

May 31, 2024

Sainsons Paper Industries Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	26.45	26.45	[ICRA]A- (Stable); reaffirmed
Long-term Fund-based – Cash credit	36.00	36.00	[ICRA]A- (Stable); reaffirmed
Short-term, Non- fund-based Letter of Credit	2.00	2.00	[ICRA]A2+; reaffirmed
Short-term, Interchangeable Bank Guarantee [^]	(2.00)	(2.00)	[ICRA]A2+; reaffirmed
Long-term - Unallocated limits	4.55	4.55	[ICRA]A- (Stable); reaffirmed
Total	69.00	69.00	

*Instrument details are provided in Annexure-I; [^]Sublimit of Letter of Credit Limit

Rationale

The ratings reaffirmation of Sainsons Paper Industries Private Limited (Sainsons) reflects ICRA's expectations that the company's financial profile will remain comfortable, as reflected by adequate capital structure, healthy debt coverage indicators and adequate liquidity position. The ratings favourably factor in Sainsons' long track record of operations, established market presence in the kraft paper industry (especially in North India) and expectations that demand for the domestic kraft paper industry will remain favourable, going forward. Sainsons's cost structure remains supported by availability of easy agricultural waste-based raw materials and captive power generation.

The ratings are, however, constrained by intense competition faced by the company in the kraft paper segment from many organised and unorganised players. Besides, its profit margins remain vulnerable to fluctuations in wastepaper prices as well as volatility in prices of wheat straw, a major raw material. The ratings also consider the risks associated with changes in wastepaper related regulations on availability and usage of water and other inputs in the manufacturing process.

The Stable outlook reflects ICRA's expectation that Sainsons will maintain a healthy credit profile, supported by stabilisation in realisations and demand for the kraft paper industry.

Key rating drivers and their description

Credit strengths

Established track record as a kraft paper manufacturer – Sainsons has been manufacturing kraft paper since 1992, which has enabled it to establish strong vendor, marketing, and distribution networks, while forging healthy relationships with customers and suppliers. The company caters to a wide range of end-user industries such as e-commerce, FMCG, textiles, and food and vegetable packaging, among others.

Cost structure supported by agro waste-based manufacturing and co-generation operations – The main raw material for kraft paper is agricultural waste such as wheat straw. Given the favourable location of its plant amid a major agricultural belt, the company benefits from ample raw material supply and relatively lower logistics costs. It also has a rice-husk based co-generation unit with an installed capacity of 9 MW. Besides electricity, the steam generated from the captive power plant is also used for digesting and drying purposes. Both these factors favourably impact the company's cost structure. The company is in the process of setting up a 12-MW turbine in its plant, which is expected to reduce the power and fuel costs and will cater to increasing energy requirement.

Healthy financial profile, characterised by comfortable coverage and leverage metrics – Sainsons’ gearing improved to 0.27 times as on March 31, 2024 (provisional) from 0.32 times as on March 31, 2023, led by healthy reserve accretion and scheduled debt repayment. The coverage indicators have continued to remain healthy, as reflected by total debt to OPBITDA of 1.4 times as on March 31, 2024 and interest coverage of over 9.9 times as on March 31, 2024. Despite the ongoing debt-funded capex towards setting up a 12-MW turbine, Sainsons’ coverage metrics are expected to be comfortable in the near-to-medium term.

Credit challenges

Highly fragmented and unorganised industry; constrain pricing power – Sainsons faces stiff competition from both organised and unorganised players in the paper industry. Given the low entry barriers, the players in this industry have limited pricing power and are exposed to competition-driven pressure on profitability.

Profitability exposed to volatility in raw material prices – The main raw materials used in the manufacturing process are wheat straw and wastepaper. Raw materials cost constitutes over 50% of the total cost for the company and thus its average realisation is dependent on the prices of key raw materials. The prices of both wheat straw and wastepaper have witnessed significant volatility in the recent past. Sainsons’ operating margin, hence, remains vulnerable to input prices of its raw materials and its ability to pass on the increase in prices to its customers. ICRA notes that unlike many of its peers, the company does not use imported wastepaper pulp, which reduces its import dependence and exposure to forex risk.

Exposure to changes in wastepaper related regulations – Sainsons’ profitability remains 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 in landfill sites. 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.

Liquidity position: Adequate

Sainsons’ liquidity position is adequate, with healthy cash flow from operations and availability of moderate undrawn lines of credit. The company’s average working capital utilisation stood low at 28% of the sanctioned limits and 29% of the drawing power for the 12-month period ending in March 2024. It had a buffer of ~Rs. 26.5 crore in working capital limits as on March 31, 2024. Against the liquidity available and the expected healthy accruals, the company has repayment obligations of Rs. 5.8 crore in FY2025, Rs. 8.3 crore in FY2026 and Rs. 7.6 crore in FY2027. It also has plans to incur capex of ~Rs. 15 crore in FY2025 out of which Rs. 12 crore will be funded through a term loan. The company does not maintain material free cash balances. The company’s liquidity position is likely to remain adequate over the near term, supported by healthy accruals and unutilised working capital limits.

Rating sensitivities

Positive factors – ICRA could upgrade Sainsons’ ratings if there is a substantial growth in revenues with improvement in operating margins and liquidity on a sustained basis.

Negative factors – Pressure on Sainsons’ ratings could arise if there is a deterioration in the working capital cycle or any large, debt-funded capex that weakens the capital structure and impacts the company’s liquidity position on a sustained basis. A significant decline in the revenues and margins on a sustained basis would also adversely impact the ratings. Specific credit metrics that could lead to a downgrade include TD/OPBDITA above 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 standalone financials of Sainsons

About the company

Incorporated in March 1989, Sainsons manufactures different varieties of kraft paper (100-250 grams per metre, or GSM, and primarily 20 burst factor, or BF), which find application in the packaging industry, particularly in the manufacturing of corrugated boxes. The company's production facility is in Kurukshetra, Haryana, with an installed capacity of 1,35,000 MTPA. Situated in a major agricultural belt, the plant benefits from the abundant and consistent availability of agricultural waste, the key raw material. Sainsons also has a captive agro waste-based power plant with a capacity of 9 MW. The company caters to a diversified customer base, with bulk of its sales coming from North India.

The company is promoted by Saini family. Mr. Balkrishan Saini is the Co-founder and Executive Director of the company, while Mr. Pradeep Saini, son of the other Co-founder, Mr. Sadhu Ram Saini, is the Managing Director of the company.

Key financial indicators (audited)

Sainsons Standalone	FY2022	FY2023	FY2024*
Operating income	392.8	450.3	373.3
PAT	16.9	12.4	6.2
OPBDIT/OI	9.5%	7.8%	7.0%
PAT/OI	4.3%	2.8%	1.7%
Total outside liabilities/Tangible net worth (times)	0.7	0.6	0.5
Total debt/OPBDIT (times)	1.2	1.2	1.4
Interest coverage (times)	16.1	12.3	9.9

Source: Company, ICRA Research; * Provisional numbers; 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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				May 31, 2024	-	Feb 27, 2023	Dec 13, 2021	Dec 07, 2021
1 Term loan	Long term	26.45		[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2 Cash credit	Long term	36.00	--	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-
3 Letter of Credit	Short term	2.00	--	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+	-
4 Interchangeable Bank Guarantee	Short term	(2.00)	--	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+	-
5 Unallocated limits	Long term	4.55	--	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	-	-
6 Overdraft Facilities	Short term	0.00	--	-	-	-	[ICRA]A2+	[ICRA]A2+
7 Standby Line of Credit	Short term	0.00	--	-	-	-	[ICRA]A2+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term Fund-based – Cash credit	Simple
Short-term, Non- fund-based Letter of Credit	Very Simple
Short-term, Interchangeable Bank Guarantee	Very Simple
Long-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	Long-term Fund-based – Term loan	FY2023	NA	FY2030	26.45	[ICRA]A- (Stable)
NA	Long-term Fund-based – Cash credit	NA	NA	NA	36.00	[ICRA]A- (Stable)
NA	Short-term, Non- fund-based Letter of Credit	NA	NA	NA	2.00	[ICRA]A2+
NA	Short-term, Interchangeable Bank Guarantee	NA	NA	NA	(2.00)	[ICRA]A2+
NA	Long-term - Unallocated limits	NA	NA	NA	4.55	[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 – Not Applicable

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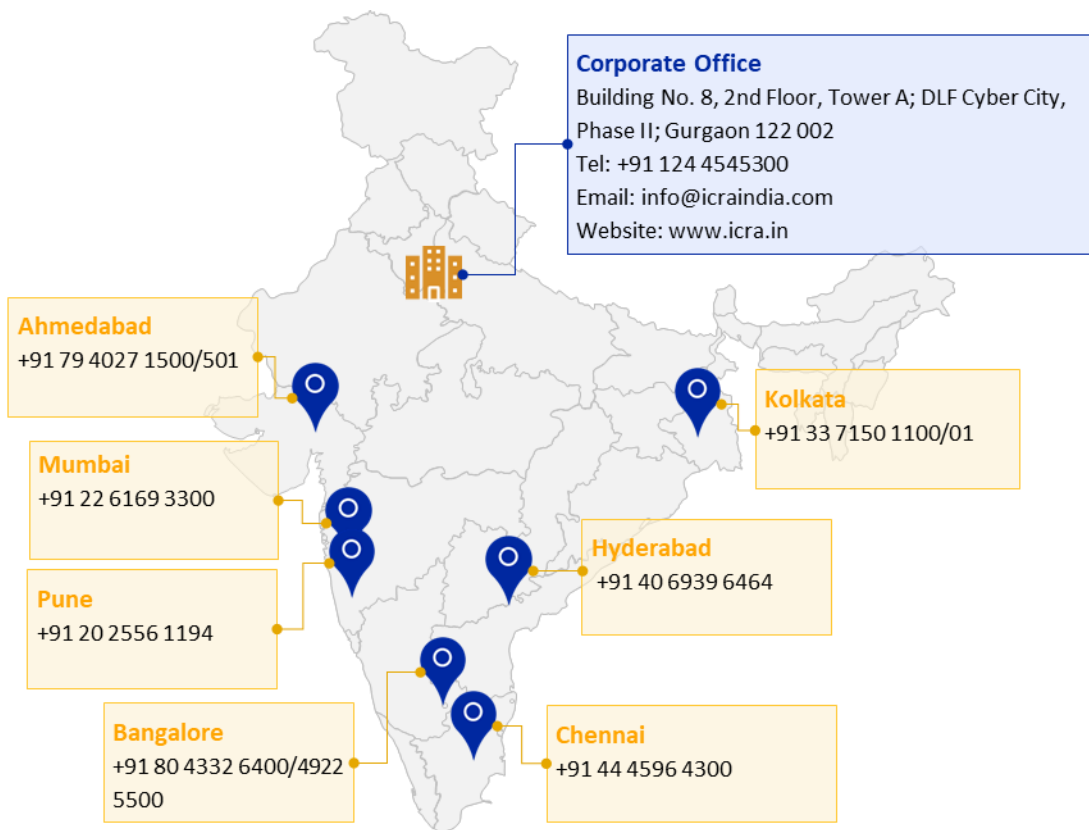
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