simple
Long Term – Fund Based – Cash Credit	Simple
Long Term / Short Term – Unallocated Limits	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	**Fund Based – Term Loan**	FY2022	NA	FY2031	49.65	[ICRA]BB+(Stable)
NA	**Fund Based – Cash Credit**	NA	NA	NA	132.50	[ICRA]BB+(Stable)
NA	**Unallocated Limits**	NA	NA	NA	17.85	[ICRA]BB+(Stable)/[ICRA]A4+

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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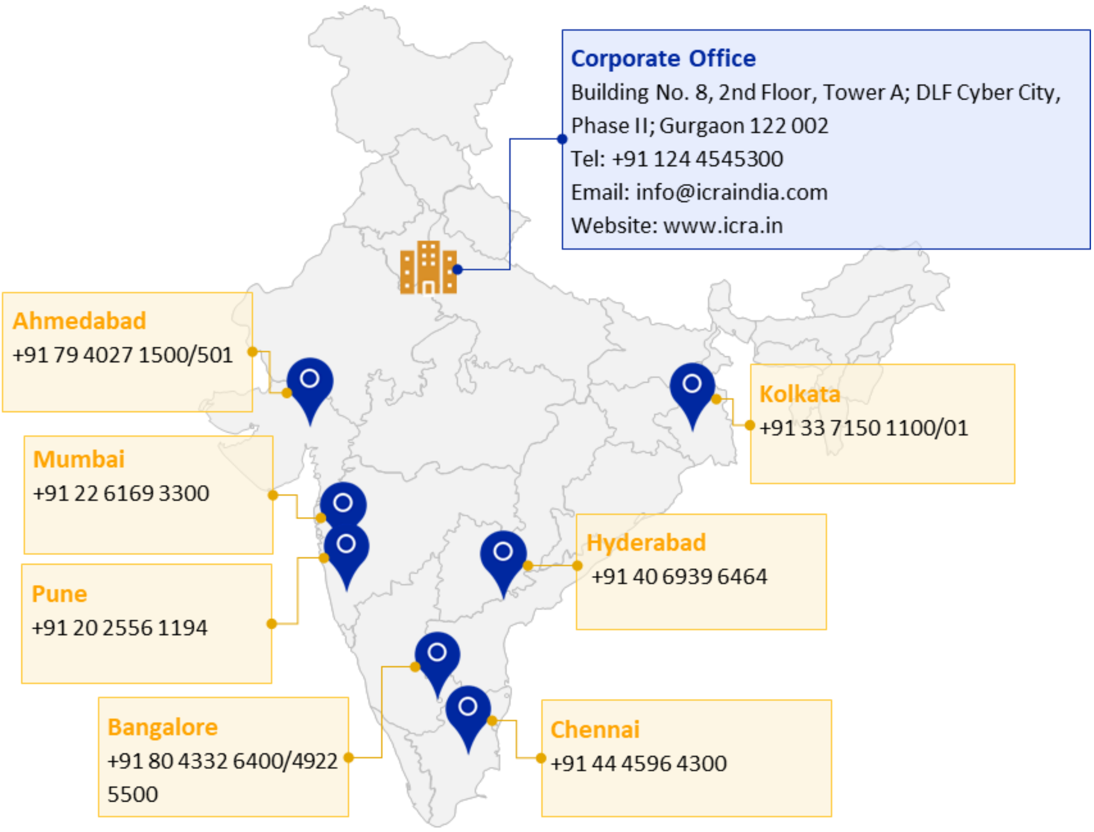

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