

February 21, 2023

## Sripathi Paper and Boards Private Limited: Ratings assigned

### Summary of rating action

| Instrument*                                 | Current Rated Amount<br>(Rs. crore) | Rating Action                |
|---|-------------------------------------|------------------------------|
| Long-term – Fund-based – Cash Credit        | 180.00                              | [ICRA]BBB- (Stable) assigned |
| Long-term – Term loans                      | 54.44                               | [ICRA]BBB- (Stable) assigned |
| Long-term – Proposed fund-based limits      | 120.00                              | [ICRA]BBB- (Stable) assigned |
| Short-term – Non-fund based – LC            | 66.50                               | [ICRA]A3 assigned            |
| Short-term – Non-fund based – BG            | 1.00                                | [ICRA]A3 assigned            |
| Short-term – Proposed Non-fund based limits | 78.06                               | [ICRA]A3 assigned            |
| <b>Total</b>                                | <b>500.00</b>                       |                              |

\*Instrument details are provided in Annexure-I

### Rationale

The ratings assigned to the bank lines of Sripathi Paper and Boards Private Limited (SPBPL) factors in the long operational track record of the company, the vast experience of its promoters in the paper industry, and the financial support from Srinidhi Investment Advisors Private Limited (SIAPL), fund managers of Srinidhi Alternative Investment Fund (SAIF), which holds 76% stake<sup>1</sup> in the company. SIAPL has infused funds into SPBPL to the extent of Rs. 277.0 crore (till H1 FY2023) in the form of equity and unsecured loans through its NBFC arm and has given a notable commitment towards SPBPL's funding requirements, if any. ICRA notes that the interest and principal on the loans shall be serviced after repayments of bank loans. The ratings also favourably consider the company's diversified product mix with capability to produce kraft paper, duplex boards, writing and printing papers and newsprint, and stable demand outlook for the duplex segment, which contributes ~70% to SPBPL's sales. The ratings are, however, constrained by the company's moderate scale of operations, average capitalisation and coverage metrics, vulnerability of profitability to adverse fluctuations in prices of raw material and forex movements. Moreover, intense competition in the duplex/ kraft paper segment owing to many unorganised players in the field results in pricing pressures.

ICRA notes that SPBPL's performance was affected in recent years due to past events like delayed ramp-up of operations following a large capex, a fire incident at its Sivakasi (Tamil Nadu) plant and Covid-led disruptions. This resulted in sizeable cash losses, weakening its liquidity position and causing eventual irregularities in debt servicing during FY2020 and FY2021. Following SIAPL's take-over of majority stake and operations of SPBPL, there has been a turnaround in the business as evident from the ~45% revenue growth to Rs. 745.3 crore with ~11% operating profit margins in FY2022.

The Stable outlook reflects ICRA's expectation that the company will continue to benefit from the extensive experience of its promoters and newly hired industry experts, its diversified end-user industries and stable demand outlook.

### Key rating drivers and their description

#### Credit strengths

**Established track record of the company in the paper industry** – Incorporated in 2002 by Mr. R. Krishnaswamy and Mr. K. Ravichandran, SPBPL has been manufacturing paper products and has developed an established presence and distribution network in the market over the past two decades. Its day-to-day operations are managed by Mr. Bharat Agarwal, COO, who has an extensive experience of more than three decades in the paper industry.

**Diversified product profile and stable demand prospects** – SPBPL has four manufacturing units at Sivakasi and one in Sathyamangalam (Tamil Nadu) with a total production capacity of 276,500 MT. Its product portfolio is well diversified with

<sup>1</sup> Stake held through Srinidhi Category II Alternative Investment Fund

capacities to manufacture duplex board, kraft paper, newsprint and writing and printing paper (WPP). It produces categories of coated duplex board, which is extensively used in the printing, match box, fireworks, textiles and packaging industries. SPBPL is also involved in manufacturing kraft paper and WPP, although ~70% of its total sales came from duplex board in FY2022, a value-added product that generates relatively better margins than other products. Over 85% of its revenues are from the domestic market with Tamil Nadu and Karnataka being the major end-markets. The company operates at a capacity utilisation level of ~65%, which is expected to improve in FY2024, thus supporting the overall scale with associated benefits. Its customer base is moderately diversified with its top five customers generating ~35% of its total sales over the last two years.

**Support from Srinidhi Investment Advisors Private Limited** – SIAPL has infused funds to the extent of Rs. 277.0 crore (till H1 FY2023) in the form of equity and unsecured loans through its NBFC arm and has given a notable commitment towards SPBPL's funding requirements, if any. SIAPL is actively involved in the day to day operations of the company and has placed industry experts in critical functions. ICRA notes that the interest and principal on the loans extended shall be serviced following repayments of the bank loans.

### Credit challenges

**Vulnerability of profitability to adverse fluctuations in prices of raw material and forex movements** – SPBPL's profitability is exposed to any sharp fluctuations in raw material prices—primarily wastepaper. A large portion of the wastepaper is imported, and the prices remain exposed to global demand-supply dynamics. The company's ability to fully pass on the price risk remains limited by competition in the market, which can impact its profitability metrics. Further, the company imports 50-55% of its raw material requirement, making it vulnerable to movement in forex rates, adopting currency hedging in a limited way.

**Highly competitive nature of the industry** – SBPL operates in a highly fragmented industry and faces intense competition, which limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins. Nonetheless, presence in the multiple segments (kraft, duplex, newsprint and WPP) and its established relationships with major players in the fireworks, matchsticks, printing and FMCG sectors are key mitigating factors for the company.

**Modest capitalisation and coverage metrics** – SPBPL had modest debt protection coverage metrics with TOL/TNW of 2.5 times along with an interest coverage ratio of 1.4 times and DSCR of 0.9 time in FY2022. The coverage metrics are seen to be improving in recent years and going forward shall be supported by healthy accruals, driven by improved profitability margins and reduction in long-term loans.

### Liquidity position: Adequate

SPBPL's liquidity is **adequate** with cash balances of Rs. 3.36 crore as of March 31, 2022, and undrawn working capital lines of Rs. 7.85 crore as on November 30, 2022, against annual repayment obligation of Rs. 34.3 crore for FY2023. ICRA also considers SIAPL's infusion of Rs. 277.0 crore till date into the and has given a notable commitment towards SPBPL's funding requirements, if any. ICRA notes the company is in the process of raising additional working capital loans from banks.

### Rating sensitivities

**Positive factors** – The ratings could be upgraded with the company registering sustained growth in revenues and profitability along with sharp improvement in debt metrics and liquidity position.

**Negative factors** – The rating could witness a downward revision in case of any adverse impact on the revenue/ profitability of the company leading to deterioration in debt protection metrics and liquidity. Specific credit metric impacting the rating include net debt /OPBITDA more than 3.0 times on a sustained basis.

## Analytical approach

| Analytical Approach             | Comments  |
|---------------------------------|---|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a> |
| Parent/Group support            | Not Applicable                                      |
| Consolidation/Standalone        | Standalone  |

## About the company

Sripathi Paper and Boards Private Limited was set up in 2002 with a capacity of 30MT per day for kraft paper. Over the years, SPBPL has expanded its production capacity to 790 TPD with machineries to manufacture products such as kraft paper, duplex board, writing and printing paper, and newsprint. In FY2022, Srinidhi Investment Advisors Private Limited acquired 76% stake in the company.

SPBPL uses recycled fibre, i.e., wastepaper as raw material for paper manufacturing. Headquartered in Coimbatore, SPBPL operates out of its five plants across Sivakasi (four) and Sathyamangalam (one) in Tamil Nadu. The plants are spread over 77 acres of land at Sivakasi and 20 acres at Sathyamangalam. To ensure continuous power supply, SPBPL has a 6-MW co-generation power plant and a windmill of 1.45-MW capacity.

## Key financial indicators (audited)

| Sripathi Paper and Boards Private Limited            | FY2021 | FY2022 |
|--|--------|--------|
| Operating income                                     | 515.1  | 745.3  |
| PAT  | (37.0) | 10.2   |
| OPBDIT/OI  | 5.7%   | 11.0%  |
| PAT/OI   | (7.2%) | 1.4%   |
| Total outside liabilities/Tangible net worth (times) | 6.8    | 2.5    |
| Total debt/OPBDIT (times)                            | 17.1   | 5.0    |
| Interest coverage (times)                            | 0.5    | 1.4    |

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

|   | Instrument                             | Current Rating (FY2023) |                          |   |                         | Chronology of Rating History for the past 3 years |                         |                         |
|---|--|-------------------------|--------------------------|---|-------------------------|---|-------------------------|-------------------------|
|   |  | Type                    | Amount Rated (Rs. crore) | Amount Outstanding as of Jan 31, 2023 (Rs. crore) | Date & Rating in FY2023 | Date & Rating in FY2022                           | Date & Rating in FY2021 | Date & Rating in FY2020 |
|   |  |                         |                          |   | Feb 21, 2023            |   |                         |                         |
| 1 | Long Term - Fund Based – Cash Credit   | Long-term               | 180.00                   | 170.83  | [ICRA]BBB- (Stable)     | -   | -                       | -                       |
| 2 | Long-term – Term loans                 | Long-term               | 54.44                    | 54.44   | [ICRA]BBB- (Stable)     | -   | -                       | -                       |
| 3 | Long-term – Proposed fund-based limits | Long-term               | 120.00                   | -   | [ICRA]BBB- (Stable)     | -   | -                       | -                       |
| 4 | Short Term – Non-Fund Based – LC       | Short-term              | 66.50                    | 58.68   | [ICRA]A3                | -   | -                       | -                       |

|   |   |            |       |   |          |   |   |   |
|---|---|------------|-------|---|----------|---|---|---|
| 5 | Short-term – Non-fund based – BG            | Short-term | 1.00  | - | [ICRA]A3 | - | - | - |
| 6 | Short-term – Proposed Non-fund based limits | Short-term | 78.06 | - | [ICRA]A3 | - | - | - |

### Complexity level of the rated instruments

| Instrument                           | Complexity Indicator |
|--------------------------------------|----------------------|
| Long Term - fund based - cash credit | Simple               |
| Long Term - term loan                | Simple               |
| Long Term - proposed fund based      | Simple               |
| Short Term - non-fund based - LC     | Very Simple          |
| Short Term - non-fund based - BG     | Very Simple          |
| Short Term - proposed non-fund based | 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                       | -                | -           | -        | 180.00                   | [ICRA]BBB- (Stable)        |
| NA   | Term Loan - 1                     | Nov 2017         | 12.90%      | Dec 2023 | 4.23                     | [ICRA]BBB- (Stable)        |
| NA   | Term Loan - 2                     | Nov 2016         | 12.90%      | Aug 2023 | 2.18                     | [ICRA]BBB- (Stable)        |
| NA   | Term Loan - 3                     | Mar 2017         | 15.75%      | May 2025 | 11.93                    | [ICRA]BBB- (Stable)        |
| NA   | Term Loan - 4                     | Oct 2017         | 11.30%      | May 2025 | 18.73                    | [ICRA]BBB- (Stable)        |
| NA   | Term Loan - 5                     | Jan 2018         | 13.00%      | Aug 2025 | 8.74                     | [ICRA]BBB- (Stable)        |
| NA   | Term Loan - 6                     | Feb 2019         | 13.50%      | Nov 2025 | 8.63                     | [ICRA]BBB- (Stable)        |
| NA   | Long term - Proposed              | NA               | NA          | NA       | 120.00                   | [ICRA]BBB- (Stable)        |
| NA   | Letter of Credit / Buyer's Credit | -                | -           | -        | 66.50                    | [ICRA]A3                   |
| NA   | Bank Guarantee                    | -                | -           | -        | 1.00                     | [ICRA]A3                   |
| NA   | Short term - Proposed             | NA               | NA          | NA       | 78.06                    | [ICRA]A3                   |

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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### Branches



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