June 24, 2025

Subam Papers Limited (erstwhile Subam Papers Private Limited): Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term-term loan-fund based	72.37	52.64	[ICRA]A- (Stable); Reaffirmed
Long term-cash credit-fund based	102.00	102.00	[ICRA]A- (Stable); Reaffirmed
Long term-unallocated-unallocated	3.53	23.26	[ICRA]A- (Stable); Reaffirmed
Total	**177.90**	**177.90**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in Subam Paper Limited's (SPL) established market presence in the paper industry in Tamil Nadu and its integrated production facility with access to diversified raw material sources, which positions it favourably to cater to a growing market. The company has a well-diversified customer base, comprising over 1,000 direct customers, spread across several industries including breweries and distilleries, e-commerce, fast-moving consumer goods (FMCG), healthcare, textiles and pharmaceuticals. Besides, the company has added multiple new customers in the last few years, although its geographical concentration in the South Indian market remains. Along with the ongoing expansion of kraft paper capacities in its subsidiary, the company's business prospects remain favourable over the near-to-medium term. ICRA has also noted the company's listing on the SME exchange in October 2024, with a primary issuance of Rs. 93.7 crore, which is being utilised to partially fund the aforementioned ongoing capex.

The company has an integrated manufacturing set-up with adequate captive renewable power capacity (14 MW of solar power and 1.7 MW of wind power), which ensures availability of power and provides cost advantages. Also, the ongoing capex, which includes installation of a co-gen plant, expected to be commercialised by Q4 FY2026, will further reduce dependency on external power and provide cost advantages, strengthening its margins.

The rating, however, remains constrained by SPL's moderate scale of operations relative to the size of the industry, with operations largely concentrated in the South Indian region. Additionally, 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. Accordingly, SPL's operating profit margins (OPM) are vulnerable to the inherent cyclicality in the paper business and volatility in raw material costs, fuel prices and exchange rates. Along with dependence on external borrowings for funding capacity expansion and working capital requirements, SPL's debt coverage metrics have remained moderate, despite the equity fund raise. The company's DSCR in FY2025 stood at 1.6 times (lower than the negative trigger of 2.0 times). However, ICRA notes that the company's operational cash flows are expected to improve, which coupled with the presence of Rs. 36.8 crore of cash and liquid investments (as of March 2025) supports the liquidity profile. ICRA expects the debt coverage indicators to improve, going forward, with scale-up in operations and anticipated improvement in accruals, supported by cost optimisation measures, and in the absence of further large debt-funded capex plans. Timely ramp-up and stabilisation of the additional capacity would remain critical to pare down debt levels and support an improvement in coverage metrics over the medium term.

The Stable outlook on the long-term rating factors in ICRA's expectation that SPL would maintain its revenue growth momentum and steady operating profit margins, going forward. With the capex related investments also concluding in the current fiscal, its credit metrics are expected to improve subsequently.

Key rating drivers and their description

Credit strengths

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

Favourable demand outlook for paper packaging industry – 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 because of low per-capita usage and increasing usage of packaging products. This coupled with the promoter's vast experience in the paper industry supports the company's business profile.

Stable operating margins in the business; access to diversified raw material sources and integrated production facility support margins – SPL's operating margins remained in the range of 12-14% over the past few years (barring FY2023), supported by its access to diversified raw material suppliers and its 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. Besides, its integrated manufacturing setup with captive renewable power capacity of 15.7 MW (14 MW of solar power and 1.7 MW of wind power), ensures availability of power and provides cost advantages. This is expected to further improve with the commercialisation of its co-gen plant with a capacity of 10 MW from Q4 FY2026, which will enable it to meet most of its energy needs internally and at lower costs, lending further support to its profitability.

Credit challenges

Ongoing sizeable capex and high working capital requirements resulting in moderate debt metrics – The company is currently undertaking capacity expansion in its subsidiary, and for construction of a co-gen power plant, for which the total estimated capex is approximately Rs. 140 crore. Around 40-50% of the cost was incurred in FY2025 and the rest will be incurred in the current fiscal. The funding of the large capex is being met through a mix of equity (Rs. 93 crore raised through the IPO) and incremental debt (term loan of Rs. 49.8 crore). The working capital intensity also increased over the past two years, on account of higher receivables and inventory requirements. Timely ramp-up and stabilisation of the additional capacity would be critical to improve the debt protection metrics. While the DSCR in FY2025 was lower than the negative trigger of 2.0 times, ICRA notes that the company also had adequate liquidity in the form of cash and liquid investments as of March 2025. ICRA expects the debt coverage indicators to improve, going forward, with scale-up in operations and anticipated improvement in accruals, supported by cost optimisation measures, and in the absence of further debt-funded capex plans.

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

High geographical concentration; fragmented industry structure – The company has a 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 the customers to an extent. The former risk, however, is partially mitigated by SPL'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 the profits because of competition to an extent.

Environment and Social Risks

Environmental considerations – The paper manufacturing industry is exposed to environmental risks, given that the production function leads to air, water and land pollution and discarded paper and paperboard make up a sizeable portion of solid municipal waste. Water treatment is also extremely important because the pulping and bleaching process can release complex organic and inorganic pollutants in effluents, which need to be properly treated. While these risks have not resulted in any material implication so far, any breach in waste management or higher-than-permissible emissions could have cost implications for the company. SPL tries to address environmental concerns through proper waste and water management, use of recycled paper and renewable energy sources to a large extent.

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 can adversely impact the cost structure of paper manufacturing companies, impacting their margins. SPL is also exposed to the shortage of skilled labourers, which can impact operations.

Liquidity position: Adequate

SPL's liquidity position is **adequate** supported by healthy cash flow from operations of approximately Rs. 40.0 crore, in addition to which it had free cash balance of Rs. 36.8 crore, undrawn working capital lines of Rs. 40.0 crore and undrawn term loan of Rs. 38.4 crore as on March 31, 2025. In relation to these sources of cash, SPL has principal repayment obligation of Rs. 22.8 crore and has planned capex of Rs. 70-80 crore in FY2026 for capacity expansion and setting up a co-gen power plant. Overall, the company is expected to remain largely self-reliant in meeting its capex and repayment obligations from the existing sources of funding.

Rating sensitivities

Positive factors – SPL's rating could be upgraded if the company is able to significantly scale up its operations, leading to an improvement in accruals and debt coverage metrics. Specific credit metrics include Total debt/OPBDITA of less than 2.0 times on a sustained basis.

Negative factors – Pressure on SPL's rating could emerge in case of a sharp deterioration in the earnings or a significant rise in net debt due to high working capital intensity, higher capex or increase in advances to Group entities. Specific credit metrics that may result in a rating downgrade include Total debt/OPBDITA of more than 2.3 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 Limited. Details are provided in Annexure-II.

About the company

Subam Papers Limited (erstwhile known as Subam Papers Private Limited) was started in 2005 with 30 TPD capacity for manufacturing paper and paperboards to cater to the packaging industry, including kraft paper and duplex paper. The promoter group initially started business in B. M. M. Paper Board Private Limited in 1998, which by 2005 had a capacity of 5 MTPD. Also, in 2009, Saradhambika Paper and Board Mills Private Limited was bought, which had 15 MTPD capacity, but was subsequently increased to 60 MTPD within a year. Further, the Group invested in Unicone, which has a capacity of 20 MTPD. This division focuses on producing high quality paper products to meet diverse market needs. The Group has grown substantially over the years. The Group's installed capacity of more than 650 MTPD at multiple locations, is expected to grow to more than 1,000 MTPD with the ongoing capacity expansion being undertaken. In FY2025, the company has also invested directly or through its subsidiary in three entities, namely Nellai Subam Packaging LLP, Mercury Pack & Paper Products LLP, and Rajapalayam Success Packaging LLP as a part of forward integration initiatives.

The company is located near Tirunelveli, a southern city in Tamil Nadu and in proximity to the Tuticorin port. The promoters have been engaged in this business for over two decades and have been able to build a large customer base of over 1,000 customers. The company got listed on the stock exchange for SMEs in October 2024, raising Rs. 93.7 crore as a primary issuance, post which the promoters hold a 69.7% stake in the entity, while the rest is publicly held.

Key financial indicators

	FY2024	FY2025
Operating income	493.9	539.2
PAT	28.3	26.9
OPBDIT/OI (%)	13.7%	12.4%
PAT/OI (%)	5.7%	5.0%
Total outside liabilities/Tangible net worth (times)	1.3	0.8
Total debt/OPBDIT (times)	2.7	2.5
Interest coverage (times)	3.8	3.4

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore.

Status of non-cooperation with previous CRA:

CRA	Status	Date of release
CRISIL	CRISIL B /Stable (ISSUER NOT COOPERATING)	May 29, 2024

Any other information: None

Rating history for past three years

	Current rating (FY2026)			Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	
Instrument	**Type**	**Amount Rated (Rs Crore)**	**June 24, 2025**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Long term-cash credit-fund based	Long Term	102.00	[ICRA]A-(Stable)	-	-	21-MAR-2024	[ICRA]A-(Stable)	29-DEC-2022	[ICRA]A-(Stable)
Long term-term loan-fund based	Long Term	52.64	[ICRA]A-(Stable)	-	-	21-MAR-2024	[ICRA]A-(Stable)	29-DEC-2022	[ICRA]A-(Stable)
Long term-unallocated-unallocated	Long Term	23.26	[ICRA]A-(Stable)	-	-	21-MAR-2024	[ICRA]A-(Stable)	29-DEC-2022	[ICRA]A-(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Term Loan-Fund Based	Simple
Long Term-Cash Credit-Fund Based	Simple
Long Term-Unallocated-Unallocated	NA

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/Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	102.00	[ICRA]A- (Stable)
NA	**Term Loans**	FY2022-2024	NA	FY2028-FY2031	52.64	[ICRA]A- (Stable)
NA	**Unallocated**	NA	NA	NA	23.26	[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	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
Nellai Subam Packaging LLP	80.00%	Full Consolidation

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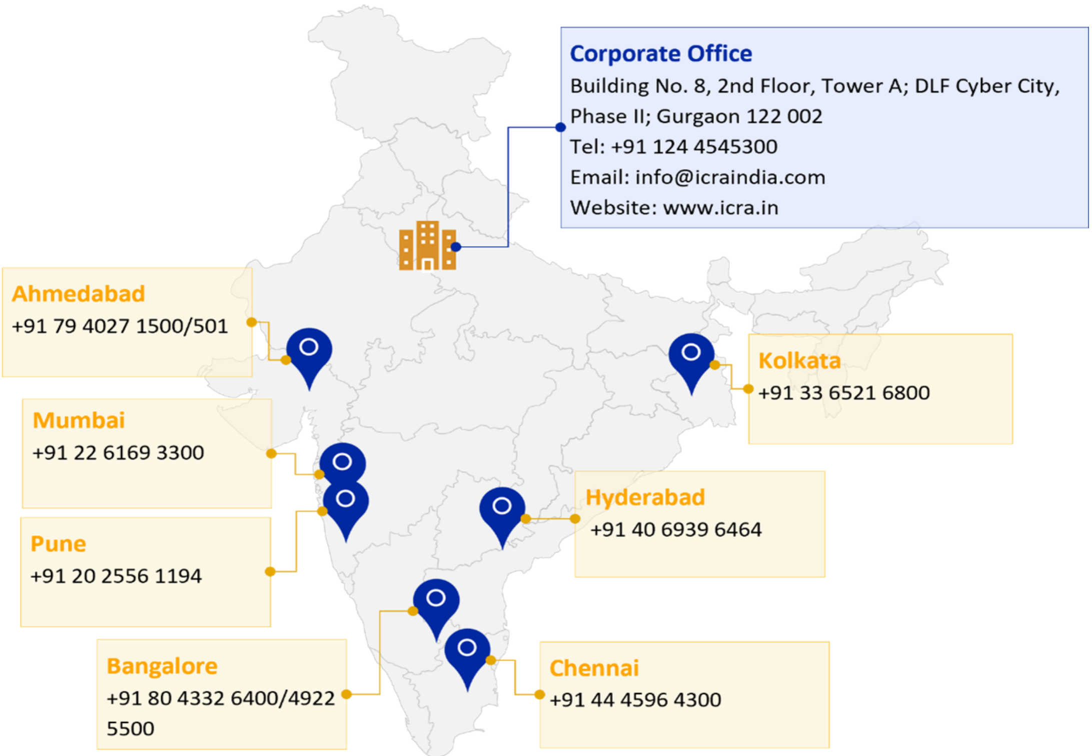

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