March 25, 2021

Shree Ajit Pulp and Paper Limited: Ratings upgraded to [ICRA]A/[ICRA]A1; Outlook on long-term rating revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	50.00	50.00	[ICRA]A, upgraded from [ICRA] A-; Outlook revised to Stable from Positive
Long-term Fund-based – Term Loan	41.49	41.49	[ICRA]A, upgraded from [ICRA] A-; Outlook revised to Stable from Positive
Short-term Non-Fund based	2.00	2.00	[ICRA]A1, upgraded from [ICRA] A2+
Short-term Interchangeable	(19.64)	(19.64)	[ICRA]A1, upgraded from [ICRA] A2+
Total	**93.49**	**93.49**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in ratings for Shree Ajit Pulp and Paper Limited (SAPPL or the company) factors in the improvement in profitability levels for the company driven by operational efficiencies gained over the last three fiscals as well as favourable domestic demand growth for the company's products and ability to pass on raw material price increase to the end consumer. The debt levels of the company have also witnessed a downward trend with rising accrual levels, resulting in improved gearing, healthy coverage indicators and adequate liquidity position. Despite the impact of Covid-19 on its operations in Q1 FY2021 due to the nationwide lockdown imposed by the Government of India, the profitability and coverage indicators have improved in 9M FY2021. The capex undertaken in the recent past has also helped it to improve the efficiency of its plant and machinery, leading to improvement in the cost structure. The captive power generation from the company's co-generation units lead to savings in power cost, thereby supporting profitability. SAPPL's turnover is expected to increase over the medium term following an increase in demand from the end-user industry and increase in average sales realisation. The ratings continue to benefit from its experienced management having an established presence in the industry for over two decades.

The ratings are, however, constrained by the exposure of the company's profitability to fluctuations in waste paper prices, which have remained volatile during the past three fiscal years. However, the risk is mitigated to a certain extent with regular pass-through of cost variations to the customers. The ratings also factor in the intense competition in the kraft paper segment, owing to the presence of many unorganised players, which results in pricing pressure. Profitability margins also remain vulnerable to any adverse fluctuations in foreign exchange; however, natural hedge through exports and forward contracts mitigates the risk to some extent. The ratings also take into account the risks associated with changes in waste paper related regulations on availability and usage of water and other inputs in the manufacturing process.

Key rating drivers and their description

Credit strengths

Established track record of company in the 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 the manufacturing, managerial, marketing and administrative aspects of the company.

Financial profile characterised by healthy profitability levels, coverage indicators, comfortable gearing and adequate liquidity position – SAPPL has maintained healthy operating profit margin (OPM) over the last two fiscal years. The OPM increased to 16.30% in 9M FY2021 from 14.28% in FY2020 and is expected to be at similar levels for full year FY2021. The increase in OPM was mainly because of rising sales realisation. Also, the capex undertaken in the recent past has helped it to improve the production efficiency and support profitability margins. The net worth base of the company improved as on December 31, 2020, resulting from plough back of profits into the business. The total debt of SAPPL also reduced as on December 31, 2020 due to reduced working capital borrowings. Consequently, the gearing reduced to 0.15 time as on December 31, 2020, compared to 0.21 time as on March 31, 2020. The coverage indicators continued to remain healthy as reflected by net cash accruals/total debt of 116%, total debt to OPBITDA of 0.63 time and interest coverage of 12.97 times as on December 31, 2020. The company's liquidity position also improved with unencumbered cash and bank balance of Rs. 26.51 crore as on December 31, 2020, compared to Rs. 9.24 crore as on March 31, 2020.

Profitability levels supported by co-generation operations resulting in power cost savings – In FY2014, the company had commissioned a co-generation unit with an installed capacity of 2.40 MW. The steam generated from the captive power plant is used for digesting and drying purposes. The PLF level of the co-generation unit has been steadily increasing over the past few years leading to significant cost savings for the company. The total power requirement of the company is 4.10 MW, out of which PLF of 20-25 levels is supplied by two windmills with an installed capacity of 2.75 MW that are owned by SAPPL. The power requirement of 2 MW is met through this co-generation unit and the remaining through the grid.

Turnover expected to increase over medium term driven by strong demand for kraft paper from end-user industry – SAPPL's turnover has witnessed a sharp increase in Q2 and Q3 FY2021 after a steep decline in Q1 FY2021 due to the outbreak of the Covid-19 pandemic. The company's revenue declined by just 3% YoY in 9M FY2021 after registering a decline of 56% YoY in Q1 FY2021. The uptick in turnover is due to increase in demand from the end-user industry, being e-commerce, which has pushed the average realisation per MT of kraft paper upwards. ICRA notes that the company is currently operating at high capacity utilisation levels, which might result into higher sales for FY2021, and support the top line in the near term.

Credit challenges

Profitability exposed to volatility in waste paper prices – The main raw material used in the manufacturing process is waste paper, which accounts for ~60-65% of the total raw material costs. Thus, average realisation is dependent on the waste paper prices. The operating margin, hence, remains vulnerable to input prices of waste paper and the company's ability to pass on any rise or contain any benefit of the same within itself.

High competitive intensity prevalent in the kraft paper industry – The company faces stiff competition from both organised and unorganised players in the paper industry, which limits its pricing flexibility and bargaining power with customers.

Profitability exposed to forex rate movements; however, natural hedge and forward contracts mitigates the risk to a large extent – SAPPL sources waste kraft paper from both the domestic and international markets. However, total imports constituted about 75-85% of total purchases in the past and the same remained high at 80% in 9M FY2021 due to better quality waste paper available in the international market. Imports are primarily made from the USA, West Asia and Europe through various indenting agents. Thus, its margins remain vulnerable to any adverse fluctuations in foreign exchange. However, the risk is partly mitigated by the natural hedge through exports. The company also enters into forward contracts for purchases, which provides comfort.

Exposure to changes in waste paper related regulations – SAPPL's profitability margins remain directly or indirectly vulnerable to any regulatory changes in kraft paper industry. Ban imposed by the Chinese government on import of waste paper had increased global supply, which led to decline in waste paper prices from FY2019 onwards before increasing again in FY2021. However, any reversal in Chinese policies or introduction of similar ban on import of waste paper in India can affect SAPPL's profitability adversely in the future. The company also benefitted from the ban on plastics imposed by the State Government of Maharashtra in FY2019, which increased the demand for corrugated boxes made from kraft paper. The entity also remains exposed to the risk associated with changes in waste paper related regulations on availability and usage of water and other inputs in the manufacturing process.

Liquidity position: Adequate

The liquidity position of the company is adequate with healthy cash accruals and low working capital requirements. SAPPL had external term loans of Rs. 20.87 crore on its books as on December 31, 2020. The company has annual debt repayments of Rs. 6.26 crore, Rs. 8.16 crore and Rs. 7.37 crore in FY2021, FY2022 and FY2023, respectively. SAPPL plans to undertake capex of ~Rs. 5.00 crore in FY2022, which will be funded through term loans. The cash accruals are expected to remain sufficient for debt repayments. The liquidity is further supported by unencumbered cash and liquid investment balance of Rs. 26.51 crore as on December 31, 2020. The average working capital utilisation stood at only 4.87% for its fund-based limits in the 15-month period ending January 2021, providing sufficient cushion to its liquidity position.

Rating sensitivities

Positive triggers – The ratings will be upgraded if there is a significant improvement in scale of operations and profitability leading to an improvement in debt coverage indicators and strengthening of the financial risk profile.

Negative triggers – The ratings will be downgraded if cash accrual is lower than expected, or if the company undertakes any major debt-funded capital expenditure leading to increase in Total Debt/OPBITDA of more than 2.3x. More than anticipated decline in revenues or profitability margins could also be negative triggers.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in March 1995, Shree Ajit Pulp and Paper Limited (erstwhile M/s Shree Ajit Pulp and Paper Private Limited) is engaged in the manufacturing of different varieties of kraft paper, which find application in the packaging industry, particularly in the manufacturing of corrugated boxes. The company has its production facility in Vapi, Gujarat, with an installed manufacturing capacity of 108,000 metric tonne per annum (MTPA). SAPPL has installed two wind mills in Rajkot (1.50 MW, installed in FY2010) and Jamnagar (1.25 MW, installed in FY2012). The company also commissioned a 2.00-MW co-generation unit at its manufacturing unit in October 2013.

SAPPL has two group concerns, viz. Shree Samrat Pulp and Paper Private Limited (Shree Samrat) and Shree Samrudhi Industrial Papers Private Limited (Shree Samrudhi). The company holds 50% stake in Shree Samrat, which manufactures low burst factor (BF) kraft paper. Shree Samrudhi is a fully owned subsidiary, which is intended to act as a marketing arm for SAPPL.

Key financial indicators (audited)

SAPPL Standalone	FY2019	FY2020	9M FY2021
Operating Income (Rs. crore)	269.92	240.42	174.26
PAT (Rs. crore)	23.12	19.65	15.02
OPBDIT/OI (%)	16.53%	14.28%	16.30%
PAT/OI (%)	8.57%	8.17%	8.62%
Total Outside Liabilities/Tangible Net Worth (times)	0.61	0.47	0.46
Total Debt/OPBDIT (times)	0.80	0.88	0.63
Interest Coverage (times)	8.66	7.80	12.97

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: SAPPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating on		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					Mar 25, 2021	Oct 01, 2020	Aug 27, 2019	Sep 05, 2018	21-Nov-2017	20-Sep-2017
1	Cash Credit	Long-term	50.00		[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Term Loan	Long-term	41.49	20.87*	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Non-fund based	Short term	2.00		[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Interchangeable limits	Short term	(19.64)	--	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

**as on December 31, 2020*

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

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	-	-	-	28.00	[ICRA]A (Stable)
NA	Cash Credit	-	-	-	22.00	[ICRA]A (Stable)
NA	Term Loan 1	Apr 2012	10.75%	5 years from Disbursement	14.88	[ICRA]A (Stable)
NA	Term Loan 2	Apr 2012	10.75%	5 years from Disbursement	7.08	[ICRA]A (Stable)
NA	Term Loan 3	Mar 2019	10.75%	June 2027	5.60	[ICRA]A (Stable)
NA	Term Loan 5	May 2016	10.65%	May 2022	4.40	[ICRA]A (Stable)
NA	Term Loan 6	Aug 2016	10.65%	August 2022	2.56	[ICRA]A (Stable)
NA	Term Loan 7	Jul 2017	10.65%	September 2025	0.79	[ICRA]A (Stable)
NA	Term Loan 8	Mar 2019	10.65%	June 2027	5.65	[ICRA]A (Stable)
NA	Letter of Credit	-	-	-	(10.00)*	[ICRA]A1
NA	Credit Exposure Limit	-	-	-	(01.64)*	[ICRA]A1
NA	Letter of Credit	-	-	-	(08.00)*	[ICRA]A1
NA	Letter of Guarantee	-	-	-	02.00	[ICRA]A1

**sublimits within cash credit*

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Rupa Pandey
+91 22 6114 3456
rupa.pandey@icraindia.com

Shaleen Lohia
+91 20 6606 9917
shaleen.lohia@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

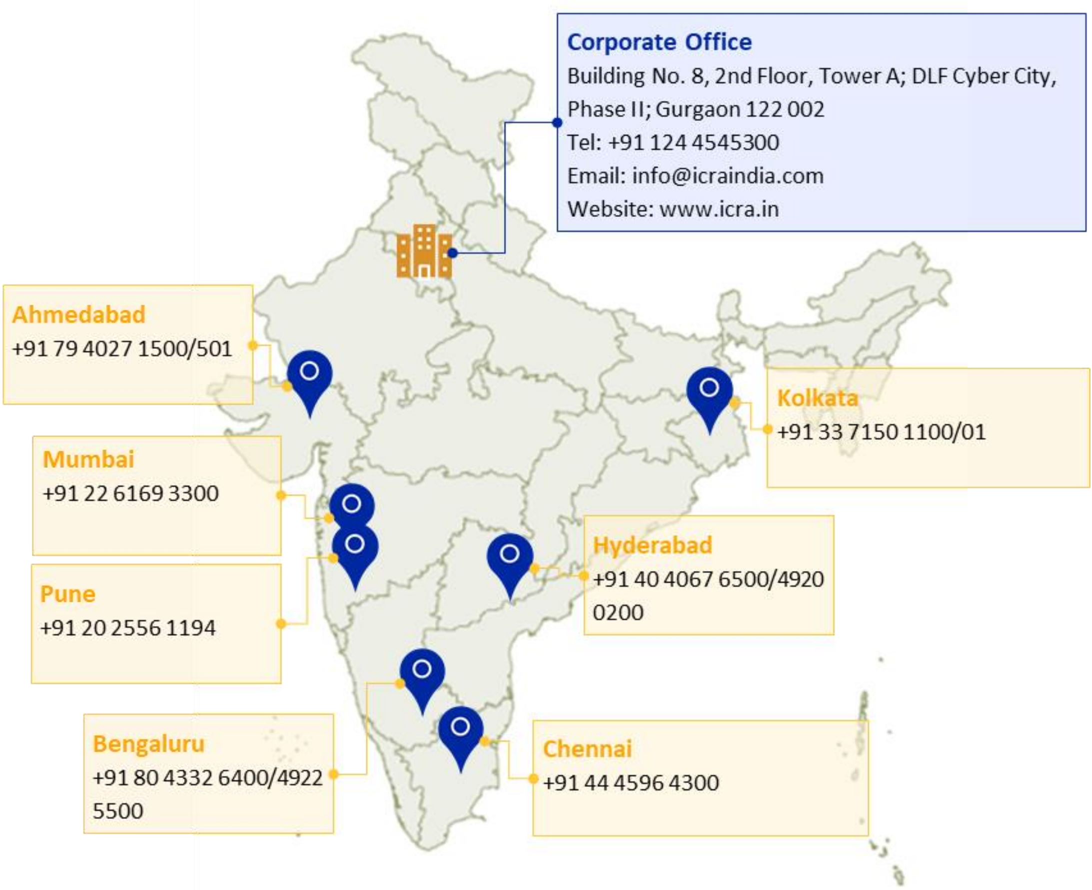
For more information, visit www.icra.in

ICRA Limited

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.