Seshasayee Paper and Boards Limited

April 06, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	61.00 (Reduced from 205.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	56.00 (Reduced from 205.00)	CARE A1+ (A One Plus)	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**117.00 (Rs. One Hundred Seventeen Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Seshasayee Paper and Boards Limited (SPBL) continue to factor in the established track record of the company along with extensive experience of the promoters in the paper industry as well as a strong and well-qualified technical team, well-established distribution network, its moderate operating performance backed by operating efficiencies as well as synergies derived from integrated manufacturing operations. The Total Operating Income (TOI) declined by 34% in FY21 due to drop in volumes and lower realizations impacted by COIVD-19. In 9MFY22, the company reported TOI of Rs.896 crore which is a 91% increase over the previous period. The volumes reached pre-covid levels; however the operating margin was impacted in 9MFY22 due to commodity inflation especially coal prices in the international market.

The ratings also derive strength from the healthy financial risk profile marked by robust capital structure and debt coverage indicators in FY21 and 9MFY22, nil utilization of fund based working capital borrowings and strong liquidity position. The debt coverage indicators are expected to remain robust going forward as well as the capex requirements are entirely being funded through internal accruals.

The aforementioned strengths are however tempered by susceptibility of profit margins to volatile input prices, inherent industry cyclicality and the potential impact of any latent capacity coming on stream in the industry or threat of imports in the paper industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Significant improvement in scale of operations while sustaining PBILDT margin over 22% on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Sustained decline in PBILDT margin below 10% on account of reduced sales realization
- Deterioration in overall gearing beyond 0.5x on account of debt funded organic or inorganic growth

Detailed description of the key rating drivers

Key Rating Strengths

Long track record coupled with vast promoter experience in the paper industry:

Incorporated in 1960, SPBL has a well-established track record of around six decades in the Indian paper industry. The company is the flagship company of the Esvin group, which is engaged in other industries like sugar, chemicals, project consultancy, etc. Currently, the day-to-day operations of the Erode and Tirunelveli units are handled by professional management and are ably supported by team of qualified and experienced personnel instrumental in providing technical and managerial inputs. The company is supported by its in-house project consultancy company named SPB Projects and Consultants Limited (SPB-PC), which is the project consultant for almost all major paper companies in India.

Well established distribution network:

The company has a strong marketing set-up and a well-established distribution network to support the manufacturing activities. SPBL commands a strong goodwill in South India. The company has a well-built network of over 70 active dealers appointed on commission basis. The company also exports its products to countries like United States of America, Sri Lanka, Nepal and Middle East countries. The company's production is largely order based procured by its dealer network.

Synergies between manufacturing facilities led to enhanced operating efficiency:

The two manufacturing units of the company situated at Erode and Tirunelveli share significant synergies, wherein the company has an excess capacity of pulp manufacturing at its Erode facility, which is deployed at Tirunelveli unit, thereby reducing the latter's dependency on imported pulp. The excess pulp production at the Erode unit caters to around two thirds of the pulp requirement of the Tirunelvelii plant. Moreover, the captive power plant of 36 MW (20 MW from coal fired Boilers and 16 MW from biomass fired boilers) at Erode unit is able to supply power to the extent of 3-4MW to the Tirunelveli unit and reduces its dependence on external sources.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Revival in sales in 9MFY22; albeit operating margin continues to be under pressure:
The TOI declined by 34% in FY21 due to drop in volumes and lower realizations impacted by COIVD-19. Favourable demand condition was witnessed in Q4FY21 which also led to increase in realizations in Q4FY21. The company reported operating margin of 14.20% in FY21 (PY: 22.61%). In 9MFY22, the company reported TOI of Rs.896 crore which is a 91% increase over the previous period. The volumes reached pre-covid levels; however, the operating margin was impacted in 9MFY22 due to commodity inflation especially coal prices in the international market. The operating margin witnessed deterioration to 11.02% in 9MFY21 as compared to 19.07% in the previous period.

Comfortable debt coverage indicators:
The overall capital structure of the company continues to remain robust marked by an improved overall gearing of 0.04x at the end of FY21 (PY: 0.09x) led by healthy accretion to the net-worth as well as reduction in borrowings. The other debt coverage indicators like Total debt to GCA and Total debt/PBILDT continue to remain below unity at the end of March 31, 2021. The company has reduced the capex target from Rs.315 crore to Rs.288 crore due to COVID related uncertainty and, of the same has completed 75% of capex by end of February 28, 2022. The entire capex requirements have been funded through internal accruals.

Key Rating Weaknesses
Profit margins susceptible to volatile input prices:
Wood Pulp forms a key raw material for all paper manufacturers, the prices of which have been volatile. Another major raw material required is wood for production of pulp. The company also remains exposed to sharp increase in hardwood prices due to higher minimum support prices of agricultural commodities. In order to mitigate the risk and ensure long term raw material availability, SPBL has taken steps to step up production of clonal seedlings and bare-rooted seedlings at its nursery and other company sponsored nurseries. With excess production of pulp at Erode plant, the company has also lowered the dependence on imported pulp to a certain extent as well. Nonetheless, SPBL's profit margins remain exposed to the fluctuations in key raw material prices (wood, wood pulp, waste-paper and bagasse) depending on demand-supply dynamics.

Inherent cyclicality; competitive industry with paper players facing import threat:
The paper industry is inherently cyclical owing to the long gestation period in capacity addition and lead time for raw material generation, among other factors. The demand is dependent on education and corporate sectors which are affected by the overall macroeconomic situation.
Indian Paper industry has a fragmented structure consisting of small, medium and large paper mills, having capacities ranging from 5 to 1,150 tonnes per day. The increased competition restricts companies' ability in the paper industry to pass on the rise in input cost to the end consumers and keep margins under check in the near-term.

Industry Outlook
The outlook for domestic paper industry is stable given the low level of per capital consumption of paper in India as compared to some of the other countries in the world. The demand for paper is also driven by increasing literacy levels, growth in print media (particularly in the vernacular languages), higher government spending on education sector, changing urban lifestyles as well as economic growth. The COVID induced demand for e-commerce is also likely to provide a boost for Boards demand. Given, the unfavourable exchange rate, the demand for domestic paper is likely to be strong in the near term.

Liquidity: 'Strong'
The company has negligible long-term debt consisting of Sales tax deferral loan to the tune of Rs.7.52 crore and lease liability of Rs.0.28 crore as on March 31, 2021. The company had drawn down term loan of Rs.11.16 crore for capex requirements; however, the company has surrendered the same in March 2022 due to improved cash flows in 9MFY22. As on December 31, 2021, the company had cash balances to the tune of Rs.284.44 crore (of which Rs.118.18 crore is earmarked for non-fund based limits). Moreover, the company has nil fund-based utilization of Rs.61 crore which provides more than adequate liquidity cushion.

Analytical approach: Standalone
Standalone approach has been adopted as the subsidiaries are not in the same line of business

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology - Manufacturing Companies
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology – Paper Industry
Policy on withdrawal of ratings

About the Company
Seshasayee Paper and Boards Limited (SPBL) operates an integrated pulp, paper and paper board mill at Pallipayam (Erode, Tamil Nadu) and a paper manufacturing mill at Tirunelveli. SPBL was incorporated in 1960 and commenced commercial production in December 1962 with a capacity of 20,000 tonne per annum (TPA) integrated facility comprising of a pulp mill and two paper

machines (PM 1 and PM 2). Over the years, through organic and inorganic expansion, the company expanded its current total capacity of 2,55,000 TPA as on March 31, 2022.
SPBL manufactures a variety of papers such as printing and writing (P&W) grade papers (WPP), packing and wrapping grade papers, specialty grade papers, etc. The company markets its paper products in the domestic market under the brand name of Sprint, Sprint Plus, Swift and Success; which are amongst leading brands in Southern India.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	1,185.08	785.85	896.34
PBILDT	267.95	111.61	98.75
PAT	174.61	100.27	49.51
Overall gearing (times)	0.08	0.04	-^
Interest coverage (times)	38.89	38.35	50.64

A: Audited; UA: Unaudited
^data not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	-	61.00	CARE A+; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	56.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A+; Stable (06-Apr-21)	1)CARE A+; Positive (07-Apr-20)	1)CARE A+; Positive (05-Apr-19)
2	Fund-based - LT-Cash Credit	LT	61.00	CARE A+; Stable	-	1)CARE A+; Stable (06-Apr-21)	1)CARE A+; Positive (07-Apr-20)	1)CARE A+; Positive (05-Apr-19)
3	Non-fund-based - ST-BG/LC	ST	56.00	CARE A1+	-	1)CARE A1+ (06-Apr-21)	1)CARE A1+ (07-Apr-20)	1)CARE A1+ (05-Apr-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Available

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Arti Roy
Contact no: +91-22-6754 3456
Email ID: arti.roy@careedge.in

Relationship Contact
Name: Saikat Roy
Contact no.: +91-98209 98779
Email ID: saikat.roy@careedge.in

About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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