Shreyans Industries Limited

January 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	46.39 (Reduced from 56.05)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	44.00	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	**90.39 (Rs. Ninety Crore and Thirty-Nine Lakhs Only)**		
Fixed Deposit	5.94 (Enhanced from 5.56)	CARE A- (FD); Stable [Single A Minus (Fixed Deposit); Outlook: Stable]	Reaffirmed
Total Medium Term Instruments	**5.94 (Rs. Five Crore and Ninety-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and instrument of Shreyans Industries Limited (SIL), continue to derive strength from the experienced promoters, long track record of operations and comfortable liquidity position of the company. The ratings further derive strength from the improved operational performance during H1FY22 (refers to the period from April 01 to September 30) supported by better demand for Writing and Printing Paper (WPP) and relatively improved realizations for finished paper, comfortable solvency position in FY21 (refers to the period April 01 to March 31), well-established distribution network, diversified product profile, and proximity of the manufacturing plant to raw material sources. The ratings, however, remain constrained by competitive nature of the industry and susceptibility of profitability margins to volatility in raw material prices & foreign exchange fluctuations.

Rating Sensitivities

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

- Sustained improvement in scale of operations to more than Rs.600 crore
- Improvement in PBILDT margin up to pre-covid levels of 15% and the same remaining there on sustained basis.

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

- Any major debt funded capex or high reliance on working capital borrowings resulting in deterioration of overall gearing to above 0.50x
- Any significant decline in operations and profitability which may adversely impact the liquidity of the company.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations

SIL has been engaged in the manufacturing of writing and printing paper (WPP) business for more than three and a half decades now which has led to well-established relationships with the suppliers as well as the customers. Mr Rajneesh Oswal, the current Chairman & Managing Director of SIL, has an overall experience of more than two and a half decades. Mr. Vishal Oswal (brother of Mr. Rajneesh Oswal), the current Vice Chairman & Managing Director of SIL, has an overall experience of more than two decades. Other directors of the company include Mr Kunal Oswal having an overall experience of around one and a half decade. The promoters have extended financial support in the past to fund various business requirements of the company.

Diversified product profile along with an established distribution network

SIL manufactures WPP with a GSM (Grams per square meter) range between 44 to 200 GSM and a brightness range of 75% to 90%. The paper is manufactured in both sheet and reel forms and finds its application in printing of books, note books, calendars, diaries, newspaper supplements, pamphlets, computer stationary, playing cards, brochures, magazines and copier paper, envelope making, etc. It has one marketing branch in Delhi along with a network of around hundred dealers all over India. The company sells to government clients where orders are procured on tender basis as well as to private players. The company also exports its products to UAE, Nepal, Sri Lanka etc. The income derived from this segment, however, remained negligible.

Proximity of the manufacturing plants to raw material sources

Raw materials for SIL include primarily agricultural residue based raw materials such as wheat straw, sarkanda, rice husk, etc. The plant is located in an established agricultural belt, viz, Punjab, leading to easy and ample availability of raw materials.

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

Comfortable solvency position
The solvency position remained comfortable with overall gearing ratio of 0.29x as on March 31, 2021 (PY: 0.26x as on March 31, 2020). The total debt position of the company stood at Rs. 65.57 crore as on March 31, 2021 (PY: Rs. 56.01 crore). The increase is attributable to additional term debt availed by the company during the year for the capex and further inter-corporate borrowings of Rs.12 crore availed from Deutsche India Investments Private Limited. However, this increase was off-set by increase in net-worth base due to accretion of profits.
The debt coverage indicators moderated whereby the interest coverage ratio and total debt to GCA stood at 4.63x and 3.19x respectively as on Mar-31, 2021 (PY: 11.86x and 2.12x as on Mar-31, 2020 respectively) owing to lower profitability.

Improved operational performance in current year
FY21 was an exceptional year for the Writing & Printing Paper Industry owing to the closure of all educational institutions and offices with the global outbreak of COVID-19 pandemic, thereby the company's performance also remained muted wherein it reported ~29% moderation in its top-line during the year with drop in the profitability indicators.
However, in H1FY22 (UA), with the easing of restrictions and gradual opening-up of the economy, the company reported around 59% y-o-y growth in its total operating income, which stood at Rs.262.88 crore during H1FY22 (H1FY21: Rs.164.99 crore). Also, the company's sales were almost at par with the pre-pandemic sales of Rs.280.77 crore in H1FY20 despite the adverse impact of second wave of COVID-19. The sales realizations improved and stood at 49,635 MTPA in H1FY22 (H1FY21: 47,158 MTPA). The profitability margins also remained comfortable. The PBILDT and PAT margin stood at 7.73% and 3.70% during H1FY22 respectively (H1FY21: 7.96% and 2.99% respectively).

Key Rating Weaknesses
Susceptibility of margins to foreign exchange fluctuations
SIL imports waste paper and pulp from USA, Sweden, Canada etc. Imported raw materials formed ~8% of the total raw material cost in FY21 (amounting to Rs.27.23 crore; PY: Rs.37.85 crore). The proceeds from exports in foreign currency, however, remained at Rs.6.37 crore in FY21 (PY: Rs.0.66 crore). This provides a minimal natural hedge to a certain extent. Furthermore, the company avails forward contracts from time to time to hedge a portion of the foreign exchange risk. However, some portion of the exposure still remains unhedged, exposing the profitability of the company to any adverse fluctuation in the foreign exchange prices. In FY21, the company reported a gain of Rs.0.40 crore on foreign currency transaction (PY: loss of Rs.0.20 crore).

Highly competitive industry along with susceptibility of margins to volatility in prices of raw material
The paper industry is highly fragmented in nature with stiff competition from a large number of organized as well as unorganized players and threat from imports. This limits the pricing power of the manufacturers in terms of flexibility to pass on the raw material price fluctuation to its customers. SIL primarily uses agro based raw material which is purchased from the domestic markets. Their use is associated with limitations like seasonal availability leading to high volatility in their prices. Therefore, the operating profitability of the company remains highly susceptible to any volatility in raw material prices.

Industry Prospects
Paper consumption in India, which is approximately 15 million tons per annum, is expected to touch 23.5 tons per annum by 2025 and predicted to increase by 7.6 per cent per year. The per capita consumption of paper in India, however, is still very low at 14 kg per annum, as compared with the global average of 57 kg and over 200 kg in developed countries. The domestic market size is approximately INR 80,000 crores while exports of paper were valued at over INR 6,800 crores in FY 2019-20.
The writing and printing paper segment was one of the worst-hit due to COVID-19 pandemic outbreak leading to closure of educational establishments, coaching centres, judicial establishments, corporate offices, and adoption of the new culture of work from home. The sector is now witnessing some signs of revival with lockdowns being lifted by states in a phased manner, resulting in gradual opening of educational institutes and offices. The Government's huge spending on healthcare and infrastructure sectors, RBI's liquidity measures and the massive vaccination drive helped economic recovery in the second half of FY 2020-21. Also, online reading is still at a nascent stage in the country, with e-book penetration estimated at only 3-4%. The demand for W&PP paper in India is expected to clock 6-7% CAGR owing to rising literacy rates, rise in enrolment rates and the government's higher spending on educational programs.

Liquidity: Adequate
The company has adequate liquidity as characterized by steady projected cash accruals generation vis-à-vis repayment obligations of Rs. 16.97 crore during FY22, unencumbered liquid investments to the tune of Rs.51.99 crore and modest free cash balance of Rs.1.31 Crore as on March 31, 2021. Its capex requirements are modular and expected to be funded using internal accruals generated by the company. Its bank limits are utilization remained low to the extent of 48% for the trailing 12-month period ending November, 2021 providing adequate headroom to meet any exigencies and supported by above unity current ratio of 1.24x as on March 31, 2021 (PY: 1.29x as on March 31, 2020). Also, company had efficiently managed operating cycle of ~24 days as on March 31, 2021.

Analytical approach: Standalone

Applicable Criteria
[Policy on default recognition]
[Financial Ratios – Non financial Sector]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Credit Watch]
[Short Term Instruments]
[Manufacturing Companies]
[Paper Industry]

About the Company
Shreyans Industries Limited (SIL) was initially incorporated in 1979 by the name 'Shreyans Paper Mills Limited' by Mr D.K. Oswal and his family members. Subsequently, in October 1992, the company's name was changed to SIL. The company is engaged in the manufacturing of WPP. SIL initially started its operations with an installed capacity of 10,000 metric tonnes per annum (MTPA) at its manufacturing facility in Ahmedgarh, Punjab. In the year 1994, the company purchased the paper division (by the name M/s Zenith Papers) of M/s Zenith Limited, situated in S.B.S Nagar (Punjab). SIL is operating the same by the name, Shree Rishabh Papers. As on March 31, 2021, the company had a combined installed capacity of 94,000 MTPA. SIL's products are being sold primarily in the domestic market under the brand name 'Shreyans'.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	541.33	386.25	262.88
PBILDT	54.62	25.30	20.32
PAT	31.96	8.78	9.72
Overall gearing (times)	0.26	0.29	NA
Interest coverage (times)	11.86	4.63	4.52

A: Audited; UA: Unaudited

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		-	-	March, 2026	25.39	CARE A-; Stable
Fund-based - LT-Cash Credit		-	-	-	21.00	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	44.00	CARE A2+
Fixed Deposit		-	-	Dec, 2024	5.94	CARE A- (FD); Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	25.39	CARE A-; Stable	-	1)CARE A-; Stable (16-Feb-21)	1)CARE A-; Stable (21-Jan-20) 2)CARE A-; Stable (02-Jan-20)	1)CARE A-; Stable (21-Nov-18)
2	Fund-based - LT-Cash Credit	LT	21.00	CARE A-; Stable	-	1)CARE A-; Stable (16-Feb-21)	1)CARE A-; Stable (21-Jan-20) 2)CARE A-; Stable (02-Jan-20)	1)CARE A-; Stable (21-Nov-18)
3	Non-fund-based - ST-BG/LC	ST	44.00	CARE A2+	-	1)CARE A2+ (16-Feb-21)	1)CARE A2+ (21-Jan-20) 2)CARE A2+ (02-Jan-20)	1)CARE A2+ (21-Nov-18)
4	Fixed Deposit	LT	5.94	CARE A- (FD); Stable	-	1)CARE A- (FD); Stable (16-Feb-21)	1)CARE A- (FD); Stable (21-Jan-20)	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

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

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

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.

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