March 21, 2025

Shree Ajit Pulp and Paper Limited: Ratings downgraded to [ICRA]BBB+ (Negative) / [ICRA]A2

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term Fund-based –Cash credit	140.00	140.00	[ICRA]BBB+ (Negative); downgraded from [ICRA]A- (Negative)
Long-term fund-based –Term loan	239.25	240.00	[ICRA]BBB+ (Negative); downgraded from [ICRA]A- (Negative)
Short-term non-fund based	14.00	14.00	[ICRA]A2; downgraded from [ICRA]A2+
Short-term interchangeable	(101.00)	(101.00)	[ICRA]A2; downgraded from [ICRA]A2+
Short-term –Unallocated limits	0.75	-	-
Total	**394.00**	**394.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings downgrade with continuation of the Negative outlook on the bank lines of Shree Ajit Pulp and Paper Limited (SAPPL) considers the continued pressure on the company's debt protection metrics in the near term, given the delayed ramp-up of Unit II, which was acquired by the company in FY2023 and converted to kraft paper manufacturing capacity. There were cost and time overruns with Phase I commercialisation delayed to January 2024 from the earlier expectation of July 2023 and Phase II commercialisation delayed to October/November 2024 from the earlier timeline of July/August 2024, resulting in delays in scale-up of operations and impacted the company's earnings. This apart, the cost overruns were funded partially through debt, which led to increased repayment obligations, a leveraged capital structure and moderation in coverage metrics.

After a 21% de-growth in FY2024 owing to subdued price realisations and temporary factory shutdowns, the company's revenues recovered in 9M FY2025, clocking a YoY growth of ~60%, driven by improved sales volumes (backed by enhanced capacity) and stable price realisations. The operating margin improved to 9.5% in 9M FY02025 from 7.1% in FY2024, on the back of scale-up of operations leading to better fixed-cost absorption and stabilisation in the paper prices. While revenues and earnings are expected to improve further from Q4 FY2025, as the high-price realisation product line from Unit II gains traction, the sustainability of growth and a meaningful improvement in SAPPL's earnings profile over the near to medium term remain key monitorable factors. Over the past few fiscals, SAPPL augmented its liquidity through proceeds from land sales, rights issues, and inflows from asset sales in its joint venture. Despite these measures, liquidity over the near to medium term will remain a key monitorable, given the company's elevated debt servicing obligations.

The ratings continue to derive support from SAPPL's extensive operational track record, its diversified customer base, and a well-established distribution network across West and South India. Additionally, the company benefits from its mature capacity utilisation levels and captive power plant, which provide operational efficiencies. The long-term demand outlook for kraft paper remains favourable, driven by increasing demand from the e-commerce, food and food products, FMCG, textiles, automobile, and pharmaceutical sectors, which bodes well for SAPPL's growth prospects.

The ratings factor in the vulnerability of the company's profitability to volatility in wastepaper prices along with foreign exchange (forex) fluctuations, given its sizeable dependence on imports. The ratings also remain constrained by the stiff competitive intensity in the kraft paper segment, owing to many unorganised players resulting in pricing pressure.

Key rating drivers and their description

Credit strengths

Established track record in kraft paper business – SAPPL has been manufacturing kraft paper since 1995, which has enabled the company to forge strong relationships with both customers and suppliers. Mr. Gautam Shah, Chairman and Managing Director, is a civil engineer and oversees the manufacturing, managerial, marketing and administrative aspects of the company.

Favourable long-term demand prospects for kraft paper from end-user industries – The long-term demand prospects for kraft paper is expected to be healthy, supported by growing demand for packaging from the e-commerce, food and food products, FMCG, textiles, automobiles and pharmaceutical sectors, which augurs well for the company. Further, the high-value product output from Unit II is positioned as an import substitute, creating new market opportunities for the company.

Credit challenges

Sustained ramp-up of scale remains critical given the recent debt-funded capacity expansion – Over the last few fiscals, SAPPL undertook large debt-funded capex to enhance its kraft manufacturing capacity in its existing units and modification/ conversion capex at its acquired unit from N.R. Agarwal Industries Limited. The total cost of the project amounted to ~Rs. 336 crore, which was funded by a mix of debt (~Rs. 247 crore) and internal funds. However, there were time overruns with Phase II installations and commercialisation getting delayed to October/November 2024. Additionally, the moratorium of the term debt taken towards the capex ended in December 2023, with repayments commencing from January 2024. This led to cash flow mismatch as the company has only recently scaled-up revenues to optimal levels from Unit II since December 2024. Moreover, cost overrun of ~Rs. 35-40 crore was funded partially through debt. Consequently, the company's debt protection metrics moderated in the current fiscal and the same is likely to remain under pressure in the near to medium term. Any meaningful recovery in debt protection metrics is contingent upon sustained ramp up of scale of operations from Unit II. Therefore, the company's ability to achieve commensurate returns in terms of higher quality of paper leading to increased realisations and improvement in the revenue and margins profile will be the key monitorable.

Profitability exposed to volatility in wastepaper prices and decline in price realisations due to the intense competition in kraft paper industry – SAPPL's profitability remains exposed to sharp fluctuations in raw material prices, primarily wastepaper and coal. A large portion of wastepaper is imported, while realisations remain exposed to global demand–supply dynamics. The margins were impacted in FY2024 due to lower contribution margin as contraction in realisations was sharper than decline in raw material prices, and elevated coal prices impacted the company's margins in FY2023 as the company was not able to pass on the cost escalation to its end customers. Further, the company uses imported wastepaper, making it vulnerable to movements in forex rates, as it has adopted currency hedging in a limited way. The margin in the current year has improved with stabilisation in realisations, which, however, remain lower compared to the pre – Covid levels.

Exposure to changes in wastepaper-related regulations – SAPPL's profit margins remain vulnerable to any regulatory changes in the kraft paper industry. The paper manufacturing industry is exposed to environmental risks, as its production causes air, water and land pollution. Discarded paper and paperboards also make up a sizeable portion of solid municipal waste. Thus, the entity remains exposed to the risks associated with changes in wastepaper-related regulations on availability and usage of water and other inputs in the manufacturing process.

Environmental and social risks

Environmental considerations: The paper manufacturing industry is exposed to environmental risks, given the production function leads to air, water and land pollution and discarded paper and paperboard make up a sizeable portion of solid municipal waste. Pulp and paper generate a notable amount of industrial air, water, and land emissions. While these risks have not resulted in any material implications so far, any breaches in waste management or higher-than-permissible emissions could have cost implications for the company. Also, water treatment is extremely important here because the pulping and bleaching process can release complex organic and inorganic pollutants in effluent which needs to be properly treated. At present, SAPPL operates a fully automated effluent treatment plant to treat water before discharge. However, any disruptions in measures taken for appropriate treatment of wastewater could result in significant penalties, while also causing prolonged adverse impact to operations in case the authorities take any strict action.

Social considerations: The entities operating in the paper industry are exposed to the risk of disruption due to inability to properly manage human capital in terms of their safety and overall well-being. Further, any significant increase in wage rates adversely impact the cost structure of paper manufacturing companies, impacting their margins. SAPPL is also exposed to the shortage of skilled labourers, which can impact operations. However, at present, SAPPL has taken measures towards employee welfare including having a social accountability policy in place.

Liquidity position: Adequate

The company's liquidity position is adequate, with Rs. 35-40 crore of cushion in fund-based limits and it is expected to generate a retained cash flow of Rs. 18-20 crore over the next twelve months. Against this, the company has a debt repayment obligation of Rs. 40-42 crore per annum over the next three fiscals starting FY2026. The company does not have any major capex plans, going forward.

Rating sensitivities

Positive factors – Ratings may be upgraded, if scale up of the operations from the enhanced capacities, along with stabilisation of cost structure leads to improvement in revenues and earnings, along with improvement in liquidity and coverage indicators on a sustained basis. A specific credit metric for an upgrade is Total Debt/OPBDITA less than 2.3 times, on a sustained basis.

Negative factors – The ratings may be downgraded, in the absence of adequate ramp-up in revenues and earnings, impacting its debt metrices or deterioration of its working capital cycle affecting its liquidity position.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. As on March 31, 2024, SAPPL had one subsidiary and one joint venture, which are enlisted in Annexure II.

About the company

Shree Ajit Pulp and Paper Limited (erstwhile M/s Shree Ajit Pulp and Paper Private Limited), incorporated in March 1995, manufactures different varieties of kraft paper, which find application in the packaging industry, particularly in manufacturing corrugated boxes. The company's production facilities are in Vapi, Gujarat, with an installed manufacturing capacity of 2,02,500 metric tonnes per annum (MTPA). SAPPL has also installed two windmills in Rajkot (1.50 MW; FY2010) and Jamnagar (1.25 MW; FY2012). The company also commissioned a 2.40-MW co-generation unit at its manufacturing unit in October 2013.

SAPPL has two group concerns, viz., Shree Samrat Pulp and Paper LLP (Shree Samrat) and Shree Samrudhi Industrial Papers Private Limited (Shree Samrudhi). The company holds a 50% stake in Shree Samratwas, previously involved in manufacturing of low BF kraft paper. However, Shree Samrat's core assets were sold off in FY2023. Shree Samrudhi is a wholly- owned subsidiary, which is intended to act as a marketing arm for SAPPL and remains non-operational at present.

Key financial indicators (audited)

Consolidated	FY2023	FY2024	9M FY2025*
Operating income	371.9	294.5	350.4
PAT	11.3	7.9	5.4
OPBDIT/OI	7.9%	7.1%	9.5%
PAT/OI	3.0%	2.7%	1.5%
Total outside liabilities/Tangible net worth (times)	1.1	1.3	1.5
Total debt/OPBDIT (times)	5.8	10.9	6.5
Interest coverage (times)	4.5	2.8	2.2

*Source: Company, ICRA Research; * Results; All ratios as per ICRA's calculations; Amounts 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

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Mar 21, 2025	Date	Rating	Date	Rating	Date	Rating
Long term-cash credit-fund based	Long Term	140.00	[ICRA]BBB+ (Negative)	10-AUG-2023	[ICRA]A (Negative)	28-JUN-2022	[ICRA]A (Negative)	26-OCT-2021	[ICRA]A (Stable)
			-	22-FEB-2024	[ICRA]A- (Negative)	-	-	-	-
Long term-term loan-fund based	Long Term	240.00	[ICRA]BBB+ (Negative)	10-AUG-2023	[ICRA]A (Negative)	28-JUN-2022	[ICRA]A (Negative)	26-OCT-2021	[ICRA]A (Stable)
			-	22-FEB-2024	[ICRA]A- (Negative)	-	-	-	-
Short term-others-interchangeable	Short Term	(101.00)	[ICRA]A2	10-AUG-2023	[ICRA]A1	28-JUN-2022	[ICRA]A1	26-OCT-2021	[ICRA]A1
			-	22-FEB-2024	[ICRA]A2+	-	-	-	-
Short term-unallocated-unallocated	Short Term	0.00	-	10-AUG-2023	[ICRA]A1	-	-	-	-
			-	22-FEB-2024	[ICRA]A2+	-	-	-	-
Short term-others-non fund based	Short Term	14.00	[ICRA]A2	10-AUG-2023	[ICRA]A1	28-JUN-2022	[ICRA]A1	26-OCT-2021	[ICRA]A1
			-	22-FEB-2024	[ICRA]A2+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term– Fund-based cash credit	Simple
Long-term - Fund-based term loan	Simple
Short -term – Non fund based	Very Simple
Short -term – Interchangeable	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**	NA	NA	NA	140.00	[ICRA]BBB+ (Negative)
NA	**Term loan**	FY2019	NA	FY2031	240.00	[ICRA]BBB+ (Negative)
NA	**Bank guarantee**	NA	NA	NA	10.00	[ICRA]A2
NA	**Credit exposure limit**	NA	NA	NA	4.00	[ICRA]A2
NA	**Interchangeable**	NA	NA	NA	(101.00)	[ICRA]A2

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	Ownership	Consolidation Approach
Shree Samrat Pulp and Paper LLP	50%	Equity Method
Shree Samrudhi Industrial Papers Private Limited	100%	Full Consolidation

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 4596 4318
ksrikumar@icraindia.com

Nithya Debaddi
+91 40 6939 6416
nithya.debbadi@icraindia.com

Roshan Dugar
+91 20 6606 9924
roshan.dugar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches