

January 20, 2020

Silvertoan Papers Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based Cash Credit	15.50	25.00	[ICRA]BBB- (Stable); reaffirmed
Fund based Term Loan	31.62	29.02	[ICRA]BBB- (Stable); reaffirmed
Non-Fund based	1.00	1.00	[ICRA]A3; reaffirmed
Total	48.12	55.02	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation takes into account the extensive experience of the promoters, established track record of Silvertoan Papers Limited (SPL) in kraft paper manufacturing and healthy relationships with vendors and customers. The rating also favourably factors in the steady scale of operations with improvement in capacity utilisation. The operating income (OI) witnessed considerable growth in the last three-four years. In the period FY2015–FY2019, the OI witnessed a CAGR of ~42%. Furthermore, the company achieved volumetric sales growth of ~40% in FY2019 and its OI grew to ~Rs. 253 in FY2019 from ~Rs. 210 crore in FY2018. ICRA also takes note of the locational advantage of SPL with proximity to the Delhi-NCR region, which supports the sale of finished goods as well as sourcing of raw materials (including agricultural residues and waste paper) used in the production process. The ratings, however, are constrained by the intense competition in the industry along with the commoditised nature of the products that restrict realisation growth and profitability, and are also susceptible to fluctuations in raw material prices. The operating margin have declined to 5.29% p.a. in FY2019 from 6.5% p.a. in FY2018.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that SPL will continue to benefit from the established track record of operations in kraft paper manufacturing business, along with its comfortable capital structure and moderate coverage indicators.

Key rating drivers and their description

Credit strengths

Long track record of promoters in kraft paper manufacturing business – SPL has been involved in the business of kraft paper manufacturing since 1993. The promoters are well qualified and have been involved in the business for over two decades. This helps the company to maintain healthy relationships with vendors and customers. Moreover, the relationship of promoters with various paper trading companies helps to secure raw material (waste paper) as well as buyers for the company's products.

Steady scale of operations backed by healthy capacity utilisation – The capacity utilisation levels in FY2019 improved sharply to 95% from 72% in FY2018, following the improved demand during the year for kraft paper, leading to healthy volumetric growth and maintaining a steady scale of operations, as its OI grew by ~21% to ~Rs. 253 crore in FY2019 from ~Rs 210 crore in FY2018.

Locational advantage – Proximity to the NCR region, which is a major marketing hub for finished products as well as the sourcing hub for waste paper. Presence in the agricultural belt provides easy accessibility to agro-based raw material.

Credit challenges

Profitability susceptible to fluctuation in raw material prices; limited flexibility in terms of increasing realisations – The commoditised nature of the product (kraft paper) and volatility in raw material prices coupled with the limited scope of increasing the realisation owing to intense competition remain challenges for the industry. In FY2019, the OPBITDA/OI declined to 5.29% from 6.50% in FY2018.

Intense competition with limited bargaining power – The company faces stiff competition from other players in the industry, which limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins. Furthermore, less margins puts pressure on the liquidity profile as well.

Liquidity position: Stretched

The liquidity position is **stretched** due to high working capital utilisation, averaged at 97% for the 15-month period that ended in August 2019. The cash balances remained at Rs. 0.16 crore as on March 31, 2019. However, owing to a steady scale up of its operations and proposed enhancement of working capital limits, the liquidity profile is expected to improve going forward.

Rating sensitivities

Positive triggers: SPL’s rating could be upgraded if there is a sustained improvement in the company’s financial profile. Specific credit metrics that could lead to an upgrade in SPL’s ratings are RoCE greater than 14% and interest coverage greater than 4 times, both on a sustained basis.

Negative triggers: Negative pressure on SPL’s rating could arise if there is a deterioration in its profitability and cash accruals. Specific credit metrics to downgrade in the company’s ratings are OPBITDA/OI less than 5% and DSCR less than 1.4 times, both on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity

About the company

Silvertoan Papers Limited (SPL) was established as a private limited company in 1990 and commenced business activities from 1993. In 2003, SPL became a sick company due to poor quality of production, power shortage and other operational inefficiencies and was taken over by Mr. Naveen Agarwal and his family in October 2005. The company primarily manufactures kraft paper. Its production facility is located at Muzaffarnagar (Uttar Pradesh) and has a total production capacity of 1,08,900 MTPA. Earlier, SPL was spearheaded by Mr. Amrish Kumar Singhal. It also set up a 4-MW power plant in May 2011 and a chemical recovery plant in June 2013.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	209.65	252.93
PAT (Rs. crore)	3.89	3.96
OPBDIT/OI (%)	6.50%	5.29%
RoCE (%)	9.84%	9.12%
Total Outside Liabilities/Tangible Net Worth (times)	1.73	1.56
Total Debt/OPBDIT (times)	3.34	3.36
Interest Coverage (times)	3.04	3.13
DSCR	1.77	1.53

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					20-Jan-20	28-Sep-18	9-Jun-17	19-Sep-16
1	Cash Credit	Long Term	25.00"	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Positive)
2	Term Loans	Long Term	29.02^	22.86*	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Positive)
3	Non fund based Limits	Short Term	1.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
4	Unallocated Limits	Long Term/ Short Term	-	-	-	-	-	[ICRA]BBB-(Positive)/A3

All amounts in Rs crore

" Includes existing CC limit of Rs 19.5 crore and a proposed limit enhancement of Rs 5.5 crore.

^Includes a proposed Term Loan of Rs 6.25 crore

* Outstanding as on 31 December 2019

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	25.00	[ICRA]BBB- (Stable)
NA	Term Loans	FY2013	-	FY2024	29.02	[ICRA]BBB- (Stable)
NA	Letter of Credit/Bank Guarantee	-	-	-	1.00	[ICRA]A3

Source: SPL

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

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