Shreyans Industries Limited

February 16, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	56.05 (Reduced from 62.87)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	44.00	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	**100.05 (Rs. One Hundred Crore and Five Lakhs Only)**		
Fixed Deposit	5.56	CARE A- (FD); Stable [Single A Minus (Fixed Deposit); Outlook: Stable]	Reaffirmed
Total Medium Term Instruments	**5.56 (Rs. Five Crore and Fifty-Six 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 comfortable solvency position in FY20 (refers to the period April 01 to March 31), well-established distribution network, diversified product profile, proximity of the manufacturing plant to raw material sources and various cost-saving measures implemented. The ratings are, however, constrained by the moderation in total operating income and profitability margins in FY20 and H1FY20 (UA), 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 cr.
- Improvement in the PBILDT margins to around 15% and the same remaining there on a consistent 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 ratio to above 0.50x.
- Higher than projected decline in income & profitability of the company.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations: SIL has been in the paper (Writing and Printing) manufacturing 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, 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. The unsecured loans/deposits infused by the promoters and related parties stood at Rs.3.36 crore, as on March 31, 2020 (Previous Year: Rs.4.36 Cr.).

Comfortable solvency position: The capital structure of the company remained comfortable with the long-term debt-to-equity ratio and overall gearing ratio of 0.16x and 0.32x, respectively, as on March 31, 2020. The same deteriorated slightly from 0.09x and 0.24x, respectively, as on March 31, 2019, mainly on account of additional term loans availed to fund the modernization and debottlenecking capex being undertaken by the company. The debt coverage indicators also remained comfortable with the interest coverage ratio at 11.86x in FY20 (PY:12.80x) and the total debt to GCA ratio at 2.12x (PY: 0.80x), as on March 31, 2020. The capital structure of the company remained comfortable, as on September 30, 2020 also, with the long-term debt-to-equity and overall gearing ratios at 0.17x and 0.26x, respectively (PY: 08x and 0.28x, respectively).

Strong liquidity position: The operating cycle of the company remained at a comfortable level of ~21 days, as on March 31, 2020 (PY: ~20 days). The average utilization of the cash credit limits also remained comfortable at ~32% for the twelve month period ending November-2020. Further, SIL had Rs.44.94 Cr. of unencumbered cash and liquid investments, as on March 31, 2020 and Rs.45.87 Cr. as on December 31, 2020. The company is currently undertaking modernization projects with a total cost of Rs.70.81 Cr. to be funded through term loans of Rs.33.08 Cr. and remaining through unencumbered liquid investments and internal accruals generated. The capex is expected to start commercial operations by the end of Mar-2021. Apart from the above mentioned capex, SIL has no major capex plans for the next 12-18 months. The company has a repayment obligation of Rs.5.33 Cr. in FY21, which is proposed to be met through the internal accruals. On the back of comfortable liquidity position, SIL had availed moratorium (extant RBI guidelines in light of Covid-19) only from one of its lenders for its debt obligations due from March-2020 to August-2020. The unutilized working capital lines and presence of unencumbered liquid investments are expected to provide sufficient support to the liquidity profile of SIL going forward.

Diversified product profile along with an established distribution network: SIL manufactures Writing and Printing Paper (WPP) with a GSM (Grams per square meter) range of 44 to 200 and a brightness range of 75% to 90%. The writing and printing paper is manufactured and supplied 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. SIL has a marketing office in Delhi along with a network of around fifty dealers all over India. The company sells to government clients (Maharashtra, Rajasthan etc.) where orders are procured on tender basis as well as to private players. The company also engages in export of its products to UAE, Nepal, Sri Lanka etc. The income derived from this segment, however, remained negligible.

Proximity of the manufacturing plants to the raw material sources: Raw materials for SIL include primarily agricultural residue based raw materials such as wheat straw and sarkanda. The plant is located in an established agricultural belt, viz, Punjab, leading to easy and ample availability of raw materials.

Various cost saving measures implemented: Both the manufacturing units of the company have captive power generation plants through which ~80% of the total power requirement is met each year. The power needs are expected to be ~95% fulfilled internally after the successful completion of the ongoing capex. The company has also installed chemical recovery plants which allow recovery of soda ash from the black liquor, the effluent generated in the pulp production process. The sales of soda ash constituted ~9% of the total operating income of SIL in FY20.

Key Rating Weaknesses

Decline in scale with moderation in profitability margins: The total operating income of the company declined by ~6%, on a year-on-year basis, due to sluggish industry demand and lockdown imposed by the Government of India on March 23, 2020 which led to loss of sales at the end of the year. Further, the prices of the primary raw material, wheat straw, increased during the year. In a demand slowdown situation, the company was unable to pass these to its customers. Additionally, at the end of the year the nationwide lockdown imposed in the light of Covid-19 pandemic halted operations for the company, while the fixed expenses continued to be incurred. The PBILDT and PAT margins, therefore, moderated to 10.09% and 5.90% respectively, in FY20 from 14.18% and 8.16%, respectively, in FY19. The company also booked a loss of Rs.11.94 Cr. due to decline in the fair value of its outstanding investments during FY20 because of stock market volatility. This further contributed to lower profitability during the year.

In H1FY21 (UA), the total income remained ~44% lower, as compared to the corresponding period last year. This was mainly due to the challenges created by Covid-19 pandemic in terms of closure of educational institutes & reduced operations at offices, etc., which kept the demand and realizations muted. The lower realizations, along with production losses during the lockdown period, led to decline in PBILDT margins and PAT margins to 3.21% and 3.14% in H1FY21 (UA) from 11.87% and 6.54% respectively, in H1FY20 (UA).

Susceptibility of margins to foreign exchange fluctuations: During FY20, the company imported around 14% of its raw material requirement. The exports, however, stood at a relatively lower level during the year. The company avails forward contracts to counter a part of the forex risk, however, the profitability margins are exposed to any adverse fluctuation in the foreign exchange prices as the exposure is not completely hedged.

Highly competitive nature of the industry with susceptibility of margins to raw material price volatility: The paper industry is highly competitive and fragmented in nature with presence of a large number of players in the organized and unorganized sector and threat from imports. This limits the ability of the manufacturers to pass on the complete increase in the prices of raw material and puts pressure on the profitability margins. SIL majorly uses agro-based raw material which is purchased from the domestic markets. With respect to the agro-based raw materials, there are limitations in their use due to seasonal availability leading to high volatility in their prices. Further, the price of caustic lye (used in the pulp making process) remains volatile throughout the year. Therefore, the operating profitability of the company remains susceptible to any volatility in the raw material prices.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and credit watch to Credit Ratings
Financial ratios – Non-Financial Sector
CARE's policy on default recognition
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments
Liquidity analysis of non-financial sector entities
Rating Methodology-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, 2020, 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)	FY19 (A)	FY20 (A)
Total operating income	575.03	541.33
PBILDT	81.53	54.62
PAT	46.95	31.96
Overall gearing (times)	0.24	0.32
Interest coverage (times)	12.80	11.86

A: Audited
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	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	35.05	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	-	-	-	5.56	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	35.05	CARE A-; Stable	-	1)CARE A-; Stable (21-Jan-20) 2)CARE A-; Stable (02-Jan-20)	1)CARE A-; Stable (21-Nov-18)	1)CARE BBB+; Stable (24-Aug-17)
2.	Fund-based - LT-Cash Credit	LT	21.00	CARE A-; Stable	-	1)CARE A-; Stable (21-Jan-20) 2)CARE A-; Stable (02-Jan-20)	1)CARE A-; Stable (21-Nov-18)	1)CARE BBB+; Stable (24-Aug-17)
3.	Non-fund-based - ST-BG/LC	ST	44.00	CARE A2+	-	1)CARE A2+ (21-Jan-20) 2)CARE A2+ (02-Jan-20)	1)CARE A2+ (21-Nov-18)	1)CARE A2 (24-Aug-17)
4.	Fixed Deposit	LT	5.56	CARE A- (FD); Stable	-	1)CARE A- (FD); Stable (21-Jan-20)	-	-

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

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

Sr. No.	Name of the 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 has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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