

## Sri Ramadas Paper Boards Pvt. Ltd.

January 03, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash credit	10.00	10.00	[ICRA]BBB (Stable) upgraded from [ICRA]BBB-(Stable)
Term Loan	10.00	10.00	[ICRA]BBB (Stable) upgraded from [ICRA]BBB-(Stable)
Interchangeable limits*	(4.00)	(5.00)	[ICRA]BBB (Stable)/[ICRA]A3+ Upgraded from [ICRA]BBB-(Stable)/[ICRA]A3
<b>Total</b>	<b>20.00</b>	<b>20.00</b>	

\*sublimit of cash credit facility

### Rating action

ICRA has upgraded the long-term rating assigned to Rs 20.00 crore fund based limits of Sri Ramadas Paper Boards Pvt. Ltd (SRPMPL) to [ICRA]BBB (pronounced ICRA triple B) from [ICRA]BBB- (pronounced ICRA triple B minus). ICRA has also upgraded the ratings assigned to Rs 5.00 crore interchangeable limits of SRPMPL to [ICRA]BBB/[ICRA]A3+ (pronounced ICRA A three plus) from [ICRA]BBB-/ [ICRA]A3 (pronounced ICRA A three). The outlook on the long-term rating is 'Stable'.

### Rationale

The ratings upgrade favourably factors in expected improvement in profitability margins with the commencement of the 6MW power plant from October 2017; and comfortable financial risk profile with gearing of 0.16 times, interest coverage of 11.99 times and NCA/Debt at 68% for FY2017. The ratings also consider the extensive experience of the promoters spanning over 23 years in the paper industry; diversified geographical presence through well established dealer network and established customer and supplier base of the company. However, the ratings are constrained by high product concentration risk with ~ 97% of revenue generated from PWP and Newsprint in FY2017; presence in lower end of value chain with majority of revenue generated from sale of newsprint paper restricting profitability margins; and exposure of margins to fluctuations in waste paper prices. Further, the ratings consider the highly fragmented and competitive industry with presence of large number of players in the paper manufacturing industry.

### Outlook: Stable

ICRA believes SRPMPL will continue to benefit from the extensive experience of its promoters in the paper industry. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability strengthens the financial risk profile. The outlook may be revised to 'Negative' if margins reduce than current levels, or if any major capital expenditure, or stretch in the working capital cycle weakening liquidity.

## Key rating drivers

### Credit strengths

**Experienced promoters with over 23 years of experience in the paper industry** - SRPBPL was established in the year 1994 with a capacity of 10 tons per day. The company has expanded the production capacity to 130 TPD over the years by 2009. The product mix includes Kraft paper (10TPD), News Paper (80 TPD) and Printing & writing Paper (40 TPD). The utilization levels are healthy at ~85% in past 5 years owing to stable demand from customers.

**Expected improvement in profitability margins with the commencement of the power plant from October 2017** - The capacity of the power plant was increased to 6.00 MW from earlier 3.50 MW from Oct 2017. The total cost of power plant expansion was Rs 15 crore and is primarily funded by Rs 11 crore internal accruals and Rs 4 crore term loan. The power cost was higher in FY2017 owing to shutdown of power plant from October 2016 for expansion activities which impacted the profitability margins. The commencement of power plant in October 2017 to improve the profitability margins in H2FY2018.

**Comfortable financial risk profile** – The financial risk profile is comfortable with gearing of 0.16 times as on March 31, 2017 owing to low debt levels and healthy net worth levels. The total debt is Rs 6.73 crore as on March 31, 2017 with debt primarily being working capital in nature. The coverage indicators are strong with interest coverage ratio at 11.99 times and NCA/Debt at 67.48% for FY2017.

**Diverse geographical presence through well established dealer network** - The company sales are driven by news print segment and the major customers for the company are publishing house & print media. The customer profile primarily consists of local newspapers and publishers in Telangana, Andhra Pradesh, Orissa, Maharashtra and Kolkata. Majority of the sales are through dealers with established dealers network spread across south and east India.

### Credit challenges

**Product concentration risk with ~ 97% of revenue generated from PWP and Newsprint in FY2017** - SRPBPL has a total installed capacity of 130 TPD (Tons per Day) which includes Kraft paper (10TPD), newsprint (80TPD) and writing paper (40TPD). The PWP and Newsprint paper together account for ~ 97% of the revenue for the last 5 years. The manufacturing process of PWP and Newsprint are almost similar and depending on the orders, the company uses PWP and newsprint manufacturing units for production interchangeably.

**High competitive intensity and profitability exposed to volatility in waste paper prices** – The paper manufacturing industry is highly fragmented with presence of large number of players resulting in low pricing power to players like SRPBPL due to its small scale. The company uses waste paper as key input for manufacturing of all types of paper instead of wood pulp being more costly. The waste paper is sourced domestically as well imported. Therefore, the company's ability to pass on increase in waste paper costs to the customers would determine the profitability going forward.

**Modest scale of operations** - The operating income has been range bound at Rs 125 crore between FY2014 and FY2017 owing to high utilisation of paper manufacturing capacities which has been at 130 TPD from 2009. Further, the scale of operations continued to remain modest as reflected by operating income of Rs. 127.20 crore in FY2017.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Paper Industry](#)

### About the company:

Sri Ramadas Paper Boards Pvt. Ltd (SRPBPL) was established in the year 1994 with a capacity of 10 tons per day. SRPBPL expanded its production capacity over the years to 130 TPD. To ensure continuous power supply, SRPBPL has started a 3.5 MW Co-generation Power Plant in the year 2005. SRPBPL uses recycled fiber i.e. waste paper as raw material for paper manufacturing. Also, the company employs Total Chlorine Free (TCF) bleaching to protect ecology and environment. All the Writing & Printing grades are manufactured in neutral/alkaline medium using special sizing chemicals.

### Key financial indicators

	FY2016	FY2017
Operating Income (Rs. crore)	122.89	127.20
PAT (Rs. crore)	4.24	2.57
OPBDIT/ OI (%)	5.54%	4.50%
RoCE (%)	14.41%	8.79%
Total Debt/ TNW (times)	0.18	0.16
Total Debt/ OPBDIT (times)	1.01	1.18
Interest coverage (times)	28.22	11.99
NWC/ OI (%)	15.50%	11.03%

### Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating Jan 2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
1 Cash credit	Long Term	10.00	NA	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	
2 Term loan	Long Term	10.00	3.78	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	
3 Interchangeable limits*	Long term/short term	(5.00)	NA	[ICRA]BBB (Stable)/A3+	[ICRA]BBB- (Stable)/A3	[ICRA]BBB- (Stable)/A3	[ICRA]BB+ (Stable)/A4+	

\*sublimit of Cash credit facility

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	10.00	[ICRA]BBB (Stable)
NA	Term Loan	06/11/2017	-	06/09/2023	10.00	[ICRA]BBB (Stable)
NA	Interchangeable limits*	-	-	-	(5.00)	[ICRA]BBB (Stable)/A3+

\*sublimit of cash credit facility

Source: Sri Ramadas Paper Boards Pvt. Ltd

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