October 26, 2021

Shree Ajit Pulp and Paper Limited - Update on Material Event

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 (Stable); Outstanding
Long-term Fund-based – Term Loan	41.49	41.49	[ICRA]A (Stable); Outstanding
Short-term Non-Fund based	2.00	2.00	[ICRA]A1; Outstanding
Short-term Interchangeable	(19.64)	(19.64)	[ICRA]A1; Outstanding
Total	**93.49**	**93.49**	

*Instrument details are provided in Annexure-1

Rationale

Material Event

The Board of Directors of Shree Ajit Pulp and Paper Limited (SAPPL) on October 14, 2021 has approved and entered into a binding Term Sheet with N R Agarwal Industries Limited for purchase of its Unit II situated at Vapi, Gujarat State comprising of identified assets being factory land, building, plant and machinery, licenses/permissions/approvals of Unit II and related regulatory deposits etc, subject to necessary Government/ Regulatory approvals and execution of Asset Transfer Agreement.

Impact of Material Event

ICRA has taken note of the above development and the rating remains unchanged at the earlier ratings of [ICRA]A (pronounced ICRA A) and [ICRA]A1 (pronounced ICRA A one) outstanding on the Rs. 93.49-crore bank facilities of SAPPL.

The objective of the acquisition is to enhance the manufacturing capacity by acquisition of this new asset and also produce specialised higher grade Kraft paper targeted at import replacement, domestic and export market. The new unit will have a production capacity of 82,500 MTPA after certain modification/ installation/ upgradation of equipment's at the said plant. This will help the company to diversify their product mix into different types of higher grades of Kraft paper. The cost of acquisition is Rs. 99.0 crores, plus applicable taxes and the purchase transactions is expected to be completed by March 2022. The same is expected to be funded by existing cash balance, proceeds from sale of group entity, internal accruals and external debt. However, the exact contours of funding mix and capex requirements needed for manufacturing the new product range is yet to be ascertained. ICRA will continue to monitor the development in this regard and assess the impact of the event on the company's credit profile once further clarity emerges on the matter. ICRA would also monitor the impact on profitability of rise in energy costs in the recent fiscal.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position, Rating sensitivities, Key financial indicators: Click here

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.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating on	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Oct 26, 2021	Mar 25, 2021	Oct 01, 2020	Aug 27, 2019	Sep 05, 2018
1	Cash Credit	Long-term	50.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A-(Stable)
2	Term Loan	Long-term	41.49	20.87*	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A-(Stable)
3	Non-fund based	Short term	2.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Interchangeable limits	Short term	(19.64)	-	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

**as on December 31, 2020*

Complexity level of the rated instrument

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 analyzing 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, is available on ICRA’s 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 4	May 2015	-	April 2020	0.53	[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

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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

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