

August 26, 2025

## Shree Ajit Pulp and Paper Limited: Ratings reaffirmed; outlook revised to Stable

### 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+; reaffirmed; Outlook revised to Stable from Negative
Long-term fund-based –Term loan	240.00	240.00	[ICRA]BBB+; reaffirmed; Outlook to be revised to Stable from Negative
Short-term non-fund based	14.00	14.00	[ICRA]A2; reaffirmed
Short-term interchangeable	(101.00)	(101.00)	[ICRA]A2; reaffirmed
<b>Total</b>	<b>394.00</b>	<b>394.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The revision in the outlook to Stable on the long-term rating of Shree Ajit Pulp and Paper Limited (SAPPL) factors in its improved credit profile with the robust and successful scale-up in operations of Unit II over the past two quarters, which is expected to result in a healthy growth in revenues and earnings. SAPPL reported a robust YoY revenue growth of ~72% at Rs. 505 crore in FY2025, and 50% at Rs. 177 crore in Q1 FY2026 on the back of ramp-up of Unit II, which is equipped to manufacture higher grade, value-added kraft paper products. New customer additions and increased acceptance of its premium grade offerings are expected to result in a healthy revenue growth of 30-35% in FY2026. Its operating margins improved to 13% in Q1 FY2026 from 10.1% in FY2025 and 7.1% in FY2024, driven by better fixed cost absorption, higher realisations, and improved product mix.

The ratings continue to derive support from SAPPL's extensive operational track record in the kraft paper industry, 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 e-commerce, food and food products, FMCG, textiles, automobile, and pharmaceutical sectors, which bodes well for SAPPL's growth prospects.

The ratings, however, remain constrained by 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 competition in the kraft paper segment owing to presence of many unorganised players, resulting in pricing pressure. The company's debt metrics moderated significantly over the past two years due to sizeable debt-funded capex incurred during the period. Moreover, the company has sizeable debt repayment obligations of Rs. 39-42 crore per annum for the period FY2025-27. Sustenance of earnings remains critical for improvement in its debt metrics.

The Stable outlook on SAPPL's long-term rating reflects ICRA's opinion that the company will record a robust growth in revenues, driven by healthy demand conditions and its focus on value-added products in the new unit.

### 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 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 are expected to be healthy, supported by growing demand for packaging from e-commerce, food and food products, FMCG, textiles, automobiles and pharmaceutical sectors, which augurs well for the company. Further, high-value product output from the Unit II is positioned as an import substitute, creating new market opportunities for the company.

### Credit challenges

**Profitability exposed to volatility in wastepaper prices and decline in price realisations due to 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. Elevated coal prices impacted the company's margins in FY2023 as the company was unable 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 FY2025 improved with stabilisation in realisations, which, however, remain lower compared to the pre-Covid levels.

**Sizeable repayment obligations; sustenance of healthy earnings remains critical** – Over the past few fiscals, SAPPL undertook sizeable debt-funded capex of around Rs. 336 crore to expand kraft paper manufacturing capacity at its existing facilities and to modify the unit acquired from NR Agarwal Industries Limited. However, phase II installations faced time overruns, with commercial operations commencing only by the end of October 2024. The company now has sizeable debt repayments of Rs. 39-42 crore per annum over FY2026-FY2028. As a result, its debt protection metrics have weakened over the past two years with TD/OPBDITA of around 5.6 times and DSCR of around 0.9 times in FY2025. The company's scale of operations and margins improved in the past two quarters on the back of ramp-up of production at the new unit. Sustenance of higher earnings remains critical for improvement in the company's debt metrics, going forward.

**Exposed to changes in wastepaper related regulations** – SAPPL's profit margins remain vulnerable to 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, as the production process 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 implication so far, breaches in waste management or higher-than-permissible emissions may result in cost implications for the company. Also, water treatment is extremely important in the paper industry because the pulping and bleaching process can release complex organic and inorganic pollutants in effluent, which need to be properly treated. As per the company's disclosures, it has been complying with all the regulatory requirements for effluent and waste treatment. However, any disruption in measures taken for appropriate treatment of wastewater could result in significant penalties, while also causing prolonged adverse impact to operations.

**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 that include a social accountability policy.

## Liquidity position: Adequate

The company's liquidity position is adequate, with Rs. 60 crore cushion in fund-based limits as of June 2025 and expected retained cash flow of Rs. 15-20 crore over the next 12 months. Against this, the company has a debt repayment obligation of Rs. 39-40 crore in FY2026. The company does not have any major capex plan, apart from maintenance capex going forward.

## Rating sensitivities

**Positive factors** – SAPPL's ratings may be upgraded if a healthy growth in earnings, with stabilisation of cost structure, leads to improvement in liquidity and coverage indicators on a sustained basis. A specific credit metric for an upgrade is Total Debt/OPBDITA of less than 2.3 times, on a sustained basis.

**Negative factors** – The ratings may be downgraded, if the company's earnings decline significantly, impacting its debt metrics, or if a deterioration in its working capital cycle affects its liquidity position.

## Analytical approach

Analytical approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. As on March 31, 2025, 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 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)

SAPPL (consolidated)	FY2024	FY2025
Operating income	294.5	505.5
PAT	7.9	9.4
OPBDIT/OI	7.1%	10.1%
PAT/OI	2.7%	1.9%
Total outside liabilities/Tangible net worth (times)	1.3	1.4
Total debt/OPBDIT (times)	10.9	5.6
Interest coverage (times)	2.8	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 (FY2026)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs crore)	Aug 26,2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
<b>Fund Based-Cash Credit</b>	Long Term	140.00	[ICRA]BBB+ (Stable)	Mar 21, 2025	[ICRA]BBB+ (Negative)	Aug 10, 2023	[ICRA]A (Negative)	Jun 28, 2022	[ICRA]A (Negative)
				-	-	Feb 22, 2024	[ICRA]A- (Negative)	-	-
<b>Fund Based-Term Loan</b>	Long Term	240.00	[ICRA]BBB+ (Stable)	Mar 21, 2025	[ICRA]BBB+ (Negative)	Aug 10, 2023	[ICRA]A (Negative)	Jun 28, 2022	[ICRA]A (Negative)
				-	-	Feb 22, 2024	[ICRA]A- (Negative)	-	-
<b>Interchangeable- Others</b>	Short Term	(101.00)	[ICRA]A2	Mar 21, 2025	[ICRA]A2	Aug 10, 2023	[ICRA]A1	Jun 28, 2022	[ICRA]A1
				-	-	Feb 22, 2024	[ICRA]A2+	-	-
<b>Non-fund Based- Others</b>	Short Term	14.00	[ICRA]A2	Mar 21, 2025	[ICRA]A2	Aug 10, 2023	[ICRA]A1	Jun 28, 2022	[ICRA]A1
				-	-	Feb 22, 2024	[ICRA]A2+	-	-
<b>Unallocated- Unallocated</b>	Short Term	-	-	-	-	Aug 10, 2023	[ICRA]A1	-	-
				-	-	Feb 22, 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+ (Stable)
NA	Term loan	FY2019	NA	FY2031	240.00	[ICRA]BBB+ (Stable)
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	SAPPL ownership	Consolidation approach
Shree Samrat Pulp and Paper LLP	50%	Equity Method
Shree Samrudhi Industrial Papers Private Limited	100%	Full Consolidation

Source: Company

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